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Chinese-built coal projects in Europe

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



Coal for Stanari project in Bosnia and Herzegovina (October, 2019), Credit: Xinhua News

1. Context

With nine EU member states now coal-free¹ and 11 more planning to end electricity generation from coal by 2030, the coal phase out in the EU is well underway. 52 coal plants have closed in the EU since 2016, 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 2050. The EU is also committed to ensuring that its COVID-19 recovery package delivers on the ambition of its European Green Deal, helping Europe to lead the world in climate and environmental action.

China, however, is allowing its State-Owned Enterprises (SOEs) specializing in power generation and coal technologies to enable the construction of new units of coal-fired power stations across southeast Europe. Chinese SOEs and state media assert that these coal-fired power plants are environmentally friendly projects that contribute to environmental and social improvements.

In 2019, the European Commission in its Strategic Outlook in EU-China relations underlined that: “...China is constructing coal-fired power stations in many countries;

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¹ Austria, Belgium, Cyprus, Estonia, Latvia, Lithuania, Luxembourg, Malta, Sweden.

this undermines the global goals of the Paris Agreement”², although missing the opportunity to specifically oppose the expansion of Chinese-financed coal projects in Europe.

In its Vision and Actions on the Belt and Road Initiative announced in 2015, China has made it clear that for investment in infrastructure, “efforts should be made to promote green and low-carbon infrastructure construction and operation management, taking into full account the impact of climate change on the construction”.³ At the UN Climate Action Summit in 2019, Wang Yi, China's Minister of Foreign Affairs, reiterated China's commitment to combating climate change. However, China cannot keep its promises to the global community if it continues to finance coal projects globally.

Not only does China's support for coal plants in Southeast Europe contradict global climate imperatives, but as explained below, individual plants are running afoul of EU legislation on procurement, State aid and environment as well. This contravenes China's commitment to, and support for, the [UN's 2018 recommendation to China](#) that all infrastructure projects outside its territory should be in line with applicable national and international law.

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

Two EU enlargement countries - Bosnia and Herzegovina and Serbia - still plan to build new lignite power plants, even as nearby countries like Greece and Hungary accelerate their coal phase-out plans. The new coal plans starkly conflict with economic realities and with the Paris Agreement's aim of limiting climate change to 1.5°C,⁴ but readily available Chinese money is enabling them to go ahead.⁵

As the international financial institutions have phased out direct coal financing, most of the plants are slated for policy-driven loans from the Export and Import Bank of China (China Eximbank) or other Chinese policy banks like China Development Bank (CDB) and the Industrial and Commercial Bank of China (ICBC). **Up to 3 GW of new coal plants may be built in Serbia and Bosnia-Herzegovina with Chinese financial support, in addition to a retrofit of an existing plant in Montenegro.**

To date, Chinese State-Owned Enterprises (SOEs) have signed Engineering, Procurement and Construction (EPC) contracts for five coal projects in Europe - Stanari, Tuzla 7 and Banovići in Bosnia-Herzegovina, Kostolac B desulphurisation, the new B3 unit and Drmno lignite mine expansion in Serbia,⁶ and the Pljevlja rehabilitation in Montenegro. Memoranda have been signed for three more projects - Kolubara B in Serbia, and Gacko II and Kamengrad in Bosnia-Herzegovina.

Three of the coal-fired plant projects have been enabled by loans provided by China's state banks: Kostolac B3 and coal mine expansion project in Serbia by the China Eximbank (2014), Stanari coal plant in Bosnia and

² [European Commission and HR/VP contribution to the European Council EU-China – A strategic outlook](#), 12 March 2019

³ [China State Council statement at UN Business and Human Rights Forum in Geneva](#), November 27, 2019

⁴ Alexander Pfeiffer, Richard Millar, Cameron Hepburn, Eric Beinhöcker: [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; Oil Change International et al: [The Sky's Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production](#), September 2016.

