

The European Bank for Reconstruction and Development and the Serbian coal sector

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CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

EBRD support for Kolubara: A coal-dependent future for Serbia?

The European Bank for Reconstruction and Development and German development Bank KfW are considering providing loans worth EUR 140 million (80 and 60 million respectively) for the development of a new field in the lignite open pit mine in the Kolubara mining complex in Serbia.¹ This investment may strengthen the already dominant market position of state-owned Serbian Electricity Company (EPS) and deepen the country's dependency on lignite – the dirtiest of fossil fuels.

It is striking that this investment is hidden under the guise of "Environmental Improvement" as stated in the name of the EBRD project on its website. No matter how efficient future processing is, investments into perpetuating lignite production rather than clean electricity generation alternatives rather resemble re-arranging the deck-chairs on the Titanic than serious 'environmental improvement'.

Serbian energy sector context

The Serbian energy sector has been in crisis since the beginning of transition. This crisis is, among other things, characterized by systematic underinvestment in modernising ageing production capacities, over-dependency on coal and large hydro power, the dominance of one company and high energy intensity.

70 percent of electricity used in Serbia comes from coal power plants and approx. 30 percent from hydro power plants. Serbian coal power plants have a total installed capacity of 5171MW, and hydro power plants 2831MW. The Kolubara mining complex and almost all coal power plants in the country are 100 percent owned by the Serbian state and operated by EPS. The Kolubara basin, planned for expansion with the support of European and German banks, is already responsible for 75 percent of Serbian lignite production, while power plants within the Kolubara complex produce more than 50 percent of Serbian electricity.²

¹ <http://www.ebrd.com/pages/project/eia/41923.shtml>

² <http://www.tent.rs/index.php/o-nama> & http://www.eps.rs/onama/te_ntesla.htm

No significant investments in the Serbian energy generation sector have taken place in the last 25 years. The current *Strategy for development of energy sector in Serbia until 2015*³ adopted by the parliament in 2005 envisages building one lignite power plant of 700MW or two of 350MW, or both at the same time – plans which have existed since at least 1984 and can hardly be regarded as responding to modern conditions and opportunities. Because coal capacities in the country are ageing, one of the most important decisions for the future of Serbian energy production is to choose in which direction to move the energy sector. In the near future, according to the conservative estimates from the Strategy, Serbia will need at least 1500 MW of new coal-based installed power. According to Serbian NGOs one of the obvious ways to close this gap is through reduction of energy wastage. Unfortunately the Serbian authorities have not made any serious assessment of the potential for energy savings in Serbia (except for some selected industry sectors). This is especially striking given the fact that the Serbian economy is characterised by 3 times higher energy consumption per unit of GDP than in the EU-15.⁴

Many Serbian NGOs perceive EPS with its economic clout and political connections as one of the leading opponents to developing renewable energy sources (RES) in Serbia. The most recent sign of such dynamics was a press conference organised by EPS in April, where the company publicly criticised the “wind turbines lobby”, which is asking for faster and clearer regulation and licensing to boost investment in wind farms and other RES in Serbia.⁵ This is especially dangerous given the close connections between several ruling parties in the country and EPS management manifested in the set up of the management board of the company. Interdependence between these two influenced the *Strategy for development of energy sector in Serbia until 2015* which clearly prioritises the interest of EPS, a company which bases its future plans on coal basins development.

Issues that should be considered before deciding on investment in the Kolubara basin:

Alleged systematic corruption in the Kolubara basin

The first signs of corruption at Kolubara started to reach the Serbian public in late 2009 and early 2010, after a series of documentary films exploring the nature, extent and financial and political repercussions of misuse of financial, material and other resources at Kolubara complex was aired on national TV channel B92.⁶ Allegedly, the Kolubara management has been implicated in a number of different corruption schemes including in procurement of equipment, lease of equipment, selling of coal, etc. These documentaries have led to action undertaken by both the

³ <http://www.tent.rs/index.php/strategija-razvoja>

⁴ <http://www.blic.rs/Vesti/Drustvo/211916/Srbija-trosi-tri-puta-vise-energije-od-razvijenih-zemalja>

⁵ “Wind turbines against EPS”, <http://www.pecat.co.rs/2011/04/vetrenjacama-protiv-eps-a/>

⁶ Transcript of documentary that is based journalist investigation, where reliable data, insiders and official documents requested on the bases of law of free access to documentation were used.

