

Briefing for the EIB Board of Directors for the seminar with civil society on 1st
February 2016

Financing the Southern Gas Corridor: wrong project for fighting climate change and upholding democracy and human rights

January 2015

Dear Board of Directors,

The Southern Gas Corridor (SGC) is supposed to bring gas to Italy through a series of pipelines stretching over 3,500 kilometres, crossing seven countries and involving more than a dozen major energy companies. The Shah Deniz Stage 2 consortium expects the project to provide 16 billion cubic meters of gas per year (bcma), of which 10 bcma should go to Europe. Costs so far are estimated at US\$45 billion. The project promoters themselves speak of the Southern Gas Corridor as one of the most complex gas value chains ever developed in the world.

The EIB is currently considering making the biggest loan of its history (EUR 2 billion) to the Consortium in charge of developing the western section of the corridor, the Trans-Adriatic Pipeline (TAP). In addition, Bloomberg¹ has recently reported that the bank is in preliminary talks together with other multinational institutions for another EUR 2 billion loan to the Turkish state company Botas for the construction of the TANAP, the Turkish section of the Southern Gas Corridor.

The SGC has been portrayed as being crucial for the EU's energy security. We are afraid that this argument results in a blind eye being turned towards the serious concerns and insecurities of the project. We lay them out in the following for your consideration as they speak strongly against EIB's participation in the project.

- 1. Contribution to EU's energy security?** The Energy Union, a priority project of the current Commission, has among its objectives a) the diversification of energy sources, b) the EU becoming less dependent on energy imports, c) making the EU the world number one in renewable energy and leading the fight against global warming. Building the SGC doesn't help on any of these objectives: Just replacing one gas supplier (Russia) by another (Azerbaijan) upholds the dependence on energy imports. It is no diversification of energy sources, especially since the Russian company Lukoil owns 10 percent in the Azeri Shah Deniz field which will feed the SGC. A real diversification would be to replace gas as much as possible by increased energy efficiency and renewables. Especially Eastern Europe, which depends very much on Russian gas, still has huge potential for gains through increased energy efficiency. This would truly help on the objective to make EU a leader in the fight against global warming.

¹ <http://washpost.bloomberg.com/Story?docId=1376-NXP6DY6JTSE901-7RDGG3QUNDJ8PDNMHKP84KUP9L>

2. **Paris calling.** The Paris Agreement upholds the objective to limit the temperature increase to 1,5 °C above pre-industrial levels. This can only be achieved through a massive decarbonisation of the economy including not only the end of coal but all fossil fuels. Building a new gas pipeline now therefore contradicts the Paris Agreement and doesn't fit a bank that claims to be a climate champion.

3. **Gas demand is declining.** The think tank E3G has been analysing recent trends in gas demand and came to the following conclusion: *"In contrast to official projections, EU gas demand is falling and is now 23% below its peak. Demand is falling across all three major sectors: power, industry and residential. 80% of gas demand comes from seven western European nations with strong renewables and efficiency policies in place."*² The shrinking gas demands however is contrasted by massive plans to build new pipelines and new Liquefied Natural Gas (LNG) terminals. Both trends taken together risk the creation of stranded assets: underused pipelines or LNG terminals. A bank wanting to keep its AAA rating wouldn't want to have this kind of massive stranded assets in its books. Financing the Southern Gas Corridor would be in stark contrast to the objective to assess and manage portfolio climate risk, which the EIB formulated in its climate strategy of October 2015.

4. **Crackdown on human rights in Azerbaijan.** So far the main gas to be fed into the Southern Gas Corridor is coming from Azerbaijan, which has a terrible human rights record. Over the past years human rights activists and independent journalists have been arrested and sentenced on fabricated charges. Independent sources estimate that today there are about 100 political prisoners in Azerbaijan. The European External Action Service has issued strongly worded statements on the sentencing of human rights defenders (among others Rasul Jafarov, Intigam Aliyev, Leyla and Arif Yunus) expressing its concern about the negative trend in Azerbaijan's respect for human rights and fundamental freedoms.
 The European Parliament issued several resolutions on Azerbaijan, the latest in September 2015. It *"Calls on the Council, the Commission, and the VP/HR to mount a strong and unified response to the crackdown under way in Azerbaijan, in order to make it clear that the prevailing situation is wholly unacceptable and that it cannot be 'business as usual' until the government releases all those imprisoned on politically motivated charges and ends the ongoing crackdown against independent civil society groups."*
 Investing into any part of the pipeline will give support to the repressive regime of president Aliyev and will further worsen the situation of those who dare to criticize him.. It would portray the EU and the EIB as its bank as inconsistent in upholding the basic values of democracy, rule of law and respect for human rights. It would open questions about the EIB implementing the obligations included in article 21 of the EU Charter, and of the EU in making sure that such obligations are actually upheld. The EU and the EIB would then seem to be lowering their expectations when energy interests come into play, therefore lowering credibility of both the Union and the EIB at a time when people's trust in EU institutions is strongly declining.