⁵ Financing for the Kosovo e Re plant has not been confirmed by any bank but has been requested from the US's Overseas Private Investment Corporation (OPIC) and several export credit agencies. Chinese financing is unlikely as China has not recognised Kosovo.

⁶ The Kostolac B project was split into two phases, each involving several elements.

Herzegovina by the China Development Bank (2012), and Unit 7 of the Tuzla plant, also in Bosnia and Herzegovina, by the China Eximbank (2017). They are now respectively under construction, operating, and under preparation.

However, the lack of transparency by Chinese SOEs subsidized by and with support from the Chinese state facilitating these deals means the conditions of the deals are not always known to the public.

Two projects involving the installation of pollution control equipment in existing coal plants have been signed. The first was at **Kostolac B** in Serbia. In 2016 this plant was [the largest sulphur dioxide polluter in Europe](#),⁷ and China Machinery and Engineering Corporation (CMEC) built a desulphurisation (De-SOx) unit that was [officially opened](#) in July 2017. However, in 2018 and 2019, the plant's emissions remained almost as high as in 2016.⁸ It is not exactly clear what the problem is, but the fact that the De-Sox has yet to start operating more than three years after its official opening raises questions about the quality of the technology used. CMEC is now building a new unit at the same site.

This episode does not bode well for the modernisation of the existing **Pljevlja** plant in Montenegro, for which a [contract was signed with a consortium led by Dongfang Electric, a Chinese SOE](#), in June this year.

Increasingly, the signing of large scale energy infrastructure projects including coal-fired power stations involving Chinese power generation companies and loans from Chinese banks have been signed at the annual **China and Central and Eastern European Countries (CEEC)** cooperation platform. **The platform, known as "17+1" with Greece's entry - and formerly called "16+1" - was initiated and led by China's Ministry of Foreign Affairs.** Serbia's **Kostolac B3**, and **Bosnia and Herzegovina's Tuzla 7 and Kamengrad** coal-fired power units were among the bilateral MoUs signed between China and the governments of EU enlargement countries at previous "16+1" meetings.

All the new coal projects in the Western Balkans 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 increasingly expensive coal use.**

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

Those still planning new coal plants would do well to learn from **Greece's painful experience with the Ptolemaida V plant.** For years, Greece pushed ahead with this new unit, but finally in September 2019, when the plant was already at a very advanced stage of construction, Greece's Prime Minister announced that [Greece will phase out coal electricity generation by 2028](#), leaving the future of the plant uncertain. This same announcement put an end to Greece's plans to build another new coal plant - **Meliti II** - with the China Machinery and Engineering Corporation (CMEC) - the same SOE involved in the Kostolac B project in Serbia.

⁷ Defined here as the European Union and Western Balkans.

⁸ For more information, see CEE Bankwatch Network: Comply or Close: How Western Balkan coal plants breach air pollution laws and what governments must do about it, December 2019 and June 2020.

3. Chinese-financed coal projects in Southeast Europe

KOSTOLAC B3 LIGNITE POWER PLANT, 350 MW, SERBIA



*The Kostolac B3 chimney under construction and the disfunctional de-SOx chimney
Credit: Dan Wilton / ClientEarth*

Key issues:

- No tender conducted for the main contractor
- Non-compliant with current EU pollution limits, known as the 2017 LCP BREF⁹
- Lignite mine expansion without an environmental impact assessment¹⁰
- Economically unfeasible even with a CO₂ price of EUR 5.79 per tonne.¹¹ The current CO₂ price is five times higher.
- Arbitration on the project to be conducted under Chinese rules.

The construction of the Kostolac B3 plant is the second phase of a deal between Serbia's state-owned electricity company EPS and the [China Machinery Engineering Corporation \(CMEC\)](#) related to the Kostolac B plant in north-east Serbia. The first phase, as outlined above, consisted of building a De-Sox unit for the existing units B1 and B2, which in spite of being officially opened in July 2017, still is not operational.

