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Chinese-financed coal projects in Southeast Europe

A real and immediate threat to the EU's decarbonisation efforts



Rovinari power plant, Romania

1. Context

With seven EU member states now coal-free and 10 more planning to end electricity generation from coal by 2030¹, the coal phase out in the EU is well underway. 2018 saw several plant closures and announcements² while the European Union has stepped up its commitment to climate change mitigation and has set out a path to reach net zero greenhouse gas emissions by 2050³. This is a topic featuring high on the agenda of the Informal European Council, taking place on 9 May in Sibiu, Romania, when a renewed EU commitment to deliver on these issues is expected.

On 12 March, the European Commission issued a communication⁴ to the Council, highlighting the benefits and challenges of EU-China relations. On climate change and decarbonisation, the report zooms in on the disconnect between China's commitment to the Paris Agreement and domestic efforts to curb emissions, and its broad support to building new coal capacities worldwide, several of which are in Southeast Europe:

1 https://beyond-coal.eu/wp-content/uploads/2018/11/Coal-phase-outs_Nov-2018-2.png

2 <https://twitter.com/EurBeyondCoal/status/1075007131668176898>

3 https://ec.europa.eu/clima/news/commission-calls-climate-neutral-europe-2050_en

4 <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>

“China is at the same time the world’s largest carbon emitter and the largest investor in renewable energy. The EU welcomes the role of China as one of the main brokers of the Paris Agreement. At the same time, China is constructing coal-fired power stations in many countries; this undermines the global goals of the Paris Agreement. China is a strategic partner on climate change and the clean energy transition, with whom we need to continue developing a strong relationship, given the sheer size of its emissions (around 27% of the global amount), which continue to rise. Our partnership is essential for the success of global climate action, clean energy transition efforts and ocean governance. [...] In addition, the EU and China should strengthen their cooperation on sustainable finance, to channel private capital flows towards a more sustainable and climate-neutral economy.”⁵

Ironically, as the host of the Informal European Council and holding the EU presidency, Romania is one of the southeast European countries lured by potential Chinese financing for a new 600 MW coal-fired power plant - Rovinari 7. The project is not only uneconomic, as explained below, but does not in any way fit the EU’s net zero emissions ambition.

2. Overview of China-supported coal projects in Southeast Europe

EU member states Romania and Greece, as well as several EU enlargement countries in the Western Balkans⁶, plan to build new lignite power plants. The Balkan coal plans starkly conflict with the Paris Agreement’s aim of limiting climate change to 1.5°C⁷ but readily available Chinese money is enabling them to go ahead.

As the international financial institutions have phased out direct coal financing, most of the plants are slated for loans from the state-owned China Eximbank or other Chinese public banks. **Up to 3.5 GW of coal plants may be built in southeast Europe with Chinese financial support.**

The **three financing deals signed so far** by Chinese banks for lignite power plants in the region are for Stanari (CDB, June 2012, already built), Kostolac B3 (Eximbank, December 2014) and Tuzla 7 (Eximbank, November 2017), but at least six more plants have been subject to Memoranda of Understanding between Chinese companies and Balkan Governments.

All the projects exhibit breaches of EU legislation on environment, state aid and/or procurement and they will also **lock EU accession countries into several decades of harmful and expensive coal use**. Additionally, they **threaten to spawn a group of pro-coal countries in the EU** once accession takes place, which could further weaken the EU’s climate ambitions.

Nevertheless, apart from Stanari in Bosnia-Herzegovina, which started operating in 2016, **all the coal plans are delayed. It is not too late to stop them.**

⁵ <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>

⁶ Bosnia-Herzegovina, Serbia, Montenegro and Kosovo.

