



Centar za ekologiju i održivi razvoj (CEKOR)

Center for Ecology and Sustainable Development

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Friday, 30 March 2012

To: KfW CEO and Board, the German Federal Development Ministry
cc: members of the Development Committee of the German Parliament

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Ms. Babo (KfW)

Ms. Brueggemann (BMZ)

Ms. Steinke (BMZ)

Ms. Foljanti (BMZ)

Mr. Fass-Metz (BMZ)

Mr. Seiche (BMZ)

Subject: letter re Environmental and social controversies of Kolubara environmental improvement project

Dear Dr. Schröder,

Dear Mr. Kloppenburg,

Dear Mr. Nawrath,

Dear members of KfW Board,

Dear Mr. Niebel,

We are writing you regarding our concerns related to potential German KfW bank involvement of EUR 60mn in the Environmental Improvement Project at the Kolubara Mining Basin in Serbia. While we are aware that KfW wants to finance a project to improve the efficiency of the lignite, we want to draw your attention to the impacts of the whole project of which the efficiency improvement is only one part. We think that all financial institutions involved have the same degree of responsibility for both positive and negative impacts of its finance.

Short background of the project

Developer of Environmental Improvement Project at the Kolubara Mining Basin is the Electric Power Industry of Serbia (EPS), the state owned monopoly and the most important coal supply company in the country. This project will provide uniform quality of the coal which is being mined at the Kolubara MB, and thus increase efficiency.

The loan (jointly financed by EBRD and KfW in amount of EUR 140 mn) will be used for the following activities that will take place in the next 4-5 years:

- Coal Quality Management System at the western part of the Kolubara MB – EUR 40 million. New equipment should improve uniformity of coal quality which is supplied to the thermal power plants;
- ECS System (excavator, conveyor and spreader system) for the new Field C Open Cast
- Mine at the eastern part of the Kolubara MB– EUR 80 million;
- Interburden spreader for the Tamnava West Field OCM– EUR 20 million.

“Environmental improvements” –Yes, but at what costs?

Firstly, this investment will lock Serbia into fossil fuel dependency, which is not in line with the overall EU objective of decarbonisation of the energy sector.

The Kolubara mine development programme cannot be de-linked from the Serbian plans to expand burning lignite - the dirtiest of fossil fuels - and construction of new coal-fired plants in the near future. EPS plans three new units in the Kolubara complex which will rely on an estimated 2 billion tonnes lignite deposits in the whole Kolubara mining complex. These plans are driven by the wish to export electricity - a carbon leakage scheme that should not be supported by the public money by KfW, which plays an important role in energy transition in Germany.

Such growth of lignite production will emit more than 33 million tonnes/year of CO₂ and 361 000 tonnes of SO₂. As for this Kolubara environmental improvement project there are 540 million tonnes of estimated lignite reserves in the parts of Kolubara basin, that will be directly supported by the proposed EBRD/kfW project (fields C, D, and Tamnava West) with an estimated more than 500 million tonnes of CO₂ over the lifetime of the project only from these directly supported lignite deposits.

Overall the Kolubara basin lignite has potential of approximately 2 billion tonnes of CO₂ if burned in the technology now available for electricity production within the EPS thermal power plants fleet present in the EPS owned-Obrenovac system.

Furthermore, within this project, EPS will purchase the equipment and use it theoretically only for a few years and only in one location - the so called 'C' Field (where environmental and social consequences are of smaller size - which is why EBRD financed it) and then decommission it. However, according to documents we have obtained and interviews we have conducted at the end of 2011 and beginning of 2012, it is clearly evident that the purchased equipment will be used on other Fields as well for the purpose of expanding production there, after the end of the EBRD/KfW project.

Secondly, there are violations of human rights in resettlement in Kolubara region that must not be ignored both by KfW and EBRD.

