

To:  
Stability Pact  
South East European Energy Ministers  
European Commission representatives  
European Bank for Reconstruction and Development  
European Investment Bank  
World Bank



26<sup>th</sup> February 2008

Dear Sir/Madam,

We are writing to express our concern about the indicative list of priority projects approved by the Ministerial Council of the South East Europe Energy Community Treaty in Belgrade on 18<sup>th</sup> December 2007, and to ask the Ministerial Council to reconsider some of its decisions.

**Firstly, it is disappointing that out of a list of 19 electricity generation projects, all are either coal, oil, or gas fired, or are large hydro-electric projects.** Not one solar, wind, biomass, geothermal or small hydro project has been included. We consider it unacceptable that renewable sources of energy have not been supported at all, while coal, with its heavy climate impacts and pollution features frequently in the list. The planned Stanari project, for example, is expected to result in 2 841 000 tonnes of CO<sub>2</sub> emissions annually, according to the project EIA, constituting a significant new source of emissions in an era when significant reductions are needed.

**The impact of large hydropower projects on valuable natural areas is also a matter of concern.** It should be noted that we do not consider large hydropower as a sustainable source of energy due to the damage to precious eco-systems caused by flooding large areas of land, the impact on fish migration, and the degraded water quality resulting from damming rivers.

**We have serious concerns about particular projects and request that the Ministerial Council removes them from the indicative list of priority projects** due to their highly negative environmental or economic impacts. A brief summary of our concerns about the following projects is enclosed:

- Vlora Thermal Power Plant, Vlora, Albania
- Glavaticevo Hydropower Plant, near Konjic, Bosnia and Herzegovina
- Stanari Thermal Power Plant, near Banja Luka, Bosnia and Herzegovina
- Gacko II Thermal Power Plant, Gacko, Bosnia and Herzegovina
- Kosova C Thermal Power Plant, near Kastriot, Kosovo
- Buk Bijela Hydropower Plant, near Foca/Srbinje, Bosnia and Herzegovina
- Kolubara Thermal Power Plant, near Belgrade, Serbia
- Hydropower plants on the Moraca River, Montenegro

At the very least these projects fail to fulfil the “Criteria for the assessment of priority infrastructure projects” according to the TEN - E guidelines, i.e. the necessity to:

- “display economic viability (The evaluation of economic viability shall be based on cost-benefit analysis which takes account of all costs and benefits, including those in the medium and/or long term, in connection with environmental aspects, security of supply and the contribution to economic and social cohesion)”;
- “be compatible with sustainable development and meet the criteria as follows: a. Strengthen security of supply in the Energy Community; b. Have a significant impact on the competitive operations of the regional market; c. Result in an increase in the use of renewable energy”.

We hope that you will look further into these issues and take appropriate action to ensure that projects causing economic and environmental damage are not supported politically on a regional level, either by the Stability Pact or any other body.

We thank you in advance for your time and look forward to hearing from you.

Yours sincerely,

Fidanka Bacheva McGrath

on behalf of:

South East Europe Development Watch/CEE Bankwatch Network  
Transparency International BiH, Banja Luka, Bosnia-Herzegovina  
Center for Environment, Banja Luka, Bosnia-Herzegovina  
Eco-movement (Ekolevizija), Albania  
Green Action, Zagreb, Croatia  
Center for environmental research and information Eco-sense, Skopje, Macedonia  
Civic Alliance for the Protection of Vlora Bay, Vlora, Albania  
Aarhus Information Centre - Vlore, Albania  
CEKOR, Subotica, Serbia  
Forum 2015 Coalition for Euro-Atlantic Integration, Pristina, Kosovo  
Zeleni Neretva, Konjic, Bosnia-Herzegovina  
Ekotim, Sarajevo, Bosnia-Herzegovina  
Ecological Movement Zelenkovac, Podrasnica, Bosnia-Herzegovina  
Eko ZH, Siroki Brijeg, Bosnia-Herzegovina  
Center for Ecology and Energy, Tuzla, Bosnia-Herzegovina  
Eko-Leonardo, Priboj, Bosnia-Herzegovina  
Network for the Affirmation of the Civil Sector, Podgorica, Montenegro  
NGO Expeditio, Kotor, Montenegro

