

# Chinese backed energy projects in the Western Balkans: where supply and demand could meet

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**Abstract:** *Although China attempts to present itself as a leader of the fight against climate change – and, in some aspects, is taking initiative in this respect – through the Belt and Road Initiative the country has lent support to many ‘dirty’ projects in the energy infrastructure sector. This is also the case in the Western Balkans, where Chinese banks and energy companies have invested in coal power plants. Western Balkan countries need to improve their energy infrastructure and build new capacities. An obvious solution to this issue is the extension of their coal mines and plants, but this comes with complications. They do not have the capital to invest in these projects themselves, and international monetary institutions do not support these types of investments. In contrast to this, China can offer soft loans and expertise to realise the projects. Although many of the projects that Chinese banks have invested (or intend to invest) in are delayed or only in the planning phase, it seems that some of them can be realised despite the resistance of the Energy Community and various environmentalist groups.*

**Keywords:** *Western Balkans, China, Belt and Road Initiative, Energy Infrastructure, Dirty Energy*

## The Chinese master plan

In 2013, the Chinese president Xi Jinping announced the Belt and Road Initiative (BRI), a global development strategy that includes a variety of infrastructure projects and investments. In a 2013 speech delivered in Astana, Xi outlined the five main goals of the BRI. In his vision, China ‘should discuss a proper arrangement for trade and investment facilitation, remove trade barriers, reduce trade and investment costs, increase the speed and raise the quality of regional economic flows and achieve mutually beneficial progress in the region.’ Furthermore, according to the president, China ‘need[s] to enhance monetary circulation and increase understanding between peoples’<sup>2</sup>. This original definition widened with the inclusion of the ‘21<sup>st</sup> century maritime Silk Road,’ the ‘polar Silk Road,’ the ‘digital Silk Road’ and the ‘space information corridor.’ These developments indicate that the country’s strategy is flexible and can expand.

Since the announcement of the BRI, the scale of Chinese investment abroad has been rising. The Economist estimates that the total amount of Chinese investment in 160 countries will reach \$400 billion in the near future<sup>3</sup>. According to Morgan

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<sup>2</sup> Xi Jinping, ‘The Belt and Road Initiative’, Foreign Languages Press, 2019, p. 6.

<sup>3</sup> ‘China wants to put itself back at the centre of the world’, *The Economist*, 2020, <https://www.economist.com/special-report/2020/02/06/chinas-flagship-foreign-policy-aims-to-put-itself-at-the-centre-of-the-world-once-again> (accessed 31 August 2020).

Stanley's forecasts, by 2027 China may invest \$1.2-\$1.3 trillion in BRI projects<sup>4</sup>. There is high demand for infrastructure in developing countries, and a significant amount of infrastructure development occurs in Asia. In 2017, The Asian Development Bank (ADB) estimated that the infrastructure needs in developing countries in Asia and in the Pacific will exceed \$26 trillion by 2030, which totals \$1.7 trillion per year<sup>5</sup>. African and Central and Eastern European (CEE) countries are also included in the BRI. Although Chinese investment is quite limited in most CEE countries, the Western Balkan countries are a notable exception<sup>6</sup>.

### **China's energy sector and its role in the fight against climate change**

With the largest population in the world and a significant increase of energy consumption<sup>7</sup>, **China has a very important role to play in the fight against climate change**. The Chinese leadership seems to be aware of this responsibility. In 2017, at the Communist Party congress, Xi Jinping promised that his country would take the 'driving seat in international cooperation to respond to climate change'<sup>8</sup>. This development is highly desirable because, according to the Global Carbon Atlas, in 2018 fossil fuel emission in China reached 10 billion metric tons of carbon dioxide, a figure that has almost doubled since 2004 and that corresponds to 28% of the total greenhouse gas emission<sup>9</sup>. While China is the largest polluter in the world in absolute terms, the International Energy Agency estimated that, in terms of per capita emissions, China was only at 12th place in 2016, emitting 6.4 metric tonnes of carbon dioxide per person per year. This figure is far larger in the United States (15 metric tonnes) and other developed countries<sup>10</sup>.

In the 2009 Copenhagen Accord, China agreed to cut its carbon intensity (calculated as carbon dioxide emissions per GDP) by 40% to 45% from its 2005 level by 2020. In 2018, Xie Zhenhua, China's representative to the United Nations Framework Convention on Climate Change (UNFCCC) negotiations announced that the country had reached its 2020 carbon emission target 3 years ahead of schedule with the help of the country's carbon trading system<sup>11</sup>. China achieved this while having a robust economic growth<sup>12</sup>. In his speech at the United Nations Climate Action Summit in 2019, Wang Yi, state councillor and special representative of Xi Jinping, concluded that

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<sup>4</sup> 'Inside China's plan to create a modern Silk and Road', Morgan Stanley, 2018, <https://www.morganstanley.com/ideas/china-belt-and-road> (accessed 31 August 2020).

<sup>5</sup> 'Asia Infrastructure Needs Exceed \$1.7 Trillion Per Year, Double Previous Estimates', The Asian Development Bank, 2017, <https://www.adb.org/news/asia-infrastructure-needs-exceed-17-trillion-year-double-previous-estimates> (accessed 31 August 2020).

<sup>6</sup> Richard Turcsanyi, 'China and the Frustrated Region: Central and Eastern Europe's Repeating Troubles with Great Powers', China Report, Vol. 56, No.01, 2020.

<sup>7</sup> According to the China Electric Power Planning and Engineering Institute, in 2018 China's energy consumption reached a five-year record.

<sup>8</sup> Sengupta Somini, 'Why China Wants to Lead on Climate, but Clings to Coal (for Now)', New York Times, 2017, <https://www.nytimes.com/2017/11/14/climate/china-coal.html> (accessed 31 August 2020).

<sup>9</sup> Source of data: <http://www.globalcarbonatlas.org/en/CO2-emissions> (accessed 31 August 2020).

<sup>10</sup> Source of data: Each Country's Share of CO2 Emissions., <https://www.ucsusa.org/resources/each-countrys-share-co2-emissions> (accessed 31 August 2020).

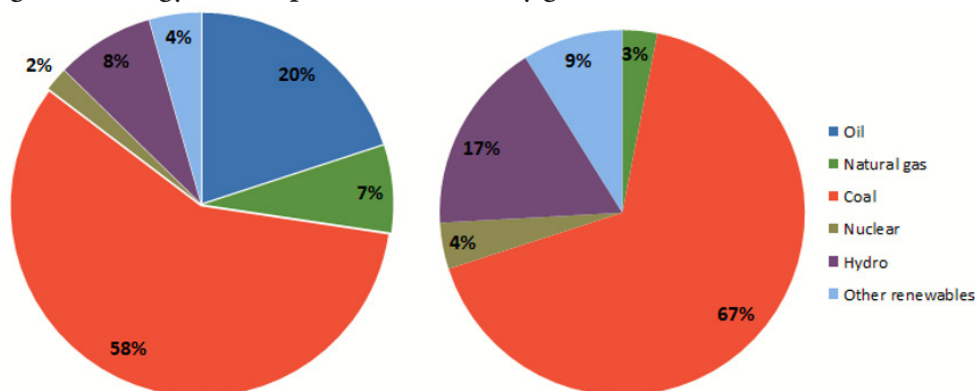
<sup>11</sup> At the end of 2017, China had cut carbon dioxide emissions per unit of GDP by 46% from the 2005 levels.