5. **Protests in Azerbaijan.** While president Ilham Aliyev does everything to mute criticism from human rights defenders or journalists, he is unable to influence the oil price. Azerbaijan faces the same problems as any oil-exporting country in times of

free falling oil prices: economic decline.³ The Azeri currency Manat has fallen by about a third against the dollar between mid December 2015 and mid January 2016. As a result prices are raising and poverty is increasing. This led recently to protests in the streets of Quba, which might be just the beginning of broader protests against the regime. An investment that supports, even indirectly, the Azeri oil and gas sector, which is equally crucial for the regime as responsible for the recent economic downturn will play badly on EIB's reputation.

- 6. Problems along the pipeline.** Azerbaijan is not the only country adding to the complexity of the pipeline. The biggest stretch of the pipeline crosses through Turkey where, fuelled by the government, the conflict between the Turkish state and Kurdish organisations gets increasingly violent. Furthermore the country faces mounting terrorist attacks.

In Greece many local institutions and civil movements have expressed strong concerns about the pipeline route - including the Technical Chamber of East Macedonia, the Geotechnical Chamber of East Macedonia and the Agricultural Association of Kavala. There is a significant concern that the bearing capacity where the pipeline crosses the Tenagi ponds in Kavala is not sufficient. In addition the pipeline passes through highly productive agricultural areas in Serres and Kavala meaning the impact on local livelihoods will be significant. There have been large demonstrations of about 1500 people against the pipeline.

In the province of Lecce, where the pipeline enters Italy, authorities and residents fear negative effects on agriculture and tourism, the two main sources of income in the region. Given the geological challenges and the consistent industrial risk, which is not addressed, they fear for their safety, too. The Trans Adriatic Pipeline is therefore met with fierce resistance in the region, where the very nature of the project and the industrial development it brings is clashing with the economic vocation of the Salento region. In May 2015 the mayor of Melendugno sent a letter to the EIB and others raising many of the concerns, which unfortunately until today remains unanswered.⁴ There are 58 preconditions imposed by the Environmental Impact Assessment, which remain to be addressed by the project proponent. A magistrate's order prohibiting the cutting down of olive trees in the Salento region, which is part of an investigation on the xylella epidemic, concerns most of the olive trees along the pipeline route. This blocks the beginning of construction until the procedure is closed.⁵ The EIB was notified this information on January 11th 2016, we assume the management has shared this with the Board.

- 7. TAP's fiscal accountability is questionable.** The consortium of companies that promote the TAP is registered in the Swiss city of Baar, a renowned tax haven. This casts doubts on its fiscal accountability and the relevance for the EU Bank to award its biggest loan to such a company while the EU is promoting the fight against tax havens. Such decision would also run counter to the spirit of the Non Cooperative Jurisdictions policy of the EIB and the bank's commitment to "maintaining a stringent policy against tax fraud, tax evasion and harmful tax practices". Counter Balance and its member organisation Re:Common have filed a request for information to the

³ <http://www.euractiv.com/sections/energy/declining-demand-exports-hits-azerbaijan-321027>

⁴ The letter can be downloaded here: http://www.recommon.org/wp-content/uploads/2015/05/TAP_Lettera_Istituzioni_europee_per_gasdotto_protocollo_8442_7-05-2015.pdf

⁵ <http://www.recommon.org/i-ramoscelli-dulivo-che-non-vogliono-il-tap/>

project proponent “Trans Adriatic Pipeline AG” asking some basic information that every company under EU legislation should publish.⁶ The request was rejected confirming the lack of transparency to the general public of the company potentially profiting from the biggest EIB loan in history. Furthermore a recent report in Swiss media highlights the financial fragility of the TAP consortium.⁷

Dear Directors, the Southern Gas Corridor is a project that undermines basic principles of the EU and is economically questionable due to climate and gas demand concerns. Given the economic doubts and the complexity of the project, it will only be realised if strongly supported by public money and guarantees. Who will give the guarantees? Given that the countries along the pipeline face economic difficulties themselves, the guarantee question will be an interesting one.

To secure public money and guarantees the Southern Gas Corridor is portrayed as fundamental for the EU’s energy security. We call on you not to be blinded by this argument and to consider our concerns showing that financing parts of the corridor would not help on crucial EU objectives, may taint EIB’s reputation and might put huge amounts of money at risk – with potential impacts on EIB’s AAA rating. As Board members it is your responsibility to ensure that those concerns are being addressed. This would mean concretely that the EIB does not finance any section of the Southern Gas Corridor.

Undersigned:

Counter Balance
CEE Bankwatch Network
Green Istria, Croatia
ODG, Spain
Platform, UK
Polish Green Network
Re:Common, Italy
Urgewald, Germany

⁶ A copy of the letter can be shared with executive directors upon request.

⁷ <http://lacite.website/2015/12/09/les-nuages-sassombrissent-sur-le-tap-gazoduc-phare-de-la-suisse/>