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WWF *for a living planet*®

Ms Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.,
Washington, D.C. 20431
USA

6 January 2012

Dear Ms Lagarde,

WWF, the global conservation organisation, wishes to draw your attention to the environmental impacts of the measures undertaken in response to the current economic crisis with a specific focus on Greece. The environmental impact of the economic adjustment programme jointly supervised by the International Monetary Fund (IMF), the European Commission and the European Central Bank (ECB) is already a cause for serious concern.

In recent years, increasing attention has been given by the Greek Government to sustainability issues and the need for environmental integration. These stem from legal requirements deriving from the country's EU and international obligations and in response to growing public pressure. As a result, significant progress has been achieved in national environmental policy, legislation and relevant governance structures. Conservation NGOs such as WWF Greece have worked hard to make this progress a reality. We consider this environmental policy and legislative context as a critically important inheritance for the country. It must be protected and defended.

The country's economic and fiscal crisis is bringing about unprecedented losses of this valuable "environmental acquis". As adjustment-related pressures on the environment are mounting rapidly in Greece, an unreported but very real environmental crisis is unfolding behind the headlines of the economic and social crisis. Sadly, this environmental crisis is gravely exacerbated by the policies that have been adopted as a response to the financial crisis. These are taking place without prior assessment of the environmental implications of the financial support package. Hence, short-term growth, with the minimum possible consideration of environmental and sustainability issues, is now considered an absolute imperative by the entire Greek Government and a significant parliamentary majority.

WWF has studied and actively engaged the World Bank and IMF on the environmental impacts of macroeconomic and sector reform programmes since the early 1990s. One of the key conclusions we drew from three studies covering over a dozen developing countries, which unfortunately remains true today, states that the attained changes have been accompanied by:

"[...] the widespread and detrimental weakening and dismantling of government institutions that have undermined economic reforms, jeopardized social stability, and weakened environmental sustainability. Fiscal reductions diminished government agencies' ability to manage and protect natural resources, internalize the environmental costs of expanded economic activity, develop sorely needed environmental infrastructure, and provide basic public goods and services".[1]

In particular, we wish to highlight following examples of major environmental policy setbacks that have occurred in Greece since May 2010. These are further elaborated in the annex to this letter.

1. Disappearance of the green fund and its absorption into the main budget
2. Axing of environmental permitting regulations
3. Emphasis on large investments with questionable environmental scrutiny
4. Post-facto legalisation of illegal constructions in protected areas
5. Hasty and uncontrolled sale of public lands
6. Downsizing of environmental staff in public authorities
7. Dismantling of environmental governance institutions
8. Questionable support going to dirty sources of energy

We believe these examples demonstrate, individually and in combination, that serious economic and environmental problems will follow if the adjustment approach is not corrected forthwith. We are not apportioning responsibility for each of these individual changes to any one particular party, either in the Troika or in the Government. But we do hold all these bodies responsible and accountable for implementing the objectives and measures of the economic and financial adjustment programme in a way that does not exacerbate worsening environmental conditions in Greece, is consistent with the provisions of international and EU law and which foresees in advance combined consequences of these various policy interventions through rigorous implementation of recognised environmental assessment methodologies.

The lending policies of the IMF shape the future of financially troubled countries. It is, therefore, important that the IMF take responsibility for the fact that the problems facing the countries stricken by economic crises are not simply fiscal. The IMF also has a responsibility in ensuring that financial and fiscal policies contribute to, rather than undermine, sustainability targets. This responsibility has already been highlighted on several occasions, including among others in the 2002 Monterrey Consensus and the 2008 follow-up Doha Declaration of Financing for Development.

It is WWF's strong belief that the crisis unfolding in Greece and the Eurozone countries more widely must be viewed as much more than merely a fiscal crisis. The crisis, in addition to being grounded in mismanagement of national finances, is a reflection of a deficient economic development model built on overconsumption and a steadily increasing ecological deficit and natural resource overexploitation. Until these contradictions in current economic development models are overcome, the measures being imposed on countries like Greece are little more than sticking plasters. Far from healing wounds, they are in fact exacerbating them while storing up longer-term environmental remediation costs.

