CEE bankwatch network

Media Brief

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Western Balkans and Ukraine: EC-backed Energy Community to prioritise coal plants that threaten EU long-term climate targets?

For more information

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- According to the EC-backed Energy Community's Regional Energy Strategy, by 2020 the Western Balkans and Moldova will spend **EUR 28.8 billion** on new electricity generation capacity. Adding Ukraine brings the figure to **EUR 44.6 billion**.
- **Nearly 45%** of the new Western Balkan capacity (6195 MW of a total new 14 234 MW) is planned to run **on coal or lignite**. Per capita that is more than is planned by Poland, a country notorious in the EU for its reliance on coal and unwillingness to take action on climate change.
- The Regional Energy Strategy foresees **greenhouse gas *increases*** for all Energy Community countries (Western Balkans, Ukraine and Moldova) **until at least 2030**, even in the so-called 'Sustainable Scenario'.
- Yet the Western Balkans countries all plan on joining the EU. Being locked in to lignite infrastructure will cause **enormous costs** for implementing the EU's **2050 decarbonisation goals**.
- **On 24 October in Belgrade the Ministerial Council of the EC-backed Energy Community will approve a list of priority energy infrastructure projects** resulting from the Regional Energy Strategy known as Projects of Energy Community Interest (PECIs) for the Western Balkans, Moldova and Ukraine. These projects would be prioritised for fast-track approval and public financing from institutions such as the European Bank for Reconstruction and Development and the European Investment Bank.
- The Energy Community secretariat has **refused to release the shortlist of selected projects** to be submitted to the Ministers for approval. However the initial lists submitted by the Energy Community Parties give considerable cause for concern. **Six of the projects are coal/lignite power plants** (see below for more details), while several hydropower plants are also causing concern due their serious biodiversity impacts. In addition, an undersea cable to export electricity from Albania to Italy raises concerns in a situation where Albania is likely to sign away most of its best renewable energy sites so that Italy can import electricity to meet its EU renewables targets.
- **The Ministerial Council must refrain from approving the projects described below if the Energy Community is to retain any semblance of helping its Parties to meet EU standards.**

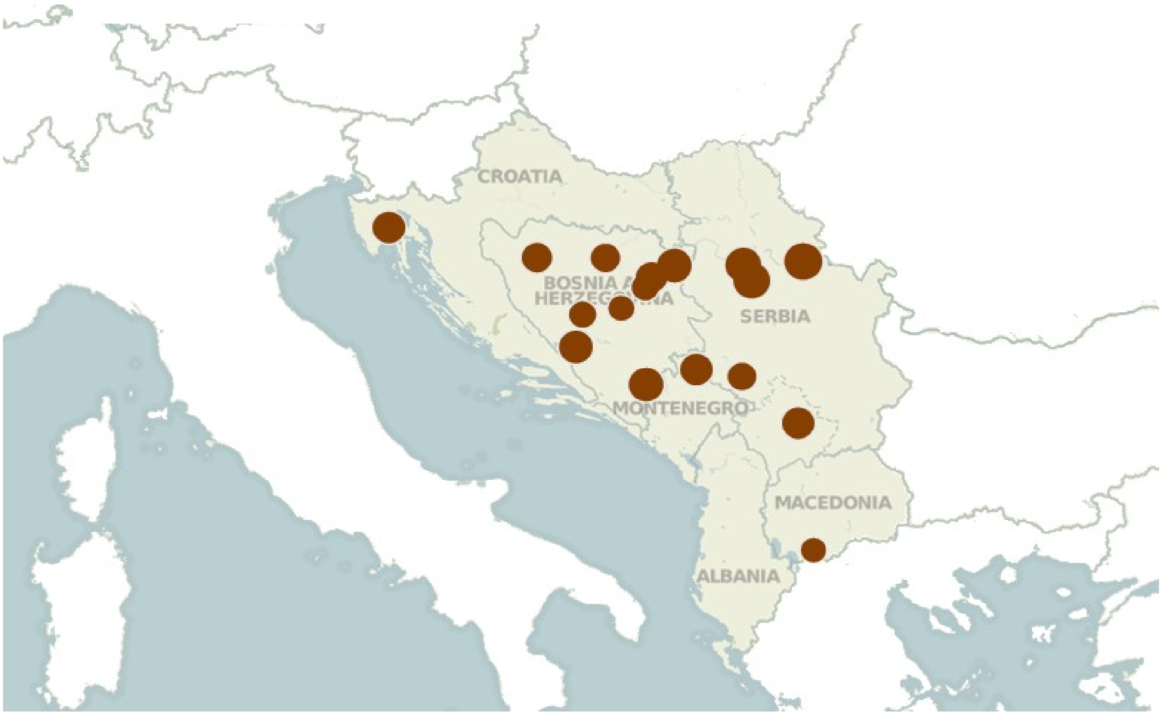
CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

