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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.

The EBRD, KfW, coal and corruption European money in the Kolubara “Environmental Improvement” project, Serbia

1. Description of the project

The EUR 181.58 million EPS Kolubara Environmental Improvement project in Serbia involves the purchase of equipment that would be used to expand the Kolubara lignite mine, requiring the resettlement of local communities, keeping Serbia locked into lignite electricity generation, and crowding out investments into much-needed energy efficiency and new renewables. Financed by the EBRD (EUR 80 million), KfW (EUR 75 million) and state electricity company EPS¹ (EUR 26.58),² it comprises the following elements:

1. the purchase of a coal excavator, conveyor and spreader system for Field C of the Kolubara mining basin,
2. the introduction of a spreader system for the Tamnava West field and
3. the establishment of a coal management system for overall Kolubara mining operations.

According to the project promoters, it will improve the efficiency of EPS' mining operations at the Kolubara basin as well as the quality and uniformity of the lignite it delivers to EPS' Nikola Tesla and Morava power stations.

According to EPS,³ the project will also enable those plants to significantly reduce the use of heavy fuel oil when lignite quality is too low, resulting in lower levels of CO₂ and other emissions in comparison with the current situation. Although it might produce short-term financial benefits for EPS, the available alternatives do not seem to have been considered. The limited scope and goals of the project appears to be an attempt to play down the role of the new equipment provided through the project in the expansion of the mine for increased electricity generation in the existing Nikola Tesla B power plant and planned Kolubara B plant.

¹ EPS is the Serbian vertically integrated state power company with a monopoly in lignite mining, electricity generation, distribution and supply of electricity throughout the country. 55% of its installed capacity of 7,120 MW is provided by six lignite-fired power stations supplied by two basins, Kolubara and Kostolac. RB Kolubara is the subsidiary company running the Kolubara mine.

² <http://www.ebrd.com/english/pages/workingwithus/procurement/notices/project/120529a.shtml>

³ Environmental Improvement Project at Kolubara Mine Basin, Non-Technical Summary

The EBRD approved financing for the project in 2011 – the fourth in a series of five EPS-sponsored projects approved by the bank since 2001. In 2012 the EBRD also announced its interest⁴ in providing a further EUR 400 million loan for the planned new 750 MW Kolubara B lignite unit, sponsored by EPS and Italian company Edison. Although the EBRD is mandated to promote environmentally and socially sound sustainable development, almost half of EBRD funding for energy projects in the six years to 2011 was devoted to fossil fuels.⁵ The EBRD's project pipeline in southeast Europe indicates that the bank is planning to continue supporting coal and lignite-powered electricity generation in the region.

2. The role of the project in Serbia's energy sector

As Serbia intends to join the EU, it will most likely be subject to obligations to reduce greenhouse emissions by more than 80% by 2050 in line with EU policy. However the country is so far showing few signs of interest in decarbonising its economy.

The Kolubara Mining Basin provides around 75% of the lignite used for EPS' thermal generation. It produces over 30 million tonnes of lignite annually, which is supplied to the Nikola Tesla, and Morava power plants, together producing more than 50% of Serbian electricity.

For EPS, this investment in new equipment is of significant importance, as EPS' strategy is to enlarge the coal mine and keep Serbia dependent on lignite. The National Energy Strategy and national Spatial Plan⁶ call for the continuation lignite extraction and an increase in volumes to support the eventual development of additional thermal power plant capacity.

With the equipment provided, EPS is enabling the continuation of current outdated technology attached to the low quality lignite resources.

4 <http://www.ebrd.com/pages/project/psd/2012/43763.shtml>

5 <http://www.emergingmarkets.org/Article/3032038/EBRD-urged-to-pull-plug-on-fossil-fuel-lending.html>

6 Spatial Plan of the Republic of Serbia 2010 – 2020, Serbia Spatial Planning Agency, 2010

Financially, EPS is claiming that it is close to bankruptcy⁷ and is desperate for any loans backed up by state guarantees for stabilizing production. On the other hand, the Serbian energy sector needs huge investments for energy efficiency measures and exploitation of renewable energy resources in Serbia, and complete restructuring towards meeting climate goals. Therefore with state support being directed towards lignite coupled with the country's enormous budget constraints (public debt at 65% of GDP) it will be almost impossible to meet the needs for support for new renewables and energy efficiency in Serbia.

