

Coal projects in the Balkans

— the role of Chinese finance —

26 November 2019

Learn more: bankwatch.org



Bankwatch - what we do

NEW COAL

Prevent new coal power plants being built in the Western Balkans

EXISTING COAL

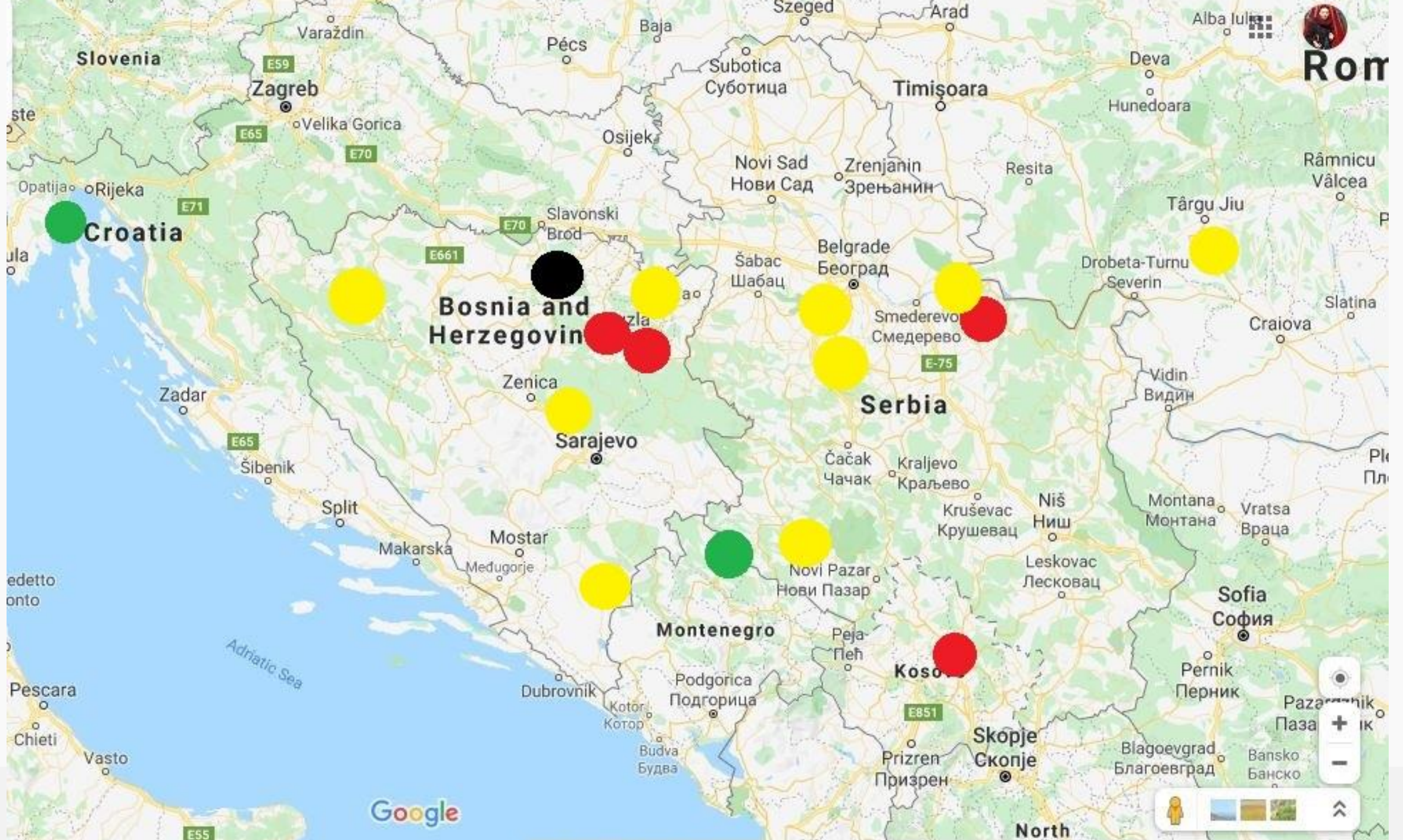
Ensure compliance with European legislation on emissions

