

# Serbia: Experts opinion on market transformation of EPS, Towards a new market logic

**Categories :** [News Serbia Energy](#)

**Date :** April 25, 2014

Current situation with the liberalization of the electricity market is controversial. On the one hand, the Government dictates relatively low regulated electricity price, and on the other promotes the values of free supply.

It is the high time for Government of Serbia, in the name of the country as the owner, to open the possibility for the “Electric Power Industry of Serbia”, its most valuable infrastructural company, to move freely in the economic waters - says, in an interview for our magazine, Professor of Trade Economics, University of Belgrade, PhD Zoran Bogetić, answering the question whether the country in 21<sup>st</sup> century discovers “hot water” with the abolition of the country and party structure impact on the work of public enterprises.

**EPS should be a company whose primary task will be the electricity production and making profit. With huge social obligations and thus, very low electricity production cost, that could not be done. So, what to do?**

Well-known Belgrade aphorist VIB (Vlada Bulatovic) said once that “it is easy to be a lion when you make havoc around you”. On the trail of the truth, it is not difficult to assess that the majority of the public companies, which, until recently, have been tucked into the protective hug of the state, are waiting for the challenging days. The same is with EPS, a company whose business, from the historic and current perspective, is of great importance for socio-economic stability and overall development of our society. On the one hand, the intentions regarding the change of the position and role of EPS in the market are clear. On the other hand, it is a serious challenge to reorganize such a complex company, especially in the area of the new logistic of the market competitiveness of EPS and the capacity of the employees to cope with the challenging tasks that lie ahead them. It is interesting to implement the marketing orientation into the complex business system which is, nowadays, faced with the numerous conflicting challenges. Let’s just mention the possibility that Government of Serbia, as owner of EPS, might, respecting the rules of public procurement, not be the buyer of the customer service of its own company, providing the electricity for its ministries and authorities from the yet-to-be accomplished providers in our energy system. Thus, recently, Croatian HEP has been defeated by the Slovenian company GEN-I, which, thanks to better offer, supplies Government of Croatia as well.

**According to you, what should be the corporatization? In your opinion, what are the first possible steps?**

Corporatization means the dynamic joint-stock ownership structure, including the appropriate management, defining goals, strategies and daily procedural work, considerably market-oriented and sustainability. EPS as joint-stock company, exposed to market

conditions, should receive the appropriate management system and business procedures, respecting the interests of many shareholders interested in functioning and performance of the company. This means that major changes will happen in the business culture of EPS, which will have a long-term focus on the customers, their specific requirements and effective meeting the needs. It will come to positive dramatic change in authority and priorities in organization, in accordance with the requirements of improving competitiveness and business performance of EPS. EPS Corporation will have to justify its performance in comparison with the best practice of similar companies from the referent surroundings. This is certainly a vision of change, which should be preceded by a clarification of the role and priorities of the complex organization.

**How could we realize that? Weather we do as a private partner would do (sack a half of the employees, increase the prices, shut down the unprofitable plants and mines, leave half of the consumers without electricity because they don't pay the electricity...) or, however, the state would have to be tactful and to have some long-term plan?**

At the beginning, the state must certainly take into account the history of EPS and the importance of this company for Serbia in general, including the necessarily good plan of organizational changes that must occur. Traditional culture of public companies with dominant social functions and neglecting the efficiency and realized profit, is diametrical regarding the clearly exposed culture of corporate enterprises, especially in the area of profit and evaluation of the employees. This unique transition from the public company to corporation, in order to be successfully executed, implies clear schedule, with specified steps and anticipated progress. The other approach to corporatization of EPS would imply the devastation of the achieved and problematic future of an important institution in our society.