⁷ Alexander Pfeiffer, Richard Millar, Cameron Hepburn, Eric Beinhocker: The ‘2°C capital stock’ for electricity generation: Committed cumulative carbon emissions from the electricity generation sector and the transition to a green economy, Received 11 September 2015, Revised 16 February 2016, Accepted 18 February 2016, Available online 24 March 2016, <http://www.oxfordmartin.ox.ac.uk/publications/view/2119>; Oil Change International et al: The Sky’s Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production, September 2016, <http://priceofoil.org/2016/09/22/the-skys-limit-report/>

3. Potential Chinese-financed coal projects in EU countries of Southeast Europe

ROVINARI LIGNITE POWER PLANT, 600 MW, ROMANIA

Talks of plans for a new 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 early November 2014, a [new joint venture company was set up](#) between Huadian and Oltenia Energy Complex (CEO).

The project had been at a standstill for years, until it was included on the list of priority investments in the Energy Strategy for 2016-2030. The Strategy estimated the cost of the project at approximately EUR 1 billion. Since then, several rounds of negotiations have taken place between Chinese delegations, the Romanian Ministry of Energy and the energy utility, Oltenia Energy Complex (OEC).

The planned supercritical unit would have several issues, including:

- Economics: The project would likely have difficulties in meeting the project's debt service requirements as the organic cash flow generation would be limited and not sufficient under current energy market prices.⁸
- Environmental concerns: EU Directive 2011/92/EU on environmental impact assessment makes licensing coal plants more complicated than before, as the project's impact on climate and the vulnerability of the project to climate change must be explicitly considered in the environmental impact assessment.

Under the current EU Emissions Trading Scheme, the evolution of CO₂ prices will be key for the viability of the project⁹. Coal fired units – without any CO₂ mitigation technology – are usually the single largest CO₂ emitters in any given country. This is no different in this case. We have seen a strong increase in prices over the last 15 months which would significantly reduce the financial viability of coal fired units as these operate with high CO₂ intensity.

MELITI II LIGNITE POWER PLANT, 450 MW, GREECE

In September 2016, the Greek public power corporation PPC [signed a Memorandum of Understanding](#) with China's CMEC – the same company involved in Kostolac in Serbia – for the construction of a second unit at the Meliti power station near Florina. Since then, there has been little progress with the project but [a new law](#) on the sale of 40% of PPC's lignite assets in April 2018 included the existing plant Meliti I, and the production license for a new 450 MW plant, Meliti II plus all associated mines. PPC launched an international tender in May 2018 and the sale should have been concluded by the end of the year. However, the [first attempt failed](#) miserably. At the beginning five companies expressed interest including one Chinese consortium - Beijing Guohua Power Company Limited And Damco Energy - but they didn't make any binding offer by the set deadline, February 2019.

Now, there is a second sale attempt and six [companies have expressed interest](#). These include the five previous ones plus a new Chinese investor, China Western Power Industrial Co Ltd. Whether they will go ahead and submit a binding offer by the deadline (not fixed yet, but expected for May 2019) is not easily predictable. If the sale of PPC's assets is really about increasing competition between the existing production capacity, Meliti II should be removed from the package altogether.

⁸ <https://bankwatch.org/wp-content/uploads/2019/03/Coal-in-the-Romanian-NECP.pdf>, page 8

⁹ The ICE, 2018, www.theice.com

4. Chinese coal projects with a financing deal in EU accession countries

KOSTOLAC B3 LIGNITE POWER PLANT, 350 MW, SERBIA



Kostolac B power plant, Serbia. Photo capture: <https://www.bbc.com/news/science-environment-46310807>

Key issues:

- no tender conducted for the main contractor
- non-compliant with current EU pollution limits, known as the 2017 LCP BREF
- lignite mine expansion without an environmental impact assessment¹⁰
- economically unfeasible even with a CO₂ price of EUR 5.79 per tonne¹¹. The current CO₂ price is four times higher.
- arbitration on the project to be conducted under Chinese rules.

In November 2013 a deal was signed with China Machinery Engineering Corporation (CMEC) to construct the new Kostolac B3 lignite plant in north-east Serbia. No tender procedure took place. Instead, the Chinese and

¹⁰ <https://www.energy-community.org/legal/cases/2018/case0918RS.html>

¹¹ <https://bankwatch.org/wp-content/uploads/2017/03/briefing-Balkans-CO2-29Mar2017.pdf> page 11

Serbian governments signed an intergovernmental agreement freeing joint projects from tender obligations¹² – a move which would not be allowed under EU law.

