

CEKOR - Centar za ekologiju i održivi razvoj
Attn.: Mr. Zvezdan Kalmar
Korzo 15/13
24000 Subotica
Serbien

Frankfurt, April 10, 2012

Dear Mr Kalmar,

Thank you for your letter dated 30 March 2012, in which you refer to the project "Energy Efficiency by Ecological Coal Quality Management" in the Kolubara basin in Serbia. Our board has asked us to reply to you.

The Serbian energy mix is mainly based on two sources of energy: lignite and waterpower. As the latter contributes around a third to the total national energy production, the share of renewable energy sources is significantly higher than in Germany, for instance. At the same time, the potential for the use of renewable energy sources in Serbia is limited. At present Serbia has to cover 40 % of its total energy consumption by imports. This is a heavy burden to an economy in transition. Energy generation from coal will continue to play an important role for the security of energy supplies in the medium term. Thus, it is important to orient any investment towards the realities and possibilities of the country when supporting it in the transition of the energy sector and the economy.

All energy sector projects in the context of the financial cooperation between Serbia and Germany, where KfW acts on behalf of the German Government, focus on the efficient and sustainable generation of energy. The strategy to achieve this is twofold:

- Firstly, energy efficiency and renewable energy sources have to be promoted. Regarding the promotion of renewable energies, EUR 160 million will be invested in the rehabilitation of hydropower plants and EUR 125 million will be invested in the development of biomass-fired plants. A further EUR 185 million are used for energy efficiency programmes.
- Secondly, the negative environmental effects of the thermal power plants have to be reduced significantly. Approximately EUR 150 million have been committed to this end.



This strategy is expressed in EPS' White Book and Green Book as well as the Serbian government's endeavour to achieve the aims of the Acquis Communautaire by 2017. The coal quality management project fits into this strategy as it significantly reduces the negative impact on environment and climate of a considerable part of the Serbian energy generation facilities. Coal quality management is a technique that is state of the art in the Western hemisphere.

A social and environmental due diligence initiated by EBRD and KfW as well as experts of both banks came to the conclusion that based on the available evidence the resettlement policy of EPS is appropriate and according to Serbian law and international standards. According to our information, CEKOR also participated in a meeting between EBRD and EPS where this issue was discussed. Furthermore, it has been agreed between EPS, EBRD and KfW that EPS will abide by an environmental and social action plan as well as a stakeholder engagement plan. These documents have been elaborated to ensure that the project will be implemented according to international social and environmental standards. We have been informed that the Serbian Ombudsman dealt with the issue and – after his recommendations had been followed – declared the case closed. We understand that negotiations between households of the concerned areas and EPS are ongoing and progress has been made. KfW will monitor the developments closely.

Yours sincerely,
KfW



Uwe Ohls
Director General Europe and Asia



Dr. Matthias Trefs
Project Manager