

Serbia: Direction shift for Serbian power utility EPS, interview with PhD. Branko Kovačević Chairman of the Supervisory Board of PE EPS

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The status of the “Electric Power Industry of Serbia“ as a public enterprise must be changed and it is necessary that the EPS adapt to the modern time requirements. The EPS has to become a joint stock company and a profitable company, it has to earn for itself and for the state – Professor Dr. Branko Kovačević, dean of the Faculty of Electrical Engineering and Chairman of the Supervisory Board of the PE EPS says in the interview for our paper. Mr. Kovačević also points out that it is very important that the EPS invest a portion of funds from its profit in science and the restoration of technology in the company.

You have recently become Chairman of the SB of PE EPS, which is now said to be very professional. How important is this for the EPS?

There are five engineers in the SB now. There are two mining engineers, Dejan Popović and Branislav Marković, as well as two mechanical engineers, Aleksandar Trifunović and Aleksandar Gajić, who is also a professor at the Faculty of Mechanical Engineering. And there is also me, an electrical engineer.

How do you see the role of the SB in the EPS reorganization process?

The Supervisory Board has been appointed by the Government of the Republic of Serbia, so that, in a way, we are the clerks of the State Government. On the other hand, the EPS has its management structure, in which there are the EPS director and the Board of Directors who manage the EPS business operations. Our goal is to take care of the Government interests and to protect the state, as well as to cooperate with the director of the company, which is the most valuable company that Serbia has. The EPS should be the main source of the recovery and reindustrialization of Serbia, so it is expected to be the key factor in the establishment of a new economic environment which will contribute to the economic development, the inclusion of domestic intelligence in this process and the creation of new workplaces. I believe that we all have the same goal: to turn the EPS into a profitable company. It is true that the EPS is profitable now, too, because it generates energy that is more and more demanded on the market, but the manner in which this profit is divided is not good. It is consumed by the costs and inefficiencies, and this should be changed.

Through the Supervisory Board, will the EPS have the state support that it has been lacking for a large number of years?

Certainly. The SB positions are always a little political. But, I believe that the professional elements have overcome the political ones. I am the only one in the SB who is not a party member, but I think that other SB members have also been selected according to professional references, and not according to the party ones. The professional interests have conquered the political ones. There are no parties here. There is only one party and its name is the EPS.

What is awaiting the EPS in the upcoming year?

Restructuring will ensue and this is a demand of the International Monetary Fund, who has authorized the World Bank to monitor the EPS reform. We have to make structural reforms so that we could improve the business operations and the production. There are 14 companies in the EPS organization currently, these companies having a horizontal hierarchy; more precisely, we have the EPS director at the top, who, in a way, has the status of the Queen of England. He can only appeal and advise, but he cannot demand. This has to be changed. We need a vertically organized hierarchy and this is required from us. The Serbian Government has adopted the EPS Reorganization Plan; we have the EPS director, followed by the Board of Directors. After the seven executive directors in the Board of Directors, there are 50 more strictly professional directors, along the depth of the entire system. This is nothing strange and this is how global energy companies are organized. We should not reinvent the wheel, but only copy the companies operating efficiently. We also have to take into account the European Union regulations, because we are operating in Europe, and we have to harmonize our rules with them.

Is the upcoming year going to be the year in which most changes will occur in the EPS?

It is, but the deadlines are short. The first phase should be concluded by 1st July 2015, and the complete corporatization by July 2016. At this time, the EPS has to be ready for the exchange, and, by this time, we should assess the value so that we could know what we possess, how much the things are worth. It will be a success if we do everything in the following year and a half, but it should be known that we are not doing this because of the world, to satisfy the IMF and the World Bank, but because of us. The results should be visible in the budgets, in the plans for the following years, in higher revenues. This is the essence, because, if changes are only formal, they will not render any improvement.

As of the New Year, the third, last phase of market liberalization also begins, when households can choose a supplier. Will the EPS manage to remain a dominant supplier? On the open market, the EPS must be competitive. I am convinced that the advantage of the EPS lies in the production and I hope that it will stay like this. There has been a small test recently, when faculties were choosing a supplier. 31 faculties were choosing and they all chose the EPS, whereas there had been 73 bidders on the list. People love their country and they want the EPS to succeed.

