

Course Report for the Interregional Session of LEAD-CIS, LEAD-Europe and LEAD India

Moldova and Romania, 20 September - 1 October, 1999

Summary:

EU enlargement is the dominating economic process for the European continent and the principal driving force of the relation between economic growth and environmental impact for the next decade. The course focused on a comparison of the reforms in the energy and agricultural sectors of Moldova, Romania and Russia. The rapidly evolving economic exchanges between East and West are part of the context in which these reforms are being implemented. The second rationale for the course were the changing trade-offs between growth and the environment over the course of the economic transition.

The course was a learning experience for CIS, European and Indian Associates, where they compared their understanding of the economic manifestations of the transition from a planned to a market economy. Highly competent resource persons from the three countries studied enabled the Associates to review and revise their appreciation of East/West relations. As a result of the course, a number of co-operations have been identified by the Associates. Further contacts with the tutors will also be pursued, for example an Indian Associate from the Jawaharlal Nehru University will use the contact with the tutor from EdF to pursue a joint research initiative on nuclear energy between India and France.

Moldova:

The course was opened by the Vice-Premier of the Moldovan government, **S.Stratulat**. The economic situation of Moldova is marked by a profound crisis after the collapse of the communist ideology. The country today has a foreign debt of 1.5 bn US\$, while GDP has declined to 35% since 1989. Nonetheless Moldova can maintain peaceful relations with its neighbours and feed its population. Exports to Russia have collapsed but exports to Western and Central Europe cannot replace the income needed to pay especially for the energy imports on which Moldova is entirely dependent.

Mr.O.Sherbatsky from the Centre for Strategic Studies (IBRD/UNDP financed) presented the current planning for the near term future. Moldova aims to service its foreign debt by maintaining an open economy and providing the right macro-economic conditions (and stability of the Moldovan currency, the Lei) for the privatization of agriculture. Foreign donors such as the US-AID and the EBRD are supporting the modernization of the future nuclei of economic growth.

The Minister of the Environment and LEAD Fellow, **A. Capcelea**, presented the current environmental conditions and the capacity of his Ministry (staff of 40) to address both the burden of the previous intensive agricultural practices (salinization has now ceased because the fuel costs are now too high for irrigation) as well as the new conditions of privatized agriculture esp. because of the lack of livestock manure. He suggests that the annual social cost of the environmental damage amounts to 130 mio.US\$.

Mr. I.Trombitsky gave the clearest picture of the political changes in the country. He is a member of the Moldovan parliament, the Inter-parliamentary Assembly of the CIS and an active member of the European group of parliamentarians "Globe". Moldova has created the legal preconditions for the NGOs similar to the legislation in the US. Around 400 NGOs operate at present mostly with funds from foreign donors. A major achievement of his political efforts was an NGO meeting on environmental conditions of the Nistru river, the border between Moldova and the breakaway Transnistria region (not recognized by other governments).

Mr.G.Ciobanu, Minister of Culture of Moldova, presented the historic roots of Moldovan folk art and the architectural traits of the Orthodox churches in the region. The discussion centered on the appropriate outside assistance to support the preservation of the Moldovan craft tradition.

Mr.C.Bodyu, deputy director of the Moldovan Agency for Privatization, was the most important Moldovan speaker as his institution is the lead agency for the transition of the Moldovan economy. His description of the privatization process were later on confirmed or qualified for the Argentinean, Hungarian, Romanian and Russian case. The agency has managed to attract foreign strategic investors for the cement, textiles, sugar and other agro-processing, and the energy companies. The latter was currently pursued (EdF, ABB, AES, and the EBRD submitted bids), Mol-Telecom was the next task ahead. The advice from a West European advertising company has proved important during the privatization. The Moldovan government maintained a fast pace for its privatization, assuming that investors will pursue the necessary structural reforms and investments according to prevailing market forces and price signals. While environmental audits are standard procedures for foreign investors, investments regarding the environmental impact are rarely part of the conditions attached to the sale of assets. For the Moldovan context it would be appropriate, for example, to give special consideration to a foreign investor with experience in biomass energy over others without such experience. This would combine the environmental concern for renewable energy with the foreign exchange concern of Moldavia as an energy importing country.

Mr.D.Boinchian, from the Moldovan Land Research Institute, presented the conditions of land privatization in Moldova and the difficulties of the new farming enterprises to use even basic agricultural techniques such as crop rotation. The high costs of transport and processing have resulted in most farms to operate with a financial loss in the last years, and yields are pushed to a maximum without concern for the long term impact on the soils.

Prof.V.Arion, presented the disastrous state of the energy sector, absorbing 30 % of GDP, essentially because of non-payments to the utility company. There is a black market for electricity that cannot be controlled because the main power plant is located in the Transnistria region. Only a wholesale privatization seems to provide the opportunity to transform the local utility company into a viable operation.

