

Environmental Advisory Council of the European Bank (ENVAC)

Meeting in London, 15 May 2006 Meeting Summary

The Environmental Advisory Council of the European Bank for Reconstruction and Development (EBRD or “the Bank”) met in London on 15 May 2006. The morning sessions were chaired by Vice-President Fabrizio Saccomanni and the afternoon session was chaired by President Jean Lemierre. Representatives of the EBRD Board of Directors for the following constituencies observed the meeting:

- European Commission
- Canada/Morocco
- the USA
- Japan
- Czech Republic/Hungary/Slovak Republic/
Croatia
- Switzerland/Turkey/Liechtenstein/
Uzbekistan/Kyrgyz Republic/
Azerbaijan/Turkmenistan/ Serbia & Montenegro
- EIB
- United Kingdom
- Bulgaria/Poland/Albania
- Germany
- Austria/Israel/Cyprus/Malta/Kazakhstan/
Bosnia & Herzegovina

The following topics were covered at the 15 May meeting:

15 May ENVAC Topics	
1.	Briefing on how comments from 28 September 2005 meeting have been taken into account: <ul style="list-style-type: none">• Investment of Capital and Retirement Funds• Bank Internal Environmental Indicators
2.	Update on Sakhalin II Phase 2 Oil and Gas Project
3.	Chernobyl—20 years after; EBRD involvement
4.	2006 Environmental Policy Review <ul style="list-style-type: none">• <i>Process</i>• <i>Schedule</i> Developments affecting Policy review <ul style="list-style-type: none">• <i>IFC Environmental and Social Policy Revision</i>• <i>Equator Principles</i>• <i>European Principles on Environment</i> Examples of issues that will need to be discussed <ul style="list-style-type: none">• <i>Gender</i>• <i>Standards</i>• <i>Indigenous Peoples v. Vulnerable Peoples Policy</i>• <i>Accessibility/Disabilities</i>
5.	Energy <ul style="list-style-type: none">• Draft Energy Policy• <i>EBRD Response to Gleaneagles re: Climate Change</i>

Introduction

Fabrizio Saccomanni, Vice President of Risk Management, opened the meeting and welcomed the Council. As in the previous meeting, the format of the ENVAC meeting was a number of sessions, with the President chairing the afternoon session, and culminating in a summary by ENVAC members of the key issues and comments made in the meeting on each topic.

Session One: Briefing on how comments from 28 September 2005 ENVAC meeting have been taken into account

Investment of Capital and Retirement Funds

Bank Staff: Axel van Nederveen, EBRD Treasurer

At the previous ENVAC meeting (28 September 2005), ENVAC members wanted to know how the Bank's commitment to environment and sustainable development were taken into account in 1) the investment of funds that have not yet been allocated to projects and 2) the retirement plan funds of the Bank's employees. One of the ENVAC members circulated a paper on the UN Principles of Responsible Investment.

The EBRD Treasurer, Axel van Nederveen reported that he discussed the possibility on whether a Socially-Responsible Investment (SRI) fund could be added to the options for staff retirement plan investments, either inside or outside the safety umbrella. Mercers, the Bank's retirement plan investment managers, is reviewing the issue and will revert to the Bank in the coming weeks.

ENVAC Comment

ENVAC members advised that SRI is not the only option for applying the Bank's environmental mandate. A screening or quality check on investments to determine if they meet quality criteria would also be possible, as would a list of potential risk categories. Members said that this was a fast moving area, and examples like the Norwegian external pension fund should be reviewed to see how these issues were taken into consideration.

Bank Internal Environmental Indicators

Bank Staff: Alistair Clark, EBRD Director, Environment Department

Dr Clark explained that the internal environmental programme of EBRD was making substantial progress. The President took on board the comments from ENVAC and organised an environmental committee for the Bank, including representatives of Purchasing, Administration, Environment, and Staff Council. Not only is the committee dealing with internal issues, but also in discussions with the landlord of the estate in which the Bank is located about pooling materials to increase recyclable volumes. The results of the internal programme will continue to be reported in the EBRD Sustainability Report.