<sup>12</sup> 'China Meets 2020 Carbon Target Three Years Ahead of Schedule', UNFCCC, 2018, <https://unfccc.int/news/china-meets-2020-carbon-target-three-years-ahead-of-schedule> (accessed 31 August 2020).

China had significantly increased its renewable energy supplies and its forested land<sup>13</sup>.

**Currently, the most important source of energy in China is coal**, accountable for 67% of the electricity generated in the country in 2018 (Figure 1)<sup>14</sup>. The U.S. Energy Information Administration estimates this figure will drop to 47% by 2040<sup>15</sup>. Nevertheless, according to BP, the share of coal used in China's primary energy mix declined to 58% in 2018 from 60% in 2017 and 72% in 2008, which is a remarkable achievement<sup>16</sup>. Although fossil fuels are still expected to be used for most of China's electricity generation mix, in recent years, the reduction of coal-fired power stations and the instalment of new equipment in smokestacks to remove hazardous substances has reduced air pollution levels. These achievements could help Chinese people live longer and healthier lives<sup>17</sup>. However, this positive trend seemed to change in 2019. According to the Bloomberg New Energy Finance, investment in China's renewable energy dropped by almost 40% in the first half of 2019 compared with the same period last year. Furthermore, according to an analysis by the Global Energy Monitor, China is building new coal power plants with a total capacity of 148 gigawatts<sup>18</sup>.

**Figure 1: Energy consumption and electricity generation in China (share %, 2018).**



Source: BP Statistical Review – 2019

China already has six coal companies with production capacities above 100 million tonnes. The country is preparing guidelines to create ten new industry giants

<sup>13</sup> Umair Irfan, 'The UN Climate Action Summit was a disappointment', 2019, <https://www.vox.com/2019/9/24/20880416/un-climate-action-summit-2019-greta-thunberg-trump-china-india> (accessed 31 August 2020).

<sup>14</sup> BP Statistical Review – 2019, <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2019-china-insights.pdf> (accessed 31 August 2020).

<sup>15</sup> 'Chinese coal-fired electricity generation expected to flatten as mix shifts to renewables', The U.S. Energy Information Administration, 2017, <https://www.eia.gov/todayinenergy/detail.php?id=33092> (accessed 31 August 2020).

<sup>16</sup> BP Statistical Review – 2019.

<sup>17</sup> Michael Greenstone, 'Four Years After Declaring War on Pollution, China Is Winning', 2018, <https://www.nytimes.com/2018/03/12/upshot/china-pollution-environment-longer-lives.html> (accessed 31 August 2020).

<sup>18</sup> Christina Larson, 'China's climate paradox: A leader in coal and clean energy', 2019, <https://apnews.com/9a0f0b14a8034b9d9bfc936ed117b36> (accessed 31 August 2020).

and to weed out underperforming companies and outdated capacity<sup>19</sup>. Although the Chinese government has attempted to reduce the levels of pollution and the coal production capacity in China, Chinese energy firms are actively involved in energy projects abroad. **This expansion is part of the Going Global strategy, which ‘frames China’s ambitions for global leadership and cooperation’<sup>20</sup>.**

The energy infrastructure projects abroad include the construction of coal power plants. This is one of the most disputed aspects of the BRI. In 2017, Urgewald, a Berlin-based NGO, estimated that, in the following decade, Chinese companies would construct almost half of the newly built coal plants globally (700 out of 1,600). Urgewald estimates that these corporations are behind 340,000 to 386,000 megawatts of the planned coal power expansion worldwide. In 2019, Greenpeace reached a similar conclusion, stating that China was supporting more than a quarter of all new coal-fired plants worldwide, as well as investing significantly in wind and solar power in the Belt and Road countries (12.6 gigawatts since 2014)<sup>21</sup>.

Due to the sharp fall in coal financing by the World Bank and the ADB, Chinese banks are advantaged because they are willing to provide soft loans to this segment of the energy industry<sup>22</sup>. The annual interest of these loans is generally 2% to 3% with a term of 15 to 20 years. However, Chinese banks – unlike EU banks – cannot provide grants to EU candidate countries for infrastructure projects. For this reason, the competitiveness of Chinese investment (with the exception of financing coal power plant projects) is weak in comparison to the EU’s financing methods<sup>23</sup>.

### **Chinese presence in the Western Balkans**

There is a debate going on about how to interpret the Chinese presence in Europe, especially in Central and Eastern Europe. Meunier suggested that this relatively new phenomenon affects politics in Europe in three different venues: inside European countries, between European countries, and between Europe and third countries<sup>24</sup>. It is important to note a difference between CEE countries and Western European countries. In the former, the amount of Chinese FDI is much higher than in the latter. Chinese FDI through mergers and acquisitions of existing companies and also strategic alliances with local firms are more frequent in Western Europe than in CEE, where the majority of Chinese investment is realized in greenfield FDI<sup>25</sup>. According to the Rhodium Group

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<sup>19</sup> ‘China to create 10 ‘mega’ coal companies through M&As: report’, Reuters, 2017, <https://www.reuters.com/article/us-china-coal-m-a/china-to-create-10-mega-coal-companies-through-mas-report-idUSKBN17G00P> (accessed 31 August 2020); Michael Smith, ‘China state investment giant drops coal’, 2019., <https://www.afr.com/world/asia/china-state-investment-giant-drops-coal-20190318-p51597> (accessed 31 August 2020).

<sup>20</sup> ‘China Going Global between ambition and capacity’, China Policy, Beijing, 2017, <https://policycn.com/wp-content/uploads/2017/05/2017-Chinas-going-global-strategy.pdf> (accessed 31 August 2020).

<sup>21</sup> ‘Chinese renewable energy investment abroad soars – but coal still dominant’ South China Morning Post, 2019, <https://www.scmp.com/news/china/diplomacy/article/3020597/chinese-renewable-energy-investment-abroad-soars-coal-still> (accessed 31 August 2020).

<sup>22</sup> Hiroko Tabuchi, ‘As Beijing Joins Climate Fight, Chinese Companies Build Coal Plants’, 2017, <https://www.nytimes.com/2017/07/01/climate/china-energy-companies-coal-plants-climate-change.html> (accessed 31 August 2020).

<sup>23</sup> Liu Zuokui, ‘China’s Investment in the Balkans under the Belt and Road Initiative: A Chinese Perspective.’ Insight Turkey, Vol. 21, No. 2, 2019.

