

THE ENERGY SECTOR IN CENTRAL AND EASTERN EUROPE: CHINA-AMERICA-ROMANIA TRIANGLE RELATIONS

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SUMMARY

Contradictions between the People's Republic of China and the United States in relation to the region of Central and Central Europe have become increasingly evident. The main field of competition remains the economic and technological sphere. The successive moves of American diplomacy to inhibit the investment plans of Chinese companies, previously blacklisted by the U.S. Department of Commerce, merits further research. One way to investigate this phenomenon is to answer the following questions: how is the U.S. adapting to the process of taking over investments that were to be implemented by Chinese companies? Which of the business sectors will be affected by the Beijing-Washington economic conflict? Does the U.S. have a genuine intention to implement these investments? Apart from Huawei and the technological sphere, which sector dominates in China's expansion in Central Europe?

INTRODUCTION

Taking into consideration the U.S. capabilities of investing in third countries, one of the major topics to be investigated in this matter are the administrative changes that took place in 2019. In December 2019, as a result of the merger of Overseas Private Investment Corporation (OPIC) and Development Credit Authority (DCA), the U.S. International Development Finance Corporation (DFC) was established. Serving as an American development bank for energy projects under the control of the federal government, DFC is meant to support and provide financing for energy projects in low- and middle-income countries. Adam Boehler, the DFC Director, stated that the DFC's mission is to help meet

the energy needs of allies within the globe. U.S. Secretary of Energy Dan Brouillette stressed that his ministry officials had made numerous international missions over the last three years, meeting governments and energy industries around the world. Preliminary analysis of DFC's research shows that most of the U.S. allies in the region are enthusiastic about the importing of American civil nuclear technology, but they face financial difficulties that would prevent them from implementing the American technology. In July 2020, the ban on nuclear energy contracts for the DFC was lifted and today we can speak of a 'nuclear offensive' by the American administration, especially in the region of Central and Eastern Europe (CEE).

NEVERENDING NEGOTIATIONS: THE CASE OF ROMANIA'S CERNAVODA AND CHINA GENERAL NUCLEAR POWER CORP.

Back in 2013, China General Nuclear (CGN) filled the gap left in Romania's Cernavoda Power Plant by the Western consortium consisting of ArcelorMittal, CEZ, ENEL, GDF Suez, Iberdrola, and RWE, which withdrew from the investment in 2012. The main reason for the consortium's decision was a negative opinion on the feasibility study of the project and - most importantly - its questionable profitability. At the time when Victor Ponta held the office of Romania's Prime Minister, he decided to sign an initial agreement with CGN. A year later, the Chinese company won a public tender as it was the only bidder. After CGN's exceptionally long delay in proceeding with the case, in May 2019, both sides settled on a new agreement bringing CGN closer to the final contract. The document was concluded between the Romanian Nuclearelectrica and CGN. The Romanian state-owned electricity producer Nuclearelectrica operates the Cernavoda Power Plant with 80% of its shares, while the remaining 20% belongs to the Fondul Proprietatea investment fund (controlled by the American Franklin Templeton Investments).

It is worth mentioning that, in the case of the potential success of the Sino-Romanian arrangements from May 2019, the CGN was not supposed to use Chinese technology. As in the case of reactors 1 and 2, the project was to be continued with the use of the Canadian CANDU 6 technology. Interestingly, this was contrary to the flagship "Made in China 2025" national strategic plan objectives, while one of the PRC's main targets was the export of its nuclear technologies, especially when it comes to Western markets.

CGN's decision to abandon Chinese technology to take part in the investment was, after all, well received in Europe, as it was a positive signal that Chinese investors were slowly realizing the complexity of investing in Europe.

