

Chinese capital and equipment are welcome to Serbia but official Belgrade has to observe and comply with EU rules and try not to endanger the interests of the Union.

Part of those big expectations is based on some previously signed state-political-business arrangements between China and Serbia, among which certainly the largest are - two contracts on financing and construction of Unit B3 in Thermal Power Plant Kostolac B and the purchase of Železara Smederevo. The next big infrastructure deal that could get additional “wind in the sails” from the Xi Jinping visit is the construction of high-speed rail line Belgrade-Budapest, that was defined by the Serbian and Hungarian Prime Ministers Vučić and Orban (in the presence of the Chinese colleague Li Keqiang) on 17 December, 2014 as the significant deal “beneficial for the countries of the central and eastern Europe, European Union and overall cooperation of China with this part of the world”.

Previously signed deals between Serbia and China indicate the great importance and crucial impact of one of the parties mentioned as “beneficiary” of the cooperation of China with this part of the world - European Union.

Serbia is already deeply involved into negotiations with Brussels about European integrations, and in its future (primarily economic) cooperation with China it must fully comply with the rules, standards, but should also take into account the interests of EU. Serbia should not refuse favorable loans (capital) and cooperation with such a partner/investor such as China, but the authorities in Belgrade must constantly bear in mind in each of those negotiations the European rules, and to weigh how to please both sides. Since, both, China and European Union are big and significant economic (of course, political as well) partners of Serbia, and each in its own way should contribute to economic progress of Serbia. But the priority is for Serbia to join the Union. It means that no matter how favorable Chinese financial arrangements are, those are still the loans that Serbia has to repay, therefore in the future negotiations with the Chinese side Serbia should act pragmatically and should not accept conditions that are harmful or contrary to the interest of its European integration.

Experience with the previous deals and projects unfortunately do not confirm such approach. Contract on financing and construction of unit B3 in Kostolac and purchase of Železara Smederevo confirm that “playing for both sides” has its advantages but also disadvantages and that sometimes it can be quite expensive. And whenever Serbia reaches for Beijing looking for the favorable loan, it has to look towards Brussels and pre-check whether its plans and projects fit into rules and strategies of EU.

TPP Kostolac B3: The construction of 350 MW unit B3 was undoubtedly the intention of Serbia to finally after more than 30 years of “energy fast” build one electricity factory. The entire project was just the part of Agreement on Economic and Technical Cooperation in the field of infrastructure between the Government of People’s Republic of China and the Government of Serbia. Mid-December 2014 two Governments signed a loan agreement for

unit B3 worth USD 608 million. Minister of Mining and Energy Aleksandar Antić stated after contract signing that the loan of Chinese Exim Bank is “extremely favorable” – repayment period 20 years, seven years of grace period and fixed interest rate in the amount of 2.5 %. The loan covered financing of 85% of the value of construction of unit B3 and capacity extension of mine Drmno, and the remaining funds for the entire project worth USD 715.6 million is provided by EPS. For the contractor and equipment supplier, using the method “the one who pays is the one who chooses”, the Chinese company CMEC (China Machinery Engineering Corporation) that was also engaged for the phase I modernization project in Kostolac was selected. From domestic sources, the assurances of officials were received that new unit “will have modern elements of technical efficiency and environmental protection installed in accordance with EU Directives”. One of the people present at contract signing witnesses that high-positioned manager from Kostolac vividly described this contract conclusion to the smaller group of people: “We got 600 million dollars and the car that goes 120 per hour and we know nothing else about it, whether it has four doors, is engine ok, what is the capacity, which fuel it uses...”.

Project implementation officially started on 4 January this year, but at the end of 2015 in the circles of European thermal power plant producers the news got around that CMEC is looking for the producer that could deliver part of the equipment under pressure according to Directive 97/23/EC (so called PED – Pressure Equipment Directive) since CMEC does not have equipment compliant with PED standard.