### **Overview of concerns about projects prioritised by the Ministerial Council of the South East Europe Energy Community Treaty in Belgrade on 18<sup>th</sup> December 2007**

#### **Vlora Thermal Power Plant, Vlora, Albania**

The Thermal Power Plant (TPP) was originally one of several fossil-fuel related projects intended for construction as part of an 'energy park' in Albania's main tourist resort, Vlora. The TPP, promoted by the Albanian Electrical Energy Corporation (KESH), is to be situated between the city in the south, the protected Narta Lagoon in the north, and the Adriatic Sea to the west. Due to protests from various parties about the unsuitability of the location, some of the park's facilities may now be moved to a new energy park in Porto Romano in the city of Durres, but the TPP and a hydrocarbons terminal are still planned for Vlora.

In 2005 local people formed the Civic Alliance for the Protection of Vlora Bay to communicate their environmental, social and health concerns related to the projects.

These include:

- negative impacts on the local tourist industry, as the energy complex will destroy unique beaches in the area, through polluting emissions, discharge waters and possible oil spills;
- negative impacts on the local fishing industry of the Vlora district, and in particular on families in the villages of Zvernec and Narta that depend on subsistence fishing;
- destruction of coastal ecosystems, including the protected Narta lagoon, and impacts on the Bay's flora and fauna, and surrounding forests and wetlands;
- little economic benefit for the city of Vlora compared to the high environmental and economic costs; and
- lack of strategic impact study assessing the energy park's cumulative impacts on the Vlora Bay and its citizens

A 2007 investigation by the UN Aarhus Convention Compliance Committee shows that the Environmental Impact Assessment (EIA) process for the 97 megawatt oil- and gas-fuelled TPP did

not provide sufficient opportunities for the citizens of Vlora to participate in the scoping sessions and public consultations. In spite of collecting 14 000 signatures their request for a local referendum was blocked. Vlora residents have long protested at the lack of information about the projects and disregard for their opinions in the decision-making processes.

It is ironic that while the Albanian government is planning to utilise dirty fossil fuels for its own energy supply, it is allowing Italian company Moncada Costruzioni to construct a 500 megawatt windfarm - more than 5 times the capacity of the TPP - on the nearby Karaburun Peninsula, which is planned to export electricity to Italy rather than improving Albania's energy situation.

In 2007 the World Bank and the EBRD approved investigations into controversies surrounding the thermal power plant project, the results of which are pending. Since then the Civic Alliance for the Protection of the Vlora Bay has staged several large rallies and protests against this construction.

**While the need for new energy generation capacity in Albania is clear, this must not be carried out at the expense of people's livelihoods and the environment. Vlora's tourism potential needs to be developed and supported, and this cannot happen alongside the construction of massive oil facilities.**

### **Glavaticevo Hydropower Plant, near Konjic, Bosnia and Herzegovina**

The upper flow of the River Neretva is about 80 km long, with beautiful, practically untouched nature of rare natural value. However, in the last few decades, plans have been developed for hydroelectric power plants (HPPs) on the river, without considering the potential for other development. The planned project - entitled the "Upper Neretva Hydro-Energy System (HES)" - is based on three power plants. These include two high dams and reservoirs on the Neretva River - Glavatičevo HPP and Bjelimići HPP - and a pumped storage plant, with a high dam and reservoir that would be located at 1150 metres above sea level and 6 km away from the river flow.

We are concerned that the project is being developed in spite of the absence of either a national or entity-level energy strategy for the Federation of Bosnia and Herzegovina, and that the project has been initiated by a direct offer by the investor - Intrade-energija - with no tender process. This increases the likelihood of the project proving to be poor value for money.