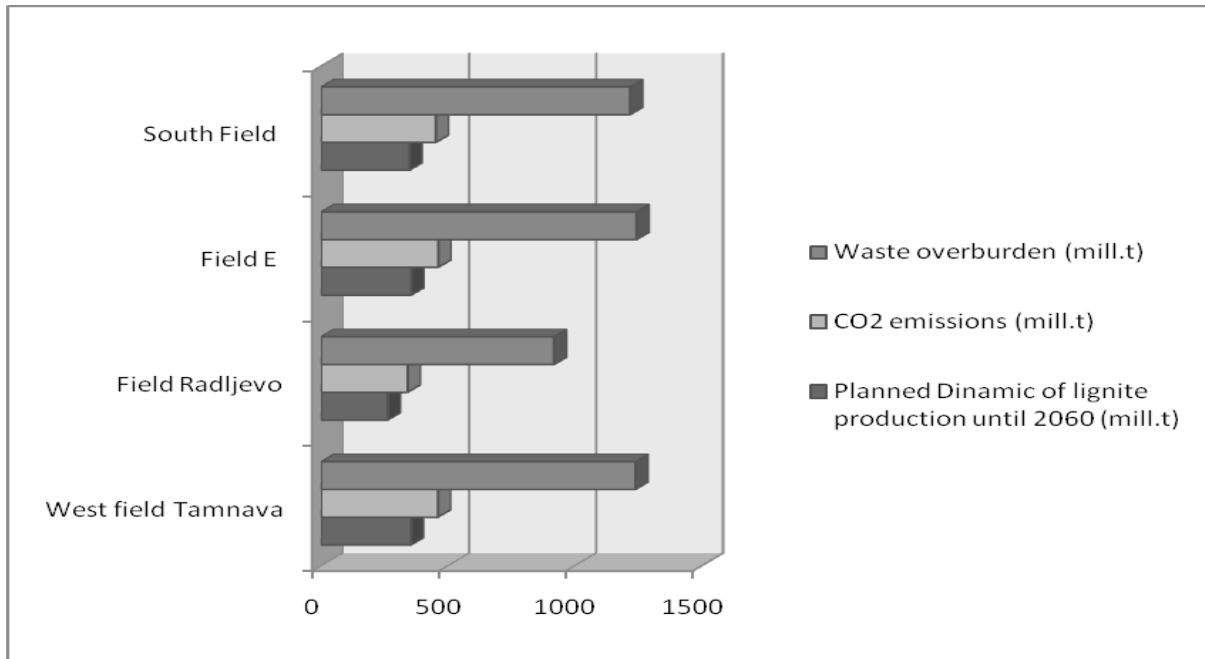
3. Emissions and effects from lignite combustion

The main consequence of lignite extraction is combustion of lignite. Therefore, impact analyses cannot be limited to immediate impacts of extraction activities only. There is a need to re-assess project boundaries and re-consider the project in the context of its wider impacts. More than 33 million tonnes of CO₂ and 361 000 tonnes of SO₂ emissions are emitted per year from combustion of lignite from the whole Kolubara basin⁸. According to current emissions data of EPS thermal power plants that are burning lignite from different Kolubara fields, and by extrapolation of the data to the whole quantity of coal reserves estimated in Tamnava West and Fields C, B and E and "south wings" of D field, it is estimated that these fields will produce minimum 540 million tonnes of CO₂ in their lifetime⁹. The EBRD is estimating that 200 000 tonnes annually will be saved by its project, but this pales in comparison with the impact of expanding lignite production.

7 http://www.b92.net/biz/vesti/srbija.php?yyyy=2012&mm=10&dd=05&nav_id=648949

8 <http://www.drustvo-termicara.com/resources/files/153a90d.pdf>, page 6

9 <http://bankwatch.org/sites/default/files/briefing-Kolubara-mine-12May2012.pdf>



In January 2013 RB Kolubara recorded the largest monthly production of lignite, in total 3.5 million tonnes of coal¹⁰. If this trend continues this year, it would result in a 33% increase of CO2 emissions from Kolubara lignite combustion in comparison with last year (approximately 37 million tonnes lignite would produce about 40 million tonnes CO2). EPS even now, without purchasing new equipment, is beating its own records in quantities of lignite extracted, and the EBRD/KfW financed project would only increase this.

Overall 1 340 million tonnes of lignite are planned to be mined by 2060.¹¹

4. Negative social impacts on local communities

Serious pollution of air, water and soil in the project area and the village of Vreoci has been going on for over two decades, caused by the proximity of the industrial zone and open pits and is endangering the

health of the population as well as animal and plant life. Both Vreoci and another village, Barosevac, are inadequately protected from emissions of dust, noise, heavy metals, and vibrations. Furthermore, in 2007 there were landslides in Field B and C, located very close to these settlements.

