

Bosnia and Herzegovina:

Potential for decarbonisation held hostage by politics



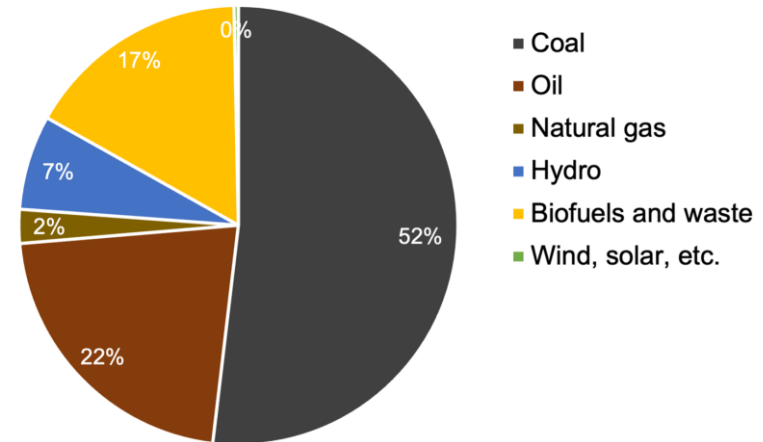
Three decades after the devastating war, Bosnia and Herzegovina (BiH) remains an unstable and politically divided country. The legacy of the **conflict in the 1990s** is not only a complicated institutional set-up and the continued supervision of the international community, but also an ethnically divided society, a weak economy, massive emigration and a **stalled process of European integration**.

Due to its industrial past and its natural conditions, (BiH) has considerable capacities in both **fossil and renewable energy**. The country is the only net exporter of electricity in the region, but this is predominantly produced from **obsolete coal-fired sources**. Non-fossil fuel sources, mainly composed of large hydroelectric power plants, account for only 7% of the energy mix. At the same time, BiH has considerable **potential for the development of a full range of renewable energy sources** that could cover not only domestic consumption but also existing exports.

The long-term **carbon lock-in is deepened by the lack of an energy transition strategy** allowing BiH to meet its climate targets. The priority across the divided country is not decarbonisation, but rather **revitalisation of the outdated coal capacities, building new coal-fired power plants**, and strengthening the country's so far weak **gasification**. In the field of renewables, the focus is mainly on construction of **new hydropower plants**, which are often accompanied by negative local **environmental impacts**, and on strengthening the share of biomass, so far mainly used as fuel in outdated local sources. The considerable **potential of wind and solar energy sources** remains almost untapped.

The causes of the current situation are to be found in the country's **long-term political instability and post-war decentralisation**, which have a direct impact on the energy sector. In addition, the strategic energy sector in this unstable country is becoming a space where, in addition to domestic elites, **external actors seeking economic and political influence** are increasingly asserting their interests.

Total energy supply by source, 2019 (%)