In response to an enquiry from Serbian NGO the [Center for Ecology and Sustainable Development \(CEKOR\)](#), 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. Yet it is hard to believe that the lack of gypsum landfill is the only reason that the De-Sox is not operating. The investment raises a plethora of questions that urgently need to be answered.

Meanwhile, in November 2013, an [Engineering, Procurement and Construction \(EPC\) contract](#) was signed with [CMEC](#) to build the new unit Kostolac B3. No tender procedure took place. Instead, the Chinese and Serbian

⁹ [Best available techniques reference document for large combustion plants](#), 2017

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.

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 concessional loan contract was signed with China Eximbank 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, CEKOR requested the building permit. However, the only document disclosed was a permit for the B3 chimney, not for the whole plant. And it is dated July 2017, before the environmental assessment was even completed. A construction permit for the main part of the plant was issued only in April 2019, a year and a half after work officially began.

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. The Decision is currently subject to an investigation by the Energy Community Secretariat.

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

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.

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



The Stanari coal mine

Key issues:

- Out of line with recent EU pollution standards
- Growing community discontent regarding the lignite mine's operation and expansion, which has exacerbated floods in the nearby settlement.¹⁴

The Stanari power plant 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.

In May 2017 regional 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.

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

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



Tuzla 7 preparatory works, June 2020. Credit: Center for Ecology and Energy, Tuzla

Key issues:

- Ongoing Energy Community State aid infringement procedure regarding the guarantee for Chinese loan.¹⁵
- Open Espoo Convention investigation due to BiH's failure to notify neighbouring countries about potential transboundary pollution.
- Open Århus Convention Compliance Committee review for BiH's failure to comply with access to information and justice principles
- Deficient and outdated environmental assessment being challenged in court
- Plant not designed to be in line with the new EU LCP BREF pollution control standards.
- CO₂ prices barely taken into account and coal prices unrealistically low in the feasibility study.
- No location confirmed for a new ash landfill after Šićki Brod residents successfully resisted the proposed site.

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 - subsidiaries of China Energy Engineering Corporation - for the construction of a new unit 7 at Tuzla, after Japan's Hitachi - also shortlisted - dropped out of the project partly due to its poor economics.

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.

¹⁵ <https://energy-community.org/legal/cases/2018/case1018BH.html>

A feasibility analysis, by the Banja Luka-based Institute for Construction,¹⁶ 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 over EUR 25 per tonne at the time of writing, 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. 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. After Sarajevo Cantonal Court dismissed the case on the spurious grounds that an organisation based in Sarajevo cannot challenge the environmental permit for a project in Tuzla, the [case has been taken to the Supreme Court](#) of the Federation of Bosnia and Herzegovina.

In addition, local people from the village of Šićki Brod have successfully resisted the construction of the ash landfill for the new plant, leaving the new plant without anywhere to put its waste.

On 27 November 2017 at the China-led 16+1 summit between China and 16 Central and Eastern European nations, a surprise signing of a China 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 Eximbank, which brought the case strong criticism from the then [European Commissioner for Enlargement](#) as well as an infringement case opened by the Energy Community Secretariat for failure to comply with EU State aid legislation under 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. A report commissioned by the Center for Ecology and Energy from Tuzla [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

4. Potential Chinese coal projects in Southeast Europe

KOLUBARA B, 350 MW, SERBIA

Key issues:

- Project rejected by EBRD in 2013

The Kolubara B thermal power plant site is situated near the village of Kalenic, 60 km south-west of Belgrade, at the northern side of the Tamnava Open Cast Mine. The decision to build a 2 x 350 MW plant was taken in 1983 and construction started in 1988. Construction progressed slowly until 1992, when work was suspended due to sanctions against Serbia.

Since then, the project has been revived twice. From 2011-2013, France's Edison and the EBRD were [considering](#) investing in the plant, but on 6 September 2013, the EBRD confirmed to Bankwatch by email that it was no longer examining participation in the project.

