

# **A BOSNIAN FORTRESS**

## **Return, energy and the future of Republika Srpska**

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## Executive summary

Twelve years after its own vicious war, Bosnia and Herzegovina has changed tremendously. It has seen the large-scale return of displaced persons, the return of property and a comprehensive process of demilitarisation. Freedom of movement has been restored. Interethnic violence has disappeared. New institutions at the state level govern an increasingly integrated single market. The changes that have taken place in Bosnia over the past twelve years have been no less profound than those which transformed Western Europe in the 12 years after World War II.

This report investigates conditions in a municipality in Republika Srpska on the former frontline that was once infamous as a hotbed of (Serb) nationalism. Dobož, divided by the war and today split into four parts, has long been a mirror of wider trends. Ten years ago, Dobož was notorious as a centre of hard-line nationalism. The Bosniak and Croat villages in the vicinity had been ruthlessly destroyed. The few remaining non-Serbs were under intense pressure to leave. The SDS (Serb Democratic Party), founded by indicted war criminal Radovan Karadzic, held Dobož firmly in its grip. There was little reason for hope that the multiethnic life of this region could ever be restored.

In fact, in recent years Bosniaks have returned to *all* the villages in the Dobož region where they had lived before the war. Across the municipality, more than half the pre-war Bosniak population has come back. Bosniak community leaders confirm that there are “no problems whatsoever for Bosniaks to use the RS health system”, that Bosniak children go to local schools “without any problems” and that the local police are “professional.” As a result of large scale return, the inter entity boundary line means very little in the daily life of people. A sign of just how much things have changed is the demilitarisation of the region – there are no international troops to be seen. Checkpoints and controls have long been abandoned. In the garrison once occupied by SFOR to control the area the Joint Defence Forces of Bosnia and Herzegovina are stationed today.

Return, ethnic reintegration, reconstruction are all local success stories. However, while most of the problems of the immediate post-war period – ethnically motivated violence, lack of freedom of movement, mass violation of property rights – have been addressed, it is the absence of jobs, particularly in rural areas, that constitutes the largest obstacle to further return. At the same time, the virtual erasure of the inter-entity boundary line has been a precondition for almost every business success in recent years. Wherever one looks in Dobož today it is economic forces that are conquering wartime divisions. Dobož is now on the brink of the largest commercial investment in recent Bosnian history, a new coal-fired power station, which will make it a hub in the regional economy.

Energy – coal and electricity – could have a similar impact on the integration of Bosnia and South Eastern Europe as coal had in the first stages of European integration in the 1950s. Its central geographic location means that Bosnia and Herzegovina is very well placed to supply its north-western neighbours (Croatia and Slovenia), as well as those to the south east (Montenegro, Serbia, Albania, Greece, Macedonia and Kosovo). By building new production capacity, Bosnia would be in a natural position to contribute to the economic progress of the region.

Everywhere in Dobož old linkages are being revived, to mutual benefit. In this new context, Dobož’s diversity – and its strategic position as a potential regional transport, education and energy hub – provide it with a path out of its current economic malaise. The current and future prosperity of Dobož – and of other places in both entities of Bosnia and Herzegovina – depends on the economic success of Bosnia and Herzegovina and its ability to integrate into regional and European markets.

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## I. TWELVE YEARS ON

Twelve years after the end of the war, the world had changed tremendously.

A nation once known for its militarism and feared by its neighbours had been brought into a new defence alliance. It had integrated millions of refugees. After a post-war period marked by economic and social crisis, its economy was growing again. Some of its worst war criminals had been put on trial, together with an ideology that had led to genocide. Some (though not all) of its public institutions had been vetted. It had also begun to regain the trust of its neighbours. Its return to the world community had begun with the unprecedented step of sharing sovereignty over its most strategic industries (coal and steel) with its former enemies through new European institutions. Twelve years after the peace settlement, it signed the Treaty of Rome, committing itself to full integration with the European common market. By 1957, West Germany was a very different society from the one that had been defeated in 1945. Europe too had changed profoundly and the institutions that were to reshape the continent and create the framework for lasting peace were all in place.

Twelve years after its own vicious war, Bosnia and Herzegovina has also changed tremendously. It has seen the large-scale return of displaced persons, the return of property and a comprehensive process of demilitarisation. War-time leaders have been tried and convicted for war crimes. Freedom of movement has been restored. Interethnic violence has also completely disappeared. New institutions at the state level govern an increasingly integrated single market.

To assess the extent of these changes in villages and towns across Bosnia and Herzegovina, ESI, in partnership with the Bosnian think tank Popolari, has conducted extensive research in the past 18 months in several parts of the country. This report is the first part of this assessment.<sup>1</sup> It investigates conditions in a municipality on the former frontline that was once infamous as a hotbed of nationalism. Doboje, divided by the war and today split into four parts, has long been a mirror of the wider trends that first destroyed Bosnia and more recently allowed it to return once more to life.

The conclusions of this report may surprise those who remember Bosnia and Herzegovina from a few years ago and who are used to hear Bosnia discussed only in apocalyptic terms. We argue that the changes that have taken place in Bosnia over the past twelve years have been no less profound than those which transformed Western Europe in the 12 years after World War II. This is as true for Republika Srpska, the Serb entity whose war-time leaders – Radovan Karadzic, Biljana Plavsic, Momcilo Krajisnik, Ratko Mladic and others – fought to destroy Bosnia, as it is for the Bosniak-Croat Federation. The situation in Republika Srpska today is as different from the one twelve years ago as the situation in West Germany in 1957 was different from that in 1945.

There is another striking similarity between (West) Europe in the 1950s and Bosnia today. It is the emergence of economic forces as the most powerful driver of political and social change. Wherever one looks in Doboje today, from Bosniak farmers to privatised industrial companies, from private education institutions to the largest and most important regional energy project, it is economic forces that are conquering wartime divisions. Doboje is now on the brink of the largest commercial investment in recent Bosnian history, a new coal-fired

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<sup>1</sup> Another report by ESI and Popolari on the post-war transformation of Central Bosnia will be published in early 2008.

power station, which will make it a hub in the regional economy. Energy – coal and electricity – could have a similar impact on the integration of Bosnia and South Eastern Europe as coal had in the first stages of European integration in the 1950s.

This is the untold story of Bosnia. It is remarkable how the dominant account of this small country in the middle of Europe has become out of step with reality, leading to misguided political and diplomatic strategies. It is time to acknowledge the profound changes that have taken place in Bosnia, and to concentrate attention on the issues that really matter today – in particular, on supporting the stirrings of real economic growth that could create employment. It is economic forces in a context of European integration which offer Bosnians the prospect of a peaceful and prosperous future.

## II. A BOSNIAN FORTRESS

The river Bosna is the backbone of Bosnia and Herzegovina. Its source lies west of Sarajevo at the foot of Mount Igman. Flowing north, the river crosses the two central regions of Bosnia's mountainous heartland – the Sarajevo and Zenica basins. It carves the route followed by Bosnia's conquerors throughout history. Some of these – the Hungarians and the Habsburgs – came from the North; others – notably the Ottomans – came from the South. The strategic role of this central Bosnian artery is apparent from the numerous fortresses situated along the river. One of the most important, first mentioned in the early 15<sup>th</sup> century, is the fortress *Gradina* in Doboj.

Ten years ago, Doboj was notorious as a centre of hardline Serb nationalism. At the end of the Bosnian war, the old Muslim quarter had been “ethnically cleansed” of its occupants, with its houses illegally occupied and its streets renamed after Chetnik leaders. The few remaining non-Serbs in Doboj were under intense pressure to leave. The Bosniak and Croat villages in the vicinity had been ruthlessly destroyed. In 1996, Human Rights Watch singled out Doboj municipality as a place under the:

“absolute, autocratic control of a group of local Bosnian Serb political leaders, police chiefs, party leaders, officials and civilians who have established an underground mafia-type network... They view the Dayton peace process as a direct threat to the power base they created during the war... The plans of this underground paramilitary network include ‘destabilizing the peace process, creating opposition to IFOR<sup>2</sup> and international agencies with the Bosnian Serb population in Republika Srpska, stirring up general animosity towards the other entity – the Bosniak-Croat Federation – and destroying any moderate-line Serb elements including Bosnian Serb opposition parties and individuals not affiliated with the SDS.”<sup>3</sup>

The SDS (Serb Democratic Party), founded by indicted war criminal Radovan Karadzic, held Doboj firmly in its grip. There was little reason for hope that the multiethnic life of this region could ever be restored.

Pre-war, Doboj's population had been very mixed. According to the 1991 census, Doboj municipality had 102,630 inhabitants: 40 percent were Muslims (Bosniaks) and 38.8 percent Serbs. Croats constituted 13 percent of the population, and those who chose to define

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<sup>2</sup> IFOR (Implementation Force) encompassed 60,000 NATO-led international troops that were deployed in Bosnia from the end of 1995 to the end of 1996. IFOR was replaced by SFOR (Stabilisation Force).

<sup>3</sup> Human Rights Watch, “The Continuing Influence of Bosnia's Warlords”, December 1996, p. 2.

themselves as Yugoslavs and other nationalities totalled 8 percent. The majority of the population lived in the villages, which (as throughout Bosnia) were predominantly mono-ethnic. There were 10 Croat, 17 Bosniak and 40 Serb villages (only 5 villages were mixed).

*Table 1: Ethnic structure of Doboj municipality, census 1991*

	<b>Muslims</b>	<b>Serbs</b>	<b>Croats</b>	<b>Yugoslavs</b>	<b>Others</b>	<b>Total</b>
<i>Town</i>	11,133	8,088	2,755	4,334	1,269	27,579
<i>Villages</i>	30,010	31,809	10,554	1,399	1,282	75,054
<b>Total municipality</b>	<b>41,143</b>	<b>39,897</b>	<b>13,309</b>	<b>5,733</b>	<b>2,551</b>	<b>102,633</b>

During the war (1992-1995), the military frontline cut right across Doboj municipality. Virtually all non-Serbs were expelled from the Serb-held areas; numerous war crimes were committed, and Bosniaks were systematically tortured in detention camps. Following the 1995 Dayton Peace Agreement, Doboj remained a tense frontline town, where the mono-ethnic Republika Srpska faced off against the Bosniak and Croat ‘Federation’. This new ‘inter-entity boundary line’ followed the military frontline. As a result, some of Doboj’s pre-war municipal territory fell inside the Federation. The Federation portion was divided into three new municipalities: Doboj East (Bosniak), Doboj South (Bosniak) and Usora (Croat).

Before the war, some 16,000 people had lived in the areas that now formed these three new municipalities. Of the remaining 86,500 pre-war citizens of Doboj municipality, around 30,000 Bosniaks and 10,000 Croats had been expelled. Taking their place, some 26,000 Serbs had been displaced to Doboj from other parts of Bosnia. Thus Doboj in Republika Srpska had around 72,500 inhabitants in 1996, almost exclusively Serb.<sup>4</sup> In the immediate post-war period, any attempts by the former inhabitants to return to their homes were met with violence by organised Serb mobs. Attacks against would-be returnees and their property continued throughout 1996 and 1997. Except for a few returns to villages in the internationally controlled Zone of Separation (ZoS), post-war Doboj had become a mono-ethnic fortress.

Against this grim background, the breakthrough, when it finally came, was remarkable. In August 1997, SFOR asserted its control over special police forces in Republika Srpska, which had been instrumental in obstructing return. It required them to disclose their officers, weapons, ammunition and equipment, and to undergo a thorough restructuring process. One detachment of the Doboj special police refused to comply.<sup>5</sup> On 10 November 1997, SFOR raided their headquarters, confiscating everything they found and disarming and decertifying all the officers.<sup>6</sup> In the following years, security sector reforms and a vetting process run by the UN’s International Police Task Force (IPTF) transformed the local police. One priority was to remove all officers who had been involved in war crimes. Some of Doboj’s war criminals have been brought to justice. Nikola Jorgic, the leader of a paramilitary group, was

<sup>4</sup> CIMIC-Verband GECONSFOR (L) Rajlovac, “Bericht für die Flüchtlingsrückkehr, Opstina 25: DOBOJ. Stand Juli 1998”, Rajlovac, 17 July 1998. According to this source (based on data of the municipality Doboj, RS) the population of Doboj (RS) in 1998 included 42,598 domestic Serbs, 25,920 displaced Serbs, 1,100 Bosniaks, 372 Croats and 570 others (in total 70,560 people).

<sup>5</sup> Report by the UN Secretary-General on the UN Mission to Bosnia and Herzegovina, S/1997/694, 8 September 1997, paragraph 8.

