

China-SEE energy projects update

- **Bosnia and Herzegovina, Montenegro, Romania and Serbia all plan to build new lignite power plants during the next few years**, at a time when most EU countries are giving up building new coal plants.
- Since the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the World Bank have virtually halted lending for new coal power plants (except Kosovo), **Chinese state banks – ExIm Bank and the China Development Bank (CDB) - have seemed like the most likely candidates for financing these plants**, as well as several hydropower plants.
- Governments are still pushing the plants, but except Stanari in BiH (under construction), all the plans are delayed and **no new financing deals have been signed by Chinese banks for lignite power plants in the 2.5 years since the Stanari deal was signed in June 2012.**

Which plants are supposed to be receiving Chinese financing?

1. Kostolac B3 thermal power plant, Serbia

The Serbian government is planning a new 350 MW lignite unit at Kostolac in north-east Serbia, in spite of the Drmno mine having suffered from flooding this year. As well as having to mount a huge effort to save the mine during the May floods, [between July and September more than 2 million cubic metres of water spilled into the mine](#), bringing with it around 800 000 cubic metres of sludge and mud and engulfed mining machinery in mud. Thus claims that lignite provides energy security look ever thinner.

Several other problems also plague the project. The environmental permit is being challenged in the national administrative court and the case is being [considered by the Espoo Convention Implementation Committee](#) for failure to assess the transboundary environmental effects of both plant construction and Drmno mine expansion (which does not even have an EIA study).

The new unit is planned as the second phase of a project by China's National Machinery and Equipment Import and Export Corp (CMEC), the first phase of which involves the rehabilitation of the existing units at Kostolac and installation of anti-pollution equipment. The first phase is underway, although running late. In November 2013 [a deal was signed with CMEC](#) to implement the second phase, ie. the new unit. *No tender procedure appears to have taken place, but the Chinese and Serbian governments have signed an intergovernmental agreement freeing joint projects from tender obligations¹ – a move which would not be allowed under EU law.*

Financing is expected from the China ExIm Bank, but the contract, which was [supposed to be signed in March 2014](#), has not materialized yet. In the run-up to the China-CEE summit, the Belgrade-Budapest railway has been mentioned more than Kostolac B3. But in [a recent interview with Minister Zorana Mihaljovic](#), it became clear that it is now the Chinese side which has to decide whether to back the project or not, and that if financing is not signed by the end of the year, the whole project is cast into doubt.

¹ On 20 August 2009 the Serbian government signed a Memorandum of Understanding with the Chinese government on economic and technical co-operation in the field of infrastructure. Annex 2 to the 2009 agreement was signed on 26 August 2013. This annex includes a clause in Article 5 that (our translation): Agreements, contracts, programmes and projects carried out in accordance with Article 4 of the Agreement on the territory of the Republic of Serbia do not carry an obligation to publish a public tender for carrying out investment works and delivery of goods and services, except if it is otherwise specified in the commercial contract from paragraph 4 of this Article."

2. Stanari lignite power plant, Bosnia and Herzegovina

This 300 MW plant promoted by [Energy Financing Team](#) (EFT) is being built by Dongfang Electric Corporation and financed by the China Development Bank. Construction of the plant started in May 2013. The air pollution from the plant is allowed – according to the environmental permit - to be 2-3 times as high as allowed by the Large Combustion Plants Directive, even though the country is already obliged to comply with the Directive under the Energy Community Treaty. [A complaint to the Energy Community](#) dispute settlement mechanism was therefore submitted by environmental group Center for Environment from Banja Luka in January 2014, which also pointed to deficiencies in the environmental impact assessment process.

3. Ugljevik III lignite power plant, Republika Srpska, Bosnia and Herzegovina

Ugljevik III, promoted by Russian billionaire Rashid Sardarov's Comsar Energy and constructed by the China Power Engineering and Consulting Group Corporation (CPECC) is planned to consist of 2x300 MW units and to take lignite from the open cast mines at Delići, Peljave-Tobut, Baljak and part of Ugljevik-Istok. China Development Bank representatives were present at the signing of an [agreement between CPECC and the Republika Srpska authorities](#) but have never publicly expressed interest in financing the project. Like Stanari, Ugljevik III would have an extremely low net efficiency of 34.1 percent, compared to 40 percent required by the best available standard². Its Environmental Permit is being challenged in the Republika Srpska courts, and [an analysis](#) published in October 2014 shows that the environmental impact assessment is missing key information and that the data on likely emissions of SO₂, NO_x and dust are false.

4. Tuzla 7, Federation of BiH, Bosnia and Herzegovina

Publicly-owned electricity company Elektroprivreda Bosna and Hercegovine (EPBiH) is currently negotiating with the China Gezhouba Group/Guangdong Electric Power Design for the construction of a new 450 MW unit at Tuzla, after Japan's Hitachi - also shortlisted - dropped out of the project.

In November 2013, the Center for Ecology and Energy from Tuzla launched [a report on the health impacts](#) of existing and planned coal thermal power plants in the Tuzla area. Using the methodology developed in the WHO's Health Response to Air Pollutants in Europe project, the study found that coal plants around Tuzla, including Tuzla 7 and the planned unit at Banovici (see below), are expected to cause total health-related economic costs of EUR 810 million and the loss of 39,000 life-years in the period 2015-2030.

[Tuzla 7's economics are also questionable](#). Information on Gezhouba's bid published in July 2014 shows that two different offers have been made by the company, with different financing methods - one costing EUR 785.7 million, and one costing EUR 835 million. The latter is considered by EPBiH to be economically unfeasible, while the former is supposed to be acceptable. However there is only EUR 50 million difference between these two offers, and it is quite possible that the cost of the project will rise by at least this much as it develops, pushing it into unfeasibility.