A USD 608 million loan contract was signed with China Exim Bank in December 2014. In early 2015 it was ratified by the Serbian parliament in an extraordinary session announced to the public less than 24 hours in advance. The contract contains several problematic provisions, e.g. any arbitration will take place in Beijing.

The Serbian government took the loan on behalf of state company EPS, raising issues of compliance with its state aid obligations under the Energy Community Treaty.

The environmental impact assessment process had to be repeated after the original approval expired and the Espoo Convention Implementation Committee criticised Serbia for failure to assess the transboundary environmental effects of the plant. A new environmental assessment was carried out in 2017 and the study was approved on 28 September.

Just weeks later, on 20 November – a few days before the China-Central & Eastern Europe summit in Budapest - it was suddenly announced that construction of Kostolac B3 was starting. Surprised, the Center for Ecology and Sustainable Development (CEKOR) requested the building permit. However, the only document disclosed so far is a permit for the B3 chimney, not for the whole plant. And it is dated July 2017, before the environmental assessment was even completed.

To add to the legal issues, the expansion of the captive Drmno opencast mine was in 2013 exempted from undertaking an EIA process,¹³ a decision which appears to conflict with Serbian legislation as well as the EIA Directive under the Energy Community Treaty and is currently subject to an investigation by the Energy Community Secretariat.

In 2017, the EU updated its industrial emissions rules, which Kostolac B3 will be obliged to abide by on entering the EU, if not before. However, the air emissions limits in the Kostolac B3 environmental assessment are not in line with the new standards (the so-called LCP BREF). As an EU accession country, Serbia needs to make sure that any new plant is in line with these standards or it risks being landed with expensive retrofit costs later on.

In 2012 the China Banking Regulatory Commission issued the Green Credit Directive as a means of supporting Chinese stakeholders in upholding environmental and social standards in overseas projects. Article 21 states that Chinese banking institutions “*shall...make sure project sponsors abide by applicable laws and regulations on environmental protection, land, health, safety, etc. of the country or jurisdiction where the project is located.*” This provision has so far not been adhered to in the case of Kostolac B3.

The plant's contribution to Serbia's energy security is also doubtful, as the Drmno mine suffered serious flooding in 2014. 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 m3 of water spilled into the mine**, bringing with it around 800 000 m3 of sludge and mud, and engulfing mining machinery in mud.

12 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.”

13 Ministry of Energy, Development and Environmental Protection of the Republic of Serbia: Decision no.353-02-901/2013-05, dated 26.07.2013.

Kostolac B power plant has already undergone rehabilitation at its existing units, carried out by the same CMEC and financed by China Eximbank. The project has raised concerns regarding its functionality.

Although the Serbian Prime Minister announced the completion of the Kostolac B1 and B2 desulphurisation units in August 2017, between then and March 2019 the local community observed that the desulphurisation installation has worked on very few occasions. In response to an enquiry from CEKOR, the Environmental Inspectorate stated on 01.03.2018 that the de-SOx installation was not operating during the winter months. It added that the planned landfill for the gypsum - a by-product of de-SOx - had not been completed.

STANARI LIGNITE POWER PLANT, 300 MW, REPUBLIKA SRPSKA, BOSNIA-HERZEGOVINA - a cautionary tale



Stanari power plant, January 2018,
photo capture:
<https://www.facebook.com/221561244645441/videos/1209652729169616/>

Key issues:

- open Espoo Convention investigation due to BIH's failure to notify neighbouring countries about potential transboundary pollution
- non-compliance with recent EU pollution standards
- long outage periods: 53 days in 2017 and at least 50 in 2018
- growing community discontent regarding the lignite mine's operation and expansion, which has exacerbated floods in the nearby settlement¹⁴

The project was initiated by Energy Financing Team (EFT) and financed by the state-owned China Development Bank (CDB). Construction, carried out by Dongfang Electric Corporation, started in 2013 and the plant started commercial operations in September 2016. Due to its use of a dry cooling system, the plant's net efficiency level is only around 34.1 percent, compared to 36.5-40 percent required by the EU best available techniques standard.