<sup>6</sup> SFOR, Transcript of the International Press Briefing in Sarajevo, 10 November 1997, at: [nids.hq.nato.int/sfor/trans/1997/t971110a.htm](https://nids.hq.nato.int/sfor/trans/1997/t971110a.htm).

arrested in Germany. In September 1997, he was sentenced by a court in Dusseldorf to life imprisonment for genocide committed in the Doboj region.<sup>7</sup> Only recently, in October 2007, the leader of another paramilitary formation, *Predini vukovi* (Predo's wolves), Predrag Kujundzic, was taken into custody to be tried for crimes against humanity before the War Crimes Chamber of the BiH State Court. He is accused of having ordered and participated in numerous murders and rapes against the non-Serb civilian population in Doboj in 1992.<sup>8</sup>

The dismantling of the town's war-time police structures opened the way to the return of Doboj's Bosniaks. Over the past decade, over half of the pre-war Bosniak population (an estimated 16,000-18,000 people) have returned to the municipality.<sup>9</sup> Today, more than a third of the students in Doboj's institutions of higher education are Bosniaks. The current (SDS) mayor of Doboj, Obren Petrovic, elected in 2004, envisages a future for Doboj that is a complete break with its wartime history. As Petrovic told ESI:

“When I became mayor four years ago, I wanted to open up Doboj. As soon as I opened up the secondary schools, Bosniak children from the Federation started attending them. We have to continue on this path. We have to create the conditions to become again a trade centre and a traffic junction, a regional centre. We also have to become a tourist centre. I regret that we don't have a decent hotel. When the new highway is built, we will connect northern Croatia with the Croatian coast, and people could stay overnight here. Our wish is to revitalise the economy, for Serbs, Croats and Bosniaks alike.”<sup>10</sup>

Today a visitor who climbs up towards the Gradina fortress through the old Muslim quarter will find an area that is once again returning to life. In this historic centre (*carsija*), whose roots go back to the 15<sup>th</sup> century, half of the original Bosniak population has now returned. The main street, named Pop Ljubin (Priest Ljubin) during the war, was recently renamed after Mesa Selimovic, a Muslim writer born in Tuzla. Entering Gradina fortress, a visitor is greeted by a guard in mediaeval costume. There is an “ethno-café”, a small stage and a newly built playground. Since it was reopened in 2006, the fortress has hosted a number of cultural events. In February 2007 there was a festival of Bosnian cuisine, attended by women dressed in Serb, Bosniak and Croat traditional costumes. In May 2007, the fortress hosted the first Bosnian *Tour Fest* to open the summer tourist season. In the summer of 2007, the fortress staged a music and theatre festival. After years of decrepitude, life has returned to *Gradina*.

Miodrag Botic is the man behind these new activities. Born in 1969 in Doboj, he left his hometown in 1989 to study agriculture in Novi Sad. When war broke out in his native town in 1992, he decided to stay in Serbia. Seven years later, war caught up with him. When NATO air strikes during the Kosovo war destroyed the three bridges over the Danube in Novi Sad, he decided to return to Doboj. Now in his thirties, he had to start his life all over again. Finally he set up an NGO to advise municipalities on issues of economic development.

While investigating the town's tourist potential, Botic discovered the sorry state of the Doboj fortress. It had not been maintained in many years, and the stonework was crumbling. Local people had turned the area into a waste dump. Botic raised money from the Swedish

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<sup>7</sup> Trial Watch, at: [www.trial-ch.org/en/trial-watch/profile/db/facts/nikola\\_jorgic\\_283.html](http://www.trial-ch.org/en/trial-watch/profile/db/facts/nikola_jorgic_283.html).

<sup>8</sup> Press release by the Court of BiH, *Custody ordered for Predrag Kujundzic*, available at: [www.sudbih.gov.ba/?id=555&jezik=e](http://www.sudbih.gov.ba/?id=555&jezik=e). The Doboj police have taken away the passport of another war crimes suspect, Milan Ninkovic, former president of the Doboj SDS. ESI interview with Milenko Boskovic, deputy head of the Public Security Centre Doboj, November 2007.

<sup>9</sup> For the number of returnees see footnote 26, p. 9.

<sup>10</sup> ESI interview with Obren Petrovic, mayor of Doboj, November 2007.

development agency, SIDA, as well as some funds from the municipality. His goal was to turn the fortress into an attraction for visitors travelling along the Bosna valley:

“We welcome visitors from across Bosnia. Our aim is that school classes from both entities, and everybody who travels along the Bosna highway, visits this fortress. You will not find any national symbols in this place. We deny requests to use the location for political rallies. This is not a Croat, Serb or Muslim fortress, but a monument that belongs to Bosnian history.”<sup>11</sup>

Today, looking down at the centre of town from the Gradina fortress, one sees the minarets of rebuilt mosques alongside the cupolas of Orthodox churches, a completely reconstructed Catholic church next to a fully refurbished synagogue. The *ezan* (Muslim call to prayer) can be heard five times a day, whilst church bells ring each hour. The obvious question is: how did this transformation come about? And what will it take for a multiethnic Doboj to prosper economically in the coming decade?

### III. WAR AND PEACE

#### 1. The return of Aziz and Emina

In May 1992, the people living in the villages of Sevarlije, Pridjel and Potocani on the east bank of the Bosna river were told by the Serb authorities in Doboj to hand over their weapons. There had been fighting since late 1991 in nearby Croatia. Then in April 1992, war had broken out in Bosnia and Herzegovina. The villagers at first believed that if they cooperated with the army, they would be left alone. They were wrong.

On 17 June 1992, the three villages were attacked by artillery. In panic, the villagers tried to escape across the river Bosna, swollen with water due to heavy rainfall. Two people were killed and six wounded by the artillery, and three drowned in the river. The next day, Serb paramilitaries wearing masks to hide their identities entered the villages. The attackers demolished the mosque in Sevarlije and blew up its minaret. They systematically destroyed all of the houses. They killed 30 men in Sevarlije and another 23 in Pridjel and Potocani. Some 300 people, mostly women, children and the elderly, were detained and taken to the army barracks in Sevarlije.<sup>12</sup>

Aziz Ibrakovic, 65, had left Sevarlije the day before the attack. He spent the rest of the war in territory held by the Bosniak-dominated Army of BiH across the river Bosna. The river marked the frontline, and its banks were heavily mined. Throughout the war, Aziz could see his village. What he could not see were the mass graves with bodies of villagers killed on 18 June 1992; they would be discovered only many years later.

Emina Mustafic, 48, a teacher of maths and physics, fled Sevarlije with her two daughters, then 1 and 4 years old, on 17 June 1992. Her husband Resad Mustafic, Emina's brother Salih Durmic and her parents Meira and Smail stayed behind to protect their homes. On 18 June, Emina heard shooting from across the river Bosna. She saw smoke rise from her village. It was months before Emina learnt that her husband, brother and father had been shot in cold blood near the mosque, and their bodies burnt alongside those of four other men.

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<sup>11</sup> ESI interview with Miodrag Botic, August 2007.

<sup>12</sup> ESI interviews with Emina Mustafic, Aziz Ibrakovic and other villagers, November 2007.



Emina's mother, Meira, was one of those taken prisoner. She spent two nights in the military barracks in Sevarlije and was then released. She went to Kakanj, a town 110 km south of Doboj, where Emina's sister lived at the time. Emina and her daughters made it to France as refugees, spending a year in Chamonix and two years in Pouilly-les-Nonais. In August 1995, Emina decided to return to Bosnia, then still at war, and work as a teacher in Zenica.

When the Dayton Peace Agreement was signed in Paris in December 1995, Aziz Ibrakovic lived in the municipality of Tesanj west of the river Bosna. He immediately began to organize the villagers from Sevarlije, Potocani and Pridjel, keeping track of where they had gone. But the end of the war did not bring what he hoped for – a return to Sevarlije.

In fact, 1996 was a year of disappointment for all potential returnees to Doboj. On 29 April 1996, a group of Bosniak visitors became impatient after waiting for hours for international troops, the UN police<sup>13</sup> and the local police to allow them to enter Republika Srpska to visit their former homes. Some 50 people tried to bypass the check-point and got lost in a minefield. One person was killed, and another seven wounded.<sup>14</sup> On most occasions, Serb civilian mobs waited at border crossing points to prevent would-be returnees from entering the RS. When on 10 May 1996 a group of 60 Bosniaks managed to enter the RS to visit a graveyard, they were shot at by snipers. An angry Serb mob smashed the windscreen of a UN police car. Some 20 RS policemen, including the deputy chief of the Doboj police station, watched but refused to intervene. The Bosniak visitors had to be rescued by international soldiers.<sup>15</sup> On 1 June 1996, the buses of 84 Bosniaks who wanted to visit the village of Potocani were stoned by a hostile Serb crowd, injuring two.<sup>16</sup> On 11 November, the United Nations High Commissioner for Refugees (UNCHR) reported that 200 Bosniak houses had been blown up in the Doboj, Prijedor and Brcko areas. "We are seeing systematic violence against property, systematic destruction of houses to make sure that minorities don't return," said an exasperated UNHCR spokesman.<sup>17</sup> On the same day, three Bosniaks were injured when their vehicle was fired on as they drove through the Poljice neighbourhood near the Doboj railway station.<sup>18</sup> The next day, 30 people armed with iron bars demonstrated against the return of Bosniaks to Poljice.

The first meetings between the Bosniaks from Sevarlije and local Serb authorities were organised by UNHCR in the Miljkovac garrison just outside Doboj, which was then hosting international IFOR troops. Aziz remembers these meetings as "painful":

"We made our point that we were not guilty of anything. We did not come closer to each other, but with every meeting, it became clearer to the other side that our return was inevitable."<sup>19</sup>

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<sup>13</sup> The UN's International Police Task Force (IPTF) operated in Bosnia between the end of 1995 and 2002.

<sup>14</sup> [www.nato.int/ifor/trans/t960430a.htm](http://www.nato.int/ifor/trans/t960430a.htm), IFOR transcript of the International Press Briefing in Sarajevo, 30 April 1996.

<sup>15</sup> [www.nato.int/ifor/trans/t960510a.htm](http://www.nato.int/ifor/trans/t960510a.htm), IFOR transcript of the International Press Briefing in Sarajevo, 10 May 1996.

<sup>16</sup> [www.nato.int/ifor/trans/t960603a.htm](http://www.nato.int/ifor/trans/t960603a.htm), IFOR transcript of the International Press Briefing in Sarajevo, 3 June 1996.

<sup>17</sup> UNHCR spokesman Kris Janowski. IFOR Transcript of the International Press Briefing in Sarajevo, 11 November 1996, at: [www.nato.int/ifor/trans/t961111a.htm](http://www.nato.int/ifor/trans/t961111a.htm).

<sup>18</sup> OHR Bulletin No. 25, 15 November 1996, at:

[www.ohr.int/ohr-dept/presso/chronology/bulletins/default.asp?content\\_id=4950](http://www.ohr.int/ohr-dept/presso/chronology/bulletins/default.asp?content_id=4950).

<sup>19</sup> ESI interview with Aziz Ibrakovic, September 2007.

In September 1997, the first municipal elections after the war were held across the country. Aziz Ibrakovic was elected deputy to the Doboj municipal assembly by the votes of displaced Bosniak voters. When the assembly held its inaugural session in the town's former cinema, he was still unable to return to his destroyed home.

Aziz spent these frustrating years organising his fellow villagers. First 50, then 100 applications for return were registered with the municipality. In the end, there were 400. Only in 1998 – two-and-a-half years after the Dayton Agreement had come into effect – did these efforts begin to pay off. In May 1998, the local head of the UNHCR office in Doboj, Oliver Birch, took Aziz aside and asked him to “set a date for return” to Sevarlije:

“I decided on the 1<sup>st</sup> of June 1998. We were told to make a list of 100 families – but I put in all the 113 that wanted to go first. In the morning we took off. When we reached the heights of our village above the Bosna, we sat down together and just cried. Every week more people followed and soon the whole village was full of returnees. The village was a jungle and we desperately needed help. After one month we began to stay in our village overnight.”

In 1998, Sevarlije was a wilderness, the houses looted and burned. The whole area along the Bosna, including the primary school, was mined. Weeds and bushes had overgrown gardens, houses and roads. The first neighbours to help the Bosniak returnees were displaced Serbs now living in neighbouring villages. Until the first grocery store opened in the village, the returnees bought their daily necessities in a Serb's shop in Potocani. Not one incident overshadowed this return. RS police patrolled the village every day. SFOR was never far away, providing essential reassurance.

For the return to succeed, massive support from international donors was crucial. Most of Sevarlije's citizens were destitute and had no savings. Many of them lived from casual labour. So ultimately the speed of return became dependent on the flow of donor aid to support reconstruction. Before the war, the village had some 450 houses. In 1998, the European Commission financed the reconstruction of the first 100.<sup>20</sup> Another 289 houses were rebuilt with the support of different donors.<sup>21</sup> A further 93 houses were reconstructed by their owners, mostly people who had lived and earned money abroad. By 2007, only 69 houses had not been rebuilt. These houses belong to owners who have started a new life in the Federation or abroad.<sup>22</sup>

In 1998, electricity was restored by the local provider with the support of USAID. Soon 120 houses were connected. A water supply project, planned before the war, was implemented for the first 44 houses with USAID funding. The community centre was rebuilt with donations. The reconstruction of the mosque was completed in 2004. As return by the pre-war population gathered pace, tensions in Sevarlije decreased rather than increased. Aziz Ibrakovic recalls:

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<sup>20</sup> Joint European Commission/World Bank Office for South East Europe, *The EU reconstruction programme for Bosnia and Herzegovina detailed by sector*, at: [www.seecon.org/bosnia/ec/sectors/return-contracts.htm](http://www.seecon.org/bosnia/ec/sectors/return-contracts.htm).

<sup>21</sup> Local Community Sevarlije, *Stanje rekonstrukcije stambenih objekata u MZ Sevarlije sa 07/2007. godine*, 2007.

<sup>22</sup> ESI interview with Edin Hodzic, secretary of the Local Community Sevarlije, August 2007.