<sup>24</sup> Sophie Meunier, ‘A Faustian bargain or just a good bargain? Chinese foreign direct investment and politics in Europe.’ Asia Europe Journal, Vol. 12, No. 1-2, 2014.

<sup>25</sup> Wade Jacoby, ‘Different cases, different faces: Chinese investment in Central and Eastern Europe.’ Asia Europe Journal, Vol. 12, No. 1-2, 2014.

between 2000 and 2019, the cumulative value of Chinese FDI transactions exceeded the €2 billion threshold within the CEE in Hungary only. In this period, the Chinese FDI were €50.3 billion in the United Kingdom and €22.7 billion in Germany<sup>26</sup>.

There is also a difference concerning the Chinese FDI between Western Balkan countries and other CEE countries which are part of the EU. While the Chinese FDI outward flows to the new EU members accounted for between 1-2% of the total Chinese investments in the period of 2011-2015, these rates were only 0.1% and 0.2% in the Western Balkan<sup>27</sup>. In Southeast Europe it is more common that banks owned by the Chinese state provide loans on low interest rates to finance infrastructure investment projects<sup>28</sup>. For the countries in the Western Balkan, this option is very tempting because they do not have access to the same amount of EU funds as their northern neighbours to develop their energy and transport infrastructure. The opposite is true in the CEE EU Member States because for them the regulations of potential Chinese credit lines are not in accordance with EU procurement law and therefore Chinese loans are not attractive to them<sup>29</sup>. From the Chinese perspective, the market of new EU countries (regarding the outward flow FDI) is more attractive because in this way the Chinese companies can supply the whole EU market<sup>30</sup>.

The growing Chinese presence via loans and infrastructure projects in the Western Balkan countries has an impact on the region. While there is some resistance inside the countries (environmentalists, locals who are affected by the negative externalities) – but not among the leading political actors – against the Chinese investments, other (mainly Western) European countries and the United States have made their opposition more clear. These oppositions are based on the fear that the Chinese ‘going out’ policy serves political ends. Critics argue that most Chinese outward FDI (and also infrastructure projects) are realized by state-owned enterprises which link economic goals to political goals. Also, according to these voices, China uses the investment opportunities in the developing world to secure political support from these countries<sup>31</sup>. Although the EU also invests and provides funds to the Western Balkan countries through integration programmes (e.g. IPA, IPA II), – as Bărbulescu and Troncotă pointed out in the case of Bosnia and Herzegovina – ‘the ‘Turkey syndrome’ of delayed and postponed integration might undermine all the efforts and investments already directed to the country/region’<sup>32</sup>.

While the World Bank had considered providing financial support to a planned 500 MW coal-fired power plant in Kosovo a few years ago, it eventually abandoned the

<sup>26</sup> Agatha Kratz, Mikko Huotari, Thilo Hanemann, Rebecca Arcesati, ‘Chinese FDI in Europe: 2019 Update’, Merics, Rhodium Group, 2020. <https://merics.org/en/report/chinese-fdi-europe-2019-update> (accessed 31 August 2020).

<sup>27</sup> Duško Jačimović, Radmila Dragutinović Mitrović, Predrag Bjelić, Kong Tianping, Miloš B. Rajković, ‘The role of Chinese investments in the bilateral exports of new E.U. member states and Western Balkan countries’, *Economic Research-Ekonomska Istraživanja*, Vol. 31, No.1, 2018.

<sup>28</sup> Clara Volintiru, ‘Trade Connectivity’: in: Doru Costea, George Cornel Dumitrescu, Clara Volintiru, Roxana Voicu-Dorobanțu, Cătălin Ploae, ‘Connectivity-Related Projects in Europe and China: Opportunities and Challenges to Increased Synergies’, European Institute of Romania, 2019.

<sup>29</sup> Tamás Matura, ‘Chinese Investment in the EU and Central and Eastern Europe’, in: Csaba Moldicz (ed.) ‘China’s Attraction: The Case of Central Europe’, Budapest Business School University of Applied Sciences, 2017.

<sup>30</sup> Jačimovic et al. (2018).

<sup>31</sup> Meunier (2014).

<sup>32</sup> Iordan Gheorghe Bărbulescu, Miruna Troncotă, ‘The Ambivalent Role of the EU in the Western Balkans - ‘Limited Europeanisation’ between Formal Promises and Practical Constraints - The Case of Bosnia-Herzegovina’, *Romanian Journal of European Affairs*, Vol. 12, No. 1, 2012.

plan. It justified this decision with the reasoning that 'renewables have now come below the cost of coal'<sup>33</sup>. Although Chinese companies and financial institutions are not as involved in infrastructure projects in Kosovo – where American influence is strong – they are active in other Western Balkan countries. Since the financial meltdown of 2008, Chinese foreign direct investment and Chinese imports have gradually increased in the region. Although Chinese FDI is still relatively low in the Western Balkans, Chinese companies have made some crucial and symbolic acquisitions<sup>34</sup>. These include the acquisition of the Železara Smederevo steel mill in Serbia, of exploration and production rights of major oil fields in Albania and of the management, development and operation rights of the Mother Teresa Airport in Tirana, where Chinese flags wave next to the Albanians ones<sup>35</sup>.

The trade deficit between the Western Balkan countries and China is also significant. According to Eurostat figures, while in 2019 the EU remained the main trading partner of Western Balkan countries both in the fields of exports (68%) and imports (61%), the share of imports from China was nonetheless high (10%)<sup>36</sup>. Significantly, Western Balkan countries are also members of the '17+1' cooperation, which brings together China, 16 post-communist CEE states and, from 2019, Greece. This initiative has political relevance, and some Western European politicians and experts consider it a Chinese Trojan Horse. A European Commission paper on EU-China relations, published in 2019, stated that although Chinese projects have contributed to economic growth in the Balkans, many projects are neglecting socio-economic factors and the requirement of sustainable financing. The paper also concluded – in line with accusations by senior US officials – that the projects may lead to high levels of debt and Chinese control over strategic assets and resources<sup>37</sup>. According to a Munich Security Conference report issued in 2019, the share of committed Chinese infrastructure loans in Montenegro in relation to other externally held debt was 39% in 2018<sup>38</sup>. This share was 20% in Northern Macedonia, 14% in Bosnia and Herzegovina and 12% in Serbia<sup>39</sup>. A 2017 IMF report sets the total project value currently financed by China for railways, energy and roads in the Western Balkans at €6.2 billion<sup>40</sup>.

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<sup>33</sup> 'World Bank pulls out of Kosovo coal power plant project', Reuters, 2018, <https://uk.reuters.com/article/worldbank-kosovo/world-bank-pulls-out-of-kosovo-coal-power-plant-project-idUKL8N1WQ518> (accessed 31 August 2020).