AIR POLLUTION

Independent measurements in coal hot-spots

NEW COAL

1st generation	MW	2nd generation	MW	3rd generation	MW
Kostolac B3, SRB	350	Ugljevik III, 2 unit RS, BIH	600	Tuzla 8, FBIH, BIH	450
Tuzla 7, FBIH, BIH	450	Kamengrad 2 unit, FBIH, BiH	430	Kakanj 9, FBIH, BIH	300
Kosovo C, KOS	500	Kolubara B, 2 units, SRB	750	Bitola 4, MK	300
Banovici, FBIH, BIH	350	Kovin, 2 unit, SRB	700	Negotino 2, MK	300
		Stavalj, SRB	300	Bugojno, FBIH, BIH	300
		Nikola Tesla B3, 2 units, SRB	750	Mariovo, MK	300
		Gacko II, RS, BiH	350	Kongora, 2 units, FBIH, BIH	550
		Kakanj 8, FBIH, BIH	300		
Total	1650	Total	4180	Total	2500



NEW COAL – one way of fighting it

Persuade financiers not to go through with their planned loans to coal power plants or support coal-heavy companies indirectly

- Bankwatch core institutions (EBRD, EIB) are out of coal, leaving us **with Chinese state-owned banks**
- 3 financing deals signed in the Western Balkans in the last 10 years for coal plants, but...
- Most projects, with the exception of Kosovo, have MoUs between the host country's government and the Chinese one
- Political backing is a big issue
- EU set to have better scrutiny over Chinese investments in the region

Chinese banks' practices



- China + 16 summits => MoUs
- Prefer countries outside or at the periphery of the EU, with “flexible” rule of law
- Bilateral agreements preferred
- EPC (Engineering – Procurement – Construction) contracts
- Rely exclusively on the host country’s legal provisions and on the Client to abide by them

How important are environmental and social risk evaluation, environmental policies and guidelines?

MDBs, IFIs and ECAs	CDB, China Exim, ICBC
Consultation: 30-120 days	N.A
Information disclosure/ request for info	N.A
Category A and B projects <ul style="list-style-type: none"> ➤ Access to information ➤ Consultation ➤ Release of ESIA, EIA, SIA, etc ➤ Ex-ante and ex-post 	N.A
Exclusion list	N.A
Debarment & sanctioned persons and entities	N.A
Country system	N.A
Results measurement	N.A
Sector/industry guidelines	N.A
Grievance mechanism	N.A
External third party review and monitoring	N.A
Civil Society Office	N.A
Human Rights	N.A
Equator principles	No

