



Weekly Briefing

**Bosnia-Herzegovina economy briefing:
Coal mining sector in Bosnia and Herzegovina**
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Coal mining sector in Bosnia and Herzegovina

In the March 2021 economy briefing we will be reviewing the current conditions and restructuring plans of coal mining companies in Bosnia and Herzegovina, both in the Federation of Bosnia and Herzegovina and Republika Srpska, respectively. Also, we will take a brief look at the Green Agenda declaration for Western Balkans, which may impact companies and the power plants industry in the near future.

Restructuring of the virtually bankrupted coal mining companies in the Federation of Bosnia and Herzegovina

Since December 2020, coal mines RMU Zenica and RMU Breza have their accounts blocked by the the Tax Office of Federation of Bosnia and Herzegovina due to unpaid taxes. Both companies are part of the conglomerate state company Concern of the Public Company Elektroprivreda of Bosnia and Herzegovina (Koncern Javnog preduzeća Elektroprivreda BiH). According to the Federation of Bosnia and Herzegovina Tax Office, total tax debt owned by coal mining companies in the Federation of Bosnia and Herzegovina exceed € 262 million, with RMU Zenica itself owning the largest part of all coal mining companies – € 78,2 million (second largest debt owned by a company in general). Out of ten largest debts in the Federation, four belong to coal mining companies. Because of this problem, Elektroprivreda recently had set up a three year plan (2021 - 2023), which includes the restructuring and capital investing the coal mines. Also, the company plans to adjust its coal mines with the national plan to reduce emissions, which will affect the drop in production (5 million tons of coal in 2021 is expected to drop to 4,6 by 2022 and 4,3 in 2023). Elektroprivreda also plans to build two new production blocks, one in Tuzla and one in Kakanj.

The program of restructuring of the energy sector in Bosnia and Herzegovina, as it was proposed by the government of the Federation and affirmed by the Parliament in January 2020, gives way for a three phase process. The first phase, which included the restructuring of management, has already finished. The second phase involves maintenance of production, while the third, which is planned to begin in March 2021, involves the reduction of employees. As put forward by Nermin Džindić, the Minister of energy, coal mining and industry of the Federation of Bosnia and Herzegovina, Elektroprivreda currently holds a surplus of around

2,000 employees. However, Džindić stressed that the 2,000 expected layoffs will be focused on the overgrown administrative staff, and not on the coalminers themselves. When it comes to specific cases, like RMU Breza, the company director Muamer Omerhodžić sees restructuring successful resulting in increased productivity and coal quality, as well as layoffs of the administrative staff. The RMU Breza currently employs 1,200 people, which is planned to be reduced to 750. According to the mine union, around 400 people are planned to be laid off from RMU Zenica. They are proclaiming that no worker, miner or staff, should be laid off without some sort of social security – a retirement or an adequate severance pay.

Economy analyst Damir Miljević understands the long-lasting problem of debt accumulation in coal mining companies to be a result of poor political governing at the entity level, as well as management of Elektroprivreda, which incorporated the coal mines in 2009, when they were in a bad technological and economic state. Like all public owned companies governed by politicians, the coal mines were used as a political prey, placing excessive party based employment in the administration, says Miljević. Sinan Husić, the president of the Association of the Coal mining Workers Unions in the Federation of Bosnia and Herzegovina, believes that the restructuring process should have been completed 15 years ago and that the current plans should be conducted thoroughly and without politicking the process. On the other hand, Husić believes that the layoffs will not necessarily make things better, putting forward the example of RMU Krek. In 2009, RMU Krek had 4,200 employees, which was reduced to 2,100. However, this did not help the company, which today finds itself in a significantly more difficult situation than twelve years ago. As Husić concludes, poor management quality makes a huge part of the problem.