1 The Energy Community Treaty, signed in 2005 between the EU, the Western Balkan countries, Ukraine and Moldova, commits the Parties to implement selected EU legislation related to energy and environment, to develop an adequate regulatory framework and to liberalise their energy markets. The Energy Community also promotes investment in energy infrastructure in the region.

2 Bizarrely, Ukraine did not mention any plans for new coal capacity in the figures submitted to the secretariat. Yet later it submitted two coal generation projects for consideration as Projects of Community Interest and it is known that the country has significant plans to convert several gas-fired power stations to coal to reduce its dependence on imported gas.

3 See also http://www.energy-community.org/pls/portal/docs/2060179.PDF for a list of projects which were submitted later and added to the lists.

New planned coal and lignite plants in the Western Balkans



Climate science is indicating that we are on track for 4°C global warming over this century and world leaders and international institutions are warning against the 'carbon lock-in' that will be caused by constructing more fossil fuel infrastructure today.

Despite this, Western Balkans governments plan to build **6195 MW** of new coal/lignite plants by 2020[4], while Ukraine is planning to build 9 to 15 GW of new coal plants and close 4GW of old ones by 2030.

The Western Balkans countries are aspiring to become members of the European Union. Yet the energy infrastructure they build today will still be operating by 2050, therefore constituting a serious threat to these countries' ability to comply with EU long-term decarbonisation objectives.

Similar problems have already arisen in Slovenia, where both the EBRD and the European Investment Bank (the EU house bank, created to further EU objectives) financed the highly controversial 600 MW Sostanj 6 lignite power plant. The new plant will take up almost all of Slovenia's emissions allocation if it reduces greenhouse gas emissions in line with EU 2050 targets. The economic viability of the project has been questioned by Slovene ministers and several expert studies. The project has also been marred with corruption allegations and, local police, the Slovene national prosecutor, the European Anti-Fraud Office (OLAF) and the EBRD and EIB have undertaken investigations, most of which are still ongoing.

4 According to the EC-backed Energy Community Regional Energy Strategy, approved in October 2012

New coal/lignite power plants in the Energy Community countries nominated as Projects of Energy Community Interest

1. New Kosovo (Kosovo e Re), Kosovo:

The plan to build a new coal plant close to the capital Prishtina has been around for over a decade, starting out as a planned 2000 MW unit that would turn

Kosovo into an energy exporter. Yet lack of investors has gradually diminished ambitions. Today, New Kosovo is planned to have a capacity of 600 MW and has been heavily promoted by the US government, notably through the World Bank, which is interested in supporting the project. After Kosovo became a member of the EBRD in December 2012, the bank declared its interest in financing the new plant in its first Kosovo Country Strategy.

While the plant is being depicted as necessary to ensure the country's energy security, up to 30 percent of available electricity in Kosovo today is wasted according to official data, because of lack of energy efficiency programmes in place. This adds to the 37 percent of electricity losses (of which around 17 percent are technical and a result of an old grid and the other are commercial losses, i.e. theft). Daniel Kammen, Professor at the University of California in Berkeley, has shown that Kosovo has renewable energy capacities that could deliver 34 percent of energy demand by 2025, while at the same time providing more jobs than coal.

Today, Kosovo produces 98 percent of its electricity from lignite. Recent research shows that, largely because of this over-reliance on coal and other fossil fuels, air pollution in Kosovo is responsible for 22,900 children with pulmonary diseases and 100,000,000 euros in medical expenses annually.