[1] Reed, David, *Structural Adjustment, Sustainability and the Environment*, London, Earthscan, 1996, p. 331

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WWF therefore encourages the IMF to work actively on sustainability, not as a separate agenda, but rather as a pillar for durable and healthy economies, even in times of financial duress. Specifically, WWF calls on the IMF to urgently review and revise its conditionality policies being applied in Greece to incorporate environmentally and socially sustainable safeguards and commit to:

1. Respecting and upholding the environmental and social policies and laws in Greece (and all countries subject to economic adjustment programmes) in line with the Treaty of European Union and the environmental and social 'acquis' and ensure compliance with established international environmental laws and policies;

2. Undertaking comprehensive, transparent and participatory strategic environmental assessments of its economic adjustment programmes in their separate component parts and in combination with each other;

3. Including specific and measurable sustainable development targets and indicators in its economic adjustment programmes;

4. Recognising the importance of the biological capacity, or the natural capital, of the countries where adjustment programmes are being implemented, including the valuation of the natural resource base and its use and costs of remedial actions;

5. Committing financial and staff resources in the course of the adjustment process to moving to different economic development pathways based on 'green economy' principles and outcomes.

WWF will also be addressing the European Commission and all involved partners on the very same issue, convinced that participation in the joint Euro area / IMF bailout package entails shared responsibility on the impacts of the dictated directions and policies.

In view of the public interest in the matters raised in this letter, we intend to make a copy more widely available to the media and members of the public.

Yours sincerely,

James P. Leape Director General, WWF International	Tony Long Director, WWF European Policy Office	Demetres Karavellas Director, WWF Greece

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Copies to:

- Manuel Jose Barroso, President, European Commission
- Mario Draghi, President, European Central Bank
- Herman Van Rompuy, President, European Council
- Jean Claude Juncker, President, Eurogroup
- Lucas Papademos, Prime Minister of Greece
- Jerzy Buzek, President of the European Parliament
- Helle Thorning-Schmidt, Prime Minister of Denmark

ANNEX
OF ENVIRONMENTAL IMPACTS
OF THE ECONOMIC ADJUSTMENT PROGRAMME FOR GREECE

1. Disappearance of the Green Fund

The legal establishment and launch of operation of the Green Fund – a national environment fund - in 2010 was a long-awaited and indeed very positive environmental policy landmark. Following decades of scandalous lack of transparency in the management of revenues, taxes and penalties levied for environmental purposes, the Green Fund opened a new era of clear budgeting, allocation and reporting of vitally important funding for nature conservation, urban regeneration and clean energy policies.

In October 2011, a last-minute amendment in a draft law discussed in Parliament regarding cuts on pensions and public sector employment regulations, stipulated that 95% of all revenues received by the Green Fund can be redirected to the State Budget, in order to meet needs other than environmental payment claims. The law was voted on 25 October.

It should be noted that, at present, the Green Fund sits on approx. €1 billion, collected and legally bound for improvement of urban environment conditions, nature conservation, forest management and energy efficiency. In the next two years, the Green Fund is scheduled to receive another approx. €3 billion, primarily from legalisation penalties on illegal constructions. Given that the State Budget does not provide any other environmental funding (excluding wages and operation expenses for the environmental administration authorities), the Green Fund is the only national source of environmental funding. The significance of this development is considerable since in effect it limits the already limited environmental budget of the country.

2. Axing of environmental permitting regulations

The most recently revised Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding states that:

> "*Legislation is adopted to simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms with a view to reducing the number of projects subject to environmental licensing and the duration of approval procedures to EU average levels. The acceleration of the environmental licensing is assured by committing the authorising authority to proceed with the approval procedure after a specified time period.*"[1]

Given that Greece lacks fundamentally crucial environmental policy tools, (such as forest maps, national land cadastre, Natura 2000 habitat mapping and designation of marine Natura 2000 sites, complete and clear land use rules), many procedures included in the national environmental permitting system acted as "checks", covering significant knowledge and land planning policy gaps. Aiming to meet the objective of "reducing the number of projects subject to environmental licensing", proposals have been made to exempt several projects within Natura 2000 areas from the appropriate environmental assessment procedures, thus potentially violating art. 6.3 of the Habitats Directive 92/43/EEC.

[1] Greece: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding. (4 July 2011). Available at http://www.imf.org/external/np/loi/2011/grc/070411.pdf (last access on 7 November 2011).

In the present frantic quest for easy and rapid investments, the Greek Government sacrificed serious environmental checks. At the same time, the new environmental permitting system fails to clear the picture and the rules for both nature conservation and prospective investors, since almost everything is allowed almost anywhere, under unclear conditions. Combined with the cuts on expenses and personnel, which further weaken important state authorities (such as the Forest Service) and the cuts on the Green Fund, the new system seriously undermines the already deficient environmental permitting system. WWF insists that environmental assessments and permits are a matter of making smart and sustainable choices, not delaying investments. The present system introduces indiscriminate cuts on procedures and permitting stages, without providing for adequate assessment of the sustainability of each project and plan, understates legally binding environmental requirements and cannot guarantee legal certainty for prospective investors.