Originally the plant's environmental permit allowed air pollution from the plant to be 2-3 times as high as allowed by the EU Large Combustion Plants Directive. Only after a complaint to the Energy Community dispute settlement mechanism was submitted by environmental group Center for Environment from Banja Luka in January 2014, was the permit reviewed. Since the plant was permitted, the Energy Community's rules have changed to require the application of the

stricter Industrial Emissions Directive for plants entering operation after 2019, rendering Stanari out of step before it even entered operation.

¹⁴ <https://www.facebook.com/CentarZaZivotnuSredinu/videos/365457984251676/>

Stanari is currently under examination by the Espoo Convention due to BIH's failure to notify neighbouring Croatia and Serbia about the plant's potential transboundary impacts. This also raises doubts about whether the project complies with Article 21 of China's Green Credit Directive, requiring national legislation to be followed during its preparation.



Stanari mine and power plant in the background, photo capture:
<https://www.facebook.com/CentarZaZivotnuSredinu/videos/365457984251676/>

In May 2017 media [reported](#) that Croatia's HEP is considering buying the Stanari power plant from EFT, [or a 50% share in it, raising](#) questions about its profitability. No further information has become available since then.

According to data on the [ENTSO-E platform](#), in 2017 Stanari was offline for at least 53 days between March and December and in 2018 for at least 50 days throughout the year. A letter from the energy system operator of Bosnia-Herzegovina explains that the plant was mainly undergoing technical "corrective" fixes on those days. The fact that a new unit needed to be taken offline for such long periods of time raises questions about the plant's readiness to go online at all.

TUZLA 7, 450 MW, FEDERATION OF BIH, BOSNIA-HERZEGOVINA



Tuzla ash disposal site and power plant in the background, photo capture:
<https://www.facebook.com/CentarZaZivotnuSredinu/videos/551026885345677/>

Key issues:

- ongoing Energy Community infringement procedure for the loan guarantee, considered illegal state aid¹⁵
- open Espoo Convention investigation due to BIH's failure to notify neighbouring countries about potential transboundary pollution
- not designed to be in line with the new EU LCP BREF pollution control standards
- uneconomic even at current CO₂ prices
- vocal community opposition to the construction of a new ash disposal site for the new unit

In August 2014, publicly-owned electricity company Elektroprivreda Bosne and Hercegovine (EPBiH) signed a construction contract with China Gezhouba Group and Guangdong Electric Power Design for the construction of a new unit at Tuzla, after Japan's Hitachi - also shortlisted - dropped out of the project partly due to its poor economics.

¹⁵ <https://www.energy-community.org/news/Energy-Community-News/2019/03/26.html>

The price tag for construction at the time was EUR 785.7 million, but it was later admitted that the project was not economically feasible in this form. The current construction cost of the plant is EUR 722 million, but it is unclear what compromises have been made to lower the cost.

A feasibility analysis, by the Banja Luka-based Institute for Construction¹⁶, assumes that Tuzla 7 will have to start paying a carbon price only in 2034 and that it will only be EUR 7.1 per tonne, rising to EUR 12.12 per tonne in 2061. Considering the ETS price is currently over EUR 24 per tonne, this leads to a serious underestimate of the plant's generation costs.

The assessment assumes annual CO₂ costs of EUR 2.7 million in 2034, rising to EUR 31.4 million in 2061. Yet even at 20 EUR/tonne, the annual cost would be EUR 51.87 million.

Moreover, the projected price at which coal would be sold by Elektroprivreda BiH's mines to the Tuzla 7 plant is EUR 21.87/tonne. This is lower than 2013-2016 production price.

Additionally, in this period the coal production price was higher than the sales price, while the Government granted State aid to the mines to pay off unpaid social contributions.¹⁷ If the coal sales price covered the costs of production, it would have to increase.

Both of these issues would significantly increase the cost of generation from the projected EUR 42.45/MWh. This raises the risk of the plant becoming a stranded asset.