5. Banovici lignite power plant, Federation of BiH, Bosnia and Herzegovina

The 300 MW Banovici plant is planned alongside the Banovici mine near Tuzla. The project promoter is [RMU Banovici](#) (Banovici Brown Coal Mines), but it is still unclear who the strategic partner and financiers will be. [Nine of the eleven consortia](#) which submitted bids for the project include Chinese companies, while the other consortia are Spanish and Russian/Czech. Among other issues of concern with the planned plant is water use. A new reservoir is [planned at Ramici](#) that would be used for the coal plant however it appears that filling the reservoir from the river Turije may at times be in direct competition with filling Lake Modrac, which is used for drinking water for Tuzla. Full details are not yet available because the environmental impact assessment process is being carried out before hydrological studies are complete. A further concern is that only an earth dam is planned to keep the reservoir in place, which may not be enough in times of heavy rainfall and may pose a danger to communities downstream.

² From the EU's Best Available Techniques Reference Document

6. Pljevlja II lignite power plant, Montenegro

Pljevlja II is expected to have a capacity of 220-250 MW and to be constructed at the same site as the existing 210 MW Pljevlja lignite power plant. *The Montenegro government [is not conducting a standard tender procedure](#), but instead plans to close a deal on the basis of an inter-governmental agreement with the government of the selected company.* In early 2014 China's CMEC and Hubei Powerchina and the Czech Republic's Skoda Praha's offers were taken forward into another round of negotiations. As of early December no final selection has been made. According to media reports, the new plant is a [point of contention](#) between Italy's A2A - part-owner of Montenegro's EPCG electricity generation company, the project promoter - and the Montenegro government, with the government pushing hard for the project and A2A less keen.

Pljevlja is already suffering from serious pollution due to the existing plant, and it appears that the government wishes to run both plants in parallel for several years after the commissioning of the new plant, which will make the problem even worse. It is unclear whether the new plant is even needed with the demise of the Podgorica aluminium factory, KAP, which has reduced the country's need for electricity significantly. An [analysis](#) by energy expert Aleksandar Kovacevic has also found that the plant's economics are highly questionable.

7. Rovinari lignite power plant, Romania

Talks of plans for a new 500 MW unit at Rovinari involving the China Huadian Engineering company have been going on for several years but the project has not received any significant permits. In October 2014 it [was announced](#) that plans for a new lignite plant at Rovinari had been put on hold. Yet just a couple of weeks later in early November, a [new joint venture company was set up](#) between Huadian and Oltenia Energy Complex (CEO). Therefore the project's future is unclear.

In early December 2014 it [was announced](#) that the European Commission has opened an infringement procedure against Romania for failure to properly apply the environmental impact assessment directive when permitting the clearance of forest and expansion of lignite mining at the complex.

Other energy projects in SEE with potential involvement of Chinese companies

As well as the coal power plant projects above where the involvement of Chinese companies has appeared to be very likely indeed there are a number of other energy sector projects in the pipeline where Chinese companies have expressed interest in participation. In Serbia, [these include](#) the Radljevo lignite mine at the Kolubara mine complex, the Morava 2 lignite power plant, the Stavalj power plant and mine, the Djerdap 3 hydro plants, as well as the Kovin energy complex and Nikola Tesla B3 lignite plant in Obrenovac.

In the Republika Srpska entity of Bosnia and Herzegovina, Chinese company Sinohydro [signed a deal with EFT](#) on involvement in the 35 MW Ulog hydropower plant project on the river Neretva in September 2012, however the project preparations are not going well. Some works on access roads started to be carried out and in April 2013 a construction permit was issued for the main project, but then in early July 2013, within just four days of one another, [two workers died](#) in separate landslide incidents. Local people report that since then only some soil sampling has been going on at the site, not much else, and that there are never more than one or two workers there. The future of the project is currently uncertain.

Chinese companies [are also reported to be interested](#) in the [controversial Moraca dam](#) project in Montenegro.

What next?

With the exception of Stanari, all of the projects are running later than the original timetables projected. The region's energy companies and governments all have ambitious plans for new-build generation capacity, but it remains to be seen how many of them are realistic, considering that high levels of debt plague the region's governments. Equity participation by the Chinese companies is only planned in Rovinari and possibly Pljevlja II, but even in these cases the projects are not likely to proceed without state guarantees, which add to potential debt and may potentially bring up state aid issues, depending on the conditions of issuance. Various forms of state support are also planned for the other projects, for example a state guarantee for the Kostolac

B3 unit and sub-sovereign guarantees for Tuzla and Banovici.

The pressure on state resources is all the stronger given that the countries need to either close existing coal units or upgrade them to comply with the EU's Large Combustion Plants and Industrial Emissions Directives (LCPD and IED). A 2013 [study](#) undertaken for the Energy Community estimated that IED compliance will cost Bosnia and Herzegovina EUR 374.7 million, Montenegro EUR 50.9 million and Serbia EUR 710.7 million. None of the countries have so far published clear information on their intentions regarding the closure or rehabilitations of plants and are rather concentrating on new units.

The countries also need to meet renewable energy targets under the Energy Community Treaty and to invest in energy efficiency measures, both of which should be a higher priority than building new coal plants.

Trying to cover new-build as well as rehabilitation costs, energy efficiency investments and upping the share of renewables may simply prove to be too expensive for the countries, all of which already have debt issues.

Read more about coal in the Balkans:

<http://bankwatch.org/campaign/coal>

<http://kingsofcoal.org/>

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