3. Emphasis on large investments with questionable environmental scrutiny

Mega investments, such as the solar power project "HELIOS", major highways and large tourism resorts attract the attention of the Government, as the most promising way out of the crisis.

In tandem with the axing of the environmental permitting system, analysed above, the provisions of a law voted by Parliament in August 2010 (Law 3894/2010) on "fast track" authorization procedures for mega investments effectively allows for environmentally problematic investment plans, such as large malls and tourism complexes, to proceed through 'customised' regulations that cancel existing building or nature conservation regulations.

Major concerns arise from the project "HELIOS", which is being developed by the Greek Government, in response to expressed international interest for investments in solar and wind energy. According to the details that have been disclosed thus far, the HELIOS project will aim for a target of 10 GW in solar generated electricity and will require approximately 20,000 hectares (200 Km^2) of land. The Greek Minister of Environment, Energy and Climate Change himself has already travelled twice to Germany, in order to present the project to a conference of investors and to the German Government.

A commitment for Greece to go ahead with the HELIOS project was included in the latest Euro-Summit statement:

> *"13. Greece commits future cash flows from project Helios or other privatisation revenue in excess of those already included in the adjustment programme to further reduce indebtedness of the Hellenic Republic by up to 15 billion euros with the aim of restoring the lending capacity of the EFSF."*[2]

Although exploitation of Greece's solar (and wind) potential is in principle a very welcome prospect, the HELIOS project appears as particularly problematic, since:

- it is based on a non-existent power grid that will transfer the entire generated power to Germany, which will need to be developed, taking into account significant distribution system losses,
- it will require vast plots of land, which have not yet been located
- it is being designed behind closed doors, without the necessary public consultation and transparency.

It is worth noting that to date, not even the Hellenic Transmission System Operator has been consulted on this mega-project.

It is expected that within the next months new legal amendments will be submitted for voting to the Parliament, aiming at the approval of mega construction investment plans in a manner that escapes public consultation and deprives citizens of any right for access to

[2] EURO SUMMIT STATEMENT. Brussels. 26 October 2011.

justice (since laws are not subject to challenge by the courts). Thus far, the majority of applications for inclusion in the fast track system concern projects on energy, tourist resorts and extractive metallurgy. It is anticipated that more applications will be submitted concerning investments that have already been the subject of the country's State Council review, regarding environmental legislation violations due to their significant environmental impacts.

4. Post-facto legalisation of illegal constructions in protected areas

Given the extent of illegal construction activity throughout Greece, which however remains undocumented with estimates ranging between 1-2 million illegal buildings, the IMF's "Greece: Staff Report on Request for Stand-By Arrangement" called for:

> *"Incentives to regularise land-use violations, yielding at least EUR 1500 million from 2011 to 2013, of which at least EUR 500 million in 2011"*[3]

The initial 'regularisation' (*de facto* legalisation) process concerned specific violations in legally obtained building permits. The penalties imposed would be directed to the Green Fund, which would then finance urban regeneration projects, in order to mitigate the environmental damage caused by the illegal activity. As the fiscal crisis deepened, the Greek Government decided to include in this process constructions that are altogether illegal, anticipating approx €600 million in revenue for 2011. The law for the "settlement" (not officially named "legalisation") of illegal buildings (primarily houses and professional buildings), which was voted in August 2011 (Law 4014/2011), does not include provisions for proper assessment of their environmental impact and allows for the settlement of illegal constructions also in protected areas. Illegal constructions in protected areas range from housing developments to entertainment facilities and even entire ski resorts. Famous cases of Greek protected areas degraded by illegal building activities include the *Caretta caretta* sea turtle nesting beach of Dafni at the National Marine Park of Zakynthos and a complex of houses in the Mesollonghi Lagoon (Ramsar wetland).

5. Hasty and uncontrolled sale of public lands

In the IMF's "Greece: Staff Report on Request for Stand-By Arrangement"[4], the Greek Government is called to:

> *"...review the role for divesting state assets, including of land owned by public enterprises or the government".*

In June 2011, Law 3986/2011 on "Urgent measures implementing the Medium Term Framework of Financial Strategy for 2012 to 2015" was voted by Parliament. This law sets the legal framework for the rapid sale of public land, regardless of their ecological characteristics and regardless of nature protection legislation for these areas. This law does not describe any process for the specification of either the economic or the ecological value of these lands, the biodiversity they host, and the ecosystem services that they may provide and allows for the legalisation of pre-existing illegal developments.