At the same time, the area of the "Upper Neretva" has been planned as a protected area through the formation of two national parks: "Bjelasnica - Igman - Treskavica - Visocica - (Rakitnica)" and "Prenj - Cvrsnica - Cabulja". The two HPPs would be on the border of the "Bjelasnica - Igman - Treskavica - Visocica - (Rakitnica)" National Park and the pumped storage plant would be deep inside the protected area. The plant would also have immense ecological consequences to the lower part of the river, downstream to Konjic, and to the reservoirs as well - the everyday water oscillation would be between 10 and 30 metres. The Federal and Cantonal Ministries of Natural Resources and Environment are leading the process for establishing the National Parks, but it is a slow process, and is proceeding at the same time as the development of the HPP project - even though these plans are clearly in contradiction with one another.

The economic justification of the project is based on the trade of "cheap" and "expensive" electric energy, however, the whole system would use a large amount of electric energy needed for the operation of the pumped storage plant. According to the Intrade-energija feasibility study for the Upper Neretva Hydro-Energy System the whole system would generate 1356 GWh annually, but the pumped storage plant would use 1338 GWh, leaving a surplus of only 18 GWh per year.

Considering this fact and the lack of relevant energy strategies, it is extremely questionable whether this project will improve the energy balance in Bosnia and Herzegovina. Economy of scale in planning energy generation facilities is no longer a starting point in discussing energy strategies in this century. Pumped storage plants are part of a centralized system that is unsustainable and that has for some time no longer responded to real needs, while smaller, renewable energy capacities have proven time and again their economic competitiveness, besides social and environmental benefits, limiting transmission losses and capital investments.

### **Stanari Thermal Power Plant (TPP), near Banja Luka, Bosnia and Herzegovina**

This project is led by Energy Financing Team (EFT), a company under continued investigation by the UK Serious Fraud Office (SFO) regarding its activities in Bosnia and Herzegovina.<sup>1</sup> We believe that for regional Energy Ministers to publicly associate themselves with the company by prioritising the Stanari project sends out a message that being under investigation for possible corruption is no barrier to receiving political support. After years of attempts by various actors to improve public and corporate governance standards, this is exactly the opposite message to that which Ministers ought to be sending out.

In addition, the regulatory framework for investment and operation of energy facilities in BiH is at an early stage and coherent and comprehensive legislation and strategy documents are still lacking on the state level, thus the licensing procedures appear to be rather unclear. It appears that there was no open tender procedure for the Stanari TPP won by EFT.

It also appears that the plans for the Stanari thermal power plant have not been examined adequately in relation to other planned energy investments. At the moment there are still no energy strategies, either on entity or state level, and the project does not appear in the current energy strategy of the Republic of Srpska Power Company, adopted in 1998. The only project mentioned in the strategy is a 150 MW cogeneration thermal power plant near Banja Luka, which will now not be built, and instead the Stanari TPP was created, which at 410 MW is a significant increase. This lack of coordination, since there are capacity constraints on the national grid as well as on interconnections, may complicate the investment planning of BiH Elektroprenos, (the company in charge of grid maintenance and investment), and eventually disturb transmission and trade for existing and future operators, including EFT.

While entity and national-level energy strategies would help to assess whether the project is appropriate in energy terms, **we do not believe that Energy Ministers should give public backing to a project where there does not appear to have been a public tender and the promoter is under investigation by the UK Serious Fraud Office.**

### **Gacko II Thermal Power Plant, Gacko, Bosnia and Herzegovina**

We are concerned at the irregularities highlighted by Transparency International Bosnia and Herzegovina (TI-BiH) in its recent analysis of the joint venture agreement between the Czech utility company CEZ, the Republika Srpska electricity company ERS, and the 65 percent state-owned RiTE Gacko (Gacko Mine and Power Plant) joint stock company. The agreement forms a new privately owned, limited liability company - "Nove elektrane Republike Srpske" (NE-RS) - to construct a new coal-powered power station at Gacko (Gacko II), modernise the existing power station, and develop mining operations at the adjacent mine.