“The first with whom we actually managed to establish relations were displaced Serbs. They had experienced the same fate as we had. They knew what it meant to live in someone else’s property. They could understand our urge to come home.”<sup>23</sup>

Meira, Emina’s mother, was among the first people in Sevarlije to receive a donation to rebuild the family house. She returned in 1999. The mass grave which held her family members was excavated in 2000. It was impossible to identify and separate the charred bones. Meira took them and washed them by hand. Then their remains were reinterred. Emina’s mother told ESI that “the greatest punishment for the murderers is to walk the earth with all their sins on their mind and no chance of redemption.”<sup>24</sup>

After the return of her mother to Sevarlije, Emina and her daughters travelled every weekend by bus from Zenica to the village to visit her. As more families returned, the question of schooling arose. At first, villagers sent their children to schools in the nearby Federation. In 2000, the primary school in Sevarlije was reopened. The area around the school was still mined. In 2003, the village leaders asked Emina Mustafic whether she would be willing to work as a teacher at the local school. Emina agreed, applied for the job and was promptly hired. Then she moved back to the village herself. Sometimes her memories still haunt her: “My father had lived his life, he had experienced happiness, seen his grandchildren... But my husband and my brother were still young.” She says the situation has also been very difficult for her daughters, today 17 and 20. The elder daughter went through periods when she did not speak to anyone. Her teachers were frequently worried, but Emina explained to them that this was her daughter’s way of coping with the loss of her father. Now she studies at university in Sarajevo. Emina’s younger daughter attends medical secondary school in Doboj.

The primary school in Sevarlije (nine grades) is a branch school of the Sveti Sava Primary School in Doboj. All 175 pupils in this branch school are Bosniaks. Five teachers including Emina teach exclusively in Sevarlije; all five are Bosniaks. Another ten (half Bosniaks and half Serbs) teach both in Sevarlije and in the main school. The branch school teaches according to the RS curriculum, but for ‘national’ subjects (language, history, geography) it uses curricula and books from the Federation. The language spoken in school is Bosnian. Both the Latin and the Cyrillic script are used, since children are supposed to learn both, but Latin prevails in most subjects. The local *imam* teaches Islamic religion in the school.

Emina teaches mathematics and sciences. Asked about differences in her subjects between the curriculum in Zenica-Doboj Canton and the RS curriculum, Emina laughs: “Two plus two is always four, isn’t it?” Her relations to her Serb colleagues are good. They celebrate each other’s religious holidays by bringing cakes and sweets to the school. “The people are not misled,” she said. “The politicians at the top are trying to instigate hate for their personal gain, but we are not that easy to fool.”

As things are normalising, the importance of the inter-entity boundary line in daily life around Doboj diminishes. 2004 saw the construction of a new bridge across the Bosna, the former frontline, providing Sevarlije with direct access to the main north-south highway running from Croatia to Sarajevo. Building the bridge required cooperation between Doboj municipality (which built the access road on the RS side), Doboj South (which built the access road on the Federation side), the RS, the Federation and the Zenica-Doboj Canton. In

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<sup>23</sup> ESI interview with Aziz Ibrakovic, September 2007.

<sup>24</sup> ESI interview with Meira Durmic, August 2007.

the summer of 2007, twelve years after the war, the agricultural fields along the Bosna river were also finally cleared of mines.

## 2. Reversing ethnic cleansing

Sevarlije is not an exception. Bosniaks have returned to *all* the villages in the Doboj region where they had lived before the war. Rural return took place to largely destroyed villages.<sup>25</sup> Across the municipality, more than half the pre-war Bosniak population has come back.<sup>26</sup>

Enes Suljkanovic, 46, was born in Pridjel, the village next to Sevarlije. He worked as an engineer in a large lime factory in Sevarlije until May 1992. He left after the villagers had been asked to hand over their weapons. "One could already feel the danger, and I had a wife and a little girl of four years."<sup>27</sup> He left Doboj one month before his village was burned to the ground. In the municipal elections of 1997, Enes was elected deputy to the municipal assembly of Doboj as a member of the Social-Democratic Party (SDP). He was active in lobbying international organisations to support the return of displaced persons. In 2000, he was able to return to his village. He rebuilt his house with support from the Swedish development agency SIDA. Today, his daughter, 19, studies law in Doboj and his 11-year old son attends the primary school in Sevarlije.

In 2004, Enes was re-elected to the municipal assembly and became its president. Enes works closely with the Serb mayor of Doboj. He considers the return of Bosniaks to Doboj a huge success:

"In fact, we think that Doboj is the number one municipality in Bosnia with regard to return. One of the reasons is that most people spent the war and post-war period very close to their homes – in Doboj South, Doboj East, in Tesanj where I was, and in other nearby places – so it has been easy for them to return. Some still work in the Federation and can easily commute, but we are working on resolving this, we are trying to create jobs here."

One of the biggest obstacles for large scale Bosniak return in the post-war period appeared to be the large community of displaced Serbs from the Federation who had moved to Doboj and occupied Bosniak homes. At the end of 1999, the High Representative, the top international civilian official and supreme authority in post-war Bosnia, imposed property laws that prescribed the return of houses and apartments to their pre-war owners and tenants.

Ilija Jotic, the (Serb) president of the village council of Poljice, remembers having to reassure the displaced Serbs that they would not be evicted onto the street if the Bosniaks reclaimed

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<sup>25</sup> In Grapska Gornja, 433 households have come back. Poljice is again home to some 1,000 Bosniaks. In Bukovica Mala, 180 Bosniaks and 20 Croats live once again alongside 400 Serbs. The village of Kotorsko has seen the return of some 450 households. In Dragalovci, 60 Croats returned to live besides 200 Serbs. ESI interview with the respective presidents of MZ council, September 2007.

<sup>26</sup> Interviewing 59 of the 73 leaders of rural local communities in Doboj municipality in September 2007 ESI found that some village leaders only knew the total number of inhabitants of their local community while others knew the number of households. According to their estimates, today some 11,000 Bosniaks and at least 600 Croats live in rural Doboj. Bosniak leaders in the town of Doboj told us that approximately half of the pre-war urban Bosniak population has come back (some 6,000). Enes Suljkanovic, the Bosniak head of the municipal assembly, is also convinced that there have been at least 18,000 minority returns since 1997.

<sup>27</sup> ESI interviews with Enis Suljkanovic, August and November 2007.

their houses in Poljice.<sup>28</sup> As the return of Bosniaks and the implementation of property laws accelerated in 2000, the future of the displaced Serbs became a major concern of the local authorities. In response, the municipality parcelled out plots of municipal land. According to Jotic, once the municipality allocated the land plots to the displaced Serbs, tensions dropped and return became much easier. In Poljice, there are today 200 households of Bosniaks who returned after the war, 500 households of Serbs who lived here already before the war and another 182 Serb households who were given land plots. Across Doboj some 2,000 Serbs live on 636 plots they were given.<sup>29</sup> Only in the village of Kotorsko did this lead to tensions. Even here, however, the return of almost 1,500 Bosniaks to their homes has taken place without incident.<sup>30</sup> Property disputes have been resolved in local courts. There has been no violence.<sup>31</sup>

Elsewhere in the municipality, interethnic relations are relaxed. Out of 589 pupils of the Dositej Obradovic school – one of three primary schools in Doboj town – 342 are Serbs, 237 Bosniaks and 10 Croats. As director Lazo Pejic, an ethnic Serb, explains, “it would have been possible to create classes only made up of Bosniaks. We discussed this with the parents and the overwhelming opinion was that mixed classes were preferable. Nobody wanted ethnic segregation.” Recently, a Bosniak student won a regional school competition in maths. “Jasmin’s school mates were cheering, throwing him in the air when he came back,” said Pejic.” There are no ethnic tensions between the children.”<sup>32</sup> Bosniak community leaders living in the old town confirmed this to ESI: there are “no problems whatsoever for Bosniaks to use the RS health system”, Bosniak children go to local schools “without any problems” and the local police are “professional.”<sup>33</sup>

A clear sign of just how much things have changed in Doboj is the demilitarisation of the region – there are no international troops to be seen. Checkpoints and controls have long been abandoned. The former SFOR<sup>34</sup> camp near Sevarlije on the Bosna river is vacant. In 2006, the three military forces in BiH were merged into one small, professional force. In the garrison in Miljkovac, once occupied by SFOR to control the area, the Joint Defence Forces of Bosnia and Herzegovina are stationed today.

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<sup>28</sup> ESI interview with Ilija Jotic, November 2007.

<sup>29</sup> ESI Interview with Jovo Jovic, Ministry for refugees and displaced persons, Department Doboj, about the current situation with regard to return, refugees and displacements according to official statistics. 636 plots have been given to displaced persons. The settlement Vila (Usora) at the outskirts of Doboj has 32 plots, Poljice/Novo naselje has 90 plots, Poljice/Gavrinci 92 plots; Lipac 70 plots, Bare 100 plots, Osjecani 12 plots, Bukovica Mala 43 plots, Bukovica Velika 72 plots and Trnovo Polje (Kotorsko) 125 plots (the Serbs in Kotorsko say it is 126 plots).

<sup>30</sup> An estimated 2,400 Kotorani are abroad today, both in Europe and in the US. ESI interview with Sado Mesic, November 2007.

<sup>31</sup> For background on the special situation in Kotorsko visit the ESI website: [www.esiweb.org/index.php?lang=en&id=298&city\\_ID=39](http://www.esiweb.org/index.php?lang=en&id=298&city_ID=39).

<sup>32</sup> ESI interview with Lazo Pejic, November 2007.

<sup>33</sup> ESI interviews with Sejfudin Zonic and Jusuf Sarajlic, members of the local community council of the old town of Doboj (Carsija), November 2007.

<sup>34</sup> Following the Dayton Peace Agreement in 1995, 60,000 international troops (IFOR) came to Bosnia. They were succeeded by the 32,000-strong Stabilisation Force (SFOR) in December 1996. By early 2002 there were 19,000 troops left, by January 2003, 12,000. When SFOR left Bosnia at the end of 2004, there were only 7,000 troops in the country. Today the total number of foreign troops (EUFOR) is 2,500.

### 3. Citizens of Republika Srpska

Nusret Delic, 39, is president of the Sevarlije association of agricultural producers. On 18<sup>th</sup> June 1992, the day his village was attacked by paramilitaries, Nusret Delic was hiding in the forest above Sevarlije. He later crossed the river Bosna and spent the rest of the war as a soldier on the frontline along the river, in sight of his home. In 2002 he returned. He shows his confidence in the future in the most tangible way – he has planted more than 300 apple trees.

The Sevarlije agricultural association has over 200 members and has recently been joined by 18 Serb farmers. The milk produced by members of the association is sold to a Serb-owned dairy in Teslic. Although the price is higher in some dairies in the Federation, the villagers trust this particular RS-based company. Some members of the association produce cucumbers to sell to a specialised cooperative in the neighbouring municipality of Gracanica, in the Federation. Next year Nusret Delic plans to sell his apples to a supermarket chain in Tesanj, also in the Federation.

As a result of large scale return to Doboj, the inter entity boundary line means very little in the daily life of people living in this region. Trade across the entity boundary has been common for years. The open market near the Bosna river in the outskirts of Doboj is frequented by customers from both entities. Retailers in Doboj town buy from wholesalers in Doboj South in the Federation. A trader from Sevarlije owns a paint store with outlets in Doboj South, Tesanj, Maglaj (all in the Federation) and in Doboj town. Another entrepreneur from Sevarlije owns a glass-cutting workshop in Maglaj (Federation). Yet another one bought the Maglaj bus station, where he employs 10 people from Sevarlije.

The reintegration of Bosniaks from Sevarlije into the public institutions of Doboj has also come a long way: five people from Sevarlije serve in the Doboj police, another police officer commutes to work in East Sarajevo (RS). One Sevarlijan is an inspector of communal services, two villagers are employees of the local health centre of Sevarlije and five are employed by the primary school.

One sees a similar pattern across the municipality. In the Doboj municipal administration, 18 Bosniaks work today (and 2 communal inspectors are in the process of being hired).<sup>35</sup> On the managing boards of public companies there is usually a Bosniak or Croat.<sup>36</sup> In the regional prosecutor's office there are 9 Serbs and 5 non-Serbs (Bosniaks and Croats), with a vacancy for another Croat. In the Doboj district court one finds 11 Serb and 7 non-Serb judges (see table). Of 800 police officers in the Doboj district, some 125 (16 percent) are today Bosniaks and Croats.<sup>37</sup>

Sometimes it is hard to attract qualified Bosniaks to work in public sector jobs in RS. Enes Suljkanovic, the municipal assembly president, remembers the case of a vacant position of director of the health centre (Dom zdravlja). He tried to find Bosniak candidates but failed.

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<sup>35</sup> ESI interviews with Enes Suljkanovic, president of the municipal assembly, and Obren Petrovic, mayor of Doboj, November 2007.

<sup>36</sup> ESI interviews with Enes Suljkanovic, president of the municipal assembly, and Obren Petrovic, mayor of Doboj, November 2007.

<sup>37</sup> ESI interview with Milenko Boskovic, Deputy Head of the Doboj Public Security Centre, November. The Doboj district includes the municipalities Bosanski Brod, Derventa, Doboj, Modrica, Petrovo, Plagicevo, Samac, Teslic and Vukosavlje. The District Prosecutor's Office and the District Court cover the same area.

The main reason is the fact that the salaries of those working in the public sector are sometimes several hundred KM higher in the Federation. Teachers also earn more in the Federation – in the RS they earn around 500 KM, while in the Federation they earn around 600 to 700 KM, depending on the Canton.