As examples, the Bank reported that it has increased recycling paper by 21%, doubled the recycling of printer toner cartridges, and reduced carbon load by 5%. This however, is off-set by the Bank's increased volume of work further east, and therefore the need for increased distance air travel. The Bank will review the possibility of ISO 14001 or EMAS certification, and is surveying other multilateral development banks to see how they have approached this issue.

ENVAC Comments

ENVAC members asked what the Bank has done about carbon off-sets for air travel and for its annual meeting. Others provided examples of ‘carbon taxes’ on air tickets at similar institutions. One ENVAC member wondered whether the internal environmental information would also be gathered from EBRD’s Resident Offices in the region of operations.

The Bank was challenged to come up with a methodology of calculating the environmental footprint of the Bank and applying it to all activities.

Bank Response

The Bank has noted different approaches to carbon off-sets for annual meetings, but has not moved forward on this issue and is focusing on recycling at the moment. The focus to date has very much been on activities at headquarters in London, and has not yet been extended to the Resident Offices. It was noted, however, that some of the Resident Offices are involved in local recycling schemes.

With regard to calculating the footprint of Bank activities, the challenges of looking at the impact of financial intermediaries was mentioned. When these projects are approved, the future pipeline of projects has not yet been identified—and the Bank currently reports on projects the year after signing.

The Bank also reported on the progress made with the 2005 Sustainability Report, and thanked the ENVAC members who had commented on a draft version. It was noted that the 2005 report was somewhat long, and that a more concise report would be prepared in the future.

Session 2: Update on Sakhalin II Phase 2 Oil and Gas

Bank Staff: Mark King, Michaela Bergman, Jeff Jeter, Environment Department
Kevin Bortz, Director of Natural Resources

Bank environmental and social staff briefed ENVAC on the status of review of the Sakhalin II Phase 2 oil and gas project in the Russian Far East. The project was still in the due diligence stage, and no decision had been taken on submitting the project to the Board of Directors for consideration. There were a number of significant environmental and social issues under review, and for which more progress was needed.

Issues discussed included the standards to which the project was reviewed, the commitments in the Health, Safety, Environmental and Social Action Plan (HSESAP), the Western Gray Whale status in 2005, oil spill response planning, river crossings, fisheries, legal issues, social issues (indigenous peoples, involuntary resettlement, cultural heritage, stakeholder relationships), public consultation, and policy and procedural issues. The evaluation of the project with regard to the Bank’s commitment to the precautionary principle with regard to biodiversity and other policy requirements were also discussed. The Bank staff also explained the additional EBRD public consultation conducted in six cities and the preliminary results.

ENVAC Comments

ENVAC members raised issues about the change in culture and lifestyles for the inhabitants of the remote Island, caused by a project of this magnitude. They advised that the company needs to follow requirements for corporate responsibility to local people, and that it will take a long time to find the equilibrium from “boom and bust” phases of development. Key questions raised were the profit and benefits to the local community, the need to prepare local people for modern participation methods, and to

hold to the Bank's commitment to the precautionary principle with regard to biodiversity.

The Council questioned what would happen if the Bank did not invest, and what would be the benefit if the Bank was involved in the remainder of construction and operation phases. The scale of the project was compared to projects in North America, and that these projects are almost always connected to some irreversible impacts, such as wetlands lost, influx of money into communities, and the difficulties in coping with the social impacts. It was seen to be particularly important to review demobilisation and what happens to the large number of workers who have come to the Island when their work is done. Other questions asked related to the off-set for recreational nature protection and the issue of prevention versus compensation—the Bank was encouraged to help push for improvement of the general environmental situation on the Island. Insurance to international standards was discussed, as well as the status of oil spill response plans. It was thought that the Bank would be criticised whether it decides to finance the project or not. The recent press on the award from the World Environment Center to ABN AMRO and their involvement with the Sakhalin II project and the resulting publicity from NGOs was highlighted.