TI-BiH's analysis shows that RiTE Gacko has to invest all of its property (land, mines, mobile property, plants, licenses, concessions, permits) into the new company, and only after that CEZ should invest around EUR 1 400 000 000 into it. CEZ's commitment only takes the form of a declarative 'Statement on Future Investments', which is not legally binding, whereas the Agreement on Implementation is a legally binding document. The result is that the predominantly state-owned RiTE Gacko (using public money) has to invest much more than CEZ, while CEZ will be able to reap more than its share of the profits, representing a deal which runs against the public interest.

Point 8 of the Agreement on Implementation signed by CEZ, ERS and RiTE also gives a whole list of privileges to NE-RS, which prejudice future legal acts and ensure NE-RS a monopolistic position (eg. giving concessions for lignite and other mineral sources, use of water from the Vrba and Klinje reservoirs, giving of building permits and other relevant approvals and permits, giving approval for re-routing river flows and increasing extraction of water from the source of Klinje, deposition of by-products, Gacko I being given exceptions and exemptions from environmental laws etc.) This is likely to cause problems with ensuring that the power plants adhere to EU environmental standards as BiH moves towards EU accession.

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<sup>1</sup> This was confirmed in an e-mail from Veena Mapara, Press and Information Officer, Serious Fraud Office, dated 22.10.2007

The agreement with CEZ also involved several violations of the Companies Act, for example by ceasing the basic activities of RiTE without properly consulting the shareholders. According to a legal complaint by three shareholding funds, the CEO of RiTE Gacko carried out negotiations, agreements and signing of the agreement between CEZ, ERD and RiTE Gacko without providing the shareholders a copy of the document before voting at the RiTE shareholders' assembly. The agreement obliged RiTE Gacko to transfer the material assets, rights, financial means and business to NE-RS Ltd. Gacko, thus acquiring a share in the capital of RiTE Gacko. Some shareholders abstained from approving this move, however with ERS holding 65 per cent of the RiTE shares, this had no effect. The smaller RiTE shareholders have been put in an impossible legal situation because they cannot be shareholders in a limited company. The smaller shareholders also claim rights have been violated as the RiTE capital was undervalued by counting only the material assets and not the business generated value of the company.

Some small shareholders are now suing the Government of the Republic of Srpska for not consulting them and choosing this model of investment. CEZ recently offered to buy their share, but shareholders have not accepted the offer, as they consider it too low. CEZ offered 1.30 KM for one share but the shareholders considered 2.44 KM to be the appropriate value. Another possible model for solving this is to merge RiTE Gacko and NE RS, however it seems that CEZ is not in favour of this option.

**From TI-BiH's analysis it is clear that the agreements between ERS, CEZ and RiTE regarding Gacko II are seriously flawed and that no political support for the project should be given at least until the agreements have been annulled and renegotiated to bring greater benefits for the public budget and comply with the relevant laws.**

#### **Kosova C Thermal Power Plant, near Kastriot, Kosovo**

Plans for construction of Kosova C power plant, with a capacity of up to 2100 MW, alongside the existing lignite-powered thermal power plants Kosova A and B, have raised a variety of serious concerns, brought together by Forum 2015 in a 2007 report.<sup>2</sup>

Forum 2015 is concerned that the decision to commission Kosova C was made without an examination of the economic, social and ecological characteristics of the planned location, and that the government plans only to carry out an ex post assessment of these issues. The only public discussions that have taken place did not follow any international norms for consultations and amounted only to promotion of the project.

The Kosovo Assembly has adopted a strategy on the construction of the plant, however the current proposals contravene this by having double the capacity and no Kosovar capital involved in the project. The project is being promoted as making Kosovo into a regional energy power, however this is not likely to be true as the profits will be accrued by investors outside of Kosovo, and exports of lignite are likely to fetch minimal prices considering the polluting nature of the fuel.