Given that EPBiH is state-owned, it is the public purse that will pay if the project is unprofitable.

Tuzla 7 obtained a new environmental permit in July 2016 as the original one from 2009 expired in November 2015. The permit is being challenged in court by Ekotim, due to procedural irregularities and deficiencies in the permit.

In addition, local people from the village of Šićki Brod are resisting the construction of the ash landfill for the new plant. In early April 2016 they delivered a petition with 2100 signatures against the proposal to the Federal Ministry of Environment and Tourism.

On 27 November 2017 at the China-Central and Eastern Europe summit, a surprise signing of an Eximbank loan contract for Tuzla 7 took place.

On 1 April 2019, the Federation of BiH parliament approved a guarantee for the planned loan from China Exim Bank, which brought the case strong criticism from the European Commissioner for Enlargement¹⁸ as well as an infringement case opened by the Energy Community for failure to comply with EU state aid legislation, transposed through the Energy Community Treaty.

Like Kostolac B3, Tuzla 7 is not designed to be in line with the new EU LCP BREF pollution control standards. 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 WHO methodology, the study found that coal plants around Tuzla, including Tuzla 7 and the planned unit at Banovići, 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.

16 Ocjena kritičnih varijabli studije izvodljivosti bloka 7, TE Tuzla, Institut za građevinarstvo „IG“, d.o.o, Banja Luka, 2018. - Assessment of the Critical Variables of the Feasibility Study for Unit 7 of the Tuzla power plant

17 https://bankwatch.org/wp-content/uploads/2015/06/EnCom-state-aid-cases-08Jun2015_0.pdf

18 <http://ba.n1info.com/English/NEWS/a321510/Johannes-Hahn-concerned-about-Block-7-loan-from-China-Exim-Bank.html>

5. Coal projects in EU accession countries which may receive Chinese funding

BANOVIĆI, 350 MW, FEDERATION OF BIH, BOSNIA-HERZEGOVINA

Key issues:

- EIA permit challenged in court
- open Espoo Convention investigation due to BIH's failure to notify neighbouring countries about the plant's potential transboundary impacts
- no assessment of joint impacts of Tuzla 7 and Banovići plants
- concerns about water supply

A new plant at the Banovići mine near Tuzla is planned by the predominantly state-owned RMU Banovići (Banovići Brown Coal Mines). On 24.11.2015 an EPC contract was signed with Dongfang. Financing is expected from the Industrial and Commercial Bank of China (ICBC) but has not been signed yet.

There is a serious lack of energy planning and co-ordination between Tuzla 7 and Banovići. It is very unlikely that two plants just a few kilometres from one another can both be feasible, but they are being developed in parallel, each as if the other did not exist.

The capacity of the Banovići plant was changed during the tender process from 300 MW to 350 MW, which as well as being questionable from the procurement perspective, meant that a new environmental impact assessment had to be carried out in 2015.

A new environmental permit was issued on 11 January 2016 but the Ministry for the Environment and Tourism failed to notify even those who had taken part in the consultation process. It was nearly two months before NGO Ekotim was able to obtain the permit. Ekotim is challenging the permit in court due to deficiencies in the procedure, the EIA study and the permit.

Another issue of concern with the planned plant is water use. A new reservoir is planned at Ramići that would be used to cool the coal plant, however filling the reservoir during drier periods may be in direct competition with filling Lake Modrac, which is used for drinking water for Tuzla and for cooling the Tuzla power plant. 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. It may pose a danger to communities downstream. As these weaknesses were not addressed in the environmental permit for the reservoir, it too is now being challenged in court by Ekotim.

For several years, both Tuzla 7 and Banovići were backed by the Federal government. However in December 2017 the Federal Ministry for Spatial Planning denied RMU Banovići a construction permit for the plant. Key issues such as water supply, coal supply, wastewater, flue gases and disposal had not been resolved, and the Ministry concluded that the project is not in line with the Tuzla Canton spatial plan. It remains to be seen whether the plant goes ahead in spite of this blow.

