

When “restructuring” EPS is more about perpetuating non-compliance, building new coal units and expanding lignite mines, than about learning from past mistakes

In the case of a EUR 200 million restructuring loan to Serbia’s energy utility Elektroprivreda Srbije (EPS), the recent [compliance review report](#) from EBRD’s independent grievance body admits to evidence of harm to the environment and communities and recognises the long overdue implementation of measures for improvement of environmental and social standards in the case of corporate financing. , A close look at the company’s actions in the last few years, since the loan was approved, paint a dark picture for the environment and communities affected.

Typically, the word “restructuring” is associated with change, with the acknowledgement that and existing “structure” is no longer fit for purpose and is in need of improvement. In the case of Serbia, however, the EBRD’s EUR 200 million loan, which is currently being repaid, has enabled the energy company EPS to pursue a business as usual model, one that puts financial profit above and beyond legal requirements for environmental standards and affected communities’ best interests, which allows for bending national and European laws and international treaties so that the company would continue to thrive. In spite of this, the Project Complaints Mechanism has not concluded that the EBRD violated its Environmental and Social Policy when going forward with this loan.

Since 2015, when the loan was approved, EPS has continued pursuing the construction of the 350 MW Kostolac B3 coal unit and expansion of associated Drmno lignite mine as its number one priority, in contrast with EBRD’s policy which no longer supports investments in coal. EPS’s coal electricity production activities have since then been subject to no less than 24 court cases on the national level, 2 complaints to the Energy Community, 3 investigations by the Implementation Committee of the Espoo Convention and 1 complaint to the EBRD’s PCM, for breaching a number of legal provisions.

The Kostolac B3 and Drmno mine expansion project was sealed in November 2013, when the Serbian Government signed a contract with China Machinery Engineering Corporation (CMEC), for the construction of the third block of the Kostolac B thermal power plant, with a total capacity of 350 MW, and for the expansion of the Drmno open cast mine, followed by a vote in the Serbian parliament on the ratification of a USD 608 million loan agreement from the China ExIm Bank in January 2015.

In spite of an on-going court case against the EIA permit for the new unit and a complete lack of an EIA process for the mine expansion (subject to a complaint at the Energy Community), the project has been advancing steadily, and in November 2017 the foundation stone laying next to Kostolac B marked the official beginning of the works for the construction of new 350 MW unit. The project has benefitted from the salami-slicing technique, which allowed for the construction

permit of the new chimney to be issued even before the EIA decision had been granted to the entire project.

The Drmno mine also [keeps expanding](#), with new conveyor belts being installed in 2018 and a new [coal digger](#) bought in March 2019, in the absence of an environmental and social impact assessment and ignoring all grievances of the local communities being encroached on by the mine, bearing the brunt of dust pollution, constant noise and vibration, and deteriorating of their houses due to ground instability. Just a few weeks ago, local community members from the village of Klicevac staged a [protest](#) against Drmno mine expansion, not allowing the new coal excavator to cross their lands, which are otherwise used for agriculture. Another salami slice was cut in April 2019, when the construction permit was [issued](#) for the new Kostolac B3 block (for the turbine and generator).

Separately from the coal-rush in Kostolac, all EPS's existing coal power plants find themselves in non-compliance with the Large Combustion Plants Directive (LCPD), which entered force in January 2018 and is meant to drastically lower SO₂, NO_x and dust emissions at the stack.

EPS also intends to expand other coal mines in the Kolubara mining basin and build additional power plants and practically not change anything in the way it does business in the next 40 years.

The reviewed Environmental and Social policy of the EBRD was just adopted, and the complicated case of EPS is perhaps the most illustrative example that corporate loans need the same level as scrutiny, due diligence, risk assessment and monitoring as project level ones and that they translate into tangible and measurable improvements for the life of people and the state of our environment. The grave mistakes that were allowed in the case of EPS should never be repeated.