Pollution from Kosova A and B is already extremely high, particularly airborne dust particles, which are at Kosova B 4 times higher than EU limits, and at Kosova A 40 times higher. The cumulative impact of the three Kosova power stations will result in even more intolerably high pollutant concentrations.

Kosovo's small size and high population density mean that activities such as lignite exploitation, which require large amounts of land, have a serious impact on the ratio of arable land per capita. The planned new lignite mine on the Sibovc Plain, together with the new power plant, ash dumps and conveyor belts, would take up large amounts of arable land, and the surrounding areas would be constantly polluted by dust, thus enlarging polluted areas to an estimated 15 per cent of Kosovo's territory.

Kosovo's water resources are also highly limited - a factor that studies have found to be the single most significant limiting factor on its long-term development. The region where Kosova C would

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<sup>2</sup> "A Modern Tale – Kosova C 2100 - Lignite Power in Kosovo: limits of sustainability (April, 2007). [http://www.forumi2015.org/home/index.php?option=com\\_content&task=view&id=39&Itemid=77](http://www.forumi2015.org/home/index.php?option=com_content&task=view&id=39&Itemid=77)

be built would suffer most from this water shortage, as it houses most of Kosovo's large industrial facilities, which use enormous quantities of water and pollute surface and underground water. The River Sitnica, which flows in the vicinity of Kosova A and B as well as other industrial facilities, is already practically an open collector of industrial wastewater. Kosova C would only exacerbate this situation.

These serious issues need to be examined urgently and **no international political support should be given to a project that has not been subject to the most basic environmental, social and economic assessments.**

#### **Buk Bijela Hydropower Plant, near Foca/Srbinje, Bosnia and Herzegovina**

The controversial Buk Bijela project, which in its original form planned to flood 12km of the spectacular Tara Canyon, Europe's longest and deepest canyon, was the subject of a worldwide campaign against its construction. In 2005 Montenegro decided to withdraw from the project after an intensive civil society campaign which resulted in the collection of more than 11 000 signatures and IUCN/UNESCO expert mission to the site recommending not to go ahead with the project due to the impact it would have on the Tara River Basin Biosphere Reserve and the Durmitor National Park World Heritage site.

In spite of the IUCN/UNESCO recommendation being addressed to the governments of both Montenegro and Bosnia and Herzegovina/the Republic of Srpska, a modified form of the project is still planned by the governments of Republic of Srpska and Serbia. The hydroelectric plant itself would be inside of the Republic of Srpska, but the reservoir would at the very least reach the confluence of the Tara River and the Piva River, and would inevitably have an impact on Montenegro's territory and the Tara River. The reservoir would be within the area of the extended Sutjeska National Park, which is planned for extension in the Spatial Plan of the Republic of Srpska. The whole transboundary area is important for its dense alpine pine forests, clear rivers and lakes and a wide range of endemic flora, and is planned to become a transboundary protected area with National Park status bringing together the Tara River Basin Biosphere Reserve, Durmitor National Park and Sutjeska National Park. The Buk Bijela project stands in stark contradiction to these plans.

The Republic of Srpska and Bosnia and Herzegovina governments must fully obey UNESCO conventions and not take any action that could threaten protected areas situated in another country, nor should plans to protect valuable natural areas within BiH be prejudiced by the construction of hydropower plants or other construction. Considering the low level of renewable energy usage and high wastage of energy wastage in BiH, energy efficiency and renewable energy development needs to be further developed rather than constructing large hydropower plants.

