

Remarks by Patrice Dreiski, Deputy High Representative and Head of OHR Economics Department at a Conference on the BiH Oil Market

Action to Combat Corruption in the BiH Oil Market

Ladies and Gentlemen,

Gathered at this conference is an impressive body of specialist expertise in the oil and oil derivatives market. I will confine my remarks to a general overview of the market, and the issue of corruption.

Corruption is endemic in the BiH oil market, and steps must be taken to eliminate it. This market is potentially a source of significant wealth generation for BiH, but that potential has not been realized because the market is dysfunctional, inefficient and corrupt.

Indeed the oil market is a microcosm of the BiH economy as a whole – it is badly organized and in consequence underproductive.

If you remove the dysfunctionality from the market, you remove most of the opportunities for systemic corruption. Crooks thrive amid the cracks and loopholes of poor administration and inadequate legislation.

Illegal oil-derivative trading is pervasive, and for too long the authorities have shown themselves unwilling to (or unable

to) tackle this problem. Adulterated petrol is a bugbear of motorists. More than this, it is a sure sign – the world over – of an inefficiently regulated market.

The task of regulating the BiH oil market is a formidable one because of an accumulation of factors. War damage and irrational production and sales chains that emerged from the war and have yet to be corrected combine to create a distorted trading environment.

Yet the resolution of the tax dysfunction demonstrates that sensible solutions can have a rapid positive impact. All oil traders will benefit from the ITA reform process. When the single payment account is activated for all payers of excise taxes (all legitimate oil traders are excise tax payers) the current cumbersome excise tax allocation mechanism will be abolished. The current system whereby all oil traders engaged in inter entity trade need to pay excise tax twice and then claim back the tax credit for the first payment, will come to an end when the single payment account is introduced.

A properly administered regulatory framework is not simply an advantage – it is a prerequisite for a functioning oil market. Standard quality specifications have to be applied in order to ensure fair competition. And those found guilty of violating trades descriptions have to be subject to effective penalties.

Yet, currently, the trading environment is so skewed that it is unrealistic to speak of any effective deterrence to unfair trading.

And the regional market is just as disagreeable. Serbia has banned import and transit of oil derivatives from BiH without special approval of the Serbian government – despite the provisions of the Free Trade Agreement between BiH and S&M; and Croatia limits imports of BiH oil derivatives, even though these meet EU standards while some freely traded Croatian domestic products do not.

The Bosanski/Srpski Brod and Modrica refineries can supply all of BiH's needs, with enough to spare for export—but the refineries are not working at full capacity, because the trading environment represents an obstacle course rather than an incentive to gear up production. Yet the economies of refinery production mean that short of full production and continuous production these facilities cannot be profitable.

As you know, in October 2003 the three prime ministers acknowledged that developing oil transport in BiH via rail rather than road would improve overall safety and at the same time enhance efforts to tackle widespread smuggling. We believe that this should be pursued vigorously. Rail transport of oil products is the preferred method elsewhere in Europe and we will support this development in BiH.

That the overall position of the BiH oil market is not good is in itself wholly unacceptable, because a thriving oil-derivatives market is one of the pillars on which BiH's industrial renaissance can be built.

I mentioned at the beginning that we have in this room an impressive body of expertise – we must put that expertise to good use in the course of this conference. The oil industry in BiH is still a place of corruption, and there is ample scope to increase efficiency. It is up to the people here to render it properly regulated and profitable for the citizens and companies of this country.

Thank you