According to the Serbian government's "Programmatic principles for the resettlement of Vreoci community" from 2007, the whole Vreoci community should be resettled collectively, all 1180 households. After years of struggle for respect of the decisions listed in the government resettlement programme (2007 to 2012), the inhabitants of Vreoci are now facing strong pressure from Kolubara mining company to take or leave whatever compensation the company offers. So far, only 200 households have been moved, and only 350 households got part of the money (about 30% of the whole price) in advance. The location offered by RB Kolubara for the relocation of Vreoci and its infrastructure facilities is not acceptable for residents and the construction of the infrastructure for a new location has not yet started. Unfortunately, the delay in the relocation of Vreoci creates a situation where citizens are further exposed to the most serious environmental impacts of lignite mining operations.

10 3 051 088 tonnes, according to EPS, <http://www.eps.rs/Pages/Article.aspx?lista=Novosti&id=108>

11 The geologically and technologically connected fields (South, E) with the "EBRD&KfW" B+C fields, plus Tamnava West and Radljevo fields are calculated together to show the joint impact of the operation that will be a consequence of the financed mining project.

Money foreseen for the relocation of Vreoci is being spent in a suspicious, non-transparent way, without any real benefit for Vreoci, according to representatives of local community. The inhabitants of Vreoci have used various grievance mechanisms to point out the flaws in the process, corruption and violation of several laws. They have complained to the Republic's Public Prosecutor, Administrative Court, Constitutional Court, Serbian Ombudsman, Ministry of Environment, and to all the Directors of EPS and Kolubara Mining Basin. Very often, nobody answered their complaints. In some cases complaints were refused on dubious grounds.

EPS has agreed to abide by an Environmental and Social Action Plan as well as a Stakeholder Engagement Plan – documents required by EBRD and KfW to ensure international social and environmental standards. However these do not include the Vreoci resettlement. The area of influence of this project was defined by the EBRD as just Field C (the location for the coal excavator) and Tamnava West Field (the location for the spreader system). The purchased equipment will be, however, used on other Fields as well, as RB Kolubara according to official plans is expected¹² and has all necessary permits to expand its open cast mine on Field D (where Vreoci is located) and to open a new open cast mine South Field. It is questionable whether EPS would inform the EBRD about using the equipment on other fields and so far the EBRD has claimed that the issues around the Vreoci resettlement are not part of the project.

The local authority of Vreoci and Vreoci Ecological Society submitted a complaint to the EBRD's Project Complaint Mechanism in August 2012. The complaint has been registered in the PCM Register¹³

12 The official assessment is that beneath the settlement and industrial zone in Vreoci are reserves of about 600 million tonnes of lignite. In order to use these reserves of coal, all planning documents prescribe complete relocation of Vreoci, so that the entire cadastral municipality of Vreoci in future, up to 2020, would be occupied for mining. Decision on acceptance of the Programme guidelines for the relocation of Vreoci, No. I-925/3, from November 12, 2007, and the Government consent, Decision No. 310-5277/2007-3, from November 22, 2007; General Regulation Plan for the area of the Vreoci (Official Gazette of the City of Belgrade No. 54/08), Spatial Plan of exploitation area of the Kolubara lignite basin (Official Herald of the Republic of Serbia No. 122/08)

13 <http://www.ebrd.com/pages/project/pcm/register.shtml>

and is currently being processed. The complaint concerns policy violations by the EBRD and by EPS/RB Kolubara concerning the EBRD's attempt to avoid responsibility for enforcing resettlement standards by drawing very narrow project boundaries and problems with the participation of stakeholders.

5. Transparency, accountability and governance issues

In late 2011, 16 employees of EPS were arrested on suspicion of corruption, involving – among other things – the fictitious hire of mining equipment over several years. Financial abuses committed between 2004 and 2008 by the top officials responsible caused damages of millions of euros.¹⁴ Their trials have not yet taken place. Currently a thorough investigation by the Ministry of Energy is also ongoing into corrupt practices by the Kolubara management regarding expropriation.

For years no-one seriously monitored RB Kolubara's operations, and most operations and financial information are even today untransparent. Neither EPS nor the government of Serbia publishes full reports about the financial status and prospects of the Kolubara company, despite being responsible for protection of the public interest. Corruption also seems to have been common in the resale of coal. Of the 30 million tonnes of coal mined annually, 90% is used for energy production in thermal power plants and 10% for industry and private individuals. RB Kolubara has no direct contracts with district heating plants, instead they purchase coal from intermediaries that have for decades been buying coal from Kolubara at lower prices and reselling it later.¹⁵

However, the EBRD, despite having been working closely with EPS since at least 2001, spotted none of these issues, and since they were uncovered has continued to approve loans for the company.

14 http://www.flarenetwork.org/learn/europe/article/serbia_arrests_17_over_state_owned_mine_fraud.htm

15 http://www.b92.net/info/vesti/index.php?yyy=2011&mm=02&dd=07&nav_category=120&nav_id=491268