One Council member questioned why the Bank had not included a capacity-building component for the Russian authorities on the Island, and why it had not required a cumulative impact assessment, strategic assessment, or sustainability assessment—that the impacts of the project would likely be felt far beyond the actual project facilities—and that the footprint of the project may be much bigger than the impact assessment parameters that were studied. The Bank was encouraged to think about the outcome of three scenarios on the Bank, the Bank's policies, and the Bank's reputation: 1) if the Bank finances the project, 2) if the Bank finances the project and a catastrophic event happens, and 3) if the Bank decides not to finance the project.

Some members felt that the Bank's involvement was critical to ensuring the implementation of the commitments, and to the transparency and accountability. Other members were concerned that the Bank's Environmental Policy commitments need to be met in full and that the Bank had little leverage with a project so far advanced in construction. The Bank was encouraged to push for better cooperation between the company and the local communities and greater communication.

Bank Response

Bank staff outlined the economic changes on the Island, the involvement of the lenders in requiring the Indigenous Peoples Development Plan and Resettlement Action Plan, and the detailed de-mobilisation plans that the company is now developing. An overview of the benefits of the Infrastructure Upgrade Project of Island facilities was also provided. Other additionality issues included accountability and transparency and the commitment to extensive legal requirements on the project. Bank staff discussed the risks of the project being implemented to lower standards without international finance involvement. It was explained that if the project moves forward, then the commitments agreed with the company would be through the life of the project's involvement with the Bank. It was reiterated that the Bank has not made a decision on the project and that due diligence on a number of sensitive environmental and social issues continue to be conducted.

The President continued the discussion in confidence with his advisors and minutes were not taken for the remainder of this session.

Session 3: Chernobyl—20 years after; EBRD involvement

Bank Staff: Vince Novak, EBRD Director, Nuclear Safety

A presentation on the Bank's work through the Chernobyl Shelter Implementation Project (SIP) and nuclear safety account was shown, which explained the engineering and design work to date, and what steps will be taken over the next few years. The Director of Nuclear Safety in the Bank agreed to provide copies of the presentations to ENVAC members.

ENVAC Comments

A discussion followed the presentation on the political situation in Ukraine and the transfer of responsibilities for Chernobyl between ministries. ENVAC commented that the legacy of Chernobyl resulted from not following the precautionary principle, and that this principle needs to be taken into account in all future projects in nuclear safety. The Bank was commended for the long-term stewardship of the preparatory work and that now the preparations were in hand, that more achievements would be apparent as construction was underway. It was noted that the international community was only involved 10 years after the accident.

Session 4: 2006 Environmental Policy Review

Bank Staff: Mark King, Group Head, Environment Department
Alke Schmidt, Principal Environmental Advisor

Mark King explained the EBRD has a policy commitment to review the Environmental Policy every three years. The Bank has found that three years is quite a short time to have projects subject to the 2003 policy go through the project cycle to the point where many projects can be evaluated against it. However, it is also the case that the past three years have resulted in significant changes at other institutions in their environmental and social policies, and that the Bank needs to look at its existing commitments in relation to these developments.

Alke Schmidt briefed ENVAC on the policy changes at the International Finance Institution (IFC) and the on-going consultation on the environmental, health and safety and social guidelines and the Pollution Prevention Abatement Handbook in which EBRD is involved. The second phase of the Equator Principles and the new European Principles on Environment were discussed. The need for a "level playing field" in the areas of environment and social requirements was said to be important so that institutions did not compete for financing projects on the grounds of lower standards.

The Bank's Environmental Department resources (approximately 19 environmental and one social specialist) were compared to IFC's staff (approximately 140 environmental and social staff), and the new approach by IFC to require clients to submit due diligence to IFC is less time intensive than at EBRD where staff conduct independent due diligence on clients.