A consultant of the most famous producers of thermal power plants explains for Novi magazin that each procedure for the production of equipment under pressure (boilers, vessels, pipelines, safety valves) has its standard. For example, the boiler is made according to the type of coal, and the standard within PED directive for boiler calculation is EN12952 and according to that standard the material is selected for the boiler and other equipment. Serbian standard is copied PED/EU standard. Company CMEC however produces classical boiler for coal dust combustion and owns the standard of the American Society of Mechanical Engineers ASME 184, and it never made a boiler according to the PED standard. “I claim that Chinese do not have EU reference for the production of boilers for thermal power plants. Someone might ask whether recertification from ASME to PED standard is possible. I have to say immediately that I am not aware that recertification was successfully completed for equipment under pressure anywhere, no one has ever done it. Therefore, to simplify, Chinese offered for Kostolac something they cannot make and now they are looking for solutions across Europe. If they do not find it, it is possible that Serbia will get in 2020 unit B3 in Kostolac that cannot operate in Europe since Chinese do not have solution for strict European rules” claims this expert.

Those better acquainted with energy developments could immediately draw a parallel with the construction of similar thermal power plant (300 MW) in Stanarima in Republika Srpska

that is being constructed by the UK firm EFT with Chinese loan and Chinese technology. Therefore, the question is could private investor afford such “luxury” as the Serbian Government and make a deal which is not in accordance with European standards and directives. “EFT has a contract with Chinese company Dong Fang that has new fluidized layer coal combustion technology. Otherwise, Dong Fang had previously cooperated with the French Alstom on the construction of thermal power plants in China and it uses the Alstom’s license, thus it undertook the European standards as well “said the interview of Novi magazin.

Steel company Smederevo The next huge business of China and Serbia is purchase/sale of Smederevska Zelezara. After unsuccessful experiment of the state to produce first itself the steel, and then to hire “expert” management and spend in vain a few hundred million euros, the Government of the Republic of Serbia decided to make the final step - to sell Zelezara. Intergovernmental arrangement between China and Serbia became actual again, Chinese state-owned company Hestil was the only one to appear as the buyer and it bought Zelezara for 46 million euros.

A good deal with bad timing has been made - while Chinese side is celebrated as rescuer in Serbia, in the European Union it is blamed for unfair competition on the steel market as well as the guilty one for extinguishing almost the entire steel industry in the Great Britain and Netherlands. The European Government faces the increasingly nervous and angry requests of some of the EU members to apply drastic antidumping measures to Chinese steel.

Information ominously circulate in London iron traders’ circles that the Chinese company Hestil purchased Smederevska Zelezara just in order to transport slabs (steel blocks) into it and to make there seamless pipes, construction iron, railway tracks, sheet metal for auto industry, for European market. Such information came up to the European Government in Brussels, and thus the entire Serbian-Chinese arrangement is put under the additional magnifying glass and shall be observed in the next few months.

In the meantime, the steel situation is getting more intensified on the global level.

Unsatisfied steel producers appealed to the EU officials to follow the USA example and to punish China with high customs rates. In March of the current year, the USA imposed customs duty of almost 300 % to the import of cold rolled Chinese steel used in auto industry, while EU imposed customs duty of 20 % for the same products. At the end of May, G7 Group leaders of the most developed countries of the world met in Tokyo to adopt declaration criticizing all governments in the world (read as: Chinese) which contribute to the glut on the market and they ask to solve urgently the issue of steel surplus by abolishing the policies distorting market conditions. EU, itself, upon the claim of the European steel association Eurofer, announced opening of new investigation concerning certain types of steel imported from China and suspected to be produced with subvention. European Commission has nine month time period to decide whether it will introduce antidumping

measures for products being tested. Without waiting the decision of the European Government, ministers of foreign trade of the EU member-states discussed, on the May meeting, strengthening of safeguard trade measures. The EC informed that there have already been 37 measures against dumping or against subventions and 15 of these 37 measures refer to Chinese steel.

In such way, Serbia “stick the finger into the eye” of the European Union, all that in good faith to solve the issue of economic “misery” by selling Zelezara to Chinese Hestil, transmits Serbia-energy.eu