Source: International Energy Agency

Key challenges for the energy transition

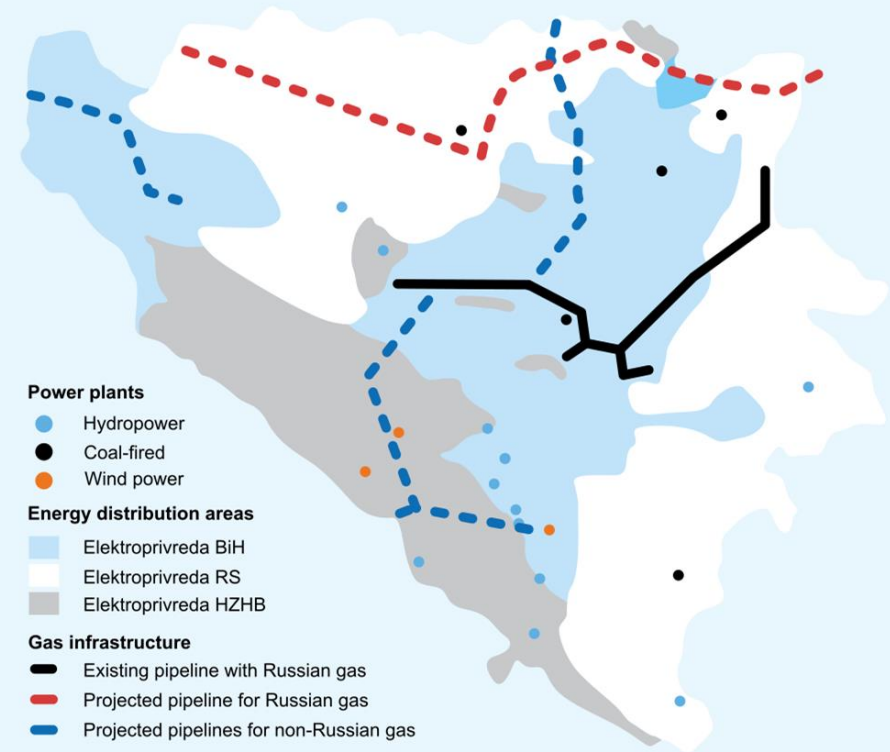
- **Escaping the carbon lock-in:** finding sustainable replacements for obsolete coal capacities with huge environmental impact.
- **Depoliticizing and liberalizing the energy sector**, allowing for its effective reform and integration with the European market.
- The **dilemma of economically and geopolitically costly gasification** as a temporary and partial instrument of decarbonisation.
- **Efficient use of the large potential of renewable sources** from water, wind and sun, taking into account local environmental requirements.
- **Balancing the assertive positions of China and Russia** in the energy sector leading to geopolitical vulnerability, **with the energy security and climate policy requirements of the EU**.
- Dealing with the impact of the planned implementation of CBAM on the competitiveness of economically important fossil energy exports and energy-intensive metallurgical products.

Position of domestic actors

A characteristic feature of post-war Bosnia and Herzegovina is the high degree of **decentralisation of the state, following the ethnic division** of the country among Bosniaks, Serbs and Croats. This division is directly reflected in the energy sector. The competences of the central structures are very limited and most powers are concentrated at the **level of ethnically defined entities** - Federation of Bosnia and Herzegovina (FBiH), and Republika Srpska (RS). They each have their own ministries of energy, which are main state institutions with regulatory powers. The entities also own key **state-owned energy companies**. Within the Bosniak-Croat FBiH, some competences are further devolved to the level of the ten cantons. As the **energy sector is only partially liberalised**, ethno-political structures have strong control over it not only through regulatory but also executive powers.

Each of the three ethno-political structures has its own **'national' electricity supplier**, controlled by the entity government, which provides distribution and sales in addition to generation and export/import of electricity. On the territory of RS, this role is played by the state-owned company *Elektroprivreda RS*, while within the FBiH, two parallel national structures operate: *Elektroprivreda BiH* in majority Bosniak areas and *Elektroprivreda HZ Herceg Bosne* in regions with a Croat population. The electricity sector is thus effectively **monopolised at the level of the three ethno-political parts of the country**. Several domestic private companies are also active in coal mining and electricity generation, but they are closely intertwined with political structures. The situation is similar in the gas segment, which, due to the lack of infrastructure, is limited to the central part of the country, where BH Gas, owned by the FBiH, is the monopoly supplier. In contrast, the **fuel market is liberalised** and a number of domestic and foreign companies operate in an open competitive environment.

The close intertwining of the lucrative energy sector with the ruling political structures has resulted in a long-term **politicisation of the energy sector**, which has hindered the necessary structural reforms, full liberalisation and a transition towards sustainable production



International actors

In the past decade, **China** has been the main bidder for the **revitalisation of the existing and construction of new coal-fired power plants**, facing criticism by the EU for its impact on deepening the carbon lock-in. However, only the construction of the new Stanari thermal power plant in Republika Srpska has been implemented. Other announced strategic projects remained only at the planning level and, given **China's declared divestment from coal power**, it can be assumed that they will not go ahead. At the same time, Chinese companies are bidding for several large hydropower projects.

Russia has a **monopoly on supply** in the relatively small **gas sector** limited to the Federation of BiH, due to the country's connection to a single TurkStream pipeline. However, at the political level, negotiations are ongoing on the **gasification of the RS in cooperation with Gazprom**. Russian companies have a strong position on the oil products market, especially within the RS. Russian capital has been involved, along with Chinese capital, in a strategic project to build a new coal-fired power plant in the RS, although its implementation is uncertain.