*Table 2: Ethnic make-up of the judiciary in Doboj 2007<sup>38</sup>*

	<b>Serbs</b>	<b>Bosniaks</b>	<b>Croats</b>
District Prosecutor's Office	9	4	1
Judges Basic Court	6	2	2
Judges District Court	11	5	2

Milenko Boskovic, deputy head of the public security centre Doboj, notes that cooperation with police officers from the Federation is “excellent”. Of 55 cars stolen in the Doboj police district and adjacent Federation areas in 2006, 34 have been retrieved thanks to cooperation across the inter-entity boundary line. The cars were usually found in the other entity – as a rule, Bosnian car thieves tend to take stolen cars across the entity boundary line in the hope that they will not be discovered. Boskovic also says the police has not received any reports of ethnically based incidents for years. Enes Suljkanovic confirmed that “since 2000 there has not been a single ethnically based incident.” He chairs a “Commission for the safety of citizens” and a “Commission for the safety of returnees to the municipality of Doboj” with representatives of all the public bodies involved in ensuring safety. Dozens of returnees interviewed by ESI about the security situation across the municipality confirmed the absence of inter-ethnic tensions.

Services provided by the municipality are limited, but it is difficult to find a pattern of discrimination. Sixteen mosques have been rebuilt with financial support from the municipality.<sup>39</sup> In November 2007, work started on the sewage system in the old town of Doboj below the fortress, to the value of 100,000 KM.<sup>40</sup> Bosniaks in the village of Kotorsko have also received both direct and indirect support from the municipality. It includes substantial funds to build a new community centre and buy a ferry to help villagers reach their agricultural fields on the other side of the Bosna river, and the successful encouragement of an Italian investor to open a shoe factory in Kotorsko that will employ some 50 Bosniak returnees. According to the head of the municipal department for reconstruction, Eldina Mehinagic (a Bosniak), overall there are currently some 500 citizens who have applied for reconstruction assistance and have not been able to return yet due to lack of funds.<sup>41</sup>

Bosniak and Serb village leaders told ESI that campaigning for next year's municipal elections has already started. One award for electoral support is infrastructure development. Given that there is one polling station in each village and two in the bigger ones, the political parties can see who voted for them where. What counts is not ethnicity, but votes. The mayor is elected directly and mayor Petrovic told ESI that he won the 2004 elections with 13,000 votes including 3,000 from Bosniaks. “This was an acknowledgement, and I will continue to fight for as many Bosniak votes as possible,” he said. Several Bosniak leaders told ESI that he has indeed promoted investments in their neighbourhoods and villages.

<sup>38</sup> ESI inquiries with the spokespersons of all three institutions, November 2007.

<sup>39</sup> ESI interview with Obren Petrovic, mayor of Doboj, November 2007.

<sup>40</sup> ESI interview with Enes Suljkanovic, president of the municipal assembly, November 2007.

<sup>41</sup> ESI interview with Eldina Mehinagic, October 2007.

In the higher education sector, ethnic re-integration has been striking. Today there is a technical college, a university faculty and branches of a number of new private universities (see table). In total, nearly 2,500 students attend these institutions today. Remarkably, more than a third of these are non-Serbs, many of them coming from the Federation.

*Table 3: Number of students in institutions of higher learning in Doboj 2007<sup>42</sup>*

<b>College or university</b>	<b>Serbs</b>	<b>Bosniaks</b>	<b>Croats</b>	<b>Total students</b>
Technical College, Doboj	326	225	13	564
Transport Faculty (University East Sarajevo)	485	340	25	850
Branch of Slobomir Pavlovic University Bijeljina (private)	346	176	48	570
Branch of FUMA, Faculty for Service Management, Novi Sad (private)	175	124	11	310
Branch of APEIRON University Gradiska (private)	103	72	5	180
<b>Total</b>	<b>1,435</b>	<b>937</b>	<b>102</b>	<b>2,474</b>

Asked about what it means to live in RS as a Bosniak, most interviewees displayed attitudes that are rarely reflected in political discussions. Edin Hodzic, the secretary of the local community Sevarlije, when asked how he felt about Republika Srpska told ESI: “Of course Republika Srpska is also mine. I am at home here. Another home, I do not have.”<sup>43</sup> And Nusret Delic from Sevarlije explained:

“All through the war, I was determined to return to my home village. Later I understood that it is hard to gain anything by war. We liberated our Sevarlije through the Dayton Agreement, not through war. We did not have to fight with weapons for it as we had thought. In the beginning I thought it was unfair, because I had fought for a unified state of Bosnia and Herzegovina. Then I had to accept to live in Republika Sprska. But I accepted that. And slowly I realised that it is not so terrible after all. I do not feel anything bad about Republika Srpska if I compare it with the Federation. What I need is my freedom to go everywhere, that no door is closed to me, and that I can live from my work.”<sup>44</sup>

#### **IV. DEPRESSION IN DOBOJ**

Doboj in 2007 is a very different place from Doboj in 1997. Return, ethnic reintegration, reconstruction are all local success stories. However, while most of the problems of the immediate post-war period – ethnically motivated violence, lack of freedom of movement, mass violation of property rights – have been addressed, the situation on the local labour market remains disastrous. On this everybody interviewed in Doboj agrees.

<sup>42</sup> ESI inquires with Dragica Vasiljevic, technical secretary of the Transport Faculty (East Sarajevo) including the Technical College Doboj; Zoran Lazic, coordinator of the Doboj branch of the Slobomir Pavlovic University; Dragan Djuranvic, manager of the Doboj branch of FUMA; Mirko Slavuljica, director of the Doboj branch of APEIRON; all in November 2007. As these institutes do not record students’ nationalities they determined them by their names and place of residence.

<sup>43</sup> ESI interview with Edin Hodzic, November 2007.

<sup>44</sup> ESI interview with Nusret Delic, September 2007.



Lazo Pejcic, director of the Dositej Obradovic primary school, told ESI that “most of the parents of his pupils are unemployed.”<sup>45</sup> Bosniak leaders in the old town consider unemployment the number one problem of returnees. Among Bosniak returnees, few people have found jobs in Republika Srpska. Some 200 returnees to the old town still commute to work in the Federation.<sup>46</sup> The same is true for most Serbs who have resettled in Doboj. As for displaced Croats, the alternative of living in Croatia (Bosnian Croats have the right to Croatian citizenship) has kept the vast majority from returning to their pre-war homes in Doboj.

Some 9,700 persons in Doboj municipality are registered as unemployed.<sup>47</sup> According to health insurance data from September 2007, only 19,953 of an estimated 82,500 inhabitants today are formally employed.<sup>48</sup> Of these, 4,286 are farmers and 758 work in the Federation.<sup>49</sup> Thus the local non-farming sector employs fewer than 15,000 persons. To understand the development challenge facing Doboj, it is sufficient to visit the local industrial zones. In 2001, the industrial zones east and west of the river Bosna employed 2,455 workers.<sup>50</sup> In 2007, employment in the industrial zones has shrunk to under 800.

The company Trudbenik employs today 310 people. In the late 1980s, Trudbenik employed 1,300 people. It belonged to the large Energoinvest holding and was once defined by socialist planners as “the carrier of Doboj’s development.” It started out in 1949 as a repair shop for army vehicles, and then began to produce compressors and pneumatic tools for industrial use. According to the director, Vojko Sujic, 80 percent of the compressors it produced in the past were sold to companies in the former Yugoslavia.<sup>51</sup> Now these clients no longer exist, or have switched to new suppliers in China and Europe. “Before the war, we were world class,” Sujic claims. Today, the company is in a desperate state. The average age of the workforce is 45.6 years. Company operations have been reduced to servicing old compressors. The roof of the biggest production hall (7,000m<sup>2</sup>) is leaking.<sup>52</sup> From 2005 to 2006, turnover dropped from 4 million KM to 1.6 million KM.<sup>53</sup> Trudbenik has growing debts, including 1 million KM to the local heating plant and 1.5 million KM to the RS pension fund. Privatisation has been mishandled. The RS government declared Trudbenik “a company of strategic value”. As a result of this decision, transformation has been delayed.<sup>54</sup>

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<sup>45</sup> ESI interview with Lazo Pejcic, November 2007.

<sup>46</sup> ESI interview with Jusuf Sarajlic, November 2007.

<sup>47</sup> RS Employment Office and Doboj Employment Office, July 2007.

<sup>48</sup> Health insurance data September 2007. The number of 82,000 inhabitants in Doboj municipality is based on estimates of the Republic Statistical Office, see: JZU Dom Zdravlja Doboj, Plan rada doma zdravlja za 2007. godinu, Doboj, March 2007. Other sources speak of 80,000 inhabitants. See: Tomo Maric [editor], Moja Republika Srpska – Special edition of “Glasa Srpske”, Banja Luka, 31.7.2006. See also the website: [www.opstina-doboj.ba/lat/opsti-dio.php](http://www.opstina-doboj.ba/lat/opsti-dio.php). In the absence of a census, these can only be guesses. Given that there were 72,000 inhabitants in 1997 and some 18,000 minority returns since then this suggest that some 8,000 Serbs have either returned or left Doboj in the past decade.

<sup>49</sup> Health insurance data September 2007.

<sup>50</sup> Opstina Doboj, Odjeljenje za privredu i drustvene djelatnosti, “Strateski plan razvoja 2002-2005, Doboj, December 2001.

<sup>51</sup> ESI interview with Vojko Sujic, 7 November 2007

<sup>52</sup> ESI interview with Vojko Sujic, 7 November 2007.

<sup>53</sup> Trudbenik a.d., Doboj, “Konsolidovani finansijski izvjestaji za period 1.1.2006 do 31.12.2006. godine”, p. 18, and Republika Srpska Investment-Development Bank, “Trudbenik” AD Doboj – Short Profile.

<sup>54</sup> The first tender for the company was only held in October 2005, the second in March 2006. Nobody expressed any interest. The last tender in November 2007 had to be extended until 7 December 2007. A consortium of two Croatian companies and a Doboj company has put in a bid.

Another formerly proud company, across from Trudbenik, is Bosanka, founded in 1947. It was one of the five biggest juice producers in socialist Yugoslavia, producing 18,000 tonnes of juices and other non-alcoholic beverages and 8,500 tonnes of tinned products (jams, pickled cucumbers, peppers, mixed salad, tomato paste). In 2000, Bosanka ceased production. The following year it was sold, with 752 small shareholders with no investment capital becoming the new owners. Part of the production and storage facilities were rented out to a private beer producer. In June 2006, the remaining 123 workers started a strike, demanding wages that were months in arrears. In April 2007, a court initiated bankruptcy proceedings.<sup>55</sup>

In fact, of all socially owned companies active in industry and mining in Doboj municipality, only three have managed to increase employment after privatisation: RKTk Doboj, a limestone mine and lime factory in Sevarlije; TKS Dalekovod, a producer of electricity transmission lines and pylons; and a coal mine in Stanari west of Doboj town (see next chapter). All three cases involved foreign direct investment. All three also involve business relations with companies based in the Federation.

In the past, sixty percent of the lime produced by RKTk Doboj (*Rudnik Krečnjaka i Tvornica Kreča*, which means limestone mine and lime factory) went to the Zenica steel factory.<sup>56</sup> Before the war the company had 350 employees. Production stopped in spring 1992. After the war, only the production of limestone for civil engineering resumed. The current director, Zdravko Kalaba, came to Sevarlije two years ago. He had worked for USAID after the war, and then joined a company near Banja Luka which purchased RKTk in April 2005.<sup>57</sup> Since 2006, it has invested 1 million KM in the quarry every year. Output is increasing and sold mainly to companies in the Federation. Before privatisation, there were 45 active workers and salaries were many months late. Currently, there are 155 employees and everybody is paid on time. 25 of them are Bosniak returnees to Sevarlije.

In addition to mining and milling limestone, preparations are underway to restart lime production in a joint venture with Carmeuse from Belgium, a global lime producer.<sup>58</sup> This requires an investment of 50 million KM in new equipment, machines and filters. Some 10 million KM have been invested so far, and a completely revamped factory is scheduled to start working in early 2008. Its main client will be Mittal Steel in Zenica, as it was in the pre-war period. Mittal and Carmeuse already have a long-standing cooperation, and for the Sevarlije company this provides a stable local market. Zdravko Kalaba is optimistic: "This will be one of the most modern lime factories in Europe. We have everything here: the stone, the railways, the market and soon the new highway."

Another successful privatisation story is that of TKS Dalekovod Doboj. Created in 1972 as part of the Energoinvest conglomerate, like Trudbenik, the company has produced pylons for power transmission lines and street lightning and metal constructions such as substations, GSM stations and ski lifts. Before the war it had 800 employees. Production ceased during the war and resumed only at a minimal level afterwards. In 2003, the Croatian company

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<sup>55</sup> ESI interview with Radomir Jokic, bankruptcy administrator of Bosanka and BosnaEskpres, November 2007. The prewar director of Bosanka – a Bosniak – founded a similar company, Vegafruit, in Doboj East in Tuzla Canton.

<sup>56</sup> ESI interview with Zdravko Kalaba, director of RKTk, November 2007.

<sup>57</sup> The company is Integral Inzenjering from Laktasi. For more information, go to [www.integralcorp.info/en.html](http://www.integralcorp.info/en.html).

<sup>58</sup> [www.carmeuse.com](http://www.carmeuse.com).

