

Speech by the Principal Deputy High Representative, Raffi Gregorian at a Dinner Organised by USAID on the occasion of the Conference on the Foundation of the BiH Electricity Market

Ladies and Gentlemen,

Earlier this week I took part in a meeting of the BiH Foreign Trade Chamber. One of the points I made during our discussion was that this country's leaders must return to normal constructive politics as a matter of urgency – the economy can't wait; necessary reforms can't be put on hold indefinitely because of political roadblocks. I am particularly pleased to have an opportunity to participate in today's dinner because the energy sector is an area in which the benefits of constructive politics are already manifest and – I have to add – in which the drawbacks of *unconstructive* politics are equally manifest.

The fact is that a great deal of progress has been made in this sector in the last five years.

But there has also been political *inattention* in regard to this sector, allowing the momentum behind key reforms to subside and resulting in the delay or abandonment of steps that would have delivered benefits to business and consumers.

The Federation and RS Governments have adopted Action Plans on

restructuring the energy sector; these are in line with Bosnia and Herzegovina's obligations under the Athens Treaty and they are consistent with the strategic objectives agreed between the BiH authorities and major international donors.

As we all know, however, there is a difference between *adopting* an Action Plan and *implementing* one. Both Entity governments have already fallen behind in implementing their respective Action Plans to put it mildly. The Federation has failed to implement the action plan beyond creating a regulator. They have not unbundled at all, whereas at least the RS partially has. And of course, Brcko District has yet to be incorporated even into regulatory framework. That is why I believe that addressing this problem must be at the top of any to-do list emanating from this conference.

In terms of electricity generation Bosnia and Herzegovina ought to be a regional superpower.

But it isn't.

Properly managed, properly developed and properly regulated, the power generation sector in this country should be acting as a dynamo for economic growth.

But it isn't.

One of the reasons for slow progress in addressing this is a lack of political focus (or, in some cases, the *wrong kind* of political focus). In the last week or so this has become a major issue in public debate – I believe that more and more citizens feel scandalised by the apparent ease with which the political establishment has been able to put urgent economic issues on ice while attending to other things – things which politicians may think crucially important but seem altogether less pressing to a majority of citizens.

Rapid progress *can* be made in energy sector restructuring if we can get it back under the right kind of political

spotlight. This will make it possible to implement a coherent strategy for developing the market. In this respect, it is imperative that tender processes for the development of new projects is transparent, open and fair.

The essence of restructuring must be to allow market dynamics to sustain the pace and scale of development. Where the dynamics of the market have been ignored there have been losses in terms of job creation, infrastructure development and export earnings.

What we have seen in other transition countries is that, with proper regulation, a liberalised power generation market will deliver competitive tariffs on the one hand and broad economic benefits on the other, thus benefiting low-income consumers. We recognise, however, that in the interim period programmes to protect low-income consumers are critical.

I have concentrated this evening on the electricity sector, but let me finish with a short observation on the gas sector, which Bosnia and Herzegovina undertook to reform when it signed the Athens Treaty two years ago.

Efforts to carry this reform forward are currently being undertaken in an uncoordinated and suboptimal way – and the results so far fail to meet the provisions of the Athens Treaty – which among other things requires the creation of a countrywide legislative and regulatory framework.

The OHR commends the Statement on Organization of the Natural Gas Sector in Bosnia and Herzegovina jointly issued by the Ministers in July. In that statement the three ministries formally committed themselves to organising the natural gas sector in accordance with EU Directives and the Athens Treaty. We understand that Working Groups will be formed and that laws will be introduced by 1 December this year.

I urge all three Ministries to continue their efforts to implement reforms in accordance with the provisions of the

Athens Treaty and EU guidelines. As with so many other areas of the economic reform agenda what must be done has already been agreed – the issue now is how to maintain political focus so that the thing can be carried through. I hope that this conference will help build that focus – on the energy sector and on the substantial benefits that will be gained by completing its restructuring.

We are talking about a sector in which Bosnia and Herzegovina should be the pre-eminent player in the region, a sector that can generate and sustain growth throughout the economy, a flagship sector whose fortunes will determine the investment profile of the whole country. Implementing the Action Plans, developing a countrywide framework for the gas sector, and preparing a comprehensive development strategy will help transform Bosnia and Herzegovina's massive energy potential into real benefits for the citizens of this country. The sooner this is done, the better.

Thank you