Given the developmental limits of the key sectors of the Moldovan economy, agriculture and energy, **Dr.Kantemir**, social policy specialist from the Centre for Strategic Studies could only reaffirm the dire social conditions of the population. 80 % of the population live with an income below 2 US\$ per day and labour migration is the only hope for economic improvement for the majority. While most Associates queried whether the proposed development strategies were really as comprehensive as claimed, Dr.Kantemir affirmed that the key remains the political will to take the risks associated with deeper social reforms in the country.

Site visits to a private and a collective farm allowed the Associates to confirm these conditions in discussion with farm workers and managers. As only three Russian Associates and one Romanian Associate were translating during the site visit, more translators would have been needed to use the site visits more effectively.

Russia:

Prof. V.Supyan, from the Russian Academy of Sciences, provided a historic overview of privatization. Being the largest redistribution of capital which ever occurred it was achieved without violent confrontation, although it was socially and economically negative. None of the declared goals, private ownership, effective management, financial stabilization, demonopolization of the economy, foreign direct investments, were achieved. Un-declared goals such as the irreversibility of the privatization and the reduction of the power of the government Ministries were achieved. Nonetheless the "nomenclature" of the former Soviet Union remained in firm control of the Russian economy.

Prof. B.Porfiriev, from the Russian Ministry of Emergency Situations, presented current practices in environmental decision making in Russia. The general situation is monitored with considerable effort. Around 60 million people live in cities where air pollution limits are exceeded, 50 % of the population drink unsafe water and the impact on human health has been correspondingly high, an estimated 40 % of epidemiological indications can be related to environmental quality. Nonetheless the construction of industries with hazardous substances and insufficient emission reduction technologies is increasing. The technological risks to the population are rising rapidly. At the moment, the federal government has no means to address the environmental conditions. But new forms of public participation are increasingly used. Local administrations are obliged to invite NGOs to hearings on environmental impact assessments and many NGOs have bylaws corresponding to such regulations. But even the regulations on emergency and safety audits are not enforced and only 6 % of the industries concerned actually provide the audit results.

The situation in the nuclear industry is a particular case. Following the first law on nuclear safety, passed in 1995, holding a referendum on power plant construction has become possible and was used. This is particularly important because the expansion of nuclear plants remains the first priority of Russian energy policy. Six new nuclear plant units will be completed until 2005 bringing the share of nuclear energy to 15 % of all electricity generation. Prof. Porfiriev estimates that a 50-fold reduction of the operational risk is feasible by using Western technological standards, but the corresponding investments are beyond the capacity of the Russian government. The influence of the nuclear industry remains strong and he foresees that Russia will start to import nuclear waste, in spite of the several international treaties currently in force.

Associate Presentations and Debate:

Following the descriptive information on the current situation in Moldova and Russia, three presentations from the Associates concerned their respective efforts to address similar conditions in their home countries. The Romanian and the Russian Associates agreed that the environmental NGOs in these countries have had isolated successes, but that they have not been able to consolidate their influence on the federal government level. **Victoria Elias**, from Eco-Accord in Moscow explained that Russian NGOs have to focus more on safety and employment issues to increase public awareness on the environmental conditions in Russia. **Vladislav Larin** commented from his experience covering the nuclear industry as a journalist and underlined the improved accessibility of information even in the nuclear sector. **Lavinia Andrei**, presented her experience as an NGO interlocutor for foreign aid institutions and stressed that NGOs are a vital partner in a situation where local government policies are not effective. The Indian Associates compared the privatization experiences in Eastern Europe with the situation in India and found the Indian practice of selected sectoral reforms of former state monopolies a preferable approach to the Russian and Moldovan ones. Using privatization as a goal in itself would be inappropriate in the Indian context and the selective introduction of market mechanisms allows to take social and institutional factors into account.

Sustainable Agriculture

Dr.H.Kieft, from ETC-Ecoculture, outlined policy choices for East European agriculture. Sustainable agriculture must combine three conditions, sufficient yields for the producers and the country, improved natural capital for future generations and the integration of social goals. To attain this it is particularly important to apply the precautionary principle to biodiversity. Low-input sustainable agriculture and ecological agriculture result in a superior outcome towards the three conditions compared to high-input and integrated agriculture. Low-input sustainable agriculture is particularly suitable during the EU enlargement because it maintains employment, improves environmental conditions and reduces government subsidies. As part of the Phare programme, demonstration centers for sustainable agriculture will be established in Bulgaria, Romania and Hungary to increase the awareness of farmers.