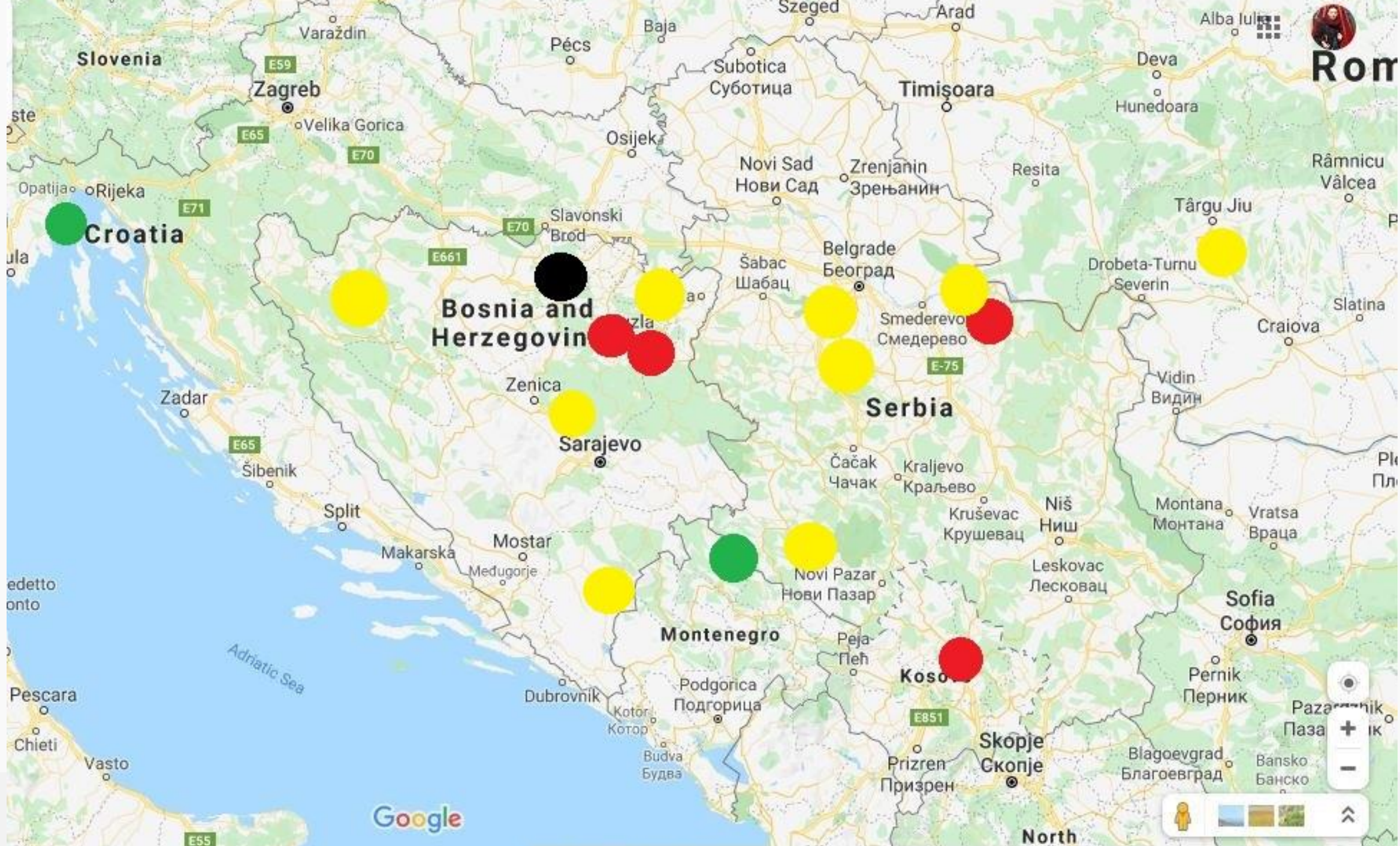
How important are environmental and social risk evaluation, environmental policies and guidelines? Are all banks the same?

Theoretical vs. Implementation

China's Green Credit Guidelines require all banks to conduct the following:

- Through due diligence
- Ex-ante, during, and ex-post environmental evaluations
- 3rd party independent assessment of EIA and other permits
- Consultation with affected communities
- Information disclosure (but no specifics on 'to whom')
- No grievance mechanism

...but a heavy reliance on the client system.



Rom

Google

Chinese coal projects – the experience so far (I)

Stanari, BiH – a cautionary tale

- First Chinese funded coal project in the WB
- Operator (initiator) Energy Financing Team(EFT), UK registered
- Financed by the state-owned China Development Bank (CDB)
- Construction by Dongfang Electric Corporation
- Construction started in 2013 and entered commercial operations in September 2016
- Uses dry cooling system => efficiency level is only 34.5%



Stanari power plant, January 2018,

Chinese coal projects – the experience so far (I)

Stanari, BiH – a cautionary tale

No emissions reported

Long outage periods: 53 days in 2017, at least 50 in 2018 and 48 so far in 2019

Non-compliance with recent EU pollution standards

Growing community discontent regarding the lignite mine's operation and expansion, which has exacerbated floods in the nearby settlement

Open Espoo Convention investigation due to BIH's failure to notify neighbouring countries about potential transboundary pollution

Chinese coal projects – the experience so far (II)

Kostolac B de-SOx

- **December 2011** - contract signed between the Serbia Government and China Exim Bank, for USD 293 million–project Phase 1 for reconstruction of blocks B1 and B2 of Kostolac, construction of de-SOx system
- **June 2015** - EPS + CMEC began to construct the de-Sox at Kostolac B before the EIA procedure was concluded
- **August 2015** – the EIA and construction permits for the de-SOx were issued
- The EIA report mentions 95% reduction in SO2 emissions

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MEDIA NEWS PRIME MINISTER'S ACTIVITIES