For several years, Kolubara B appeared to be history. It was mentioned as a potential project in Serbia's [2016 Energy Strategy](#), but not in the [2017-2023 Implementation Programme](#) that followed.

Yet in August 2018, the Minister of Mining and Energy that a [working group had been formed](#) to move the project forward. In November 2019, the Minister [further announced](#) that a technical study had been completed, which indicated the feasibility of completing the project.

In March 2020, a preliminary agreement with Power China was [signed](#) by the state owned utility Elektroprivreda Srbije, estimating the cost of the new unit at EUR 385 million and pledging that construction would be finalised by 2024.

Despite the legal timeline for developing a new national Spatial Plan of the Republic of Serbia, for 2021–2035, being 18 months since the Decision of the Serbian Government (Official Gazette of the RS no. 48/2019) entered force in July 2019, the very same Government (the Ministry of Construction, Transport and Infrastructure) jumped the gun and [issued](#) a draft Spatial Plan just for the Kolubara B complex for consultation in June 2020. At the time, the National Spatial Plan was at the mere stage of an “[early draft](#)”, from which it had not advanced by the time of writing. The interested public was able to submit comments on the draft, which notes that most of the lignite in the area has been depleted, so there is a need to open a new pit in Radljevo. Kolubara B is supposed to replace the existing Kolubara A plant. However, Kolubara A should anyway be closed by 2023, according to Serbia's commitment under the Energy Community Treaty, in the Large Combustion Plants Directive, so the construction of Kolubara B should not be portrayed as an early retirement or a real concern for a polluting facility.

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

Key issues:

- EIA permit challenged in court
- Open Århus Convention Compliance Committee review for BiH's failure to comply with access to information and justice principles

- 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 coordination 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. After Sarajevo Cantonal Court dismissed the case on the spurious grounds that an organisation based in Sarajevo cannot challenge the environmental permit for a project in Tuzla, the [case has been taken to the Supreme Court](#) of the Federation of Bosnia and Herzegovina.

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, this was also challenged in court by Ekotim, with the same result as the case against the permit for the plant itself.

Both Tuzla 7 and Banovići are generally 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. Officially, the project is moving forward, but it remains to be seen whether it really goes ahead.

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 “16+1” China-CEE summit in Budapest on 27 November 2017 between China Energy Engineering Corporation (CEEC), 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.

Chinese state media [reported](#) in late 2017 that once an agreement is reached with its Bosnian counterparts, CEEC would provide the bulk of the financing for the construction of the green field coal plant and would source the coal from the existing coal mine. CEEC's deputy CEO claimed all talks were on track in the interview.

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. This was carried out, although the plan has not yet been adopted. In November 2019, another presentation of the Kamengrad coal power plant project appeared on the agenda of the Sanski Most Municipal Council. However, the meeting was [cancelled](#) after public pressure.

Lobbying for the construction of the plant continues, but there may be further barriers ahead. Lager Group obtained the concession for the coal mine after it was declared bankrupt, but this process is now [under investigation](#) by the Una-Sana Cantonal Prosecutor.



Kamengrad lignite mine

In May 2020 the Lager group suffered further setbacks when the Croatian anti-corruption agency USKOK [opened criminal investigations against 13 people, apparently including two Lager executives](#), for trading in influence and bribery in relation to its Krš-Padene wind farm project in Croatia. Lager's subsidiary C.E.M.P. - the project's owner - denied any wrongdoing. But in June, Bosnia-Herzegovina's State Investigation and Protection Agency arrested two people, which [the media reported](#) as being Lager's Director and owner.

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

Key issues:

- Environmental assessment invalid after successful NGO complaint to the 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 was 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 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.

In August 2018, local media reported that Comsar was threatening to give up the project unless an extension of the concession from 30 to 45 years was granted, together with a reduction of the capacity from 600 MW to 350 MW, because the plant would otherwise be unprofitable.