With regard to the schedule of the Environmental Policy review, it was envisaged that this would be done during the second half of 2006, and then a revision would be undertaken following the outcome of the review in 2007. A stakeholder engagement plan was being prepared and input would be sought from the public and shareholders during both the review and the revision.

Bank staff outlined a new technical cooperation project on gender equality to identify opportunities in Bank projects. The focus would be on Early Transition Countries.

ENVAC Comments

ENVAC members praised the existing EBRD Environmental Policy, but noted that the world was improving and the need to revise. An emphasis on metrics and reporting was suggested—to look at what the Bank needed to report, and then design requirements to enable information to be prepared in that format. The importance of public consultation was highlighted, and the Bank was encouraged to incorporate a strong role of the ENVAC in the review and revision process.

Social issues were seen to be lacking a comprehensive approach in the current Environmental Policy, and the Bank was encouraged to take further strides in this area and in the area of financial intermediaries.

A concern was raised that the review and revision schedule was ambitious, given the number of major changes at other institutions.

Some members raised the issue of technology changes and the need for the Bank to be at the forefront of the new technologies in emissions reduction and renewable energies. The clean technologies area was seen as a major opportunity for the Bank by some members, but that new channels and tools of finance may need to be developed.

One ENVAC member advised the Bank to get in touch with the informal network of women ministers of environment.

Bank Response

The President spoke of the challenges in the Bank's region of operations over the next 10 years and the different sectors that would undergo restructuring. The need to look at supply chain management, contractors, new technologies, and innovation were mentioned.

He asked ENVAC members to help give more vision to the Bank on trends in environment and, critically, how to sell that vision to the region, which can be somewhat reluctant to look for finance for new technologies.

Session 5: Energy

Bank Staff: Josué Tanaka, Director, Planning and Control
Tony Marsh, Director, Power and Energy Department

Josué Tanaka summarised the Bank's response to Gleneagles meeting on Climate Change (background paper had been submitted to ENVAC for their review) and detailed the changes in Bank operations to promote this.

ENVAC Comments

ENVAC members strongly supported a focus on energy efficiency in the region and on renewable energy. Renewables were seen to be linked to job creation. Questions were raised with regard to the support of energy efficiency measures and who would be the owner of the reduction in carbon load—the company, the local authority, the state?

One ENVAC member suggested that the Bank prepare a manual of good examples of energy efficiency projects, from technical and financial point of view. The political push to create more energy supply was discussed as well as ways to encourage governments to focus on the demand side, which was seen as the real barrier to more progress in this area.

With regard to the Energy Policy, it was suggested that there was still too much information about Bank achievements, which should be put in an annex, and more focus needed to be on new initiatives and opportunities. More information was encouraged on the use of biomass and biogas, which currently were not dealt with in the paper.

Bank Response

Bank staff spoke of the partnerships with municipalities, Ministries of Energy, and credit lines. A key concern is the awareness, as expressed by the former EBRD Chief Economist Nick Stern in “Economics of Climate Change”. The Bank also wanted to have a balance between large and small projects.

The President spoke of the main problem of policy dialogue. Politicians tend to care about big power projects—they do not care about energy efficiency projects, even when EU funds are available to assist in implementation. Business people need to see a business case for energy efficiency—we need to develop tools that are highly business-driven. Quick and dramatic improvements are needed in the short term as demonstration projects.

Other Issues

Bank staff asked ENVAC about the value of translating the Environmental Policy into local languages. This initiative was supported by the Council, and they said that in countries that do not have the vocabulary necessary for specific terms, the need to translate the policy will help them develop new terminology to discuss these important issues, such as the polluter-pays principle, the precautionary principle, etc.

One ENVAC member asked if the Bank would be involved in the Environment for Europe meeting in Belgrade in 2007, and was reassured that the Bank would be involved with the meeting, particularly through the Project Preparation Committee (PPC).