KAMENGRAD, 2 X 215 MW, FEDERATION OF BIH, BOSNIA-HERZEGOVINA

After years of vague plans for this project, a Memorandum of Understanding was signed at the China-CEE summit in Budapest on 27 November 2017 between Energy China International, Lager Group of Bosnia-Herzegovina, and the Federation of BiH government. The plant would be built at a site where there is a coal mine but no existing power plant.

At a public debate on the adoption of the Una-Sana Canton spatial plan in August 2018, citizens and the local council of Sanski Most (the nearest city) demanded the removal of the power plant project from the plan. A petition calling for this was signed by 1400 Sanski Most residents in just three days too. According to the vice-chair, the Municipal Council reached a “strong conclusion for banning the construction of a thermal power plant in Sanski Most”¹⁹.

UGLJEVIK III LIGNITE POWER PLANT, 2 X 300 MW, REPUBLIKA SRPSKA, BOSNIA-HERZEGOVINA

Key issues:

- Environmental assessment invalid after successful NGO complaint to Energy Community
- Low net efficiency (34.1 percent)
- open Espoo Convention investigation due to BIH's failure to notify neighbouring countries about potential transboundary pollution

Ugljevik III is promoted by Russian billionaire Rashid Sardarov's Comsar Energy. Comsar reported in 2013 that it had signed a construction contract with China's China Power Engineering and Consulting Group Corporation (CPECC). However in 2017 it was reported that negotiations with the company failed and no new contract has been signed.

Before the October 2014 elections in BIH there was a flurry of activity, with the Republika Srpska government declaring it a project of public interest and issuing a partial construction permit, but since then there has been little progress.

In mid-2017 the Supreme Court of Republika Srpska cancelled the project's environmental permit. However, the Ministry of Spatial Planning, Construction and Ecology responded by issuing another permit without repeating the environmental assessment. This new permit was challenged in court by the Center for Environment.

An analysis published by the Center for Environment also shows that the environmental assessment lacked key data and that the expected SO₂, NO_x and dust emissions are false. After a formal complaint was submitted to the Energy Community, in August 2017 a dispute settlement case was opened on the issue. In November 2018 the Bosnia-Herzegovina authorities agreed not to use the environmental assessment for the project, meaning that the whole process would have to be repeated if the project goes ahead.

Ugljevik III is also currently under examination by the Espoo Convention due to Bosnia and Herzegovina's failure to notify neighbouring countries about the plant's transboundary impacts.

¹⁹ <http://czzs.org/when-citizens-decide-no-to-thermo-power-plant-kamengrad/?lang=en>

GACKO II LIGNITE POWER PLANT, 350 MW, REPUBLIKA SRPSKA, BOSNIA-HERZEGOVINA

Key issues:

- unrealistically low CO₂ price included in the feasibility study
- underestimation of coal sale price
- unreferenced assumption that electricity produced in Gacko would be exported

After several Chinese companies had expressed interest in the project, in December 2017 a “general contract” was signed with China Machinery Engineering Corporation (CMEC) and Emerging Markets Power Fund. However, there is no sign of a tender having taken place so it is not clear what the exact nature of the document is. At the signing, Minister of Energy Industry and Mining Petar Đokić stated that another agreement would soon be signed to form a project company. If so, this would be highly unusual in a region where Chinese involvement in coal plants was so far limited to construction contracts. The plant would be built at the site of the existing plant in Gacko but no environmental impact assessment has been undertaken yet.



Gacko power plant and mine, <https://www.direkt-portal.com>

Gacko II's feasibility study is highly questionable for three main reasons:

- EUR 18/tonne is mentioned in the study as a realistic coal price – yet the amount used in the calculation is much lower, around EUR 13.3/tonne.
- It foresees export of all the electricity generated, at a price of EUR 50/MWh, except in exceptional cases when 30% would be sold on the domestic market at EUR 19.90/MWh. There is no evidence that the electricity would find a market and that it could be sold at this price - which is higher than the real export price in recent years. Moreover, the scenario including 30% of electricity being sold domestically is not even examined in the calculation – if it was it would show that the plant is unprofitable.
- A CO₂ price of EUR 5/tonne is mentioned in the text, but not included in the calculation. Even this very low CO₂ price would take the plant into the realm of unprofitability.