AMERICA'S EFFORT TO EXCLUDE CHINESE ENERGY PROJECTS FROM CEE

The DFC investment plan in the CEE region began with talks with the governments of Bulgaria, Poland, and Romania. Some energy projects in these countries are halted due to the moratorium process (both in Żarnowiec / Lubiatów, Poland and Belene, Bulgaria) or are requiring major modernization and expansion (as in the case of Cernavoda, Romania). It is no coincidence that DFC initiated cooperation with Warsaw, Sofia, and Bucharest in the first place. Those three EU member states had made a significant effort to gain Chinese energy investments in the past. Since 2015, a lot has been said about the PRC's involvement in the Polish maiden nuclear power plant project. Visiting Shanghai in 2015, Polish President Andrzej Duda spoke openly of "high hopes for a greater involvement of Chinese business in Poland". This was later followed-up by the Polish delegation led by the then deputy minister of energy, Andrzej Piotrowski, to Shenzhen. At that time, the visit included talks with CGN and a tour around the Dayawan Power Plant. A similar situation took place in Belene, Bulgaria, where the energy ministry in December 2019 announced that five companies were invited to take part in the final public tender process. The list included the China National Nuclear Corporation (CNNC). However, the most controversial - from the point of view of Sino-American rivalry in the region - is the Romanian project in Cernavoda.



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To elaborate further, the American government persuaded Bucharest to support American presence in the Romanian energy sector. Representatives of the Romanian and U.S. governments signed a draft agreement about American involvement in the construction of reactors 3 and 4 at Cernavoda as well as the maintenance framework on active reactors 1 and 2. The agreement was concluded by Dan Brouillette and the

Romanian Minister of Energy Virgil Popescu in Washington in October 2020. It was made possible by the termination of the initial contract with China's CGN carried out by the Romanian government in May 2020, first announced back in January 2020. The issue of the expansion of the Cernavoda nuclear power plant by CGN has long aroused controversy, primarily in the legal area between the Romanian government, the European Union, and the Chinese contractor. Due to several inquiries related to Chinese investment, the European Union also had a significant influence on the negotiation process. The EU's main concern was regarding the source of financing for the Chinese-led project as well as limited trust in Chinese technologies. In addition, the EU launched a legislative committee on foreign direct investment controls, modeled on the Committee on Foreign Investment in the United States (CFIUS). What is even more important in this context is that CGN was in the same position as Huawei because both companies were the subject of espionage accusations, allegedly having links with the Chinese government and military, thus both being blacklisted on the U.S. Department of Commerce's entity list.

Moreover, the American incentives and promises worked and the Romanian government has taken the American side on Huawei and the energy sector. The meeting between President Klaus Iohannis and Donald Trump in September 2019 was mostly dominated by the issue of building a Romanian 5G network, but both presidents also raised the issue of developing cooperation in the civil nuclear industry. Romanian PM Viorica Dancila, during one of her last days in office on November 4, 2019, signed a Memorandum of Understanding with former US Secretary of Energy, Rick Perry, regarding the nuclear cooperation between the countries. According to some experts, the agreement was perceived as an attempt to sabotage the one concluded with the Chinese CGN six months earlier. Furthermore, domestic media reported that the US-Korean consortium was interested in refurbishing reactors 1 and 2 at Cernavoda PP. Nuclearelectrica was supposed to secure EUR 1.5 bn for this purpose. In October 2020, the US Ambassador to Romania, Adrian Zuckerman, tweeted: "Romania no longer has to fear an existential threat because it has terminated the agreement with China General Nuclear to expand Cernavoda". In addition to the civil nuclear agreement, both sides also signed an agreement constituting a "roadmap for defense cooperation" over the next decade. As

part of this agreement, the United States is to provide technical, normative, conventional, and nuclear safety expertise. Details of the potential financing of the expansion and modernization of the nuclear power plant have not been made public, but it should be assumed that EU financial institutions will also participate in the entire process. It is also known that American AECOM and - as previously announced - companies from NATO member states: France, Canada and Romania will be involved in the expansion process. The project value is estimated at USD 8 billion.