Dalekovod from Zagreb bought 42 per cent of the company.<sup>59</sup> It now owns 86 percent of the Dobojski factory.

Dalekovod Zagreb has 1,600 employees and exports to 80 countries. The current director of Dalekovod Dobojski, Mato Majstorovic, a Bosnian Croat, spent the war in Slovenia. So far, Zagreb has invested 4 million KM in new machines in Dobojski. It has renovated the building and bought and installed a new conveyor belt. When it received an order for 5,000 tonnes of pylons for a GSM network in Uganda, half of it was produced in Zagreb and the other half in Dobojski. There are plans for expansion, some linked to Mittal Steel in Zenica. Majstorovic explains that “we are waiting for Zenica to start producing steel profiles.”<sup>60</sup> Having a supplier that close would make the company more competitive.

When Mato Majstorovic arrived in the company in 2004, everything was overgrown with weeds but the machines were still there, as were 260 workers. 132 were sent home with compensation packages. Today the company has again 265 employees. Whenever Dalekovod Dobojski advertises vacancies, it receives a huge number of applications. Mato Majstorovic recalls people crying on the phone, begging him for a job and influential people trying to intervene on behalf of applicants:

“I am aware that many people really, really need the advertised job – but there is only one job and there are so many families to which it would mean so much.”<sup>61</sup>

Success stories such as RKT and Dalekovod are exceptional. The largest employer in Dobojski today is the RS Railways, which are headquartered in Dobojski and employ some 1,200 workers in the municipality.<sup>62</sup> The second largest is the Regional Hospital with 700 workers. However, the public sector is unlikely to expand employment in the near future. The problem of employment is even worse in rural areas. The former agricultural cooperatives have collapsed. An ESI survey showed that there are no more than 250 farmers with more than 5 hectares of land in Dobojski municipality.<sup>63</sup>

In the cafés in the centre of Dobojski in the autumn of 2007, young and old openly discuss their limited options, mostly related to migration. They exchange their experiences: some work as waiters on American cruise ships; others have discovered how to get to Malta illegally. Some work on the Montenegrin coast during the tourist season or for Serb firms that build oil processing plants in Romania; others are investigating a new temporary work program in the Czech Republic (which advertises long-term work permits in the Bosnian press and on the internet). Few see their future in Dobojski.

The lack of job opportunities is the main reason why the return of Croats, in contrast to that of Bosniaks, has been so disappointing. From 2000 to 2004, Mato Majstorovic, the director of Dalekovod Dobojski, was deputy minister for return in the RS government in Banja Luka. He saw his appointment as a chance to help Croats return to RS. He visited Croat refugees in Croatia, Sweden and Germany and tried to convince them to come home. The experience left him bitterly disappointed: they did not want to return. “They all say that their living standards

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<sup>59</sup> Dalekovod d.d., *Biljeske uz konsolidirane financijske izvjestaje za godinu koja je završila 31. prosinca 2003. godine*, at [www.dalekovod.com](http://www.dalekovod.com).

<sup>60</sup> ESI interview with Mato Majstorovic, November 2007.

<sup>61</sup> ESI interview with Mato Majstorovic, November 2007.

<sup>62</sup> ESI interview in October 2007 with Petar Burger, local SRNS correspondent.

<sup>63</sup> See footnote 26.

elsewhere are better,” Majstorovic says.<sup>64</sup> Majstorovic even organised donors to rebuild the Croats’ houses. “We offered to hand them the keys to a fully renovated house and on top give them a cow, a pig, a fully furnished kitchen: and yet they still did not want to return. Most continue to live in Croatia and use their houses here as weekend homes.”<sup>65</sup> It is the absence of jobs, particularly in rural areas, that constitutes the largest obstacle to further return in Republika Srpska today.

## V. COAL AND THE BOSNIAN DREAM

### 1. Stanari

Nebojsa Savanovic, a 33 year old Serb, was born in Gracanica, a small town east of Doboj (today in the Federation). In May 1992, his family – 17 year old Nebojsa, his older brother and his parents – left Gracanica. They spent a year in a village on Mount Ozren and then moved to Doboj. The municipality assigned them a Bosniak flat. Nebojsa, his brother and his father were drafted and fought in the army of Republika Srpska. In September 1995, during the last few weeks of the war, Nebojsa’s brother was killed guarding a transmitter on Mount Ozren that was bombed by NATO.

After the war, Nebojsa’s parents could not find regular work. They survived by selling goods bought in Serbia in Doboj. In 2001, they made the decision not to return to Gracanica in the Federation. They exchanged their home in Gracanica with that of a Bosniak family in Bosanski Brod, a town at the border with Croatia, and moved there. Today they live from their small pensions.

In 1996, Nebojsa was demobilised. He enrolled in the technical college in Doboj and graduated in early 2000 as mechanical engineer. He found a job in May 2000 working for the Stanari coal mine, 20 km from Doboj. “I wanted to get some practical experience and could not find another job. I had applied everywhere.” The mine “hardly worked at the time,” he remembers. He received his first monthly salary of 250 KM in November 2001. Food was provided by the company canteen. In 2002, the miners went on strike for eight months. The company had run out of funds to repair machinery and to buy spare parts. During this time even the canteen was closed.<sup>66</sup>

When Nebojsa came to Stanari in 2000, Dusan Neskovic had already worked in the mine for 16 years. He was born in 1954 in a village on Mount Ozren. At age 15 he went to Slovenia to attend a secondary school for miners and then worked for the Geological Institute in Ljubljana. In 1984, he returned to Doboj and started to work in Stanari. “The salaries were low,” he remembers the 1980s, “the workers were unhappy, Yugoslavia was in economic crisis, we had huge inflation and it was not possible to make any investments in the mine.” Then the war came. A monument in Stanari commemorates 52 miners who lost their lives. Neskovic puts it simply: “The war was hell.” Many miners fought at the front in the army of Republika Srpska.

During the war, the mine worked at a third of its capacity, producing less than 200,000 tonnes of coal per year. Things did not improve after 1995. “I returned to a company that had no

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<sup>64</sup> ESI interview with Mato Majstorovic, November 2007.

<sup>65</sup> ESI interview with Mato Majstorovic, November 2007.

<sup>66</sup> ESI interview with Nebojsa Savanovic, November 2007.

money, no management and no sales. Nothing worked. Anything of value was stolen.” For eight months, no salaries were paid. Although the mine received subsidies from the RS government, it did not recover. In 1999, the company’s output was 122,000 tonnes of coal with 423 workers. In 2001, output collapsed to 38,251 tonnes.<sup>67</sup> As Dusan recalls:

“It was all misery and despair. My sister in Austria helped out. My wife worked in a bank and earned a little bit of money. But the situation was difficult to bear.”<sup>68</sup>

The depressed state of the Stanari mine affected the whole region. With growing debts to third parties, the mine began to slide into bankruptcy. In 2003, the balance sheet showed 8.8 million KM in losses, growing to 10.9 million KM the following year. “We had lost all hope,” said Dusan. “There were no investments – the trucks, the separation facility, everything was old and run down. We learned that somebody would take over the mine, but nobody believed it. Everybody thought that it could get only worse, that there were new thieves and that we would lose our jobs. We were very suspicious.”

In fact, the sorry state of the mine in Stanari reflected a deeper malaise found in coal mines across Bosnia. The whole sector was “characterized by high costs and staffing levels above commercial norms”, one analyst wrote.<sup>69</sup> Bosnia’s coal production experienced a sharp decline during the war. Output in 1990 had been 18 million tonnes. In 2004, it stood at 8.3 million. The World Bank estimated that to remain competitive the Bosnian coal industry would have to reduce its workforce from 15,000 to 3,000 miners.<sup>70</sup> This, it argued, was a regional problem: “around 100,000 jobs would need to be shed in order for the coal industry in South East Europe to be viable.”<sup>71</sup> It is not surprising that Stanari miners were nervous about their future.

In September 2004, the RS government announced that the Stanari coalmine was looking for a private partner.<sup>72</sup> The energy trading company EFT (Energy Financing Team) responded to a public tender and a deal was concluded.<sup>73</sup> In May 2005 EFT acquired 72 percent of the Stanari mine and a 30 year concession. The following year, the company bought the remainder of the shares.

The granting of a concession to a private investor was a novelty in the Western Balkans, where most coalmines are still owned by public companies. Things started to change almost immediately. A new director was hired and the company took on more qualified personnel.

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<sup>67</sup> Report of Mr Bijelic from the Rudarski Institut Banja Luka to EFT Group w/o date.

<sup>68</sup> ESI Interview with Dusan Neskovic, November 2007.

<sup>69</sup> Josko Jenko, *Bosnia and Herzegovina Power Sector Development*, Background Paper, presented at World Bank’s 4th Poverty Reduction Strategies Forum, Athens, June 26-27, 2007, p. 4.

<sup>70</sup> David Kennedy and John Besant-Jones, *Framework for Development of Regional Energy Trade in South East Europe*, Energy and Mining Sector Board Discussion Paper No. 12, Washington, March 2004, p. 22.

<sup>71</sup> David Kennedy and John Besant-Jones *Framework for Development of Regional Energy Trade in South East Europe*, Energy and Mining Sector Board Discussion Paper No. 12, Washington, March 2004, p. 6.

<sup>72</sup> The tender was announced on 29 September 2004 in an advertisement placed in ‘Glas Republike Srpske’ and a notification on the web-site of the Government of RS. The tender was republished on 13 October 2004 in English in the Serbian ‘Politika’ newspaper.

<sup>73</sup> The only competitor in that tender was a company from Slovenia, which had also ordered the tender documents.

EFT made investments in machinery totalling € 5 million in 2005.<sup>74</sup> Production methods changed as a result.<sup>75</sup> In 2004, annual output of coal had been less than 200,000 tonnes. In 2006, it was able to extract about 1,600 tonnes of coal per worker, compared to an average figure across Bosnian coalmines of 500 tonnes.<sup>76</sup> In 2007, output was 800,000 tonnes of coal.

Table 4: Output of Stanari coalmine 1998-2006<sup>77</sup>

<u>Year</u>	<u>Coal (tonnes)</u>	<u>Overburden (m<sup>3</sup>)</u>
1998	122,000	
1999	60,000	
2000	51,800	165,000
2001	38,251	120,000
2002	104,000	150,000
2003	152,000	276,000
2004	198,200	780,000
2005	268,885	1,618,000
2006	512,115	4,130,000

In 2004 the Stanari mine had employed 302 miners and had struggled to pay an average wage of 413 KM. By 2007 employment has risen to 372 workers, and the average wage had grown to 716 KM.<sup>78</sup>

The changing economic fortunes of the mine are today clearly visible in the village of Stanari. With stable incomes, workers have become eligible for consumer credit. A construction company has built the first apartment building in two decades. A large company selling construction material has opened. A supermarket from Doboj has opened a store in the village. There are more restaurants, and Stanari's three bakeries see their incomes rise as they supply meals for the mine. The business of the local car mechanic is booming. The mine also created businesses for other companies in Doboj and around Bosnia. In the first ten months of 2007, the company spent 6.1 million KM in Doboj alone for different local purchases. Finally, the company contributed 558,000 KM of concessionary fees to the 2006 budget of Doboj municipality.<sup>79</sup>

Following the change in ownership, Nebojsa Savanovic received the money the company owed him from before its privatisation: in total, 4,000 KM. "From that money, I did the most

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<sup>74</sup> This was invested in 7 dumpers for removal of overburden, 2 hydraulic dredging machines, 1 grader, 1 bulldozer, 3 hydraulic dredgers for excavation of lignite, 8 Kamaz trucks for moving lignite to separation unit and repair of the BTO (bager-transport-odlaganje).

<sup>75</sup> The previous management had allowed the cut-off-rate (the amount of cubic meters of earth removed to reach one ton of coal in open cast mining) to decline for years. As a result the excavation wall was too steep and there was a constant threat of earth-slides.

<sup>76</sup> The director of the Kreka mines in Tuzla hoped to extract 2.7 million tonnes of coal with 4,004 employees in 2007. Stanari plans to achieve the same output in 2011 with 600 miners. See: [kreka.inet.ba/](http://kreka.inet.ba/) "U rudnicima 'Kreka' u Tuzla novi nadzorni odbor".

<sup>77</sup> Sources: EFT Group, "Republika Srpska – Stanje i osnovna problematika poslovanja preduzeca iz oblasti rudarstva", without date.

<sup>78</sup> ESI request for information to EFT Group, answer per email 27 November 2007.

<sup>79</sup> The municipality receives a share of the excavation fee, which the mine has to pay to the state in return for the concession over the mine. 3.4 per cent of the value of every ton goes to the mine.

important repairs in the flat of my parents in Brod and bought a computer for myself,” he says.<sup>80</sup> Nebojsa’s pay rose: his basic salary today is 1,100 KM. With overtime, including night work to fix broken machines (since the mine operates 24 hours) and weekend shifts, he earns up to 1,400 KM a month. On 19 November 2007, he received a post-graduate diploma in mechanical engineering. He spent his last vacation studying for his degree. “Before, I did not have money to go on vacation, now I don’t have time to go on vacation. But in 2008 I will go to Spain.”

Dusan Neskovic continues to work as a chief foreman in the mine pit:

“Before people pitied us, now everybody wants to work at the mine. This mine is God’s gift to this region, it will bring prosperity. You cannot live without a job and an income. New investments are being made, and the company will grow and be even better in the future. There is enough coal here, and they want to build a power plant. The future looks good.”<sup>81</sup>

Having a reliable job has changed his outlook on life. He told ESI: “I like this country, but no country is nice if you cannot make a living. Now I am content.”