<sup>34</sup> 'China, the 16+1 format and the EU', European Parliament, 2018, [http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/625173/EPRS\\_BRI\(2018\)625173\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/625173/EPRS_BRI(2018)625173_EN.pdf) (accessed 31 August 2020).

<sup>35</sup> 'Why is the Chinese flag in Tirana's airport a concern for some in Albania?', China-CEE Institute, 2019, <https://china-cee.eu/2019/03/28/albania-external-relations-briefing-why-is-the-chinese-flag-in-tiranas-airport-a-concern-for-some-in-albania/> (accessed 31 August 2020).

<sup>36</sup> 'Western Balkan countries-EU - international trade in goods statistics', Eurostat, [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Western\\_Balkans-EU\\_-\\_international\\_trade\\_in\\_goods\\_statistics#The\\_Western\\_Balkans\\_trade\\_with\\_the\\_EU\\_and\\_other\\_main\\_partners](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Western_Balkans-EU_-_international_trade_in_goods_statistics#The_Western_Balkans_trade_with_the_EU_and_other_main_partners) (accessed 31 August 2020).

<sup>37</sup> 'EU-China – A strategic outlook', European Commission, 2019, <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>.

<sup>38</sup> Chinese infrastructure companies and financial institutions are involved in highway constructions. The European Investment Bank (EIB) and also the International Monetary Fund (IMF) have cautioned the government against a PPP solution that could introduce large contingent liabilities. Noah Barkin, Aleksandar Vasovic, 'Chinese 'highway to nowhere' haunts Montenegro', 2018, <https://www.reuters.com/article/us-china-silkroad-montenegro-insi/chinese-highway-to-nowhere-haunts-montenegro-idUSKBN1K60QX> (accessed 31 August 2020).

<sup>39</sup> '2019 Munich Security Conference report', 2019, p. 34, [https://securityconference.org/assets/02\\_Dokumente/01\\_Publikationen/MunichSecurityReport2019.pdf](https://securityconference.org/assets/02_Dokumente/01_Publikationen/MunichSecurityReport2019.pdf). (accessed 31 August 2020).

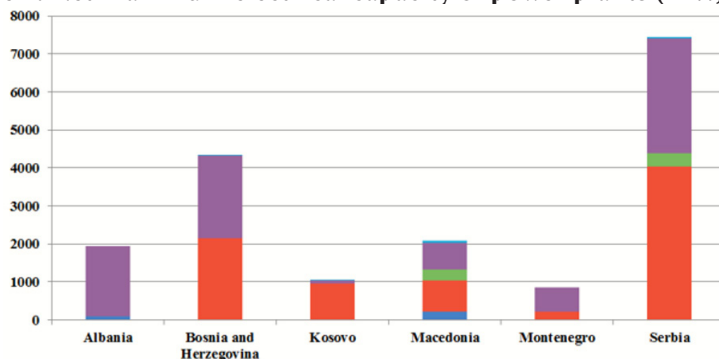
<sup>40</sup> EP (2018).

## Energy infrastructure in the Western Balkans

**Many of these investments are in the energy infrastructure sector.** To improve infrastructure, Western Balkan countries are preparing to replace their outdated energy capacities and to install new power plant blocks<sup>41</sup>. The energy infrastructure in Southeast Europe, which was mainly built in the 1960s and 1970s, is now outdated and inefficient according to European standards<sup>42</sup>. A research paper published by the Western Balkans Investment Framework (WBIF) has noted that the energy sector can be characterized by ‘limited market mechanisms and private sector participation, insufficient and ageing infrastructure, high reliance on fossil fuels, late adoption of renewables beyond hydropower and residential biomass, limited energy efficiency and energy productivity, and high rates of energy poverty’<sup>43</sup>. For these reasons, the modernization of the energy infrastructure is a necessity. However, mainly due to the unstable political and economic climate in the Western Balkan countries, it is very difficult to find investors.

In the Western Balkans – as in China – one of the most important energy sources is coal. In 2017, Reuters reported that a total of 2,600 MW of new coal-fired generating capacity is planned for the region<sup>44</sup>. In 2020, Sandbag estimated that Serbia was planning to increase its coal capacity by 2,100 MW and Bosnia and Herzegovina by 4,080 MW<sup>45</sup>. In these two countries, coal-fired power plants account for about half of the country’s net maximum electrical capacity of power plants (Figure 2). The new coal-fired plants and units are planned mostly in these two countries, and in most cases the adjacent coal mines also must be developed or extended as a resource supply for the plants. Chinese energy companies, along with Chinese financial institutions, are willing and able to contribute to this marketplace.

**Figure 2: Net maximum electrical capacity of power plants (MW, 2016).**



Source: 2017 Annual Implementation Report - Energy Community Secretariat.

<sup>41</sup> These do not solely include coal plants.

<sup>42</sup> Loïc Poulain, ‘China’s new Balkan strategy’, Center for Strategic and International Studies, Central Europe Watch, Vol. 01, No. 02, 2011, [https://csis-prod.s3.amazonaws.com/s3fs-public/legacy\\_files/files/publication/110829\\_CEW\\_China\\_in\\_Balkans.pdf](https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/110829_CEW_China_in_Balkans.pdf) (accessed 31 August 2020).

<sup>43</sup> ‘Investing in Clean Energy in the Western Balkans’, Western Balkans Investment Framework, 2019, p. 5. <https://wbif.eu/news-details/new-wbif-publication-investing-clean-energy-western-balkans> (accessed 31 August 2020).

<sup>44</sup> Maja Zuvela, ‘Balkan push for new coal-fired plants raises environmental concerns’, 2017, <https://uk.reuters.com/article/uk-serbia-energy-coal/balkan-push-for-new-coal-fired-plants-raises-environmental-concerns-idUKKBN1572I4?il=0> (accessed 31 August 2020).

<sup>45</sup> ‘The path of east resistance, How electricity generated from coal is leaking into the EU’, Sandbag, 2020, [https://ember-climate.org/wp-content/uploads/2020/01/2020-SB-Path-of-least-resistance-1.2b\\_DIGI.pdf](https://ember-climate.org/wp-content/uploads/2020/01/2020-SB-Path-of-least-resistance-1.2b_DIGI.pdf) (accessed 31 August 2020).

### Energy infrastructure projects and hardships

One of the most successful Chinese-backed projects in the Western Balkan is the construction of the Stanari Thermal Power Plant. This plant is completely owned by UK-based EFT Group, an energy trading and investment firm that operates in Southeast, Central and Western Europe. The total cost of the Stanari project was approximately €500 million, and the China Development Bank provided a €350 million loan to construct the facility<sup>46</sup>. Furthermore, China's Dongfang Electric Corporation was engaged by the owner, EFT, to build the power plant, which became commercially operable in September 2016<sup>47</sup>. According to EFT, over 900 permanent jobs were created in the Stanari mine and thermal power plant during the operation phase<sup>48</sup>. The local owners also profited by selling electricity to EU markets<sup>49</sup>.