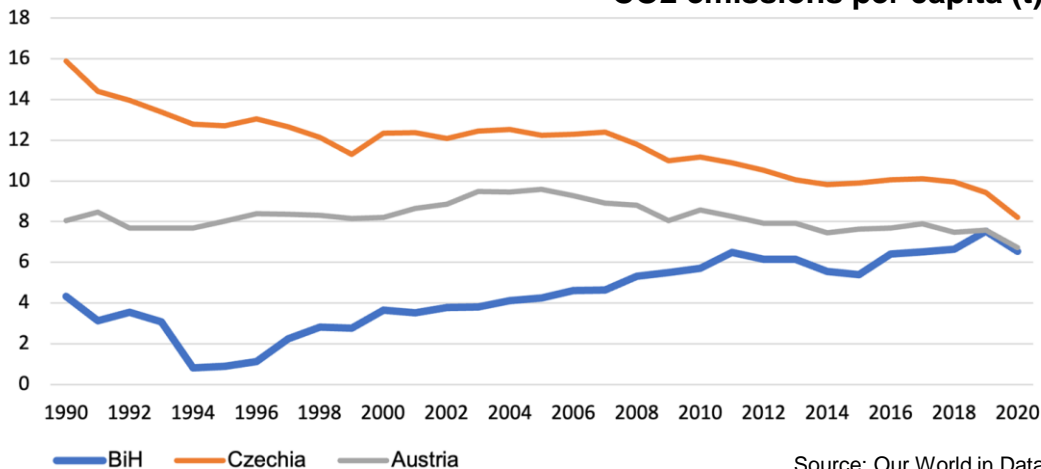
Role of the EU

In contrast to Russian and Chinese fossil-focused endeavours, the EU has long been involved in **regulatory activities aimed at reducing emissions, and the energy transition**. The main actor in this respect is the **Energy Community**, which aims to integrate the local energy market with the European one, while meeting legislative and environmental criteria. However, these efforts have so far been hampered by the **lack of domestic political will for structural reforms** as well as the absence of concrete EU support for large energy projects that would provide an alternative to Chinese and Russian investment.

The Energy Community has strongly **criticised projects to refurbish outdated and build new coal-fired power plants with Chinese technological and economic participation**. The announced start of the construction of a new unit of the Tuzla coal-fired power plant, financed with Chinese loans and implemented by a Chinese-US consortium, was one of the main reasons for the **imposition of Energy Community sanctions on the BiH**. The strategic project, more than a decade in the making, was eventually suspended at the last minute, to the displeasure of domestic politicians and Chinese partners, as a result of the withdrawal of the US technology supplier.

In the area of planned gasification, the **project to connect large parts of the Federation of BiH to the Croatian gas network** through the Southern and Northern Interconnection pipelines, which would have been an **alternative to Russian gas**, has **EU political and financial support**.

CO2 emissions per capita (t)



Source: Our World in Data

Relevance for Czechia

Bosnia and Herzegovina has long been a **priority country** for Czech development cooperation. The Czech Republic is active in promoting the use of renewable energy sources in BiH through bilateral development assistance. The focus of these activities should be primarily on projects that contribute not only to **structural decarbonisation but also take into account environmental needs** at the local level.

The **Czech experience in its own energy transition** and in addressing the structural impacts of the coal phase-out should be effectively shared with relevant state and non-state actors in BiH and used in their bilateral support, for example through twinning. Czech state and non-governmental structures should furthermore provide targeted **support to local NGOs** focusing on the environmental impacts of energy projects and acting as watchdogs in relation to the often unsustainable approach of local political-economic structures.

The EU-supported energy transition in the BiH is an **opportunity for Czech exporters** operating in the expected expansion of solar, hydro and biomass renewables. On the other hand, the entry of Czech companies into the coal part of the energy sector seems undesirable in light of the unsuccessful previous activities of ČEZ and the growing efforts to decarbonise the energy sector. However, **revegetation projects** in regions affected by the decline of coal mining and processing, where Czech companies can offer experience gained in the Czech Republic, may be an economic and development opportunity.

At the political level, the **Czech Presidency of the EU Council** in the second half of 2022 provides opportunity for the Czech political representation and diplomacy to **accent the topic of energy transition** in the framework of the ongoing negotiations on the integration of BiH into European structures.

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