**Is it possible to completely exclude the social affairs from EPS? There is no electricity if it's not paid for, as gasoline at the gas station, and it is up to the state to pay that expense instead the poor citizens and weak companies from the state budget. Which solution is closer to you and which would be more effective?**

The current situation, with liberalization of the electricity market, is controversial as well. On the one hand, the Government dictates relatively low regulated price of electricity, and on the other hand, promotes the values of free supply. It should be mentioned that in such regulated market the electricity price is significantly lower than in other EU countries. Government of Serbia significantly emphasizes the social role of EPS in our society by the electricity price and its attitude towards the non-paying customers. It is in certain conflict with the objectives of its corporatization and market orientation of this company. The perspective weakening of social function of EPS should be expected, in accordance with the intensification of the integration process of our in the European Union.

**The opening of the electricity market goes along with that. Last year the high voltage market was opened, at the beginning of this year the middle voltage was opened, and apparently from 1<sup>st</sup> July of this year the low voltage market will be opened. Undoubtedly, EPS will, not only because of the low price in comparison to the competition, remain the dominant player at the domestic market, but,**

**according to your professional opinion, what that fact means for the company accustomed to the state monopoly?** This is a crucial challenge of EPS corporatization. Competitiveness at the non-market basis is not sustainable in long terms, and thus the survival of the company and jobs depend on the capacity of the adaptability to new business requirements. With the harmonization of our electricity price with, for example, the price in Bulgaria and Romania, the issue of customer retention will come out. I hope that the employees in EPS will find their chance even in the dramatically altered condition of free competition in electricity supply.

### **How much greater opening of the market can contribute to the success of EPS?**

It is important for EPS that Government equally doses the social function of this company and expectations in terms of the incorporation of the ownership and management structure. This kind of balancing will significantly enable or disable the quality of transformation of this important public enterprise. The overdosed social function of EPS provides a number of shortcomings in development of its competitiveness. Personally, I hope, for the employees and wider public interest, that EPS's transition into corporative phase of operations will be effective.

**EPS with the current price of the kilowatt-hour is more than competitive for release of its "goods" in Europe. The Office will be opened in Slovenia. The consulting services are agreed with a Swiss company for abroad electricity sale. And that raises the question of new capacity. How do you see this problem?**

In new business conditions, EPS expects realistic assessment of the production price, including business expenditures, that is, the selling price of the electricity. It will contribute significantly to the process of EPS corporatization, that is entering of the system in the phase of market operation. Current competitiveness of EPS does not mean the sustainable competitiveness, precisely because of the emphasized social component in defining the electricity price in our country. Hence, such competition should be seen as temporary category, and see EPS in broader context of changes that are expected.

**Everywhere, even in developed countries, such as Germany or France, the electric power companies are the state enterprises in the true sense of the word, but they are profitable, technologically and developmentally strong. For years EPS had problems with collection and losses. Is that the problem of the "boss" or our unwillingness to turn to the market?**

Towards the European integration and the liberalization of the electricity market, as well as corporatization of EPS, we can consider very useful the overview of the best business practices of the state electric power companies in Europe, which operate on the commercial basis for a long time. On that level, EPS can learn a lot about the possible advances in the field of business politics, goals, strategies and specific business solutions. These are the companies the social role of which is significantly differently defined in relation to the long-standing role of EPS, including cushioned monopoly position of the public enterprise with "special" tasks and reasonable socialization of losses it makes. With the new conditions, EPS requires the new solutions, which we need to learn from the best.

Owner - state

**Does the state really need to stay the majority owner of EPS and why? Or, perhaps, it is more correct thing to do as NIS has done? EPS is not an oil refinery or an ordinary fabric which we can sell today and build a new tomorrow, but it is the system whose operation and maintenance supplies a hundreds of local companies and thousands of workers. How do you look at this problem, but not only from the market point of view?**

Bearing in mind that EPS is basically the strategic system of our society, from whose stability depends the general social perspective as well, the state should certainly stay the majority shareholder. It is a national energy sovereignty, which should be carefully preserved and cherished.

Source; Serbia Energy