

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. Are new billions, new jobs, new vacancies coming?

Is some of it or all of it being brought by the Chinese president Xi Jinping who is coming to Serbia on June 17 for the official visit? As the visit day approaches so the expectations of local officials and public that Serbia will gain significant benefit from the "silk road" by which China wishes to get to Europe grow. So, for example, the Deputy Prime Minister and the Minister of Construction, Transport and Infrastructure in the technical Government of Serbia Zorana Mihajlović says that it is a "great and significant visit, during which about 20 agreements will be signed. We will certainly discuss section Surčin - Obrenovac that will connect Corridor 10 and 11, but also modernization of the railroad Belgrade - Budapest...". The associate of the Modern History Institute Jovan Čavoški also believes that the visit of the Chinese head of state "will be crowned with new contracts and ideas of the two countries that will enable for the economic as well as political relations to be raised to the new level".

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 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 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 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 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.

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 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 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 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 in Stanarima in Republika Srpska that is being constructed by the businessmen VUK Hamović 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. "Mister Hamović 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 ".

**ZELEZARA 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 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 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.

#### BELGRADE - BUDAPEST RAILWAY

Chinese ambition to get closer to the European market as the largest trade partner, in addition to the “silk route” project that has already become epic, reflects also in support to construction of the high-speed railway Belgrade - Budapest. After having bought Greek port of Piraeus, China plans to provide railway transportation for its goods from Athens to Budapest, meaning to one of the most challenging markets - central Europe. This is the context in which the presence of Chinese Prime Minister Li Keqiang during the signing of Serbian and Hungarian railways cooperation agreement announcing modernization and construction of Belgrade - Budapest railway, on 17th December 2014 should be seen. Mid last year, Serbian party expressed expectations “to have soon financial model proposal of Chinese side”. Indeed, at the end of November 2015, during the Summit of the Heads of Government of China and the 16 countries of Central and Eastern Europe in Suzhou,

Serbian Minister of Energy, Aleksandar Antic, signed Framework Agreement on modernization and reconstruction of Belgrade - Budapest railway. Prime Minister Vucic declared on that occasion that the value of the investment was to be negotiated, but he explained that the conditions of the China Eksim Bank loan for railway financing were known, with annual interest rate of two percent. "General Contract on modernization and reconstruction of Hungarian - Serbian railway connection on the territory of Serbia was signed at the Summit among the Serbian Government as financier, Serbian Railways Infrastructure JSC as investor and Chinese consortium as contractor. The value of the Contract shall be known after signing the commercial contract, the concluding of which is provided for not later than 30th November 2016. Potential creditor of this project is China Eksim Bank from which the financier and the investor should ask loan approval within 15 days as of the day of commercial contract concluding. Chinese side is responsible for construction, procurement and installation of material in railway infrastructure", explained then actual Director of "Serbian Railway Infrastructure", Goran Maksic. Although the operational economic cooperation of China is in the hands of Government, it would not be surprising to have experts in delegation of Chinese president who would offer to the authorities in Belgrade "commercial model" for high-speed railway construction. In railway construction, there are three essential elements: lower structure, upper structure and vehicle, as often explained to journalists former Director of CIP Institute of Transportation and former Minister for Transportation Milutin Mrkonjic. "A half of the work relies on fixed installations - lower structure of the railway track, and 50 percent on technology and trains", says Mrkonjic. In the news from Suzhou at the end of the last year, only railway infrastructure was mentioned, which could imply construction of lower and upper structure. "I am almost sure that Chinese side will say to Serbia - since you asked for railway track, we will give you favorable loan and construct the railway track, but we also have plan to convince you to take our vehicles as well", predicts Gradimir Stefanovic, owner of English consulting company GSTC Ltd. and UITP consultant-ambassador Stefanovic suggests to Serbian side to take very seriously and to prepare itself accordingly for negotiations with Chinese investors: "We may accept Chinese signalization, electrification, communications and trains. But, I emphasize, all these have to be in accordance with EU standards and directives. In negotiations, Serbia should insist always and exclusively that the trains must fulfil standards of interoperability prescribed by EU and must prepare solid analysis of potential risks of interoperability of the "key in hands" model which may be offered to us by Chinese side". Interoperability is a key European word that must be often and always pronounced by Serbian side when talking with Chinese financiers and

contractors related to Belgrade - Budapest high-speed railway. That shortly means - one and the same train goes throughout the entire European network. "It is not our aim to go by train from Belgrade do Budapest, but to go by the same train to Berlin or to Edinburgh. That means one and unique technology", explained Grada Stefanovic. European Union applies Directive 2008/57/EC on the Interoperability of the Rail System on its territory. To ensure that the train could go from Belgrade to Berlin or Edinburgh, the train must be moving on the rails with exactly prescribed thresholds and carriers, rail fastenings sleepers, a certain kind of turnout points and intersections, unique signalization and radio-communications, it must be made under the regulations prescribing the exact width of the glass, noise level, type of rolling bearings, axis assemblies, lubricants for axle boxes, light type, behavior of aerodynamics in tunnels and on the lateral wind blows, technical criteria for coordination between supply and rail vehicles in order to achieve interoperability... All these prescribed on 80 pages. "If we do not prepare ourselves seriously for discussions with Chinese side, it may happen that we agree everything, they make railways and trains, and then, at the entrance into Hungary, European regulations stop us telling us that such Chinese train may not enter the territory of the Union since it is not in accordance with regulations. This also means that the train of German railways may not come into Belgrade", explained Stefanovic. "If the railway track and the train do not comply with all requirements of the Directive 2008/57/EC, it means that the journey from Belgrade to Berlin lasts 15 hours, the same as so far. It means that we spent the money in vain, says Mrkonjic. Asked if Serbia, as loan seeker, may ask from Chinese side to deliver to us technology and trains under the European standards, Mrkonjic claims: "we may and someone has to say that. None of us should be afraid that we will not get the loan if we insist on interoperability. Serbia must require that Chinese trains, if they are offered to us by Chinese side, fulfil European standards as those made by Alstrom or Simens. We must say to Chinese side that we want train complying with all European requirements until 2050. If the life time of the train is 30 years, than it must have all European standards and directives during such lifetime period. Otherwise, we just spend money in vain. Serbian side should have experts who have made five high-speed railways so far to say what all possible risks of such business are." It's Serbian interest to realize the high-speed railway connecting Serbia with EU in as fast as possible and as pragmatic as possible manner. Chinese side appeared as interested-investors and constructors so far. And that is good, but Serbia must take care of what European Union has to say on that subject. Therefore, Milutin Mrkonjic stands for a more simple option, existing from 1991: "It specifically means that Serbia is to ask from European financial institutions - EBRD and EIB - 1.5 billion euros of privileged loans for construction

of high-speed railway on the north section of Corridor 10 and to buy technology and trains from European producers including also some Serbian companies as cooperators in production of parts for trains. This is the best concept. Our authorities in negotiations with Chinese side must think in a comprehensive manner since Corridor 10 includes also 300 km of the railway track to the south of Belgrade, toward Skopje and Athens. It means that the high-speed railway track and trains have to be identical throughout the entire route, to be made by the same producer, i.e. to have interoperability in Serbia”.

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