

Balkan power in aftermath of Kosovo crisis.

by Mayra Rodriguez Valladares

Balkan countries are planning to revive the energy sector significantly affected by the military situation in Kosovo, Yugoslavia. The region's countries are making efforts to attract foreign investments to finance construction of new electric power plants. Additional information on electricity projects in Balkan countries is also offered.

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Serbia's immediate neighbours are paying a heavy price for their proximity to the Balkan war-zone. These countries' economies are at risk from the influx of refugees, threats to foreign investment, lost export shares and declines in tourism. Now more than ever, privatization efforts will be crucial to the economies of the region. By Mayra Rodriguez Valladares.

Amid the deepening crisis, Balkan countries continue to take measures to improve and reform their electricity sectors. While the privatization and reform processes in the Balkans may slow down or come to a halt in some countries, government officials are aware that taking the necessary measures to encourage foreign investment in the electricity sector is crucial for the Balkans and some of its neighbours, in order to strengthen their economic well-being.

The countries of the region have approximately 21,300 megawatts (MW) of installed capacity. This figure is difficult to calculate, not only because of the dearth in information, but also because capacity has declined due to facilities that have gone into disuse because of lack of maintenance or because they have been destroyed the Bosnian and Serbian wars.

The majority of power stations in the region are thermal ones, fuelled mostly by gas or coal. The exception are stations in Bosnia and especially Albania, which are significant hydro users, more like Canadian and Latin electricity producers. Only Croatia and Slovenia have nuclear electric power capacity; surprisingly Croatia's nuclear electric capacity as a percentage of its total installed capacity is close to Russia's, which is 9%, and Slovenia's proportional installed nuclear capacity is significantly higher.

Foreign investment interest, thus far, has been largely from countries such as Germany, Greece and Italy but multilateral entities such as the EBRD and the World Bank also have been active in the region. When the Nato strikes end, peace will help the Balkan countries and investors focus again on methods to improve the lives and economies of the region. There is no doubt that work on the electricity sector, which is entwined with all other key sectors of the economy, is one of the best ways to target

Albania

Despite its intense focus on the Kosovo refugees pouring into the country, Albania hopes to continue its privatization process and is working with China and Italy on various electricity projects. With China, Albania hopes to secure US\$149m to finance the construction of the Bushat hydro plant on the Drin River. The plant could generate 320MW of electricity by 2002.

In late March, Alfred Paloka, the general director of Albanian Electro-Power Corporation (AEPK), announced that the Italian government and Italian company ENEL are working on a new power station in central Tirana. In addition, Ylli Bufi, Albania's Privatization Minister, met Italy's Compart Group in February to encourage the company to invest in Albania's chemical, construction, and energy sectors. In particular, Albania hopes to involve Italy in the construction of hydro plants on the Vjosa river.

Albanian plants could be of particular interest to investors since the country is very interested in finding accommodating ways to attract investment. Moreover, since the majority of the country's capacity is hydro-based, this means the plants are some of the lowest-cost producers in the region. Hydro production means not only that production is ecologically better, but also that electricity production should not be hampered by the strikes and transportation issues that affect thermal plants fuelled by gas, oil or coal.

While most of a recently announced World Bank loan to the country is for the purpose of coping with the significant influx of refugees into Albania, a credit of US\$40mn is earmarked to help Albania fund irrigation and flood protection programmes, which are important for the country's hydro plants, and to help pay for reform in the legal and financial systems, which is essential to help attract investors to the country.

Bosnia

During the Bosnian war, 56% of generating capacity was partially or fully destroyed. Damage to the power system was estimated at US\$1.34bn. By 1997, repair and reconstruction efforts had succeeded in restoring 71% of

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pre-war electricity generation capacity. Given the damage caused by the war, it is not surprising that some of the largest planned construction is in Bosnia.

Since the Ministry of Energy and Mining expects an electricity hydro and thermal plant deficit of 32MW by 2004, its focus is on constructing a number of thermal and hydro plants. In addition to seeking finance from non-Balkan investors, Bosnia has been working with its neighbours on a number of projects. For example, Croatian Koncar-Elektroindustrija recently signed a contract in Sarajevo for the overhaul of four generating units at the Una hydroelectric power plant in Bosnia. Slovenia's Rudis company will work with the two other Balkan companies to complete the overhaul within 12 months.

Croatia

For more than a decade, Croatia had been unable to make significant investment in new power generation capacity. In mid-March, Enron International's CEO Joseph Sutton signed an agreement with Croatian Economics Minister Nenad Porges for the Houston company to construct a 240MW gas-fired power plant at Jertovec, north of Zagreb. Enron plans to operate the plant for 20 years, after which it will transfer ownership to Elektroprivreda (HEP), the Croatian national electricity company. The total value of the project, including electricity sold to HEP, is projected to exceed US\$1.2bn. Croatia also continues to work with German company RWE Energie in the construction of the coal-fired 210MW Plomin 2 plant.

While Enron's announced project might have led Croatia to think that its luck was changing, the crisis in neighbouring Serbia is having a negative affect. Croatian Prime Minister Zlatko Matesa said in mid-April he would propose cuts to this year's budget and the postponement of key infrastructure projects as a result of the Kosovo crisis. No details have been released on which infrastructure projects might be delayed. Matesa did state, however, that the privatization and economy ministries will merge, with current Economy Minister Nenad Porges heading the new ministry.

Macedonia

Macedonia, where Albanians comprise 20% of the population and 27% of exports go to Serbia, is at significant risk of economic paralysis, especially since it is already the poorest country in the region, followed by Albania. The World Bank said earlier this month it was preparing a US\$40m emergency loan for Macedonia, which is struggling to cope with a massive influx of refugees, but no date has been set to debate the proposal.

About 40% of Macedonian companies remains in state hands. The privatization of the public sector started in 1989 under a law of the former Yugoslavia. Yet the state still significantly or completely owns most infrastructure enterprises, such as telecommunications, electricity, water supply, gas and oil terminals, as well as the health and pension insurance funds.

Macedonia has been working with Chinese company Hinan Sit to finance a hydro project in western Macedonia, which thus far is going ahead, despite Skopje's recent diplomatic recognition of Taiwan. In addition, the government hopes to tender two hydro plant construction projects at Boshkov Most and Cheren, possibly to foreign strategic partners, in the latter part of 1999.

Serbia

To say privatization and investment are at a standstill in Serbia would be stating the obvious in this war-torn nation. Electricity is the primary source of energy in Serbia, with coal the primary fuel for power generation. The Republic of Serbia and Montenegro is the only country in the Balkan region with significant coal deposits, having proven coal reserves of 18.2bn short tons. Serbia estimates that as much as a third of the coal resources in the republic are in Kosovo, whose lignite is particularly valuable because of its low sulphur content. Before the war, Serbia and Montenegro had sufficient reserves to help the country become a significant electricity exporter.

Before the war, financing was being arranged by the World Bank and European Union for repairs at a number of plants. Serbia's aim had been to be reconnected to the European grid, from which it was disconnected in 1991. Currently, most of Serbia and Montenegro's electricity generation, transmission and distribution is carried out by two state-run companies: Elektroprivreda of Serbia (EPS) and Elektroprivreda of Montenegro.

In 1998, EPS signed a contract with Russia to refurbish part of its Kostolac power plant. There is no doubt the war will have a severe impact on the country's economy and will curtail significantly its energy, and specifically electricity, capacity. As this article went to press, Yugoslavia had reported that Nato planes had targeted the Bistrica hydro-electric plant near the southern town of Nova Varos.