

## **Bosnia: Who is who in oil and gasoline market, the importers and distributors, report**

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The market of oil and its products in BiH attracts attention only in times when there is an increase in fuel prices. But there are a number of factors that are relevant for the understanding of this market. The market distribution among the major distributors, dependence on imports and geostrategic events are just some of the facts that must be analyzed in order to understand this strategically important part of the economy. Bosnian oil market in terms of consumers quantities and volumes is important for all its market players.

BiH is a country dependent on oil and oil products import. Countries from which the oil distributors import oil and fuel are Croatia, Serbia, Montenegro, Hungary, Italy, Slovenia, so the annual oil consumption in BiH is over 1.3 million tons. BiH has two refineries although it does not have its own oil resources, oil refinery in Bosanski Brod and oil refinery in Modrica established in 1954. and integrated with Bosanski Brod refinery in 1960.

Management and regulation of the BiH oil market is mostly under entities authority, namely Ministry of Commerce of FBiH and the Ministry of Industry, Energy and Mining of Republika Srpska. The current legislation permits the establishment of the companies for the oil distribution according to the applicable regulations and BiH has a large number of such economy subjects. However, this possibility was made in 1992, as the Law on independent business in Bosnia and Herzegovina was a presumption for the private gas stations establishment.

For example, there were even 880 gas stations in 2009, and for comparison, in the region that number was as follows: 1.200 in Serbia (at the population 2 times bigger), in Macedonia 192 (at the population 2 times smaller), in Croatia 580 (at about 15% more people ), Hungary 967 (at the population 2,6 times bigger). This led to the market fragmentation in BiH where the gas stations are located very close to each other and began to appear irrational investment which was partly caused by unregulated development and urban planning. However in the future will come to the inevitable market enlargement on which will survive only a few large companies and this phenomenon is coming already now.

The main players on the market

According to the Federal Ministry of Commerce, the Federation BiH imported 612 732 tons of oil products in 2012, which is about 4.13% less than in the same period last year.

The largest importers of oil products with 86% of imports are: "Holdina" Sarajevo, "Hifa-Oil" Tesanj, "Petrol BH Oil Company" Sarajevo and "Energopetrol" Sarajevo. It is important to note that "Hifa-Oil" from Tesnja, which belongs to "Hifa Group", is the only company of the four largest that is 100% locally owned and as such is a good example.

At the same time, during the 2012. in Republika Srpska purchased 271 909 tons of oil products from the refinery in Bosanski Brod or other supplier of RS. The biggest part was purchased from "Optima Group" Banjaluka, around 90.53%, while the remaining quantities of oil products were purchased from the companies "Igmin MM", "Reunion" Banjaluka, "Nestro Petrol" etc. What is noticeable in both BiH entities is that there is oil distributors enlargement in the market so in the future we can expect a reduced number of business entities engaged in business activities because the same will go out of business or will be taken over by the leading companies.

Oil distributors in BiH are gathered in two associations: FBiH Association of oil products traders and the RS Association of gas stations owners. These associations and their representatives are the key players in determining the oil and gas price in BiH. Under the current legislation, and the Law on oil products in FBiH and the Law on oil and oil products in RS, the price formation is done according to the market conditions. Factors that affect the price formation are oil products price on the market, exchange rate, customs duties on imports, the primary storage and distribution costs, margins, special taxes and other fixed income accounting. Precisely the fuel price in BiH caused the most controversies last year when the citizens and certain state institutions objected that petroleum distributors rarely reduced prices when it came to the oil prices decrease on the world market and rapidly raised prices if there was an increase of the same price. In addition, the FBiH lost a real possibility to correct market price in the moment when "Energopetrol" was sold, putting by this move a lot of power in the hands of private companies.

#### Low prices, low salaries

In the report of the Centre for investigative journalism says that the margins which oil distributors in BiH achieve are in the range of 12, 5 to 18 cents for one fuel liter, and that many distributors do not want to talk about it saying this is a business secret. At the same time states that German company for the fuel supply, ARAL, publicly announces its margin which amounted 10 cents per gasoline liter in 2007. Although this topic creates spry debates, it is important to note that private companies are not necessarily indispensable to reveal their profit margins to the public as long as their business is within the law framework. In addition, BiH has one of the lowest prices in the region and Europe. This can partly be explained by the fact that the standard of living and average salaries in BiH are very low and oil distributors cannot afford the higher margin without provoking a series of criticisms.

What is particularly interesting is that in the most of mentioned countries diesel is cheaper than gasoline. By this BiH is one of the few countries where the price of these two fuels roughly is equal to the tendency that diesel often could be more expensive than gasoline. This fact gets an extra dimension when it is considered that more than a half of imported fuels drops on euro diesel and this is the best-selling fuel.

Besides, by the oil and oil products sale the state charges toll of 7, 5 cents per every sold fuel liter. As in the price case, this amount is among the lowest in Europe. In practice this means that BiH is deprived of funds that could be got and used for roads maintenance if the toll would be raised on the level set by the countries of the region. In 2005, BiH Minister of Communications and Transport at that time, Branko Dokic issued a recommendation to

increase tolls but the entity governments refused to implement that. One of the reasons for that refusal is also that this would probably increase fuel prices which would have a negative effect on a wide range of prices in the economy. Citizens would protest and support to the government that would make such a decision would have fall and certainly the general elections were scheduled for 2006. In the years after that, the toll height was not on the top of state institutions agenda due to a series of political problems that BiH faced with. In addition, the toll division according to the formula by which all the money in RS goes to the Public Enterprise "Roads of Serbia", and in FBiH that money is shared so that the FBiH Directorate of Roads takes 40%, cantons 35% and municipalities 25%, leaving space for complications in the form of difficult coordination and cooperation among all relevant institutions.

Oil and oil products are one of the main strategic factors of BiH energy system and trends in this sector have a major impact on the entire economy. The need for fuel import makes BiH additionally sensitive and requires strengthening of local capacities in developing the Oil Refinery in Bosanski Brod and more active researches on oil deposits. The state must take certain steps, such as more active role in controlling fuel prices and ensuring this process transparency in cooperation with oil distributors. A large number of gas stations are unnecessary investments that should be regulated through the urban and regional plans adoption. But processes such as oil companies' enlargement will partly occur even without government or private sector intervention, according to the rules of the invisible market's hand. Concerning the turbulent developments in the main oil regions of the world, BiH must ensure the oil market stability and the black gold quality and supply. Otherwise, the citizens of this country will be left to the market oscillations which, as history teaches us, often end up unfavorably for the state stability.

Source; Serbia Energy See desk/Federal ministries/Statistisc office