Desulfurization introduced in B1, B2 blocks in Kostolac

Kostolac, 17 July 2017

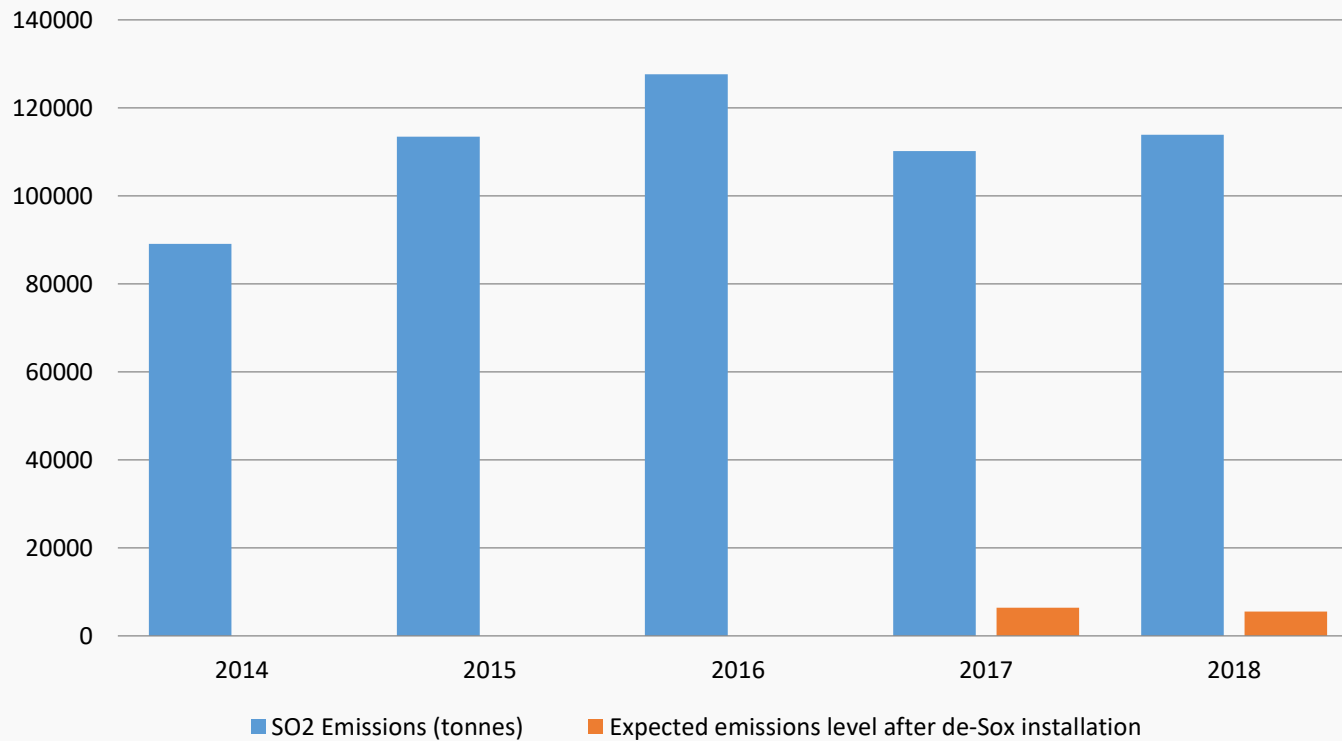
Prime Minister Ana Brnabic stated today that the project of construction of a plant for flue-gas desulfurization in the B1 and B2 blocks in the thermal electric power plant "Kostolac B" has been completed in cooperation with China.



Chinese coal projects – the experience so far (II)