The relocation process of Vreoci settlement is a matter of EBRD/KfW project

The EBRD narrowly defined the project's area of influence in the Kolubara basin only to Field C (the location for the coal excavator) and Tamnava West Field (the location for the spreader system). The biggest relocation process in recent times in the whole Balkan region is happening on Field D, where the Vreoci settlement is located. Although the EBRD stated in communication to CEKOR that the "EBRD's project does not involve any activities in Field D and as such will not have any impact on Vreoci village", it is clearly¹ evident that the purchased equipment will be used on other Fields as well for the purpose of expanding production there, after the end of the EBRD project. Thus, it appears that the EBRD inappropriately avoided involving the relocation of Vreoci under the scope of its project. Given that the efficiency improvement will help EPS economically and thus assist in the realisation of its expansion plans, KfW and the development ministry should not ignore the problems resulting from the expansion plans.

The current (period covering mid-2010 to 2012) approach to resettlement of Vreoci community is one of the most problematic and the weakest points of the whole Kolubara operation.

¹ Statement from a meeting held on 8th March 2012 in Vreoci, where the director of "Kolubara" Public company, Mr. Ceran declared that: "local communities, Vreoci especially, should give up their protests and get out of their "trenches" since the fate of the equipment for the development of all the fields in Kolubara basin depends on this loan". Also in an interview, the director of fields C and D, Mr. Petrovic, said that the fields are interdependent, and that it is „impossible to distinguish geologically, technologically and geographically between Fields, and C Field is a direct and basic precondition for development of Field E and the South Fields that will come in the future“.

According to the “Programmatic principles for resettlement of Vreoci community” from 2007, the whole Vreoci community should be resettled collectively, all 1180 households. After years of struggle for respect of decisions listed in the government resettlement programme (2007 to 2012), inhabitants of Vreoci are now facing strong pressure from Kolubara mining company (supported by responsible ministries, including the one for internal affairs) to take or leave whatever compensation the company offers. Up to this moment only about 200 families have accepted these conditions and level of compensation, and actually moved out of Vreoci. The EBRD and KfW should respect and support the demand of the Vreoci community for collective resettlement, in line with the principles aligned and agreed in the 2007 government program, as the community is unwilling to compromise and accept other (and much more unfavourable) proposals.

At the moment, in both Vreoci and Barosevac villages problems around the removal of the cemeteries are increasing. The Kolubara mining company is undertaking excavation works in Vreoci in the close vicinity of the local cemetery. It seems the company is attempting to initiate landslides, which would then legitimise a quick relocation of the cemetery, against the agreed principles for the relocation of Vreoci settlement. Most villagers are not in consent with the proposed plan for removal of the cemetery, and police forces are currently at the graveyard in case local people attempt to stop the works.

The 2007 Government plan for the collective resettlement of Vreoci and Barosevac is still being violated by the EPS Company. In Barosevac there are problems with 21 families that are now on the edge of Field C, falling under the scope of the EBRD project. The families live on the border of Field C (about 50 metres from the houses), 30-40 metres from the lignite transport corridor from Field C to Veliki Crljeni Thermal power plant, and 15-30 metres from the road corridor Vreoci - Arandjelovac, which serves as an internal truck corridor for the Kolubara company. The EBRD should have seriously considered the long term impacts of works and traffic in Field C on the situation in Barosevac, where people are living within the space of around 350 metres from Field C and where at least half of the village is located within the critical corridor of 150 metres. With a highly inadequate protection belt of a few metres of freshly planted trees it is hard to believe that the village will be seriously protected from emissions of dust, noise, heavy metals, vibrations (houses in the village already show ruptures) and land slides such as those which occurred in 2007 in Field B and C, which are located very close to this area.

In addition, there are also health problems related to emissions in water, air, and land, for example from the Kolubara processing plant located in Vreoci, which is one of the worst polluters in Serbia. It appears that the EBRD's due diligence failed to identify a number of environmental impacts of the Kolubara mine operations that require immediate remedy.

We welcome KfW's role in supporting Serbia in its development, especially in financing and promoting energy efficiency and renewable energy, but because of issues raised above we ask KfW to reconsider its involvement in this project.

We are looking forward to your reply.

Kind regards,

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More background information:

EBRD support for Kolubara paving the “ash way” for development of Serbia
Project briefing paper, November 2011
<http://bankwatch.org/sites/default/files/Briefing-Kolubara-Nov2011.pdf>