Although the project in Stanari was successfully implemented, in many cases Chinese-backed power plant projects have been delayed or construction has not even begun. **Various actors and conflicts, mainly in Serbia and Bosnia and Herzegovina, have influenced the ability to build thermal power plants. The lack of success has wide-ranging causes, from economical to environmental concerns.** One example is the planned Kostolac Power Plant in Serbia, which will be built by the China Machinery Engineering Corporation. In December 2014, it was reported that China's Exim Bank would finance a new 350 MW unit of the Kostolac Power Plant. The Chinese and Serbian actors also agreed on the expansion of the nearby Drmno coal mine. According to the plan, Exim Bank would provide 80% of the funding for the entire \$715 million project through a 20-year loan. If the new unit of the Kostolac Power Plant is completed, it will be the first new electricity capacity development in Serbia after nearly 30 years<sup>50</sup>. The Serbian parliament has ratified the agreement, but construction was not able to begin immediately. The Serbian Administrative Court ruled that the approval of the plant's environmental impact statement (EIA) was illegitimate and did not take into consideration the cross-border impact of the new plant on neighbouring Romania. Although Reuters reported in November 2017 that construction began and is expected to finish in 2020, many obstacles have seemed to accompany the project. In September 2018, two organisations<sup>51</sup> submitted a formal complaint to the Energy Community Treaty Secretariat<sup>52</sup> that alleged that the country had failed to require an EIA for the expansion of the Drmno mine that would supply the plant<sup>53</sup>. Despite the complaints, the Serbian Minister of Mining and Energy Aleksandar Antic stated in 2019 that the thermal power plant Kostolac B is moving forward after the issuance of its 7<sup>th</sup> construction permit, related to the construction and installation of a boiler, turbine

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<sup>46</sup> 'Economic effects', EFT, <http://www.eft-stanari.net/en/index.php/about-us/ekonomskiuticaj> (accessed 31 August 2020).

<sup>47</sup> 'Bosnia: EFT's new 300MW TPP Stanari kicks off full commercial operation', ESIA SEE, 2016, <https://www.esiasee.eu/efst-new-300mw-tpp-stanari-kicks-off-full-commercial-operation/> (accessed 31 August 2020).

<sup>48</sup> ETF Stanari website, <http://www.eft-stanari.net/en/index.php/about-us/ekonomskiuticaj>.

<sup>49</sup> Zuokui (2019).

<sup>50</sup> 'Chinese company starts construction of Serbian coal-fired power plant', Reuters, 2017, <https://www.reuters.com/article/serbia-power/chinese-company-starts-construction-of-serbian-coal-fired-power-plant-idUSL8N1NQ49F> (accessed 31 August 2020).

<sup>51</sup> The Centre for Ecology and Sustainable Development and CEE Bankwatch Network.

<sup>52</sup> The aim of the organisation is to extend the energy acquis of the European Union to the territories of third countries.

<sup>53</sup> Global Energy Monitor, [https://www.gem.wiki/Kostolac\\_power\\_station](https://www.gem.wiki/Kostolac_power_station) (accessed 31 August 2020).



and generator<sup>54</sup>.

Bosnia and Herzegovina also intends to build new thermal power plants and expand coal mines in various locations with Chinese participation. Some of these projects are in the planning phase or have been delayed (such as Banovići, Gacko and Kakanj) and media reports have suggested that the China National Electric Engineering Company dropped out of the project in Ugljevik<sup>55</sup>. One of the biggest potential investments is the construction of a new 450 MW unit in Tuzla, a project that has a long history. The project was planned in 2014, when an engineering, procurement and construction (EPC) contract worth €785 million was signed with the China Gezhouba Group Cooperation. According to Bankwatch, although the project is usually cited as being a replacement for existing units, Elektroprivreda BiH, the state-owned operator, plans to close only the existing 100 MW Unit 3 before 2027. In this case, Tuzla 7 would bring additional coal capacity rather than simply replacing existing ones. The project has faced several obstacles. Ekotim, an NGO, filed a court case challenging the environmental permit of the project in 2016<sup>56</sup>. Furthermore, on March 27, 2019, the EU Energy Community Secretariat announced that it was opening a dispute settlement procedure for Bosnia's planned guarantee for a €614 million loan from the China Exim bank. That same month, the then European Enlargement Commissioner Johannes Hahn tweeted that the project raised questions 'about the choice of energy technology as well as about sound cost-benefit analysis in a responsible and transparent continent'<sup>57</sup>. Despite setbacks in the available investments, the preparatory works for the construction of Block 7 of the Tuzla Thermal Power Plant officially started in November 2019. According to the Executive Director for Capital Investments of Elektroprivreda BiH Senad Salkic, the construction of the new bloc could be 'the biggest energy potential for Bosnia and Herzegovina since 1988, when the last thermal power block was built in Kakanj'<sup>58</sup>.

### **Background and conflict of interest**

The Western Balkan countries have to make a tough choice when planning to develop the energy infrastructure. One possible solution for them is to extend the coal mines and construct more coal power plants. For this, they can partner up with Chinese energy companies and banks, which would provide the financial and technical solution for the investments. Nevertheless, these investment plans face many obstacles. The European Union, in which these countries want to be integrated, does not support the construction of new coal plants and the Western Balkan countries also face pressure from local and international NGOs and environmental organizations. However, **this paper argues that for the Western Balkan countries the cost is too high to wholly**

<sup>54</sup> 'Serbia: TPP Kostolac unit B3 obtained its seventh construction permit', Serbia Energy, 2019, <https://serbia-energy.eu/serbia-tpp-kostolac-unit-b3-obtained-its-seventh-construction-permit/> (accessed 31 August 2020).

<sup>55</sup> Vladimir Spasić, 'Ugljevik 3 power plant project not to use approved environmental permit', 2018, <https://balkangreenenergynews.com/ugljevik-3-power-plant-project-not-to-use-approved-environmental-permit/> (accessed 31 August 2020).

<sup>56</sup> Bankwatch Network, <https://bankwatch.org/project/tuzla-7-lignite-power-plant-bosnia-and-herzegovina-2> (accessed 31 August 2020).

<sup>57</sup> Mladen Lacic, 'China's Loan for Bosnia Coal Plant Worries EU', 2019, Balkan Insight, <https://balkaninsight.com/2019/03/28/chinas-loan-for-bosnia-coal-plant-worries-eu> (accessed 31 August 2020).

<sup>58</sup> 'Preparatory Works on the Construction of Blok 7 of the Tuzla Thermal Power Plant officially started', Sarajevo Times, 2019, <https://www.sarajevotimes.com/preparatory-works-on-the-construction-of-blok-7-of-the-tuzla-thermal-power-plant-officially-started/> (accessed 31 August 2020).