6. Other energy projects in Southeast Europe with (potential) involvement of Chinese companies

Chinese companies have expressed interest in a number of other energy projects in the region.

In Serbia, [projects reported to have caught Chinese attention include](#) the Radljevo lignite mine at the Kolubara mine complex, the Morava 2 lignite power plant, the Štavalj power plant and mine, as well as the Kovin energy complex and Nikola Tesla B3 lignite plant in Obrenovac. However, none of them are likely to go ahead before 2025 according to the 2017 implementation plan for the national energy strategy.

In Republika Srpska, BiH, Chinese company Sinohydro [signed a deal with EFT](#) to construct the 35 MW Ulog hydropower plant project on the river Neretva in September 2012, however the project did not go well. Some preliminary works on access roads started 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. Since then it has been [reported](#) that the project has been re-designed. In March 2018 EFT reported having [signed a deal with Sinohydro](#) to construct the plant.

A memorandum of cooperation between China's state-owned China National Aeronautics and Space Administration (CNSA) and Republika Srpska's Ministry of Energy was also [signed](#) in 2017 for the controversial 93.5 MW [Buk Bijela hydropower plant](#) on the river Drina near the Montenegrin border. The Aarhus Center, Sarajevo, has [challenged the project's environmental permit](#) in court.

Chinese companies are also interested in the the 160 MW [Dabar](#) plant in Bosnia-Herzegovina, part of the larger Gornji Horizonti complex. Communities in the downstream Neretva delta in Croatia, as well as environmental NGOs such as WWF, say that the project would [threaten wetlands and worsen salination](#) of one of Croatia's most fertile agricultural areas.

Power China and the State Development and Investment Corporation (SDIC) are also reported to be interested in the [controversial Morača dam](#) project in Montenegro, which would endanger the spectacular Skadar Lake Ramsar site.

China has emphasised that it is also ready to invest in wind and solar but that the governments are generally not coming forward with such projects. However, there have been some concrete steps forward in this field. At the 2017 China-CEE summit in Budapest on 27 November 2017 in Budapest, an EPC contract with a 15-year maintenance agreement for the [48 MW Kupres 1 wind park](#) was [signed](#). In Croatia, Chinese company Norinco International Cooperation Ltd has also [bought a share in a 156 MW wind farm project](#) near Senj.

7. What next?

The region's companies and governments have ambitious plans, but it remains to be seen how realistic they are. Equity participation by Chinese companies is only planned in Rovinari and Gacko II, and the other projects are not likely to proceed without host country state guarantees. These add to public debt and may raise state aid issues, depending on the conditions of issuance.

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.

The countries also need to meet renewable energy targets under the Energy Community Treaty and invest in energy efficiency measures. Both 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.

China has taken strong steps domestically, announcing the closure of around 1000 coal mines, a [3-year ban on opening new ones](#), and stopping construction of over 100 new coal plants with over 120 GW capacity. In 2015 it took steps to limit external coal investments too: In a joint statement with the US, China agreed to work towards [strictly controlling public investment flowing into projects with high pollution and carbon emissions both domestically and internationally](#). However, with the change of US leadership the status of this agreement is uncertain.

In 2017, two years after the US-China joint statement, China's State Council and regulators (the NDRC, MOFCOM, MOFA and People's Bank of China) went on to adopt '[Opinions on Further Guiding and Regulating the Directions of Overseas Investments](#)', which restricts *"overseas investments that are not in compliance with the relevant target jurisdiction's environmental protection, energy consumption or safety standards."* All the Balkan projects mentioned in this briefing exhibit breaches of EU and national legislation on environment, state aid and/or procurement.

All of the projects represent a threat to the health and public finances of southeast European countries. They also threaten to further decrease EU ambitions in tackling climate change and decarbonising the economy once the Western Balkans countries accede. If the southeast European countries do not change course soon, the EU may find itself with another Poland on its hands.

Read more about coal in the Balkans:

bankwatch.org/project/coal-in-the-balkans