The revival of the Stanari coal mine has further eroded the economic significance of the inter-entity boundary line. While other large coal mines in Bosnia are usually connected to a single large, local buyer – for example, the Kreka mines in Tuzla supply the nearby thermo-power plant (TPP) – the demand for Stanari’s coal from its local buyer, the Doboje heating plant, is not sufficient to absorb its output. As a result, Stanari has had to find clients elsewhere, particularly in the Federation.

When EFT took over in 2005, 40 percent of Stanari’s coal was sold to the Federation. By 2006, that figure was 66 percent. The largest buyer of Stanari’s coal today is Bosnia’s largest thermo-power plant (TPP) in Tuzla, 80 kilometers from Stanari. EFT Stanari can deliver the coal cheaper than the state-owned mines, and can provide surplus coal during the winter months when other coalmines cannot increase their capacity. Other large clients are the paper producer Natron-Hayat in Maglaj 30 kilometers south of Doboje, and the soda company Sisecam in Lukavac near Tuzla. Both companies have recently been bought by Turkish investors and are expanding.<sup>82</sup> Sisecam, Turkey’s largest glassproducer, increased its demand of coal from Stanari to 140,000 tonnes annually.<sup>83</sup> Stanari also attracts small entrepreneurs from all over the region. Throughout the year hundreds of trucks belonging to private traders from both entities and Croatia come to Stanari to buy coal directly. To them, the fact that the Stanari mine is a few kilometres north of the entity boundary line no longer has any significance.

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<sup>80</sup> ESI interview with Nebojsa Savanovic, November 2007.

<sup>81</sup> ESI interview with Dusan Neskovic, November 2007.

<sup>82</sup> See: [www.see-news.com](http://www.see-news.com) Feb 3, 2005, *Turkish Hayat Sets Up 70/30 JV with Bosnia’s Largest Paper Mill*, and [www.see-news.com](http://www.see-news.com), *Bosnia’s Biggest Paper Mill Natron Hayat To Raise Output Five Times by 2007*, 13 September 2006.

<sup>83</sup> [www.see-news.com](http://www.see-news.com), *Turkey’s Soda Sanayi Acquires 80% of Bosnian Soda Producer FSL*; 5 May 2006, email from Harun Emini, 2 November 2007.

## 2. Energy and borders

The collapse of much of its industry as a result of both war and a poorly managed transition means that Bosnia's energy consumption today is only about 45 Giga Joule *per capita*, compared with an OECD average of 236.<sup>84</sup> At the same time, Bosnia's geography, water resources and coal reserves mean that it is well placed to produce energy, both thermal (from coal) and hydro (from water).<sup>85</sup> The potential dramatically to expand domestic energy production makes Bosnia a central player in future energy planning in South Eastern Europe.

Today 53 percent of Bosnian power is generated in hydropower plants and 47 percent in thermo-power plants. Bosnia has 11 large hydropower plants and numerous smaller ones along its many rivers. The country also has four thermo-power plants: Tuzla and Kakanj (in the Federation), Ugljevik and Gacko (in Republika Srpska). In 2004, Bosnia exported more than 2,000 GWh (see table), which at 17 percent of its production was the highest share in the region. By 2006, exports stood at 2,500 GWh.<sup>86</sup> Bosnia has thus become one of only three energy exporters in the Balkans (together with Romania and Bulgaria).<sup>87</sup> All the other countries in South East Europe are dependent on energy imports. In 2004, Macedonia imported 16 percent of its energy, and Croatia 23 percent.

Table 5: Main energy exporters in the South East European Energy Community region in 2004<sup>88</sup>

	Net export GWh	Production GWh	Consumption GWh	Installed capacities MW
Bulgaria	5,878	41,538	35,660	12,130
<b>Bosnia</b>	<b>2,084</b>	<b>12,600</b>	<b>10,516</b>	<b>4,062</b>
Romania	1,188	51,934	50,746	16,473
Albania	- 479	5,368	5,847	1,564
Macedonia	- 1,176	6,213	7,389	1,510
Serbia (incl. Montenegro and Kosovo)	- 2,015	38,401	40,416	9,214
Croatia	- 3,662	12,432	16,094	3,746
<b>Total</b>	<b>1,818</b>	<b>168,486</b>	<b>166,668</b>	<b>48,699</b>

Given the decrepit state of the Bosnian energy sector in the post-war period, this is a surprising success story. First, an enormous reconstruction challenge had to be met. Of the total installed capacity to produce energy in Bosnia in 1990 (4,000 MW), war had destroyed 56 percent. Sixty percent of the transmission grid had also been destroyed. However, by 2002 Bosnia's energy sector had surpassed its pre-war capacity as a result of a huge

<sup>84</sup> Josko Jenko, *Bosnia and Herzegovina Power Sector Development*, Background Paper, presented at World Bank's 4th Poverty Reduction Strategies Forum, Athens, June 26-27, 2007, p. 4.

<sup>85</sup> Josko Jenko, *Bosnia and Herzegovina Power Sector Development*, Background Paper, presented at the World Bank's 4th Poverty Reduction Strategies Forum, Athens, June 26-27, 2007, p. 4: "Coal deposits in BH are considerable, estimated at  $10 \times 10^9$  tonnes."

<sup>86</sup> Bosnia and Herzegovina State Electricity Regulatory Commission, *Osnovni elektroenergetski pokazatelji Bosne i Hercegovine* at: [www.derk.ba/default.aspx?195](http://www.derk.ba/default.aspx?195).

<sup>87</sup> Actually Bosnia exported in net value 2,165.3 GWh. Bosnia and Herzegovina State Electricity Regulatory Commission, *Osnovni elektroenergetski pokazatelji Bosne I Hercegovine*, see: [www.derk.ba/default.aspx?195](http://www.derk.ba/default.aspx?195).

<sup>88</sup> SEETEC Consortium SNC-Lavalin Inc., in association with Manitoba Hydro, *Study of the Obstacles to Trade and Compatibility of Market Rules*, Vol. 1, Main Report, March 2006.



mobilisation of external assistance.<sup>89</sup> The destruction of transformer stations in Croatia and Herzegovina during the war continued to hinder both regional energy trade and trade with the EU. This was overcome only in 2004 when the reconstruction of damaged transformer stations allowed the reconnection of the Balkan electricity system with the European system (UCTE).

The institutional side posed an equivalent challenge. In 2002, the governance structure of the Bosnian energy sector remained chaotic. There were three separate power utilities – the (Bosniak) Sarajevo-based *Elektroprivreda* BiH, the (Croat) Mostar-based *Elektroprivreda* HZHB and the (Serb) Trebinje-based *Elektroprivreda* RS – divided along ethnic lines. There was uncertainty over the ownership of the transmission lines. It was unclear who regulated the sector, and who could be a counterpart for potential investors. In 2000 ESI had noted that,

“international funding during the last years has often had the unintended effect of consolidating the ethnically divided war economies. A more sophisticated use of international influence could now ensure that the regulatory frameworks established for key industries advance the broader political and economic objectives of the peace process. Telecommunications and electricity, like coal and steel in the 1950s in Western Europe, are a natural starting point for functional integration of the Bosnian state.”<sup>90</sup>

At the time ESI recommended the establishment of strong, autonomous agencies at the state level to regulate these network industries:

“These would have power to issue licenses for the use of common networks (communications transmitters, electricity transmission grids) and to attach conditions to those licenses, including ensuring that service providers comply with the principles of a common market, and that they are financially transparent... International leadership is needed to accelerate the restructuring (unbundling) of these industries, splitting their functions among separate legal entities. Ambitious deadlines for restructuring should be set down at the Peace Implementation Council. Creating autonomous public corporations to manage and operate network facilities should be further investigated.”<sup>91</sup>

In fact, in recent years all of this has happened, changing the institutional landscape in the Bosnian energy sector dramatically. In 2004 regulatory commissions became operational, including one at the state-level.<sup>92</sup> The whole Bosnian electricity network was united in 2006 into a state-level Transmission Company (Transco), based in Banja Luka.<sup>93</sup> Transco is monitored by an independent system operator on the state-level based in Sarajevo.<sup>94</sup> Since 2004, an energy department exists in the State Ministry of Foreign Trade and Economic Relations. The power utilities are also restructuring (“unbundling”): the RS power utility

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<sup>89</sup> Austrian Energy Agency, *Energy market actors. Electricity market. Electricity Sector Overview*, Information is based on 2002 numbers. See:

[www.energyagency.at/enercee/bih/energymarketactors.htm](http://www.energyagency.at/enercee/bih/energymarketactors.htm).

<sup>90</sup> ESI report, *Taking On The Commanding Heights. Integration Of Network Industries As A Tool Of Peace Building. A Proposal For The Peace Implementation Council*, 2000.

<sup>91</sup> ESI report, *Taking On The Commanding Heights. Integration Of Network Industries As A Tool Of Peace Building. A Proposal For The Peace Implementation Council*, 2000. See also Annex B.

<sup>92</sup> These are the Bosnia and Herzegovina state regulatory commission for electricity based in Tuzla ([www.derk.ba](http://www.derk.ba)), the regulatory commission for electricity in the Federation of Bosnia and Herzegovina based in Mostar ([www.ferk.ba](http://www.ferk.ba)) and the regulatory commission for electricity in Republika Srpska based in Banja Luka ([www.reers.ba](http://www.reers.ba)).

<sup>93</sup> Based on the Transco Law of Bosnia and Herzegovina (Official Gazette BiH 35/04).

<sup>94</sup> Independent System Operator of Bosnia and Herzegovina (ISO BiH), based on the ISO Law of Bosnia and Herzegovina (Official Gazette BiH 35/04). See: [www.nosbih.ba](http://www.nosbih.ba).

(EPRS) has already created five distinct regional energy distribution companies, which act as independent suppliers in the energy market.<sup>95</sup>

In 2001 another ESI report on the future of the Stability Pact, commissioned by the Canadian government and produced under the supervision of Martti Ahtisaari, recommended a similar process of functional integration at the regional level:

“A concrete proposal is to commit Western donors substantially to increase support to regional governments in reforming their energy sectors in return for a commitment by these governments to create a genuine common market, integrated with that of the European Union... Over the medium term, substantial new investments will need to be made throughout the region to satisfy the demand for new energy generation capacity and to replace old capacity... Successful functional integration in the energy sector could provide a model for regional co-operation in other sectors.”<sup>96</sup>

From 2002 onwards this has also happened, with profound positive consequences for Bosnia. In 2002 South East European countries agreed to a European Commission strategy outlining the institutional requirements for a regional electricity market. They then adopted a memorandum, based on the new EU electricity and gas directives from 2003, and signed an international treaty establishing an Energy Community in South East Europe in October 2005. The treaty, which entered into force on 1 July 2006, mandates far-reaching reforms:

“to create a single regulatory space for trade in Network Energy that is necessary to match the geographic extent of the concerned product markets; enhance the security of supply of the single regulatory space by providing a stable investment climate in which connections to Caspian, North African and Middle East gas reserves can be developed, and indigenous sources of energy such as natural gas, coal and hydropower can be exploited; improve the environmental situation in relation to Network Energy and related energy efficiency, foster the use of renewable energy, and set out the conditions for energy trade in the single regulatory space.”<sup>97</sup>

There is now a detailed plan for the implementation of EU energy market directives and the regulation on cross-border network access: by 1 January 2008, the market is to be liberalised for all non-household customers in Bosnia; by 31 December 2011, the reduction of sulphur content in liquid fuels must take place; by 1 January 2015, there must be liberalisation of the market for all customers; and by 31 December 2017, there will be caps on emissions of certain pollutants into the air from large combustion plants. The three utility providers are also freed from the burden of supplying subsidised electricity to loss-making industries.<sup>98</sup> The Energy Community has thus turned the energy market in the Balkan region into a large integrated market governed by EU standards.<sup>99</sup>

Functional integration of Bosnian domestic institutions and the pressures of this EU-led process of regional integration have brought about far-reaching changes in Bosnia. Within the context of this energy community, Bosnia has been performing remarkably well. In its

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<sup>95</sup> The heating plant of Dobož could become an independent energy provider, if it installs a steam turbine.  
<sup>96</sup> ESI Report, *Democracy, Security And The Future Of The Stability Pact For South Eastern Europe*, April 2001.

<sup>97</sup> [www.seerecon.org?infrastructure/sectors/energy/documents/treatyenergy.pdf](http://www.seerecon.org?infrastructure/sectors/energy/documents/treatyenergy.pdf).

<sup>98</sup> This has been a cause of dispute in the case of the aluminium producer Aluminium in Mostar, where state politicians and later the OHR (by decree) forced the utilities in the Federation to supply the company with energy at below market prices.