**neglect the Chinese offers, even if in this scenario they have to face criticism from their western partners.**

**The Energy Community is playing a crucial role in energy projects in the Western Balkans.** The countries in this region are contracted partners of the Community, an organization whose goals include to ‘creating an integrated energy market allowing for cross-border energy trade and integration with the EU market, and to improve the environmental situation in relation with energy supply in the region and foster the use of renewable energy and energy efficiency’<sup>59</sup>. The 2020 climate and energy package sets three key goals<sup>60</sup>, including decarbonisation, which are not compatible with the construction of new power plant units. Therefore, many countries in the Western Balkans face a serious dilemma. They need to find investors to upgrade their energy infrastructure, while also ensuring they adhere to the rules of the Energy Community. The region has a large amount of coal to exploit, so the extension of already existing thermal power plants could be an adequate solution to the former issue. Nowadays, these Western Balkan countries can take advantage of Chinese investment offers and begin constructions, but, if they do not consider environmental requirements, they can jeopardize their accession to the EU. However, some EU countries are benefiting from the new energy capacities installed outside the EU. Sandbag concluded that several EU countries actually import ‘tax-free electricity’ from these plants. The EU’s leading exporters are Russia, Ukraine, Turkey and the Western Balkans<sup>61</sup>.

The governments of Western Balkan countries, which are usually the majority owners of thermal power plants in the country, must find a balance between the attractive Chinese investment offers and the expectations of the EU. In most cases, heads of states welcome and praise the Chinese-backed projects. Xi Jinping personally visited Serbia in 2016 to boost ties, and in Bosnia and Herzegovina the opening towards China is taking place with the support of both entities. In 2018, Bakir Izetbegović and Milorad Dodik also praised relations with the Asian country. The former – after meeting with the Chinese ambassador – stated that the Chinese partner is always trying to find a solution that can be considered a success for both parties<sup>62</sup>. Dodik, in an interview with Xinhua News Agency, explained that the Republika Srpska – which is one of the two political entities that together compose the country of Bosnia and Herzegovina – had demonstrated its ability to work with Chinese partners and realize projects<sup>63</sup>. However, there are official voices that sound concerned over the potential negative impacts. For instance, Dr Berislav Vekić, the State Secretary for Health in Serbia, has stated that the ‘long-term effects on population health in Serbia should be taken into account when developing energy policies’<sup>64</sup>.

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<sup>59</sup> ‘Who we are?’, Energy Community, <https://energy-community.org/aboutus/whoweare.html> (accessed 31 August 2020).

<sup>60</sup> ‘2020 climate & energy package’, European Commission, 2020, [https://ec.europa.eu/clima/policies/strategies/2020\\_en](https://ec.europa.eu/clima/policies/strategies/2020_en) (accessed 31 August 2020). 20% cut in greenhouse gas emissions (from 1990 levels), 20% of EU energy from renewables, 20% improvement in energy efficiency.

<sup>61</sup> Sandbag, 2020, p.7.

<sup>62</sup> ‘Chairman of the Presidency of BiH Bakir Izetbegović meets Ambassador Chen Bo’, 2018, [http://ba.chineseembassy.org/eng/gdxw\\_10/t1578736.htm](http://ba.chineseembassy.org/eng/gdxw_10/t1578736.htm) (accessed 31 August 2020).

<sup>63</sup> ‘Great friendship, support and understanding between peoples of BiH, China: BiH President’, Xinhua, 2018, [http://www.xinhuanet.com/english/2018-12/19/c\\_137683398.htm](http://www.xinhuanet.com/english/2018-12/19/c_137683398.htm) (accessed 31 August 2020).

<sup>64</sup> ‘The Unpaid Health Bill. How Coal Power Plants In Serbia Make Us Sick’, 2016, Health and Environment Alliance, p. 4, [http://env-health.org/IMG/pdf/factsheet\\_serbia\\_en\\_lr.pdf](http://env-health.org/IMG/pdf/factsheet_serbia_en_lr.pdf) (accessed 31 August 2020).

The EU is not the only actor that has objections against the installation of new thermal power plant units. A study published by the Health and Environment Alliance has found that ‘existing coal plants in Serbia create a total of between 600 and 1,756 EUR million per year in health costs to people and governments in the region.’ Furthermore, due to the wide reach of pollutants, these plants are creating a total of between 1.4 and 4 EUR billion health costs per year to Europe<sup>65</sup>. Eight of the ten most polluting plants in Europe are in the Western Balkans, and this negatively affects the air quality not only in the region but also in neighbouring countries<sup>66</sup>.

This negative environmental and health impact can explain the disapproval articulated by NGOs – such as the Health and Environment Alliance or Bankwatch – and from some of the residents who are impacted by the pollution. However, this opposition is directed not only towards the construction of Chinese-backed thermal power plants but also towards hydroelectric power plants. Environmentalists argue that these small hydropower plants will inflict lasting damage on the environment and destroy the previously untouched rivers and their eco-systems<sup>67</sup>. According to a study by the CEE Bankwatch Network, the number of hydropower plants that generate under 10 MW in the Western Balkans has quadrupled between 2009 and the end of 2018<sup>68</sup>. Most of these investments are financed by European institutions and by multilateral development banks<sup>69</sup>. According to one study – which was written by several NGOs and partly financed by the EU –, since 2005, the European Bank for Reconstruction and Development supported these projects with at least €126 million and the European Investment Bank has provided €445 million<sup>70</sup>.

Although the constructions of the hydropower plants are mostly supported by Western actors, China is also present in this field. The energy company EFT announced at the end of 2019 that the ‘the contract for engineering, procurement and construction of 35 MW HPP Ulog, signed between EFT HE Ulog d.o.o. and Sinohydro Corporation Ltd, has entered into force and civil works are scheduled to commence in the second quarter of 2020’<sup>71</sup>.

One study by Bankwatch concluded that, instead of building coal and hydroelectric power plants, Western Balkan countries should place greater emphasis on building wind farms. According to the NGO, this would be a more cost-effective solution<sup>72</sup>. The International Renewable Energy Agency agreed with this conclusion when it estimated that the ‘capacities of 12.2 GW of wind and 4.4 GW of solar PV

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<sup>65</sup> HEAL (2016, p. 1).

<sup>66</sup> WBIF (2019, p. 5)

<sup>67</sup> ‘Activists warn Balkan rivers at risk from hydropower plants’, Associated Press, 2019, <https://www.citynews1130.com/2019/11/28/activists-warn-balkan-rivers-at-risk-from-hydropower-plants/> (accessed 31 August 2020).

<sup>68</sup> ‘Western Balkans hydropower. Who pays, who profits?’, Bankwatch Network, 2019, p. 5, <https://bankwatch.org/wp-content/uploads/2019/09/who-pays-who-profits.pdf> (accessed 31 August 2020).

<sup>69</sup> ‘Broken rivers. The impacts of European-financed small hydropower plants on pristine Balkan landscapes’, Bankwatch Network, 2017, <https://bankwatch.org/publication/broken-rivers-impacts-european-financed-small-hydropower-plants-pristine-balkan-landscapes> (accessed 31 August 2020).