**Regional and other international bodies should under no circumstances support the Buk Bijela project either politically or financially.**

#### **Kolubara Thermal Power Plant, near Belgrade, Serbia**

The "Kolubara B" lignite-fired power plant was designed as a plant to supply heat and power to Belgrade. Construction started in 1988 but the disintegration of the former Yugoslavia stopped the realisation of a World Bank loan for the power plant and neighbouring lignite mine in 1991 and the project has been dormant ever since. The project no longer fits modern conditions and runs contrary to the Energy Sector Development Strategy for Serbia, adopted in 2005, which prioritizes increasing in energy efficiency in production, distribution and consumption, and the increased use of renewable energy sources.

Air pollution is a serious concern as fly ash and sulphur and nitrogen oxides are already causing health problems for those living near existing thermal power plants in Serbia. Electrostatic precipitators are in place, but there is no desulphurization or denoxification equipment. Compliance with EU Directive 2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants is not due until 2017 according to Annex II of the Energy Community Treaty, thus sentencing the population to several more years of serious pollution. The Kolubara basin has mines with low quality lignite and no cost analysis has been carried out to

compare the investment needed for this plant to meet environmental standards with the cost of building renewable energy plants.

The plant would also produce massive amounts of ash, for which no satisfactory storage or disposal facilities exist in Serbia. It is estimated that Serbia already has 1,800 ha covered with about 170 million tonnes of ash, which is stored in informal landfills, thus causing air, water and soil pollution.

The project is not based on up-to-date economic, environmental and technical analysis but simply on continuing the way things were done decades ago - hardly a sound basis for effective investments.

### **Hydropower plants on the Moraca River, Montenegro**

The Moraca is one of the most important rivers in the Balkan region in terms of endemic aquatic species, and its valley is host to several cultural sites and areas of natural beauty including a spectacular canyon near Podgorica. Plans to develop hydropower plants on the river feature heavily in the country's Energy Strategy, but the draft Strategic Impact Assessment of the Strategy conducted by Land Use Consultants identified a number of likely serious environmental impacts associated with the project:

- Permanently damaging the ecology of the Moraca
- Damaging the setting of important cultural sites and scenic areas
- Altering the flow regime and discharge of water to Skadar Lake - an international RAMSAR site and National Park - with potentially serious consequences for fish stocks, invertebrates and migratory birds
- Impacting on existing recreational and economic use of the river corridor for purposes other than hydropower generation
- Developing the Moraca for hydropower would greatly increase the economic and political pressure to introduce a water transfer scheme from the Tara as economic gains greatly outweigh additional construction costs<sup>3</sup>. However diversion of water from the Tara system to the Moraca Basin would have very severe environmental consequences.<sup>4</sup>

The SEA also points out that several other factors remain undefined, such as the risk of earthquakes, rates of sedimentation and accumulation of debris, heavy metals and mercury in the reservoirs and the uncertain patterns of rainfall that cause outputs from existing hydropower stations to fluctuate widely, which could be exacerbated by climate change.<sup>5</sup>

The European Commission has raised concerns about Montenegro's Spatial Plan, which also includes the hydropower plants, saying that the plan lacks clarity on how the conflicts between infrastructure projects and environmental protection goals will be resolved, and that the pre-determination of solutions to problems of land use without proper assessment of environmental impact seem to be the main weakness of the Plan.<sup>6</sup>

As the SEA identifies a number of seemingly unresolvable problems with the project and the EC is expressing concern about clashes between infrastructure projects and environmental goals in Montenegro, it is highly inappropriate for the project to receive international backing.

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<sup>3</sup> Draft Strategic Environmental Assessment Report of the Montenegro Draft Energy Strategy, Land Use Consultants, August 2007, page 127

<sup>4</sup> Draft Strategic Environmental Assessment Report of the Montenegro Draft Energy Strategy, Land Use Consultants, August 2007, page 102

<sup>5</sup> Draft Strategic Environmental Assessment Report of the Montenegro Draft Energy Strategy, Land Use Consultants, August 2007, page 157/158

<sup>6</sup> Comments by Commission Services on the proposal for a Spatial Plan of Montenegro, December 2007, p.2