Status of coal mining companies in Republika Srpska

According to the Ministry of Energy and Mining of Republika Srpska, there are two state owned mines: Coal mine and thermal power plant Ugljevik and Coal mine and thermal power plant Gacko. Both mines are privately owned, acquired through the privatization process (RMU Miljevinina and EFT Coal mine and power plant Stanari). The rest of the mines in Republika Srpska are of mixed ownership, in which the state doesn't possess more than 50 % of the companies. The coal mines altogether employ around 5,000 people. There is no official data on the current debts of the mines, available by the government. It is also not known if and how many workers of the mine companies may be laid off due to possible restructuring of the state company MH Elektroprivreda Republike Srpske which many mines are a part of. An important

part of the restructuring process also includes the reduction of pollutants and emissions, as this is mandated by the European Union Energy Community due to the process of Bosnia and Herzegovina's entry to the European Union. This is especially visible in the cases of Coal mine and thermal power plant Ugljevik and Gacko, both of which are heavy polluters. In general, the Ministry of Energy and Mining of Republika Srpska claims that the current condition of the mines in Republika Srpska is satisfactory, especially due to the pandemic situation, as the mines have been successful in maintaining the level of production as well as the number of employees. In a specific case of Coal mine and thermal power plant Ugljevik, the president of the company's workers union Zoran Mićanović stated that there are no unpaid debts towards the workers, although there is a disproportion in the number of employees and production. While the administration positions are full, they lack skilled workers in the production process - significant number of employees cannot work due to the work-related injuries (around 300 people). The debt of Coal mine and thermal power plant Ugljevik, according to the company's union data, is € 122 million.

Anti-coal Green agenda

In 2019, the European Union Energy Community, in cooperation with several local non-government organizations, issued an analysis which showed that 16 coal-based thermal-electric power plants based in the Western Balkans countries pollute the region and Europe more than 250 other European thermal-electric power plants combined. In November 2020, during the Berlin summit, Bosnia and Herzegovian signed the Green Agenda declaration for Western Balkans. The document, among other, incites heavier taxing for carbon-dioxide emissions, development of market models that put forward the use of renewable energy, gradual abolishment of coal mining subventions and eventually closing of all coal mines and thermal-electric power plants by the year 2050. Ugljevik workers union president Zoran Mićanović believes that the coal mining companies like his will be shut down before the period set by the Green Agenda, due to the current unsustainable business model.

Economy analyst Damir Miljević believes that Bosnia and Herzegovina essentially needs a plan for gradual and organized shutting down of coal mining business, which should be replaced with a new paradigm for the development of the mining regions. As Miljević believes, this should be done sooner than later because the transition costs will continue to pile up with time. After all, in the last five years only, Bosnia and Herzegovina had subsidized the coal based electric energy industry with € 170 million. In his analysis Miljević also stated that the state

budget loss due to the coal-based thermal-electric power plants may amount to € 750 million in the next 30 years. This type of power production is already non-competitive in regard to renewable energy industry and the responsible parties for the industry in Bosnia and Herzegovina are not aware of the magnitude of the problem, concludes Miljević.

Conclusion

The energy industry of the coal-based thermal-electric power plants for years has been a part of the Bosnia and Herzegovina state supported economy that is in continuous decline. As we have seen in specific cases presented in this briefing, the industry continues to be heavily subsidized, not due to the positive business outcomes, but due to a large number of people employed and families which depend on them. Whilst the companies are still state owned in the Federations of Bosnia and Herzegovina and of mixed ownership in Republika Srpska, they are all gradually entering phase three of the restructuring process. In this phase, layoffs of redundant workforce, mostly from the administrative sectors is expected in significant numbers this year. Further more, Bosnia and Herzegovina had signed the Green Agenda for Western Balkans which calls for gradual and complete shutdown of the industry by 2050. However, according to some analysts and people within the industry this may happen sooner due to the non-competitiveness of the coal mining thermal power plants in regards to renewable energy solutions. However, these experts are not hopeful in regard to the necessity of the fast and professional responses by those who are in charge of solving this highly significant economic and ecological issue in Bosnia and Herzegovina.