<sup>70</sup> ‘Financing for hydropower in protected areas in Southeast Europe’, Bankwatch Network, 2018, <https://balkanrivers.net/sites/default/files/Financing-hydropower-southeast-Europe-web-fin.pdf> (accessed 31 August 2020).

<sup>71</sup> ‘Commencement of Ulog hydropower plant construction’, EFT, 2019, <http://www.eft-ulog.net/index.php/news/vjesti/commencement-of-ulog-hydropower-plant-construction> (accessed 31 August 2020).

<sup>72</sup> ‘Western Balkans Countries Invest at Least 2.4 Times As Much in Coal As in Wind Power’, Bankwatch, 2016, <https://bankwatch.org/wp-content/uploads/2016/05/briefing-Balkans-CoalvsWind-26May2016.pdf> (accessed 31 August 2020).

could be cost competitive in the region today if the cost of capital was in line with that observed in neighbouring Croatia, Hungary and Romania<sup>73</sup>. One of the main barriers to renewable energy source (RES) development in the region is the perception of the high cost of RES power<sup>74</sup>. Therefore, advocates of RES have tried to actively contest this conception.

**China has attempted to respond to these critical voices, which are usually present in their infrastructure projects abroad.** In 2013, the Chinese Ministry of Commerce and the Ministry of Environmental Protection issued the Guidelines for Environmental Protection in Foreign Investment and Cooperation. This document encourages Chinese enterprises to show ‘respect to environmental protection in accordance with laws and regulations of the host country’ and to also ‘develop low-carbon and green economy, and implement sustainable development strategies’<sup>75</sup>. Furthermore, the Guidelines encourage Chinese companies to examine the standards and practices related to environmental protection that are used by international organizations and multilateral financial institutions. In 2012, the China Banking Regulatory Commission issued a similar document named ‘Green Credit Guidelines.’ The document stated that the ‘banking institutions shall promote green credit from a strategic height, increase the support to green, low-carbon and recycling economy’<sup>76</sup>.

The problem with these two guidelines is that their implementation is not mandatory, and it is difficult to ensure the compliance of Chinese companies and banks. Compared to international financial institutions, Chinese banks still lack transparency in the application of environmental and social standards<sup>77</sup>. In a 2017 publication, Friends of the Earth International, an environmental organisation, also concluded that Chinese banks have difficulties complying with the laws and regulations of host countries. According to the study, it is particularly troubling that Chinese Banks are struggling to properly implement international norms that require high quality environmental and social impact assessments of the clients of the banks<sup>78</sup>.

The political leadership of China has promoted the success and the development of the BRI on every level, although there have been instances in which they do acknowledge the ‘challenges’ these projects could face. For instance, at a speech at the second Belt and Road Forum for International Cooperation in 2019, Xi Jinping recognized that it is important to carry ‘out more resource-conserving and environmentally friendly projects’<sup>79</sup>. He also stressed the importance of investments that contribute to sustainable and ‘green’ growth, in accordance with the UN 2030 Agenda

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<sup>73</sup> WBIF (2019, p. 6).

<sup>74</sup> WBIF (2019, p. 14).

<sup>75</sup> ‘Notification of the Ministry of Commerce and the Ministry of Environmental Protection on Issuing the Guidelines for Environmental Protection in Foreign Investment and Cooperation,’ Ministry of Commerce People’s Republic of China, 2013, <http://english.mofcom.gov.cn/article/policyrelease/bbb/201303/20130300043226.shtml> (accessed 31 August 2020).

<sup>76</sup> ‘Notice of the CBRC on Issuing the Green Credit Guidelines. China Banking Regulatory Commission,’ CBRC, 2012, <http://www.cbrc.gov.cn/EngdocView.do?docID=3CE646AB629B46B9B533B1D8D9FF8C4A> (accessed 31 August 2020).

<sup>77</sup> Bettina Gransow, ‘Chinese Infrastructure Investment in Latin America – an Assessment of Strategies. Actors and Risks,’ Journal of Chinese Political Science, Vol. 20, No. 3, 2015.

<sup>78</sup> ‘Investing in Green Belt and Road? Assessing the implementation of china’s green credit guidelines abroad,’ Friends of the Earth, 2017, p. 6, [https://1bps6437gg8c169i0y1drtgz-wpengine.netdna-ssl.com/wp-content/uploads/2017/12/ChinaGreenBelt\\_Dec2017.pdf](https://1bps6437gg8c169i0y1drtgz-wpengine.netdna-ssl.com/wp-content/uploads/2017/12/ChinaGreenBelt_Dec2017.pdf) (accessed 31 August 2020).

<sup>79</sup> Friends of the Earth (2017, p. 91)

for Sustainable Development<sup>80</sup>. In his paper in which he examines Chinese investment in the Western Balkans from the Chinese perspective, Zuokui argues that, although the scope of Chinese investment in this region has increased, the ‘real influence China has imposed should not be over-exaggerated.’ In his view, the Chinese enterprises – which are following the Going Global policy – are taking a risk with the infrastructure projects but in the long run can accrue profits by focusing on the relative advantages of the Balkan states. These include the geographical location of the region, the competitive cost of production and the chance to accumulate experience for accessing the EU single market<sup>81</sup>.

### Conclusion

The Chinese presence in the Western Balkans is increasing, and this has been interpreted in many ways. Chinese-backed energy projects in the region are particularly controversial, because many of them interfere with the aims of other important state and non-state actors, such as the EU, NGOs or environmentalists. For this reason, many of these planned projects will not start soon. However, some projects are at the planning phase and a few are slowly materializing, due to the commitment of Western Balkan and the Chinese governments. Western Balkan countries need to have a grand strategy to develop their energy infrastructure. China can offer them an acceptable solution to implementing this strategy. Although the goal of these countries is to join the EU, the integration process has currently slowed down, for various reasons. Furthermore, the requirements and conditionality to join will probably change, with aspects regarding the rule of law and democratic transition playing a greater role. If the prospect for integration becomes more uncertain, non-EU actors could become more influential in the region. Although China officially supports the integration of the Western Balkan states, it can also benefit from the status quo and continue investing in this less regulated environment, where its supply could meet the regional demand.