What should be done so as to prevent the EPS from becoming lulled by this confidence?

The EPS is very important to all of us, because we should employ our students and new companies need to be opened. When the EPS is well, the society as a whole is well, too. This is why the EPS itself should change and adapt to the market business operations.

What do you consider the biggest problem of the EPS?

We have come from a system that functioned differently, i.e. a system that was in another state and this state was completely differently organized, too. Unfortunately, we have not finished the transition period yet, so that, now, we have a galimatias of a system not only in the EPS but in all other spheres, too. We have abandoned the old, and we have not created the new. We have two stories mixed and this is not good. Transition should not last long, and ours, as you can see, has lasted for more than 20 years already. We should also realize that the state cannot free anybody from paying electricity. If the state frees somebody, then the

state should pay for it, because the production costs. There is no free electricity, so that there is no free education either. The state has to pay everything, but it has to assess instead of whom it is paying. It is fair to help the socially vulnerable, but those who earn and live quite well should not be helped with a low electricity price, too.

In spite of everything, can the next year also be the year of first investments?
Certainly. The EPS needs to find fresh current assets for investments and technological restoration, because Serbia is an over-indebted country. Our technology is very old, some thirty years on the average, so that it has a lower coefficient of efficiency than modern technology. It is true that, owing to the experts who carried out overhauls, we have managed to preserve the technology, increase the capacity and extend the lifetime of our power plants.

The financial agreement for constructing the third block in Kostolac has recently been signed, too?

When you look at our projects, you realize that some of them are even 35 years old. For so many years, you invest something in them, and you earn nothing. This is unacceptable. You are only losing money. A project needs to be done for five years; it should be returning the following ten years, and you should be making money on it for the next twenty years. But, we are not doing so, so we are thinking about what is better, what is less bad, to give up or to continue investing, and this has lasted for decades. We have many projects that were healthy at the beginning and they would have returned their investment had they been carried out at that time. But, if 35 years go by and you do nothing, then you are throwing away millions.

Do the EPS employees have the reason to be afraid of changes?

It is in human psychology to dislike changes; they prefer a kind of a balanced state. When you embark on changes, there is a period of transition, and it is only after this that the balanced state comes, which should lead to a better situation. The administration is most scared of changes and this is why there should be a professional administration, which understands changes as a road towards progress. Today, there is a lot of professional administration in Serbia, but the problem is that nobody has a precise record of the situation. It is often said that there are many people in the administration, but when something needs to be done, we are always lacking people. We should not talk about redundancies, but record the situation and make a final decision on what should be done with the redundant employees, because many of them can learn how to do something else.

How much capacity does the EPS have so as to be a link between the faculty and the economy?

The cooperation between the EPS and the technical faculties used to be very good. Today, the EPS is also one of the most important associates of the technical faculties, together with the Army. There used to be many researches, but then hard times and money shortage came and, everything stopped. It is better now, but certainly, there are ways to increase cooperation. The EPS certainly needs competent engineers, and, in addition, investors will also come. The Chinese will come and they will announce tenders. The Serbs, the Czechs, the Hungarians... they will apply. We have to be better than them so as to get the job. We have to compete with them. This is why it is important that the EPS have qualified staff and this is

why laboratories should be made so that these children can be trained, in order to be ready for work immediately after finishing education. It is important that the EPS engage domestic industry, because it will open the labour market and employ young people. In this way, young people will not go away, because many have gone and we will never bring them back. The Chinese have brought their experts back and they are working with them. Our youth has gone, but we are not in contact with them.

Should the state remain the majority owner of the EPS?

Ownership is an artificial issue. The state should earn money and the state should be the majority owner of the EPS and it should possess the part of the EPS in which it makes the most money. This is the grid, because everyone has to pass through your "meadow". This is like "Heathrow" airport: everyone who flies over England must pay. This represents four percent of the gross national income of the large country such as England. On the other hand, we should let someone build a power plant, but they must pay for the connection. All the things that bring money should be left to the state or the state should remain the majority owner.

The EPS does not mind the state. The EPS has a problem with the status of the company. The EPS is not a public enterprise, but a production company. The EPS must not be ordered how to perform its business operations, but it must bring money to the state. The EPS is the most valuable property of the Serbian citizens.