



Weekly Briefing

Bosnia-Herzegovina economy briefing:
Changes in natural gas transport route and higher gas prices
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Summary

This year both entities in Bosnia and Herzegovina, in a course of several months apart, changed a decades long gas transport route that supplied Russian gas via Ukraine and Hungary to a new Turkish route. Due to this change, the state owned company BH-gas had filled charges against parties held responsible for breaking up the previous route contract, as they see it illegal and harmful to the country's interests, foremost resulting in instantly higher gas prices. The decision also compromises the EU and US backed up Southern interconnection project which can make Bosnia and Herzegovina less dependent on the Turkish route.

Introduction

As it is an overall important European economic and political issue this year, we will be taking a look at important issues that occurred this year in Bosnia and Herzegovina with the change in natural gas supply route to the country. Federation of Bosnia and Herzegovina had switched to the Turkish gas pipeline on April 1st, bypassing the old route where the Russian gas was coming to the country via Ukraine and Hungary. Republika Srpska had started its gas supply through the same route earlier this year, starting with January 1st.

Breaking up of the gas transport contract with Hungary

The Turkish gas pipeline is a part of a long-term Russian ambition to minimize gas transport through Ukraine by building alternative routes. As mentioned in the introduction, Russian gas was coming into Bosnia and Herzegovina via Ukraine and Hungary where it was transported to Serbia and then entered Bosnia and Herzegovina at the only gas terminal in the country, in Šepak near Zvornik, on the east border of Bosnia and Herzegovina and Serbia. The contract with Hungary was valid until 2023, so it was broken up two years before expiry, which will result in Bosnia and Herzegovina having to pay more than \$ 20 million penalty fine. What is particularly interesting is the fact that the company BH-Gas, one of two companies in Bosnia and Herzegovina which deals with natural gas distribution, had filled charges already on April 5th against responsible parties in the gas importing company Energoinvest, after the state officials justified the change that the Turkish route will supply cheaper gas. But according to

Sanela Klarić, Federation of Bosnia and Herzegovina's parliamentary representative and member of the Committee for energy, mining and industry, the invoices from gas importing company Energoinvest that BH-Gas provided to the Committee show that the gas is up to 40 % more expensive. Supposedly, Energoinvest claimed that Russia leaves Bosnia and Herzegovina no alternative, and if it wouldn't had broken the Hungarian contract and switched to the Turkish route, the country would had been cut from the Russian gas supply chain.

Severe accusation of high state officials by two former local gas company directors

The government of Federation on Bosnia and Herzegovina can also be held responsible for the incoming \$ 20 million penalty fine since it amended breaking up of the previous Hungarian contract by the Energoinvest company. As mentioned, due to this, BH-Gas, a state company owned by the Federation of Bosnia and Herzegovina, filled charged against responsible parties in Energoinvest. Also, as a result of these severe changes in the company's business venture, Jasmin Salkić, the director of the company had resigned in August with a statement: "I do not wish to be an accomplice in criminal actions of individuals, nor realize ideas that are illegal and against life principles I live by". In a bizarre turn of events, on the same day that Salkić resigned he was also afterwards fired at the Government of Federation of Bosnia and Herzegovina session. As Salkić had elaborated after the resignation, he refused to be a part of illegal actions that want to cover up real intentions of selling out state interest. He claimed that he warned the Ministry of energy, mining and industry of Federation of Bosnia and Herzegovina about the seriousness of the issue, but got no response and was even put under pressure by the minister, as well as the prime minister of the Federation of Bosnia and Herzegovina, Fadil Novalić to do as he is told. Salkić said that the company was blocked due to the general blockade of the public acquirements system of the country, so the company could not deliver plans and go into acquiring the goods as it is supposed to. Finally, Salkić claimed that he was put under pressure to hide the real gas prices in the company's budget, which is illegal. What was promised to be 20 % cheaper gas, turned out in some cases to be up to 100 % more expensive. Nermin Džindić, the minister of energy, mining and industry of Federation Bosnia and Herzegovina did not respond to these allegations.

Another former director of BH-Gas, Almir Bečarević, who is also a current employee of the company, had sent an open letter to the media that entails accusations for criminal charges against the minister Džindić. Bečarević claims that, by the minister Džindić orders, he had made a cost effect analysis comparing the old gas transport route with the new Turkish one. The

analysis clearly showed that the transport of gas via the Turkish pipeline significantly higher, which was later clear, as the price of gas in March by the old route was \$ 260 and the price through the new route was \$ 342 dollars in June. Bačarević says that he reported the analysis estimation and the forthcoming penalty fine to the Ministry, but they still went ahead with the more expensive option. As Bečirević states, the gas prices had already risen 30 % and more for industries and will rise up to 50 % in the first quarter of the next year. Also, gas bills will be higher for the citizens as well.

Southern gas route project supported by the USA and EU

The gas supply route change becomes an even greater economical and political issue due to the fact that a new gas route is planned to be build, the so-called *Southern interconnection* (*Južna interkonekcija*), which is supposed to be financed from the budget of BH-Gas and is politically supported by the United States of America. The Southern interconnection project is around € 100 million worth building project of 180 kilometers gas pipeline through Bosnia and Herzegovina and Croatia, out of which 160 kilometers go through Bosnia and Herzegovina. The building of this pipeline should connect the current transport pipeline in Bosnia and Herzegovina with the Croatian pipeline system on the route Zagvozd-Imotski-Posušje-Noví Travnik, with a sideline for Mostar. It is a part of the USAID project of assistance to the energy sector in Bosnia and Herzegovina. The US embassy in Bosnia and Herzegovina had sent a reminder note that the Southern interconnection project is part of the energy agenda of the European Union and that the countries, like Bosnia and Herzegovina, that aspire to EU membership should be in line with the EU regional energy infrastructural projects. Amir Bečirević warns that if the funds from BH-Gas that were planned for the Southern interconnection project are used up for other purposes and the project is abandoned, the country will remain completely dependent on Russian gas supply. As a direct result of this dependence and no alternative was the event on November 1st, when the gas supply to Bosnia and Herzegovina was temporarily and completely stopped due to malfunctions on the gas transport route in Bulgaria.

Republika Srpska on the other hand deals with the gas supply issue by closer connecting with Serbia. Another step to a tighter energetic alliance with Serbia is a contract signed in March this year called “New Eastern Interconnection of Republika Srpska / Bosnia and Herzegovina and Republic of Serbia”, signed by representatives of state owned companies Srbijagas for Serbia and Gas-Res from Republika Srpska. This is part of an agenda of connecting Republika

Srpska and Bosnia and Herzegovina in general on the gas pipeline transport system of Serbia and the “Balkan route” project.

Conclusion

The decision of the entities’ governments in Bosnia and Herzegovina, particularly that of Federation of Bosnia and Herzegovina, to change the route of the gas transport supply to the country via the Turkish route had immediately resulted in more than 30 % higher prices for the industries. The prices are expected to rise further next year, as well as for the citizens. The decision jeopardizes the Southern interconnection project and makes Bosnia and Herzegovina more dependent on the Russian gas via Turkey. Republika Srpska comes closer to Serbia with a project to connect to the Serbian gas pipeline transport system.