Integrated Resource Planning (IRP)

Dr.P.Hennicke, from the Wuppertal Institute, presented current IRP tools used by utility companies. The Wuppertal energy forecast comprises similar inroads by renewable sources as those proposed by the World Energy Council and companies such as Shell, but Wuppertal forecasts also drastic energy efficiency gains. Integrated Resource Planning is the key tool to realize these efficiency gains, if the institutional conditions are met to consider longer pay-back periods than two years. He demonstrated the range of efficiency technologies available with the example of universities and local utilities companies in Germany, Jordan and Thailand. For the

utility of Hanover city, a 34 % reduction in energy consumption was achieved in industry and households as well. As a planning tool IRP is also applicable in rural areas of developing countries. Utility companies have to enlarge their services to include consulting, billing, Energy Management Systems, Negawatts, Ecowatts (replacing one electricity use by other electricity uses) and provide complete energy system solutions. As the required information about the customers' needs available to the utility company becomes much larger than before, international organizations such as UNEP and the E7 have undertaken new initiatives to demonstrate IRP.

Privatization in the energy sector

Dr.D.Urge-Vorsatz, from the Central European University in Budapest, presented the privatization of energy companies in Hungary, the front-runner for EU enlargement. A newly elected government pushed privatization through at break-neck speed, offering foreign investors the right to acquire majority stakes in two years if each consortium includes 50 % strategic investors with each strategic investor participating in only one consortium. These conditions reflected the Hungarian concern to attract investors with long-term interests in developing the Hungarian market (assuming that the strategic investors dominate the consortium), and secondly, the concern to avoid the domination of one foreign investor. This led to a French dominated and a German dominated zone in the electricity distribution. Yielding to foreign pressure the Hungarian government accepted electricity price increases necessary to meet profit targets of foreign investors, while preventing local investors to get similar profits. These local investors therefore effectively replace the subsidies paid before privatization. Nonetheless, Hungary has opened the way for investments to reduce the ten times higher energy intensity of its economy as compared to Western Europe.

Mr.J.Georges, from Electricité de France (EdF), presented the foreign investor's account of privatization in Hungary, Argentina and Poland. EdF's international expansion focuses on Europe, where 42 % of investments outside France are concentrated. Their investment criteria are a transparent regulatory frame, clear open competitive bidding, getting financial and managerial control and being able to limit the risks involved. He stressed EdF's achievements in technology transfer as the former Hungarian energy monopolist lacked financial management, controlling and operational performance management. EdF had turned a technologically oriented utility into a customer oriented one and the potential impact of this change had been well indicated by P.Hennicke before. EdF had to implement programmes to assist redundant employees find new occupations and Mr. Georges stressed EdF's commitment and expertise in that area. Many developing countries were in a similar situation, with insufficient generation capacity and without the financial or managerial competence to turn loss-making monopolistic state companies into viable businesses.

Joint Implementation

The Associates engaged in Joint Implementation efforts, **Lavinia Andrei**, from Romania, and **Vinayak Rao Vidyalankar**, from India, introduced their colleagues to the subject. In both countries, the absence of a wider social and political debate about the merits of Joint Implementation is the foremost obstacle. During a Roundtable about a Swiss JI project in the city of Buzau, Romania, the Associates questioned the conditions of its implementation. While Roundtable participants from the municipality, the local utility company and private businesses approved the Swiss JI project, the other Roundtable participants, the Romanian Ministry of the Environment, NGOs and consultants involved disagreed on a number of modalities, showing that there has not been sufficient transparency in the preparation of this JI project. The Russian and the Indian Associates pointed to these deficiencies to underline their judgment that at present, the necessary pre-conditions are not there for their countries to engage more actively in JI. On the other hand, there was broad agreement that given the need for the modernization of the power sector, JI should be seen as an alternative to the privatization of energy companies and to ambitious IRP programmes. In a separate working group following the Roundtable, the European Associates concluded that given the difficulties of the Swiss JI project, there is a probability that JI will only expand on a bilateral basis between private companies bound by national legislation. This would place JI, privatization and higher efficiency with IRP as alternatives depending on the local context of the organizations involved.

Protected Area Management

During site visits to the Kodry Reserve in Moldova and the Danube Delta Reserve in Romania, the Associates investigated current management practices. In both cases, there are no clear guidelines for tourism in the Reserves and the current hunting and fishing rules are not clearly defined.

Dr.M.Zupančič-Vicar, from IUCN, presented the history of protected area management. This field is undergoing revolutionary changes, where more international concerns are addressed and stronger links between other policy areas are created. She estimates that the surface of global protected areas will have to be increased from currently 9 % to 25 % of land surface, but that most of this increase will only have to be weakly protected. The role of IUCN was assessed and the Associates confirmed that IUCN's impact on national governments was essential and that administrative inefficiencies regarding local park management have to be seen as unavoidable.