

Is the reform of the Electric Power Industry of Serbia and Srbijagas delayed, as their efficiency has been expected to increase for years?

Prime Minister Ana Brnabic said that public companies need to contribute more to the growth of gross domestic product. Therefore, she said in a statement for the Serbian Broadcasting Corporation, the changes start with EPS and Srbijagas.

“It is our responsibility to complete the reform and exit the status of a public company. If we were to become a joint-stock company we would have much more manoeuvring space and a clear playing field,” Branko Kovacevic, president of the Supervisory Board of Electric Power Industry of Serbia, told RSE.

The conclusion of the Serbian Government dating back to 2012 paved the way to reorganize EPS. The changes began in 2014, when EPS underwent a transformation into three legal entities, instead of the previous 14. At the beginning of that year, the Serbian Government announced that EPS would become a joint-stock company in a few months, but there were no significant changes to date. Similar is the case with Srbijagas with 1,100 employees for which reform plans have existed since 2013, when the Government expressed its determination to, as a big loser, pull it out of debt and turn it into a successful company. The problems are similar to those of EPS, investment adviser Mahmut Busatlija says. “First of all, Srbijagas does not make a profit, this is specific to the situation when it is a monopolist and when it deals with commodities,” he states.

Managing political intervention

In the two state-owned companies for the production, distribution and trade of electricity and natural gas, the biggest problems are party employment, redundancies and maintaining social peace at the detriment of these companies. From 2016, EPS was headed by Acting Director Milorad Grcic, who was appointed by the ruling Serbian Progressive Party, while Srbijagas is led by Dusan Bajatovic, a recognised party official of its coalition partner Socialist Party of Serbia, which has traditionally good ties with Russia from which Serbia imports gas.

The first step, says economist Mahmut Busatlija, should be professional management. “Almost everything in this company would have to be reformed. The management method depends on the organization. This is completely different for us. It is governed by direct political intervention,” Busatlija says. As stated in the balance sheets, EPS records losses from year to year, profit decreases, and according to its annual statement, electricity generation in 2017 was the lowest in the last decade. The management of the Electric Power Industry of Serbia announced that by early January 2018 the number of employees had been reduced by 2,500, that EPS had 29,000 people, and that according to plans, there would be 5,000 workers less by late 2019.

Production workers have left the company

Branko Kovacevic says that major EPS problem is that it has lost its production workers. "We need about 4,000 skilled workers at this time - masters, technicians, engineers. 4,000 young people could be employed at the level of Serbia at this time, which would of course be essential for the country itself," Kovacevic said.

According to a contract with the International Monetary Fund, the Government of Serbia has committed to complete the transformation of EPS from a public company into a joint stock company by late 2020, while in late December, Belgrade media reported that the IMF was seeking a new rise in electricity prices from mid-next year. Serbia has also promised reforms in Srbijagas, which, as a firm under high political influence, is also targeted by criticism of the European Energy Community, which seeks to unbundle the gas distribution and transport business in order to undo the market monopoly.

Although transformation into a joint-stock company also means partial privatization, Branko Kovacevic says "yes" to reforms, but "no" to the sale of the entire company.

"We need a domestic economy, a big industry, to start small and medium-sized businesses that will serve a large employer, which in this case is EPS. EPS generates the highest profits, contributes the most into the budget, even with all the problems. A lot more people can work for EPS than inside EPS itself," Kovacevic said.

Economist Mahmut Busatlija concludes that the solution is market-based efficiency.

"If you make a proper holding company, you can privatize individual parts and even the entire company. But this does not mean that the state should leave this company, rather refresh it and enable its further expansion, through capital stock increase," Busatlija says.

In September 2019, warnings were received from the Energy Community that, in the case of Srbijagas, as one of the links in the development of gas pipelines intended to export gas from Russia to Europe, there was no progress on key competition issues regarding the development of a new gas pipeline allowing Serbia to connect to the Turkish Stream.