<sup>99</sup> [www.seerecon.org?infrastructure/sectors/energy/documents/treatyenergy.pdf](http://www.seerecon.org?infrastructure/sectors/energy/documents/treatyenergy.pdf), article 9 to 20.

most recent assessment, the Vienna-based Energy Community Secretariat found “only Croatia and the EU-states Romania and Bulgaria have progresses as much.”<sup>100</sup> Bosnia had also performed much better than Serbia.<sup>101</sup>

*Table 6: Benchmarking electricity sector reform (Energy community secretariat)<sup>102</sup>*

	<b>Bosnia</b>	<b>Bulgaria</b>	<b>Croatia</b>	<b>Romania</b>	<b>Serbia</b>
Public Service Obligation and Customer Protection	1	2	2	2	2
Monitoring of Security of Supply	3	3	3	3	2
Technical Rules	3	3	3	3	1
Generation	2	3	3	2	3
Unbundling Provisions and Access to Accounts	2	2	3	2	2
Third Party Access	3	3	3	3	2
Market Opening	3	3	3	3	0
Cross Border Trade Mechanism	1	1	1	2	1
<b>Total</b>	<b>18</b>	<b>20</b>	<b>21</b>	<b>20</b>	<b>13</b>

0 = process has recently started, 1 = some provisions are available, 2 = some provisions are missing, 3 = all provisions are available

The regional interest in Bosnia’s emergence as a successful energy exporter is obvious. There are large uncertainties regarding the mid-term supply and demand situation in the region. Bulgaria has been supplying between 50 percent and 90 percent of the electricity shortfall of the region in the last five years. As Martin Burdett, editor of the Platts Newsletter “Energy in Eastern Europe,” explained to ESI:

“Bulgaria had [an abundant supply of] cheap electricity from the Kozlodui nuclear-power plant until two of its blocks were taken off the grid at the end of last year. This has not endangered Bulgaria, which is still exporting some energy. But it has reduced the amount of "cheap" energy coming from Bulgaria to other countries... Romania currently has a surplus, and can export but the economy is growing fast as is its consumption. On the other hand, the country has bought on line this year a new unit at its Cernavoda nuclear power plant. This alone will however not change the supply-demand situation in the region. More investment is required in new generation capacity as well as in the transmission system to ensure that power can flow from markets with surplus supply to energy deficient markets.”<sup>103</sup>

A World Bank report noted:

“Investment over the past 10-15 years has been limited, with the average age of capacity now in excess of thirty years, and some plants are over forty years old. Capacity availability is poor by international standards and reliability is declining. In poor

<sup>100</sup> Energy Community Secretariat, *Progress Report 2007*.

<sup>101</sup> Energy Community Secretariat, *Implementation of the Treaty Status as of June 2007 – Electricity*, Vienna, 28-29 June 2007.

<sup>102</sup> Energy Community Secretariat, *Implementation of the Treaty Status as of June 2007 – Electricity*, Vienna, 28-29 June 2007.

<sup>103</sup> ESI Interview with Martin Burdett, December 2007.

hydrological years, parts of the region are unable to meet their energy needs, with resultant load shedding.”<sup>104</sup>

At a regular session of the Energy Community held in Athens in April 2007, participants “expressed their concern about the level of investment in the energy sector.”<sup>105</sup> As the economies of the region recover, energy demand is growing. All forecasts are that this will continue (see table), creating further pressures to increase production. Almost all the power stations in the region were constructed during the communist era and their technology does not meet current environmental standards. Under EU regulations, these plants must be refurbished or replaced.

*Table 7: Energy consumption forecasts for SEE (2005-2015)<sup>106</sup>*

<b>Country</b>	<b>GWh 2005</b>	<b>GWh 2015</b>
Romania	49,191	61,615
Bulgaria	38,802	45,924
Serbia	37,282	42,592
Croatia	16,532	22,533
Bosnia and Herzegovina	10,471	13,813
Albania	6,760	9,483
Macedonia	7,112	9,061
Montenegro	4,358	4,506
<b>SEE total energy demand</b>	<b>170,507</b>	<b>209,528</b>

Its central geographic location means that Bosnia and Herzegovina is very well placed to supply its north-western neighbours (Croatia and Slovenia), as well as those to the south east (Montenegro, Serbia, Albania, Greece, Macedonia and Kosovo). By building new production capacity, Bosnia would be in a natural position to contribute to the economic progress of the region. However, the question has always been: would international investors be ready to invest the hundreds of millions required to exploit this opportunity?

### **3. Power in Doboj**

It is this geo-strategic context that explains the recent transformation of Stanari. When it acquired the coal mine, EFT had bigger goals than the mine itself. From the outset, this specialised energy trader pursued a more ambitious objective: to build a new thermal-power plant (TPP) near the mine with a capacity of 420 MW. Such a plant could produce about 3,000 GWh annually – more than Bosnia’s total current exports.<sup>107</sup> It would be the third largest plant in terms of capacity in Bosnia and Herzegovina, and the first new TPP to be built

<sup>104</sup> David Kennedy and John Besant-Jones, *Framework for Development of Regional Energy Trade in South East Europe*, Energy and Mining Sector Board Discussion Paper No. 12, Washington, March 2004, p. 17.

<sup>105</sup> Energy Community, Conclusions 10th Athens Forum 24-25 April 2007, [www.energy-community.org/portal/page?\\_pageid=34,65297&\\_dad=portal&\\_schema=PORTAL&&p\\_new\\_id=201](http://www.energy-community.org/portal/page?_pageid=34,65297&_dad=portal&_schema=PORTAL&&p_new_id=201).

<sup>106</sup> SEETEC Consortium SNC-Lavalin Inc., in association with Manitoba Hydro, *Study of the Obstacles to Trade and Compatibility of Market Rules*, Vol. 1, Main Report, March 2006.

<sup>107</sup> The thermo-power plant will have a capacity of 420 MW. Estimating a full load operation throughout 300 days in the year will amount to MWh 3 million.

in a quarter century. It would also be the first privately owned TPP in the Western Balkans.<sup>108</sup>

Preparatory works for the TPP in Stanari commenced in 2007. In a prequalification tender for the construction of the plant in October 2007, EFT chose the French engineering company Alstom.<sup>109</sup> Total construction costs are estimated to amount to some € 600 million.<sup>110</sup> Construction will last until 2011.<sup>111</sup> By then, the mine must be able to provide some 2.8 million tonnes of coal annually. Since it also has an obligation to supply the Dobož heating plant with a maximum of 400,000 tonnes of coal per year, total output will have to reach at least 3.2 million tonnes.<sup>112</sup> To put this in context: total output from all Bosnian coal mines in 2004 was only 8 million tonnes. To achieve this level of output, the company is investing in an additional excavation system, at a cost of some € 55 million.<sup>113</sup>

In 2006, EFT began to acquire the necessary licenses. Its preparations included a one-year environmental study of the region surrounding the future thermal-power plant.<sup>114</sup> The thermo-power plant Stanari would be the first in the Western Balkans to meet the requirements of the EU “Large Combustion Plant Directive”, which caps sulphur oxide and iron oxide emissions.<sup>115</sup> In the context of EU accession and the new Energy Community, the whole of South Eastern Europe is preparing to adapt to EU environmental regulations. Compliance with environmental standards is also a precondition for investment support from the European Bank for Reconstruction and Development (EBRD).<sup>116</sup>

The impact of Stanari on the municipality of Dobož will be enormous. The municipal budget of Dobož will receive annually at least 10 million KM from concession fees on electricity sales, plus additional VAT and wage taxes.<sup>117</sup> This would provide more than 25 percent of the municipal budget.<sup>118</sup> While the thermal-power plant is being constructed, an additional 3,000 jobs will be created in the municipality. About € 300 million in works will be tendered

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<sup>108</sup> Identified reserves in Stanari amount to 129 million tonnes, giving the mine a 30-year life span. See: [www.eft-group.net/investments\\_current](http://www.eft-group.net/investments_current).

<sup>109</sup> SEE News, *France's Alstom Chosen to Build 600 Mln Euro Bosnian Power Plant – Media*, 15 October 2007, see: [www.see-news.com](http://www.see-news.com).

<sup>110</sup> Initially the company estimated that building the plant would cost € 480 million and the required expansion of the Stanari mine € 120 million. See: [www.eft-stanari.net/tpp\\_investment.htm](http://www.eft-stanari.net/tpp_investment.htm). According to Platts the construction costs will be some € 580 million plus € 100-120 million to increase the mine's capacity. See: Platts – Energy in East Europe, Issue 127, 23 November 2007, p. 13.

<sup>111</sup> See [www.eft-stanari.net/tpp\\_economic.htm](http://www.eft-stanari.net/tpp_economic.htm).

<sup>112</sup> ESI Interview with Nenad Savic, EFT Group, December 2007.

<sup>113</sup> The mine, which operates as an open cast mine, works with a large bucket-wheel excavators of Krupp. Interview with Stevan Loncar, Director of EFT Stanari Rudnik Lignita, October 2007.

<sup>114</sup> ESI interview with Nenad Savic, EFT Group, December 2007 and further information via email as of 3 December 2007.

<sup>115</sup> It is helpful that Stanari coal contains less than 1 percent sulphur. [www.ers.ba/tetobanjaluca.htm#Rudnik%20lignita%20Stanari](http://www.ers.ba/tetobanjaluca.htm#Rudnik%20lignita%20Stanari).

<sup>116</sup> ESI interview with Andrew Smith Maxwell, Fieldstone Capital Group, December 2007.

<sup>117</sup> Considering that the projected plant of 420 MW will produce over MWh 3 million, with an conservatively estimated wholesale price at € 45/MWh (the current price in the region is above € 75/MWh), the total annual plant income will be circa € 136 million. 3.6 percent of this sum is the excavation fee of 10 million KM, which will annually go into the budget of the municipality.

<sup>118</sup> Republika Srpska, Opština Dobož, Odjeljenje za finansije, “Izvjestaj o izvrsenju budzeta opštine Dobož za period Januar-Juni 2007. godine, Dobož, August 2007. In the beginning of the year 2007 the budget of Dobož municipality was planned to be 20.5 million KM. But during the year the municipal assembly decided to sell assets, to increase its own revenues and to use unexpected gains from excavation fees. Additionally the municipal assembly will indebt the municipal budget with 4 million KM.

to Bosnian companies in different sectors.<sup>119</sup> Once in operation, the plant will provide 200 new jobs, to add to an estimated 600 mine workers.<sup>120</sup>

However, the establishment of this plant could have its largest impact as a signal to other investors. Although there have not been any significant investments in new power facilities in Bosnia and Herzegovina since the war this could soon change in a major way.<sup>121</sup> Stanari is not the only potentially significant investment under preparation. The Czech state energy provider CEZ has already concluded an agreement with the RS utility EPRS to build and operate an extended thermal-power plant in Gacko. The Slovenian state energy utility is planning the same with the thermal-power plant in Ugljevik. In the RS, over a hundred smaller hydro-power plants have been offered in tender arrangements to private investors. Recently Elektroprivreda BiH in the Federation also signed an agreement on strategic cooperation in the construction of thermal-power plants and hydro-power plants with a consortium of ENBW from Germany, APET from Austria, and a Swiss-Kazak company.<sup>122</sup>

In short, it appears as if functional integration driven by EU accession is working in the Bosnian energy sector. In a recent summary of projects in the field of power generation, the Independent System Operator identified a total of 5,156 MW in projects, which are currently pursued either by the three utilities and/or numerous smaller domestic and larger foreign investors.<sup>123</sup> They include the construction of seven small hydropower plants of 15 MW capacity each along the river Bosna in the Doboje region. This is a joint project between ElektroDoboje, which has taken one concession, and Technor Energy AS from Norway, which has been granted the remaining six. Apart from generating additional concession fees for municipal budgets, these plants will also create employment for domestic companies in the 18 months construction phase.<sup>124</sup>

The newsletter “Energy in East Europe” in its recent issue lists 28 projects that are currently ongoing or under preparation in Bosnia and Herzegovina.<sup>125</sup> As projects come to fruition, investor confidence increases, creating a virtuous circle. The vision of Bosnian energy making a major contribution to regional growth is moving ever closer to reality.

## VI. PROSPEROUS DOBOJE, PROSPEROUS BOSNIA?

There have been dramatic changes in Doboje in the past decade. Disarmament, return and reconstruction are successes whose magnitude few outsiders fully appreciate. Peace reigns today along the former frontline. This in turn has brought the beginnings of new economic life to the municipality.

The virtual erasure of the inter-entity boundary line has been a precondition for almost every business success in recent years: most of Stanari’s current customers are in the Federation;

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<sup>119</sup> See also: [www.eft-stanari.net/tpp\\_economic.htm](http://www.eft-stanari.net/tpp_economic.htm).

<sup>120</sup> ESI interview with Stevan Loncar, director of Stanari mine, September and October 2007.

<sup>121</sup> Josko Jenko, *Bosnia and Herzegovina Power Sector Development*, Background Paper, presented at the World Bank’s 4th Poverty Reduction Strategies Forum, Athens, June 26-27, 2007.

<sup>122</sup> Platts Newsletter “Energy in East Europe”, Issue 127, November 23, 2007.

<sup>123</sup> *Nezavisni operator sistema u Bosni i Hercegovini, Indikativni plan razvoja proizvodnje 2007.-2016. godine*, Sarajevo, November 2006, p. 22.

<sup>124</sup> ESI interview with Milenko Cvijanovic, manager of ElektroDoboje, and Doboje mayor Obren Petrovic, November 2007.

<sup>125</sup> Platts – Energy in East Europe, Issue 127, November 23, 2007 – New power generation projects.

both Dalekovod Doboj and the lime factory in Sevarlije look to Zenica for new development prospects; farmers in Doboj are selling their products both in the Federation and in Republika Srpska; private universities in Doboj town welcome students from the Federation. Everywhere old linkages are being revived, to mutual benefit. In this new context, Doboj's diversity – and its strategic position as a potential regional transport, education and energy hub – provide it with a path out of its current economic malaise.