Kostolac B de-SOx

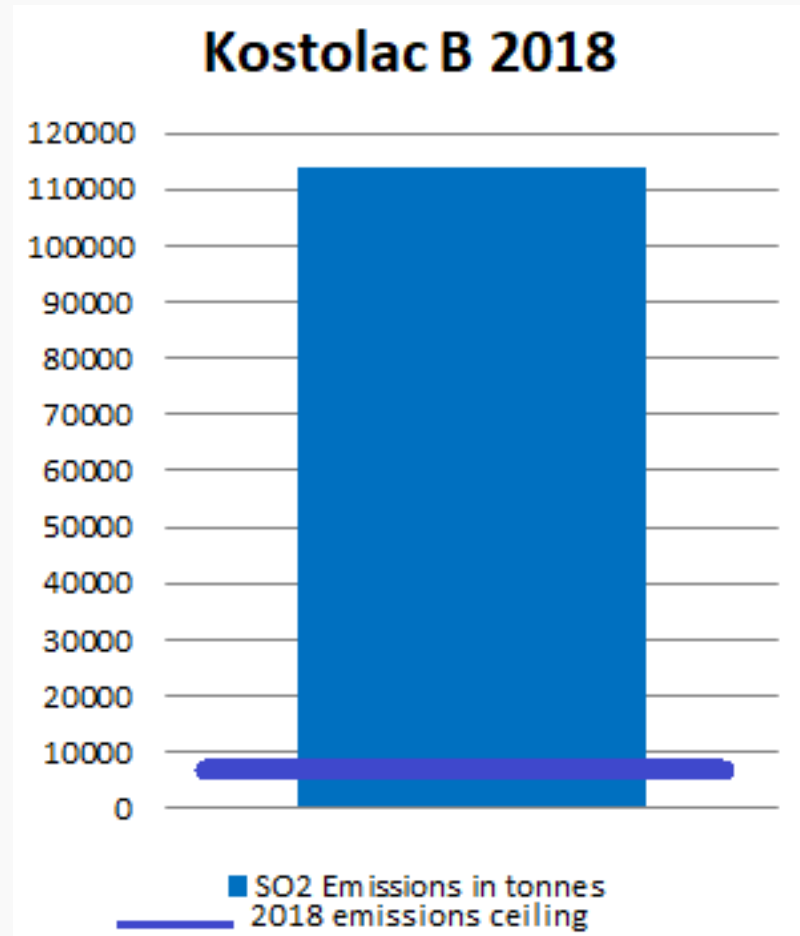
Kostolac B SO2 actual emissions vs. manufacturer's guaranteed reductions



- de-SOx is hardly reported to be working since
- Only a 11% reduction in emissions, compared to 95% “guaranteed”
- In Dec. 2018 the operator applied for a **new** construction permit for de-SOx – denied twice!
- **CMEC**, the constructor of the de-SOx **is tasked with building the new unit, Kostolac B3**

Chinese coal projects – the experience so far (II)

Kostolac B de-SO_x



The only power plant in Serbia to have installed flue-gas desulphurisation (FGD) equipment breached its individual SO₂ ceiling* by more than **14 times!**

Political pressure to defy laws (Tuzla, BiH)

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Energy Community says guarantee for Tuzla coal-fired power plant breaches state aid regulations



REUTERS

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COMMODITIES MARCH 13, 2019 / 1:57 PM / 8 MONTHS AGO

EU official criticizes Bosnia's backing of Chinese power loan

3 MIN READ



SARAJEVO (Reuters) - The European Union executive in charge of the bloc's enlargement policy has criticized the Bosnian authorities for approving a Chinese loan guarantee for a new coal-fired power plant.

BiH's Prime Minister met with Ambassador of China to BiH Ji Ping

SEPTEMBER 18, 2019 2:00 PM



Chairman of the Council of Ministers of Bosnia and Herzegovina Denis Zvizdic met on Tuesday here with Ambassador of China to BiH, Ji Ping with whom he talked about the ongoing economic and political situation in BiH.

During the meeting, the interlocutors agreed that the two countries have friendly relations that need to be additionally promoted.

Zvizdic and Ji Ping said that economic cooperation has been on the rise but that there is significant room for improvement in all segments.

They also discussed the forthcoming summit of Transport and Communication Ministers, which should be held in Sarajevo by the end of this year within the framework of the "17 +1" cooperation, and emphasized that the construction of infrastructure is the most important goal of economic development of the entire region.

Also, the confidence that the construction of Block 7 of the Tuzla Thermal Power Plant was expressed, and it was added that it is important for BiH's energy stability.

Ping noted that the relations between the two countries are improving in all fields, especially in the field of

Chinese finance – who pays, who benefits?

- No transparency in selecting the projects
- No information disclosure (feasibility studies, contracts, stakeholder engagement etc.)
- Questionable technical quality
- Over inflated job promises
- Coal generally on a downward trend – no other IFIs are financing it, not even ECAs
- Commercial banks and insurers pulling out, too
- Stricter environmental laws in the making + CO2 pricing envisaged in WB narrowing the space even more
- Stranded asses!
- Vague “European standards” quoted

Why should I, as a tax payer, accept these?

Can three tango?



Thanks for your attention!

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Chinese-financed coal projects in Southeast Europe

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