6. Downsizing of environmental staff in public authorities

In the coming days, drastic measures are expected to be announced for the Greek public sector, with further personnel and financial "cuts" in all ministries, state supervised organisations, and all public entities in general. A 30% personnel reduction across the board is already under way and is expected to pass by law.

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[3] International Monetary Fund. Greece: Staff Report on Request for Stand-By Arrangement. (May 2010). IMF Country Report No. 10/110. Available at http://www.imf.org/external/pubs/ft/scr/2010/cr10110.pdf (last access: 7 November 2011).
[4] Ibid.

Although Greece is marked by a large and inefficient public sector, the national system of environmental governance always was and remains understaffed. For example, the Hellenic Environmental Inspectorate (responsible for *ad hoc* inspections to private and public sector businesses and the overall monitoring of compliance with the environmental permitting system) is understaffed by almost 60%. According to a 2005 report by WWF Greece on the status of environmental legislation[5], the levels of staffing of the local environmental services were as follows:

Authority	Staffing needs covered (average)
Local port authorities	66.9 %
Local forestry services	65.5 %
Environmental directorates (prefectural and regional level – NUTS 2 and 3)	59.9 %
Forestry directorates (prefectural level)	54.4 %

As a result of the local and decentralised government restructuring “Kallicrates” programme (Law 3852/2010), the vast majority of local forestry offices (responsible for forest management, logging permits and supervision, opinion expression on EIAs, wardening, land classification) will be staffed with only one forester!

The unplanned and hasty downsizing of the environmental administration system increases considerably the possibility of Greece going bankrupt on all environmental policy fronts.

7. Dismantling of environmental governance institutions

Haphazard cuts on public entities are seriously threatening the fragile existing environmental governance system. According to the fourth update of the “Memorandum of Understanding on Specific Economic Policy Conditionality”[6]:

> *“Legislation to close, merge and downsize non-viable entities will be tabled by the government [July 2011] and adopted by Parliament. [mid-August 2011] Among other, the legislation will relate to large entities which will be closed with functions transferred accordingly, merged or STRUCTURAL FISCAL REFORMS substantially downsized: KED, ETA , ODDY, National Youth Institute, EOMEX , IGME, (closure), OSK , DEPANOM, THEMIS, ETHYAGE, DIMITRA (merger), ERT (downsizing). [Q3-2011].*
> *Government takes measures enabling a reduction in procurement and third party costs in state-owned enterprises, updating tariffs, and creating new business lines, and reduce personnel costs by completing and implementing an employment retrenchment plan. [Q3-2011] Excess staff that cannot be removed by the hiring rule of 1 recruitment for 5 exits (1 for 10 in 2011) will be dealt with through non-voluntary redundancies and furlough (labour reserve). This rule is without sectoral exceptions;”*

Of the public entities mentioned above, IGME (Institute for Geological and Mining Research) and ETHIAGE (National Agricultural Research Foundation) are of particular environmental significance. IGME was initially planned for closure, but was finally saved through its merger with the National Centre for the Environment and Sustainable Development. The management bodies responsible for the management and monitoring of Greece’s national parks have also been put under an unclear merger and closure process.

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[5] WWF Greece. *Commitments without Implementation: Environmental Legislation in Greece - Executive Summary*. (2005). Athens. Nantsou, Th. and Christopoulou, I.

[6] European Commission. The Economic Adjustment Programme for Greece (Fourth Review – Spring 2011). Available at: http://ec.europa.eu/economy_finance (last access: 22 December 2011).

8. Questionable support going to dirty sources of energy

Lignite, one of the "dirtiest" types of coal, is the main fuel for electric power production in Greece. Up to 55% of the electricity is produced by lignite. Currently, the Public Power Corporation (PPC) is a *de facto* monopoly in the field of power generation from lignite in Greece. The European Commission's Decision IP/09/1226 calling for unconditional opening of the Greek lignite market, which preceded the "Memorandum of economic and financial policies", was a decision that did not take into account the declared intention of the European Union to move towards a low carbon economy in which greenhouse emissions from power generation will reach almost zero levels by 2050. The initial reply of the Greek Government, which agreed with the need to remove the monopoly of PPC, was the gradual phase out of lignite use and the continued growth of renewable energy so the share of lignite in the electricity mix to fall below 25-30% by 2020.

However, the lignite market liberalization was and still is a priority for the Troika. A fair solution initially proposed by the Greek government was rejected by the Troika, which insists on the opening of the lignite market, either through the exploitation of new lignite mines or through the sale of the more efficient PPC power plants. This policy is expected to contribute to the continued dependence of Greece on heavily polluting lignite and may simultaneously lead to a domino effect, where private investors and the PPC will seek to construct new lignite-fired power plants as soon as possible.