It is also striking that every significant development success story that we came across in Doboj today involves a foreign investor. Dalekovod Zagreb invests in Dalekovod Doboj, EFT invests in Stanari, the Belgium lime producer Carmeuse invests in Sevarlije, Norwegian energy companies invest in hydropower along the river Bosna. Sisecam and Hayat, two of the large customers of the Stanari mine, have been revived by Turkish investors. All these projects are examples of linking local resources to developments that transcend the municipality, the entity and indeed Bosnia and Herzegovina. The influence of Zenica Steel (Mittal) can be felt throughout the whole country.

The conclusion from this report is thus simple: the current and future prosperity of Doboj depends on the wider economic success of Bosnia and Herzegovina and its ability to integrate into regional and European markets. Functional integration becomes a force for change when the EU itself is proactive, as it has been in the field of energy. It is very much in keeping with European history that the regional Energy Treaty signed in 2005 is the first ever binding agreement between Bosnia and the European Union.

For this process of economic integration to succeed, Bosnia needs a positive international image. Unlocking Bosnia's economic potential is first and foremost about investor confidence. In this respect, the atmosphere of political crisis built up in international rhetoric in recent times has been highly disruptive. During interviews in November 2007 in Doboj, we encountered intense anxiety among economic actors on all sides. Mato Majstorovic, director of Dalekovod, received a phone call from the management of Dalekovod Zagreb who, having read numerous reports on a political crisis in BiH, expressed concern about its investments. Obren Petrovic, Doboj's mayor, told ESI

“the economy does not do well with political tensions. The sooner these tensions stop, the sooner the political obstacles are overcome, the quicker the economic situation will improve... Some people from here living in the USA are buying flats in Doboj, including a friend of mine. He has called and asked me: ‘Will there be war again?’ Who wants to come to Bosnia if there is a threat of war here? Nobody.”<sup>126</sup>

While dealing with the economic legacies of the past the people of Doboj (and the citizens of Bosnia and Herzegovina) are also fighting Bosnia's ghosts. Yet, as we have argued elsewhere, this political crisis was an artefact of misconceived international strategies and opportunism on the part of regional politicians over the Kosovo war.<sup>127</sup> It was entirely divorced from the real Bosnian story, found here in Doboj and across the country.

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<sup>126</sup> ESI interview with Obren Petrovic, mayor of Doboj, November 2007.

<sup>127</sup> ESI report, *The worst in class – How the international protectorate hurts the European future of Bosnia and Herzegovina*, November 2007.

## **ANNEX I – Previous ESI reports on functional integration**

### **Taking On The Commanding Heights. Integration Of Network Industries As A Tool Of Peace Building. A Proposal For The Peace Implementation Council**

May 2000

“ESI recommends that a similar process of functional integration in Bosnia today could be achieved in the most prominent network industries, telecommunications (including broadcasting) and energy (electricity and gas). Focusing intensive international efforts in these areas would be a very concrete example of the notion that ‘to do less is to do more’.

Both industries are currently ethnically divided, with three party-controlled electricity companies and three telecommunications monopolies. Both industries are major revenue sources for the nationalist parties, and therefore are a key support base for illegal parallel structures. Each has the potential to attract foreign investment and to generate economic growth. Each sector is well adapted to Bosnia’s natural environment: investments in wireless communication using the radio spectrum are ideally suited to the mountainous geography, while its hydro-electrical potential is one of Bosnia’s most important assets. Both sectors desperately need foreign investment and know-how. Both are network industries where natural monopolies in the physical infrastructure (electricity transmission systems; mobile telephone transmitters and broadcasting infrastructure) call for state-level regulation. At the same time, only open competition will prompt the necessary changes to increase the efficiency of the companies which presently control both sectors. The need to establish interconnectivity between the ethnic groups and across international borders provides a useful hook for international influence. Given their key role in the political economy of Bosnia, the regulation of telecommunications and energy is the logical place to begin to change the nature of the Bosnian power structures.

There are numerous complex problems to be resolved before a genuinely competitive, integrated market could be established. In contrast to the ECSC case, the present Bosnian political elites would strongly resist the weakening of their monopoly control and the creation of genuinely competitive markets. An international strategy to overcome such resistance would require a sophisticated combination of international power (particularly financial power), and appealing to Bosnian commercial interests and the general public to build a consensus. This would involve international actors in an ambitious institution-building effort.

A study of the success stories of the last four years of peace implementation efforts – the creation of the Central Bank, the success in the field of customs, the media restructuring campaign and the introduction of common licence plates – suggests which elements are required to achieve a breakthrough. The most important lesson concerns the need to combine the legislative authority of the High Representative, the conditionality at the disposal of the international financial institutions, and selective budgetary support from the major donors. This must be undertaken as an inter-agency project, where different forms of international influence are brought to bear on a common set of goals. The following are some the concrete lessons learned to date:

1. Identify what resources (financial and human) the new institutions will need to function effectively. Institutions established without commensurate resources (such as the Privatisation Monitoring Commission) or the qualified staff (many cantonal privatisation agencies) never become effective.



2. Make sure the institutions have a sound design and a solid legal basis. Although extensive consultations with various interest groups will of course be appropriate, the High Representative's Bonn powers can be used to ensure that compromises which threaten to undermine the effectiveness of institutions are not tolerated, and that the enabling legislation is put in place within a limited period of time.
3. Use financial power, particular through structural adjustment credits and bilateral aid, to overcome specific threshold problems encountered in restructuring the industries. It will be crucial to hold back the World Bank's promised energy loan as a bargaining chip, until the authorities accept a regulatory framework in line with these overall objectives. This may require direct intervention by the Steering Board members with the World Bank and (for the telecommunications sector) the EBRD, to explain the political rationale.
4. Offer short-term funding of the new institutions, to get them to the point where they can become self-sustaining through license fees.
5. Secure close international supervision of and involvement in the work of the institutions during their establishment phase, to build confidence in their independence and accomplish the transfer of expertise to Bosnian staff.
6. Careful selection of Bosnian staff with appropriate professional qualifications, ensuring that they are not appointees of the political parties.
7. Use training of staff and contacts with regulatory bodies in other countries to build an institutional identity separate from party politics.
8. Appeal to the general public with simple campaigns aimed at targeting the current high consumer costs and poor quality service."

Download at: [www.esiweb.org/index.php?lang=en&id=156&document\\_ID=9](http://www.esiweb.org/index.php?lang=en&id=156&document_ID=9)

**Democracy, Security And The Future Of The  
Stability Pact For South Eastern Europe**  
April 2001

THE EUROPEAN METHOD

"The central theme of the Stability Pact is the integration of South Eastern Europe into the wider Euro-Atlantic zone of stability. This will require significant efforts, no less than those which were made starting in the 1940s to create a lasting security, economic and political infrastructure in Western Europe. The institutions then created – from the OECD to the Council of Europe, from NATO to the European Coal and Steel Community leading to today's European Union – are today an indispensable framework for stability.

The experience of integration in Western Europe since 1950 is that achieving breakthroughs in a few concrete areas is more valuable than pursuing integration for its own sake across a wide range of issue areas. Poorly defined, abstract or over-ambitious efforts invariably failed. The European experience has been one of gradual integration, using concrete achievements to generate a de facto solidarity. This has allowed post-war Europe to overcome mutual suspicion and even to resolve complex status problems.

A key concept of the process of European integration is that of functional integration. It refers to creating a stable institutional framework of co-operation in areas in which states have an interest in working together to realise concrete benefits. Once established, the incentives and habits of co-operation may spill over into other areas. This was the process behind the

Schuman Plan, which led to the first European Coal and Steel Community in 1950. In Bosnia and Herzegovina the International Community's High Representative, Wolfgang Petritsch, has identified integration of network industries as a key international peace-building strategy.

In the case of South Eastern Europe, approaching regional co-operation through functional integration will help the states of the region advance towards their ultimate common goal of becoming part of wider Euro-Atlantic institutions. Should the countries of the region be willing to work towards supranational institutions in selected sectors then these should be integrated from the outset with European Union institutions. Regional integration must not lead to a 'regional club' isolated from the rest of Europe.

## ENERGY AND REGIONAL SECURITY

This report recommends that one of the most promising fields where the Stability Pact should launch a major initiative is in the development of a truly common energy market. Energy policy lies at the heart of security and prosperity in South Eastern Europe. The supply and distribution of energy has inescapable trans-border dimensions. This has long been recognised. From the 1996 Sofia regional summit to the European Union regional strategy, there have been references to the importance of helping to create conditions for genuinely integrated South East European energy markets. Numerous studies have outlined the benefits of an integrated electricity market. However, despite the large sums spent on physical reconstruction projects, there has been no concerted effort to overcome the myriad of political, economic and institutional obstacles to genuine market integration.

The lack of regional co-operation in the trade and regulation of energy brings both high costs and risks to stability. The destabilising potential of energy shortages and energy politics has been apparent in Serbia, where rolling electricity blackouts have been perceived as a genuine threat to the new FRY government. The electricity systems of the former Yugoslav countries rely heavily on each other for ancillary services which, in the absence of an institutional framework, are both unremunerated and unreliable. Creating genuine regional markets through structured co-operation in the energy sector can make a significant contribution to regional security, as well as producing opportunities for region-wide economic growth.

Resolving apparently technical matters in the areas of ownership of energy infrastructure, trade and regulation would foster a habit of pragmatic co-ordination between technical elites, thus restoring trust between key regional actors. Successful institutionalised co-operation and resolution of disputes over the ownership of power production facilities could also transform the way in which some of the region's most difficult political problems are viewed. Concrete regional co-operation might help alleviate tensions surrounding status issues in Kosovo and Montenegro, as in the case of competing French and German claims on the Saarland, which were diffused by coal and steel integration in Europe after the end of the Second World War. The common goal of a united Europe and the larger context provided by the Schuman plan created a basis for resolving conflicts of interests that appeared insoluble as long as they were treated bilaterally.

Over the medium term, substantial new investments will need to be made throughout the region to satisfy the demand for new energy generation capacity and to replace old capacity. The existence of regional markets and structures for co-operation will determine the viability of such investments. A coherent vision of how to move towards an integrated energy market within the region and with Europe would facilitate the resolution of existing controversies, enabling the industry to build on existing functional links, and result in an increased ability of

the sector to generate private investment. The industry will also require institution building on the national level to build up the capacity of regulatory and administrative institutions, as many of the problems in the energy field relate to inadequate domestic reforms within individual countries. Capacity building will be most effective if implemented with the objective of integrating the regional institutions with European structures, and if it includes high-intensity twinning with European experts. In order to help the states of the region to realise the vision of an integrated energy market by a certain date, the European Union should be ready to support them substantially both with infrastructure investments and with technical advice.

Successful functional integration in the energy sector could provide a model for regional co-operation in other sectors. If the countries of South Eastern Europe are able to undertake integration in a strategic sector such as energy, they should be assisted in attracting the investment and technical and infrastructure support that they need. A time frame, similar to the '1992' objective behind the Single European Act, could help focus attention on domestic reforms and the resolution of regional problems within a process of integration into Europe-wide energy networks.

The process of regional energy integration will require a combination of financial leverage, the promise of European integration, and an offer of high-profile mediation to help resolve individual issues that stand in the way of co-operative energy strategies. Several feasibility studies have been carried out on the needs of an integrated regional energy network. What is required now is the identification of the political and commercial interests that can be harnessed to support regional integration, and the development of an institutional framework that would allow the regional actors to resolve energy issues among themselves and benefit from co-operation. The Stability Pact can assist by:

- Promoting the vision of energy integration. The Stability Pact should make use of its high profile to sell the vision of energy integration to European and regional decision makers, as well as to investors. A major interagency effort, involving the World Bank, the European Commission and many important bilateral donors, would be required to translate this vision into reality.
- Steering the process politically. To realise the potential for functional integration in South Eastern Europe requires a high-level and yet flexible institution capable of gaining the confidence of the international and regional actors in the energy field, including international organisations, private companies and state regulators.
- Making available the good offices of the Stability Pact Co-ordinator in brokering and mediating disputes. This is a highly information-intensive process which will require systematic research and specific expertise in the regional energy industries to be built up within the Stability Pact Special Co-ordinator's Office, as well as a good network to the major international and national actors."

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**ANNEX II – Energy-producers in Bosnia and Herzegovina (2006)**

<b>Power Plant</b>	<b>available capacity (MW)</b>
EPHZHB - HPP Capljina	420
EPHZHB - HPP Rama	160
EPHZHB - HPP Mostar	75
EPHZHB - HPP Jajce I	60
EPHZHB - HPP Jajce II	30
EPBiH – TPP Tuzla	709
EPBiH – TPP Kakanj	514
EPBiH - HPP Salakovac	210
EPBiH - HPP Jablanica	170
EPBiH - HPP Grabovica	117
EPRS – HPP Trebinje I	180
EPRS – HPP Trebinje II	8
HPP Dubrovnik (BiH+Hr.)	210
EPRS - TPP Ugljevik	279
EPRS - TPP Gacko	276
EPRS – HPP Visegrad	315
EPRS – HPP Bocac	110
HPP Pec-Mlini	30
<b>Total</b>	<b>3,873</b>

HPP: Hydro-power plant; TPP: Thermo-power plant

Source: Bosnia and Herzegovina State Regulatory Commission for Electrical Energy, “Osnovni elektroenergetski pokazatelji Bosne i Hercegovine”, see: [www.derk.ba](http://www.derk.ba)