

Media Briefing



**Friends of
the Earth**

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HOW PUBLIC MONEY FUNDS OIL

Despite the enormous profits generated by oil companies, the money for new oil developments often come from public money, funded through taxes here and elsewhere in the developed world. International Financial Institutions (IFIs), such as the World Bank, invest billions of dollars in fossil fuel projects in the name of promoting development. But according to the World Bank's own review, these projects fail to meet their mandate of alleviating poverty. Growing evidence shows such projects are leading to worse developmental outcomes, with distorted economies; increased conflict, corruption and human rights abuses; and degraded environments. Most significantly, these perverse subsidies are fuelling climate change, now recognised as the biggest threat to development.

Two of the biggest IFI funders of oil and gas projects are the World Bank and the European Bank for Reconstruction and Development (EBRD). Since 1992 the World Bank has provided \$11 billion in finance for fossil fuel projects around the globe, including \$4 billion for oil projects. Eighty per cent of this funding went to finance projects intended to export energy from the developing to the developed world. EBRD finance for oil and gas since 1993 totals \$1.8 billion. The true value of IFI finance is much greater, as their involvement reduces political risk and encourages the flow of further private finance.

In spite of overwhelming evidence of the need to cut greenhouse gas emissions, IFIs continue to fund projects that contribute to global emissions on a massive scale. The oil transported by just one project, BP's Baku-Tbilisi-Ceyhan pipeline, will produce 160 million tons of carbon dioxide per year - equivalent to 30 per cent of the annual emissions from the whole of the UK. Meanwhile, the estimated lifetime carbon dioxide emissions from all the World Bank's fossil fuel projects since 1992 will be a staggering 47 billion tons. IFIs are funding infrastructure that will be in use for 40 years or more, locking developed and developing countries alike in to a fossil fuel dependent future.

The World Bank's own review of its support for oil, mining and gas, the Extractive Industries Review, recommended that the Bank adopt a moratorium on coal, phase-out support for oil by 2008, and introduce a rapid switch to an energy portfolio based on renewables. But the Bank rejected the majority of EIR recommendations.

The UK Government is a major shareholder in the World Bank (five per cent) and the EBRD (nine per cent) and has a smaller share in several other development banks. IFIs are effectively using

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taxpayers money to support new oil projects.

Shell's Sakhalin 2 project

The Sakhalin II oil and gas project on Sakhalin Island in the Russian Far East is led by Shell, with the involvement of Mitsubishi and Mitsui. It will extract 0.5 million barrels oil and gas per day. An application for \$5bn finance for Phase 2 is currently being considered by EBRD, the Japanese Bank for International Cooperation (JBIC), the UK Government's Export Credit Guarantee Department (ECGD), and the US Export Import Bank (EXIM).

Background

Sakhalin II is the biggest integrated oil and gas project that includes the biggest LNG processing facilities ever built; the third largest project finance deal ever undertaken, and by far the largest ever undertaken in the oil and gas sector. It is currently running at US\$2 billion in cost overruns.

Environmental Problems

The Sakhalin II project threatens the world's most critically endangered population of grey whale with extinction. The project will involve building off-shore platforms adjacent to, and undersea pipelines trenched directly through, the whales' feeding habitat. Only 100 Western Grey Whales remain, and less than 20 are females capable of calving.

Wild salmon-bearing streams are also under threat, as trenching pipelines will go directly through stream beds. There are also risks from the pipelines buried underground in what is a highly seismic area. The 800 kilometers of on-shore pipelines will cross over 1000 watercourses, damaging delicate river beds of wild-salmon bearing streams. Fishing is vitally important to the livelihoods of the population of Sakhalin.

Wildlife is also at risk from habitat destruction from the construction of on-shore facilities; and from the risk of an oil contamination. Many endangered species are found in Sakhalin, including seals, and the Stellar's Sea Eagle.

What is more, waste from the project is being dumped in fisheries-rich Aniva Bay. During the construction phase, 1.5 million tons of tailings will be dumped into Aniva Bay and during operation, wastewater will be discharged into the bay.

Increased oil tanker traffic, and the level of operations, also increase the risk of an oil spill in the area, which would have very damaging effects on the wildlife of the area.

The EBRD and other public lenders have informed Shell (via the project company, Sakhalin Energy) that they are not satisfied with the environmental documentation that the company had provided them, and that the Sakhalin II Environmental Impact Assessment is not fit for purpose.

BP's Baku Tbilisi Ceyhan (BTC) pipeline

Late last year, in the face of international opposition, the World Bank, and the EBRD agreed \$600 million finance for this controversial project which will carry oil across 1750 km from Baku in Azerbaijan through Georgia to Ceyhan in Turkey, unlocking major oil reserves in the Caspian, and delivering 1 million barrels of oil a day to western consumers. The project was heavily promoted by the US administration, keen to secure sources of non-Middle Eastern oil.

Political Problems

The BTC pipeline threatens to worsen conflict and human rights abuses in a region already riven by

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armed struggle. In Eastern Turkey the pipeline will pass through largely Kurdish areas, where the struggle for recognition and separatism has been the source of conflict. While the country is currently experiencing an uneasy truce, the PKK has suggested that pipelines may be a strategic target in any resumed conflict.

In Azerbaijan, following his election late last year, President Ilham Aliyev suggested that oil revenues might be used to help restore the country's 'territorial integrity' in their long running and bloody territorial dispute with neighbouring Armenia

In May of this year, prominent Turkish human rights defender Ferhat Kaya was arrested and tortured following his work to highlight the social and environmental impacts of the controversial Baku-Ceyhan pipeline.

Environmental Problems

The BTC pipeline passes through the Borjomi national park and mineral water aquifer in Georgia, an area of difficult terrain where landslips are common. Borjomi water is a major Georgian export and significant contributor to Georgian economy. Any oil spill in this region would be disastrous for the local environment, and for the mineral water industry. Key potential investors have already withdrawn from investing in mineral water for fear of reputational risk due to the pipeline routing.

There is also potential seismic risk to the pipeline. Turkey lies in a major earthquake zone, and one of the most serious fault lines in Turkey runs directly from Sivas through Erzincan to Erzurum: exactly the intended route of the Baku-Tbilisi-Ceyhan pipeline, where there have been at least 17 major earthquakes since 1924.

Construction Problems.

Since construction work on the pipeline began, there have been various reports of construction problems and irregularities. In February 2004, it was revealed that a faulty paint had been used for the joints in Azerbaijan and Georgia, potentially requiring the pipeline to be dug up and recoated. In June, there were reports from engineers working on the pipeline who documented a number of failings in pipeline construction methods, such as the use of inappropriate materials and a failure to hire proper specialists to advise on crossing seismic faults in the earthquake-prone region. In July, the Georgian Government temporarily suspended work on BTC because of BP's repeated failure to obtain the necessary environmental certification for construction in the Borjomi region.

Time for Change

Friends of the Earth is calling on the UK Government to stop the use of public money to fund the exploitation of oil in the global south and the destruction of the environment. It is time for the UK and other European governments to take a lead and stop investing in the damage and destruction caused by oil.

Next year the leaders of the world's most powerful nations meet in Britain for the G8 Summit to decide on major issues of global policy. Friends of the Earth is urging people at the ESF to call on them to stop subsidising our addiction to oil.

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