**Table 1: Chinese backed energy projects.**

Number (in the map below)	Location	Project	Status	(Estimated) Cost	Energy Company (Developer)	Financing
1	Serbia, Kostolac, Drmno	Construction of a new unit (350 MW) of the Kostolac thermal power plant and the extension of the Drmo coal mine	CEKOR challenged the environmental impact assessment in court, but in 2019 it was reported that construction was planned to begin.	€715 million	CMEC	China Exim Bank (80%)
2	Serbia, Novi Belgrade - Nikola Tesla Thermal power plant	Heating pipeline construction	€193 million loan is secured, the works are expected to begin in 2020	€200 million	POWERCHINA	Beogradske Elektrane and the Serbian Government

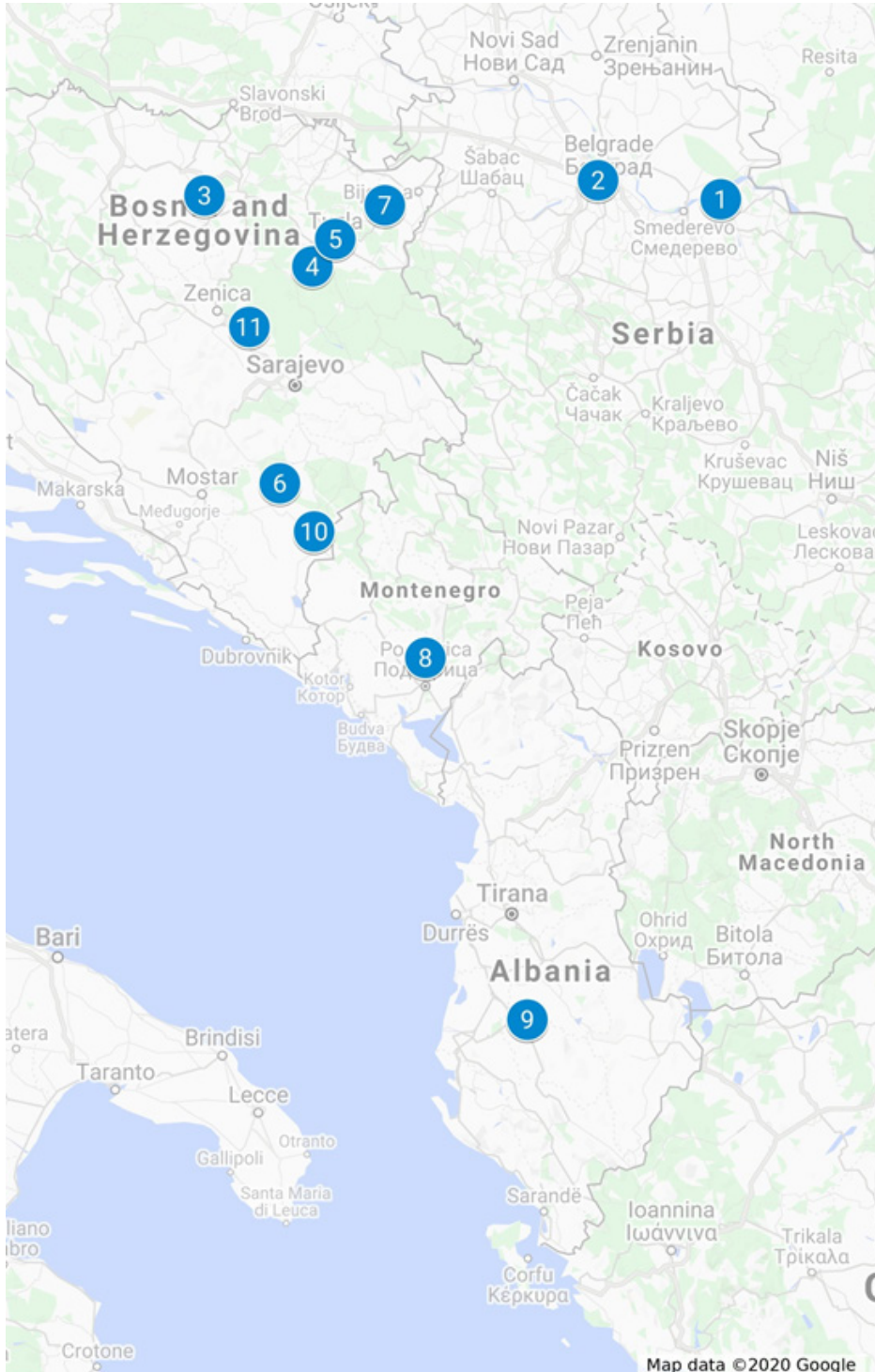
<sup>80</sup> ‘Xi Jinping Chairs and Addresses the Leaders’ Roundtable of the Second Belt and Road Forum for International Cooperation (BRF)’ BRF, 2019, <http://www.beltandroadforum.org/english/n100/2019/0429/c22-1392.html> (accessed 31 August 2020).

<sup>81</sup> Zuokui (2019).

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2	Serbia, Kalenić, Belgrade	Construction of a new unit (350 MW) of the Kolubara thermal power plant	The project is expected to enter the construction phase in 2021	€385	POWERCHINA	Unknown
3	Bosnia and Herzegovina, Stanari	Stanari 300 MW power plant construction and extension of the nearby coal mine	Power plant began operations in 2016	€560 million	DEC	China Development Bank (€350 million) and EFT
4	Bosnia and Herzegovina, Banovići	Banovići 350 MW thermal power plant construction and extension of the nearby coal mine	In late 2017, BiH approved the energy permit for the future plant, but the start of the construction was delayed.	€584 million	DEC	Industrial and Commercial Bank of China
5	Bosnia and Herzegovina, Tuzla	Tuzla 450 MW power plant (7th block) construction	ECS opened dispute settlement, but the preparatory works on the construction started.	€785 million	Gezhouba Group and GEDI	China Exim bank (85%)
6	Bosnia and Herzegovina, Ulog	35 MW hydroelectric power station construction in the Neretva river	The contract for engineering, procurement and Construction of 35 MW HPP Ulog, signed between EFT HE Ulog d.o.o. and Sinohydro Corporation Ltd, entered into force on 20 December 2019.	€76 million	Sinohydro	China Development Bank?
7	Bosnia and Herzegovina, Ugljevik	Ugljevik 3 2x300 MW thermal power plant expansion and the Delići coal mine construction.	Bosnia and Herzegovina committed to not using the environmental permit issued as a result of the non-compliant environmental impact assessment procedure.	Unknown	CNEEC (media reports suggest that CPECC has dropped out of the project)	Unknown
8	Montenegro, Morača river	Installation of eight hydroelectric power stations.	It is only a planned project facing many difficulties, and Norinco is a potential bidder to develop the power stations.	€500	Norinco	Unknown
9	Albania, Patos-Marinez and Kucova	Buying the rights to oil fields.	Canada's Banker's Petroleum sold the oil exploration and production rights in 2016.	€442 million	Geo-Jade Petroleum	-
10	Bosnia and Herzegovina, Gacko	Gacko II 350 MW lignite plant construction.	MoU signed in 2017.	Unknown	CMEC	Unknown
11	Bosnia and Herzegovina, Kakanj	Kakanj B (300+300 MW) power plant extension.	Environmental permit received in 2017. The construction has not started yet. In 2019, BiH had tasked the state-owned power utility EPBiH 'to accelerate all activities related to the project.'	Unknown	CNEEC?	Unknown

*Source: See additional sources in the reference list.*



Map 1. The locations of Chinese backed energy projects

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