

To the Board of Directors  
EBRD

7<sup>th</sup> July 2014

**Subject: post-flood energy sector investments in the Western Balkans**

Dear Members of the Board

The floods that hit the Western Balkans in mid-May have impacted Serbia's energy sector, as well as the EBRD's own investments in the Kolubara lignite mine in Serbia. The EBRD's reports on high level visits to the region in the aftermath of the floods suggest that *"As part of the regional flood response, the EBRD will place a priority on the rehabilitation of damaged roads, railways and water supply systems as well as damaged power stations and transmission and distribution networks."* [1]

The above announcement raises concerns about the possible involvement of the EBRD in rehabilitation of damaged coal mines and thermal power plants. There is little doubt that the Serbian government, whose draft energy strategy spells endless lignite reliance, has requested support with the excuse of a post-flood crisis.

The question now is whether the EBRD will bow to these requests and prop up Serbia's coal sector or whether it will ensure that its post-flood assistance is used for much needed residential energy efficiency improvements and sustainable renewable energy? Assistance that supports the current level of lignite use cannot be regarded as being in line with the EBRD's Energy Strategy, which clearly aims at supporting a reduction in the use of coal in the energy sector. Additionally there are questions about the consequences of the floods for the Kolubara mine operations, such as costs of dewatering of the mines, recovery and repairs of equipment and resuming exploitation, but also about the impacts on project affected communities – resettlement, access to water, cleaning up of polluted land?

### **EBRD flood response: propping up irresponsible coal reliance or steering a low-carbon transition?**

The energy crisis that looms large today in Serbia has its roots in the faulty structuring of the energy system: the highly centralized power sector is excessively reliant on electricity production by coal-burning plants that were built before 1990 and are supplied with lignite from local mines. In 2010 no less than 64 percent of electricity was generated from lignite. In spite of the risks that over-reliance on one fuel carries, Serbia's draft energy strategy largely plans for more of the same, adding new lignite units to the affected plants – at Kolubara, Nikola Tesla, and Kostolac and even planning to *increase* the amount of lignite generation capacity in the country until 2030.

Another serious issue is that the strategic vision of the political elites in the Balkans is blurred by corruption, as regular scandals show. [2]

The floods and the crisis they have produced in the Balkan countries' electricity generation sector should ring a wake-up call for the Balkan governments and international investors. The EBRD has historic experience with energy investments in Serbian coal, having financed no less than three EPS coal projects, and should have learned the lesson that the perpetual crisis of the energy sector in the country can no longer be justified with post-war and post-flood excuses.

Diversification of the energy sector is needed without delay as part of a shift away from fossil fuels to renewables like sustainably sourced biomass and carefully situated wind turbines. Most urgently, energy losses must be reduced and demand kept under control.

In this regard, we recommend that the EBRD should:

- implement much-needed residential energy efficiency measures starting with providing energy efficient houses to families that lost their homes in the floods and making sure that minimal necessary resettlement in lignite mining areas result in new energy efficient housing. This assistance could create over 1600 new energy efficient houses and energy efficient public buildings across the country that may serve as demonstration cases for energy efficiency in buildings.
- call on the Serbian Government to re-open the process of drafting the new national energy strategy with appropriate public participation and transparency and taking into account new realities created by floods and obvious climate change risks. The existing draft strategy paper - that has been produced without appropriate public participation - may be considered as one of background papers within a new strategy process; The shortage of lignite could prompt authorities to ban retail sales of lignite and its use in small boilers and residential stoves - that is the most harmful use for environment and human health. The EBRD may support this strategy by assisting provision of efficient wood stoves and rapid conversion of small boilers in industry and district heating to biomass or their replacement with geothermal heat where appropriate. These and many other energy efficiency aspects should be considered in a scope of the Recovery Needs Assessment prepared for the forthcoming Donor's conference

refrain from any further funding (including emergency requirements) to the lignite industry until an appropriate spatial plan for lignite basin - including lignite mines, transportation, all affected water resources, all affected settlements, power plants and ash disposal sites - is adopted with adequate public participation in line with the Aarhus convention and supported by impartial technical assistance and accompanied with an appropriate Strategic Environmental Impact Assessment.

### **Does responsibility come with investment in the EBRD-financed Kolubara project?**

Bankwatch and its Serbian member CEKOR have on numerous occasions raised concerns about the Kolubara mine project, and three Project Complaint Mechanism complaints – one submitted in 2012 and two submitted in 2013 - are currently in progress.

In the recent floods the four Kolubara mine fields were flooded, two of them completely. In the biggest open-pit mine, Tamnava West, ten huge excavators used for mining were flooded, and six of them were completely underwater. According to the first estimates, it will take another year for the Kolubara mines to resume normal operations – and that means enormous costs for the country.

In the meantime, the residents of the village of Vreoci – situated on a narrow corridor of land between two mine fields – whose residents have suffered from water, air and noise pollution, as well as vibrations from heavy machinery for decades, are now facing a new blow. When the floods hit this May and the riverbank broke, it took with it a heap of waste from the coal processing plant and spread black mud around the village. Residents are now concerned, as they do not know the contents of the dust that is left, and are calling on the government to carry out testing.

Just to make matters worse, with two pits out of action, work in Field D near Vreoci has accelerated, giving new impetus to calls for resettlement. Vreoci residents had been pressing the EPS Kolubara mining company to resettle the whole community, as was promised in a 2007 Serbian government plan – to no avail. With the financial difficulties that the EPS is facing, prospects for adequate addressing of the needs of the communities are slim.

With regard to the deteriorating impacts on the Kolubara affected communities, we recommend that the EBRD should:

- set up a fund for facilitating the resettlement of communities impacted by the Kolubara mine;
- set up a residential energy efficiency fund and prioritise rehabilitation of those households that risk being left without access to heating in the coming winter.

Last but not least we call on the Board to demand urgent prioritisation of the PCM compliance review of the Kolubara mining project, in order to both set up a plan for action to address the grievances of the project affected communities and provide lessons learned for future EBRD investments.

We look forward to seeing what action you now take and to your response.

Kind regards,

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[1] News story: *EBRD helps Bosnia and Herzegovina to recover from the floods. EBRD Vice President for Policy travels to the affected areas.* URL, last seen on 11 June 2014: <http://www.ebrd.com/english/pages/news/press/2014/140529.shtml>

[2] Corruption

Elektroprivreda Srbije (EPS) has for years been undermined by alleged corruption within its own ranks. For example, On 3 October 2011, Dragan Tomić, former Director of Kolubara mines, was arrested along with 16 other people from the Kolubara mining company and private companies which re-sold lignite or leased machinery to Kolubara. In total 28 people are accused of irregularities around the hire of equipment for the Kolubara mine, causing serious damage to the company's finances. The case is still ongoing. What is perhaps most worrying is that the offences are alleged to have taken place between 2004 and 2009, a period when EPS was carrying out the EPS Power II project financed by the EBRD, and should therefore have been carefully monitored by the bank.

For more case studies on corruption on the energy sector in the Western Balkans, see the new NGO report *Winners and Losers: Who benefits from high-level corruption in the South East Europe energy sector?* <http://bankwatch.org/sites/default/files/SEE-energy-corruption.pdf>