http://www.b92.net/info/emisije/insajder.php?yyyy=2011&mm=02&nav_id=491267&fs=1

police⁷ and the Agency for combating corruption⁸, which started wide ranging investigations into the political and business links of the Kolubara management. Recently, an internal audit at EPS itself revealed that serious irregularities committed by the company management led to unjustified increases in EPS expenditures to the benefit of private companies.⁹

Serbian NGOs have for years unsuccessfully complained that no Strategic Environmental Assessment (SEA) has been done for any of the development plans and programmes nor for the Serbian national energy. Now, with such serious indications of corrupt practices at Kolubara, we are convinced that an open and constructive dialogue about the energy future of Serbia is impossible without careful re-examination of previous decisions in the energy field. This process has already started with investigations into alleged corruption at EPS and needs to be extended to examine connections between EPS management, private subcontractors, the government and political parties in power. Serbian environmental NGOs gathered in work of Environment Forum Project of EC believe that no financial support should be given to EPS until this process is completed.

Push for resettlements

The resettlement of Vreoci village is a precondition for the implementation of the EBRD and KfW backed project in the Kolubara mine basin. During a recent meeting with a representative of the Vreoci population, Serbian NGOs have been told that 1180 families should be evicted in the framework of this project. Only 170 families have accepted compensation until now.¹⁰ Villagers are requesting to be resettled together and with all of their belongings, at a similar location to the current one.

Residents are under enormous pressure to accept financial compensation and leave the place. Their fight for a decent place to live has been stigmatized in the media as an act against the energy security of the country¹¹, political manipulation etc. The villagers are blamed for all the future energy problems as, according to the dominant media discourse, coal exploitation for decades to come is the only possible energy scenario for Serbia, and locals in Vreoci village stand in the way of development. Serbian NGOs are therefore concerned that the further development of this project may lead to serious human rights abuses, similar to the ones taking place during the resettlement of the Roma community living under the Gazela bridge in Belgrade¹² as a result of the EIB and the EBRD financed Gazela Bridge rehabilitation project.

⁷ <http://www.balkaninsight.com/en/article/investigation-at-kolubara>

⁸ Interview with minister of justice of republic of Serbia Mrs Snezana Malovic

http://www.pressonline.rs/sr/vesti/vesti_dana/story/162105/Sne%C5%BEana+Malovi%C4%87%3A+Re%C5%A1i%C4%87emo+afere+u+%E2%80%9EKolubari%22+i+%E2%80%9EGalenici%22.html

⁹ http://www.b92.net/eng/news/politics-article.php?yyyy=2011&mm=02&dd=02&nav_id=72487

¹⁰ Interview with representative of Vreoci community on 09 June, 2011 conducted by CEKOR.

¹¹ <http://www.naslovi.net/2011-04-26/b92/vreoci-sporno-iseljenje-naselja/2499639>

Recommendations:

- EBRD and KfW should not invest in the development of major coal mines, such as the Kolubara basin, until a new country energy strategy is designed and approved. Investments into Kolubara would predetermine the choice of the country's energy mix, when in fact this important decision should be made in the framework of democratic decision-making for the whole energy sector.
- EBRD and KfW should not invest in any coal extraction and processing, especially by partnering with EPS.
- EBRD and KfW should help Serbia to resolve its energy problems though providing assistance in developing a programme for the diversification and increased resilience of the energy sector, achieved through increased reliance on domestic RES.
- Any EBRD and KfW investments in the energy sector in Serbia should be focused on transparency and support for RES and energy efficiency, and should encourage energy projects that have small or insignificant negative impacts on communities.
- These investments in RES and energy efficiency should be transparent and publicized in detail (both direct investments and those through financial intermediaries).
- Strategic Environmental Assessments for all the upcoming strategic documents guiding the development of the energy sector in Serbia should be conducted and consulted with the interested public.¹³

For more information

Zvezdan Kalmar
Energy campaigner
CEE Bankwatch Network / Center for Ecology and Sustainable Development (CEKOR)
Email: zvezdan@bankwatch.org
Mob: +381 65 5523 191
Fax: +381 24 523191

¹² EIB complaints office confirms shortcomings on Belgrade resettlement, Bankwatch blog post, August 4, 2010, <http://bankwatch.org/news-media/blog/eib-complaints-office-confirms-shortcomings-belgrade-resettlement>

¹³ Including the new document that will replace Strategy for development of energy sector in Serbia until 2015 and recently announced a white book of actions against climate change and better use of RES in Serbia, <http://www.euractiv.rs/odrzivi-razvoj/1938-bela-knjiga-eps-a-predstavljen-u-beu.html>