2. Kolubara B, Serbia:

A new 750 MW coal plant is planned to be built at Kolubara, in western Serbia, in order to exploit the resources in the Kolubara coal basin. Construction at the site was started in the 1980s but later abandoned, and it is unclear whether the half-built infrastructure can still be used at the same time as meeting new EU standards.

The Kolubara basin has been exploited for decades but significant resources remain. In 2011, the EBRD approved a loan of EUR 80 million to state-owned energy company EPS (a long-term business partner of the EBRD in Serbia) and owner of Kolubara, for so-called "efficiency improvements" at the mine. In reality, though, the loan is likely to simply assist EPS in expanding its mining operations. While the EBRD claims that an estimated 200,000 tonnes of CO2 emissions will be saved through efficiency improvements, the burning of lignite from the EBRD-financed portion of the mine would result in an estimated 500,000,000 tonnes of CO2, making a mockery of the savings claim.

In April 2012, the EBRD also announced its interest in providing a 400 million euros loan for the new 750 MW Kolubara B coal plant to be built at the site by EPS and Italy's Edison, however in September 2013 the bank confirmed it was no longer looking at the project. Meetings with Edison have also confirmed that the project is proceeding slowly and it is now unclear who will finance the project.

All the while, the Kolubara management has been haunted by allegations of corruption and mis-management: in late 2011, 16 employees of EPS were arrested on suspicion of corruption offences involving, among other things, the fictitious hiring of mining equipment over several years (the trials have not yet taken place). In January 2013, the Serbian Energy Minister announced a thorough investigation of management practices at Kolubara, which she called "mired in crime and corruption". In September 2013 this led to the arrest of several more former EPS staff accused of fraud during expropriation procedures for mine expansion.

3. Kostolac B3 thermal power plant, Serbia

The Serbian government is planning a new 350 MW lignite plant at Kostolac in north-east Serbia. Chinese company China National Machinery and Equipment Import and Export Corp (CMEC) looks set to implement the project with the support of the China ExIm Bank. No tender procedure seems to have taken place, but the government plans to get round this by signing an intergovernmental agreement on the project. The involvement of CMEC raises concerns that the company may offer the same technology that it has offered the Montenegrin government for the Pljevlja II project. This technology meets neither the EU Industrial Emissions Directive, nor new Chinese pollution standards.

4. Nikola Tesla B3 thermal power plant, Serbia

This 700 MW plant is at an early stage, with no clarity about who the strategic investor will be, after RWE confirmed this year that it is not interested. In 2011 a memorandum was signed with a consortium of Chinese companies including China Environmental Energy Holdings, however since then the possibility of Toshiba's participation has also been raised.[5]

5. Burshtyn thermal power plant, Ukraine

Burshtyn coal power plant is part of the Burshtyn Energy Island which exports electricity to the EU rather than satisfying Ukrainian needs. Thus the construction of another 800 MW of capacity at the site would be a clear case of carbon leakage, in which Ukraine emits the CO2 and bears the health and environmental costs of the project, while neighbouring EU members can more easily meet their GHG reduction targets by moving the emissions across the border. Construction of new coal powered units means locking electricity production into coal for another 30-40 years. Renewables face unfair competition in Ukraine due to significant subsidies currently going to coal mining in Ukraine (in 2010 EUR 730 million – around 2% of the state budget).

6. Dobrotvir thermal power plant, Ukraine

This 660 MW addition to the existing Dobrotvir plant is also aimed at electricity exports to the EU. In addition, project promoter DTEK is the largest private energy company in Ukraine and it has the potential to become a private energy monopoly through privatization of all thermal power plants and some CHP plants. DTEK has already become a private monopoly in electricity export from Ukraine as it bought 'Zakhidenergo'. DTEK is aiming to control the entire thermal energy sector, including coal mining and processing, electricity generation, transmission and distribution. Thus Energy Community support for DTEK's projects would contradict the EU's commitment to fair competition.

5 Serbia Energy: Japanese companies interested in TENT B3 power plant new unit, 14.03.2012, http://serbia-energy.com/japanese-companies-interested-in-tent-b3-power-plant-new-unit/

Dragan Obradovic: China most likely to construct new large thermal power plant in Serbia, July 12th 2013 http://www.energetika.net/eu/novice/economy/china-most-likely-to-construct-new-large-thermal-power-plant