In June 2019 it was reported that Republika Srpska's state-owned electricity company, Elektroprivreda Republike Srpske (ERS), plans to buy off Comsar Energy's concession for Ugljevik III. The likely cost has been cited at around EUR 90 million. Quite why ERS would buy off the concession rather than the government simply annulling it is far from clear.

In another plot twist, in late 2019, Comsar Energy initiated a new environmental impact assessment process for the plant, but for a 700 MW plant instead of 600 MW. Despite the fact that the concession agreement only covers 600 MW, the Ministry allowed the company to go ahead with developing an environmental impact study. In early 2020, the media reported that a decision on whether ERS would go ahead with buying off the concession would be taken by May, but as yet, the conclusion is unclear.

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 and thus obtain a higher price

In 2016, China Machinery Engineering Corporation reported to its Board and in its Corporate Social Responsibility report the signing of a Memorandum of Understanding on the Gacko II coal-fired power station with the Ministry of Energy of the Republic of Srpska and China's own Poly Group for the construction of a 300 MW unit.¹⁷

After several other Chinese companies had expressed interest in the project as well, in December 2017 a “general contract” was signed with 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

¹⁷ CMEC Corporate Social Responsibility report, 2016.

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

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.

5. Are Chinese actors taking an interest in renewable energy in Southeast Europe?

China's SOEs specialising in construction and power generation have expressed interest in a number of other energy projects in the region. Chinese representatives have emphasised that the country 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 projects. In November 2019 the [Možura wind power plant](#) was officially opened in Montenegro, built by a consortium that included the Shanghai Electric Power Company.

At the 2017 China-CEE summit in Budapest on 27 November 2017, an EPC contract with a 15-year maintenance agreement for the 48 MW Kupres 1 wind park was signed. In Croatia, Chinese SOE Norinco International Cooperation Ltd, a subsidiary of China North Industries Corporation Limited which is a state-owned defense company, has also bought a share in a 156 MW wind farm project near Senj.

These projects are not without their controversies either - the European Commission recently asked Montenegro to open an investigation into corruption allegations surrounding the Možura plant, and the Senj wind farm is inside a Natura 2000 site, threatening golden eagles nesting nearby.

7. Who pays, who gains?

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

Those who benefit most directly from the financed and planned coal-fired power plant projects are in fact Chinese SOEs that specialize in power generation and construction. Upon completion of the construction of coal plants and associated facilities, these SOEs receive full payments by the project promoters in European countries who have taken loans from Chinese state banks.



Wang Yi, China's Minister of Foreign Affairs, Premier Li and Serbia's President Vučić at the 16+1 Summit, 2014. Photo: China Daily

In 2019, at the Belt and Road Forum hosted in Beijing, China launched the **Green Investment Principles for the BRI**, which, among other things, highlight the importance of disclosing environmental information for all BRI projects. Specifically, China commits to “conducting analysis of the environmental impact of our investments and operations, **which should cover energy consumption, greenhouse gas (GHG) emissions, pollutants discharge, water use and deforestation, and explore ways to conduct environmental stress test of investment decisions.**”

The BRI Green Investment Principles come on the heels of several policy attempts by China to address the carbon leakage resulting from the export of its high carbon emitting industry such as coal power generation, and how financing through Chinese loans and investments in international coal projects have increased - not decreased - in spite of earlier efforts to rein in financing for projects that are incompatible with the Paris Agreement.

Yet for now, all the new coal projects outlined represent a threat to the health and public finances of southeast European countries. They also distort the EU energy market by failing to follow the rules on environment, State aid and/or procurement while at the same time selling electricity to neighbouring EU countries. As the CO₂ price rises in the EU, the compliance gap is becoming ever wider. It is high time for the EU to support stronger enforcement tools for the Energy Community Treaty, and the introduction of a tax on CO₂ in the accession countries or a border carbon tax for those failing to play by the rules.

Read more about coal in the Balkans:
bankwatch.org/project/coal-in-the-balkans