CHINESE DISAPPOINTMENT AND AMERICAN PROMISES

The Chinese media outlets are largely disappointed with Romania's decision to break the contract for the construction of a nuclear power plant in Cernavoda. For years, one of the Romanian government's main objections towards the Chinese side was the slow negotiation process. The Chinese didn't seem to be aware of the dynamics expected of them. This is most evident in the language used by them to express their astonishment that Romania informed the Chinese side of the termination of the agreement "scarcely" a year after it was signed. According to the Chinese media narrative, the official cooperation agreement was concluded "only" 6 years ago. This demonstrates the cultural misunderstandings that still occur when it comes to doing business between European and Chinese partners. However, the main reason for breaking the contract, which is striking from the Chinese media coverage, is that the expectations of the "boss" were



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finally taken into account by the "younger brother" when it came to the selection of investment partners. This obvious metaphor emphasizes the US side putting pressure on the Romanian government. Moreover, it is believed that the Sino-Romanian cooperation was sacrificed in exchange for further security guarantees in the context of the potential military threat looming from Russia. Taiwanese media adds some more oil to

the fire, allegorically stating that the Belt and Road Initiative once again "kicked the iron plate (ti dao tie ban 踢到铁板)". This means not only that the Chinese investment proposal

didn't succeed but that the whole initiative might be abandoned or rejected by the European partner.

Considering the American commitment to taking greater responsibility in the investments in the country, there is a substantial risk that the success announced by the Romanian media in the context of American financing of the nuclear project is somewhat premature. In the agreement concluded between the Romanian Ministry of Economy and Energy and the Export-Import Bank of the United States, namely Virgil Popescu and Kimberly A. Reed, agreements were concluded regarding broadly understood energy projects – including nuclear and liquefied natural gas - as well as infrastructure projects: road, rail, and construction of bunker stations. As mentioned earlier, the project for the expansion and modernization of the nuclear power plant in Cernavoda - with the Romanian government's outdated estimates - was to amount to USD 8 billion. Even if the financial resources of the deal between Romania and the U.S. were to be spent on this single nuclear project, it simply cannot meet Romania's financing needs. The MoU also implies that the loan would be granted if an American company was to be involved in the construction of the power plant. The internal EU regulations precisely specify the issue of public tenders, which Romania is obliged to observe. Therefore, there is a risk that the American company will not be able to provide the most advantageous offer, thus blocking the funds of the American EXIM Bank.

CONCLUSIONS

On the one hand, the agreement between Romania and the U.S. is a clear statement that the CEE region countries prefer investments from the United States to those from China. This is mainly because of the American security guarantees within the NATO alliance as well as the EU's regulations. On the other hand, the U.S. is once again risking a loose interpretation on the provisions of bilateral framework agreements, as was the case in the trilateral agreement between Serbia, Kosovo, and the U.S. in Washington in September 2020. What if these become empty promises? In the event of possible investment failure, the U.S. position in the region would be undermined. If Washington hopes not to follow China-style promises the framework agreements used by American

diplomacy should be replaced as soon as possible by precise contracts specifying the time frames and methods of project implementation. This would more likely contribute to prioritizing the U.S. investment in Cernavoda, at least for several reasons. Firstly, Romania is still in the PRC's highest interest in the context of the multilateral formats such as the Belt and Road Initiative and the 17 + 1 cooperation mechanism, considering the Romanian coastal area along the Black Sea. Not long ago, under China's investment plans for the region, the port of Constanta was about to become "the European gateway" for freight transport between Europe and Asia. Secondly, NATO's key military bases with U.S. personnel in Romania are in the West in Devesel and in the East at the Mihail Kogalniceanu military airbase which is located near strategically important Constanta. Due to the tense situation on the Crimean Peninsula, the port of Constanta became the U.S. naval base. Even though the infrastructure has not been the main point of the bilateral partnership so far, the currently pending agreement shows a clear U.S. interest in building transport infrastructure, including for military purposes.



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