

IPA National Programme 2008 Part II – Bosnia and Herzegovina

Fiche 18: Energy

1. Basic information

1.1 CRIS Number: 2008/20-339

1.2 Title: Support to Bosnia and Herzegovina (BiH) in meeting the requirements of the Energy Community Treaty and continuing energy sector reform and development

1.3 ELARG Statistical code: 03.15 European standards/Energy

1.4 Location: Bosnia and Herzegovina

Implementing arrangements:

1.5 Contracting Authority: European Commission

1.6 Implementing Agency: European Commission

1.7 Beneficiary:

Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina (MoFTER)

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Ministry of Energy, Mining and Industry of FBiH

Ministry of Economy, Energy and Development of RS

Financing

1.8 Overall cost: EUR 11.75 million

1.9 EU contribution: EUR 1.75 million

1.10 Final date for contracting: Two years following the date of the conclusion of the Financing Agreement

1.11 Final date for execution of contracts: Two years following the end date of contracting

1.12 Final date for disbursements: One year following the end date for the execution of contracts

2. Overall Objective and Project Purpose

2.1 Overall Objective

The overall objective of this project is to assist in the reform of the energy sector in BiH which creates a market-oriented energy sector, regulated and integrated into the regional markets of South Eastern Europe and the European Union, meeting obligations undertaken in relation to the Energy Community Treaty¹, as well as other international obligations.

2.2 Project purpose

Improved capacity in BiH for developing and implementing a comprehensive energy strategy and improved application of measures involving energy efficiency and renewable sources of energy with the perspective for introducing such approaches into management of public sector facilities.

2.3 Link with AP/NPAA / EP/ SAA

European Partnership short term priorities in the energy field are (i) to start implementing the commitments undertaken within the framework of the Energy Community (EnC) Treaty; (ii) develop and adopt a comprehensive Energy Strategy; (iii) pursue reforms and liberalisation of the energy sector; and (iv) ensure that the Independent System Operator (ISO) and the Transmission Company (TRANSCO) become rapidly fully operational, each as a single State-level company.

The medium term priorities in the energy field are to (i) implement the entities' action plans for the restructuring of the energy sector; (ii) consolidate the State and Entity Energy Regulators; (iii) take steps to achieve concrete progress in relation to the gas sector, *inter alia*, by developing a gas strategy, establishing a system operator (TSO) and regulator and developing the internal gas market.

BiH also has obligations related to this project under the *Energy Community for South East Europe (EnC) Treaty*. BiH has commitments under the *Energy Charter Treaty* and the *Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA)*. These are all international agreements, which the national law needs to respect. In addition, improving energy efficiency would contribute to meeting obligations undertaken in relation to environmental agreements, such as the United Nations Framework Convention on Climate Change.

The design of this project addresses these issues. While many EnC Treaty requirements are to be met by the end of 2008, many will still be outstanding, especially in the areas of customer protection, social policy, environmental obligations directly linked to the energy sector, energy efficiency and introduction of biofuels. Coordination of policies at the State and Entity levels are required to meet these requirements.

The project thus addresses key priorities identified in the European Partnership, as well as assisting the country to meet obligations undertaken under various international agreements, key among which is the Energy Community Treaty.

¹ Contains the following EU Directives regarding energy: Directive 54, electricity; Directive 55, gas; Directive 77, renewables; Directive 30, biofuels.

2.4 Link with MIPD

The expected results for areas of environment and energy are listed under Chapter 2.2.3 *European Standards* (p. 19-20) of the MIPD 2007-2009. Furthermore, the energy sector is listed as a key priority in the document under Chapter 1.2 *Objectives of Pre-accession assistance* (p. 9).

2.5 Link with National Development Plan

The National Development Plan is under preparation, therefore the key document is the *Poverty Reduction Strategy Plan (PRSP 2004-2007)*. The PRSP plan sets out goals of the energy sector reform as it pertains to poverty alleviation. The PRSP clearly links the performance of the energy sector to future improvements of living standards in BiH. The major goals of the energy sector reform as stated in the PRSP are: *stimulate national and international investment, ensure a more reliable supply of energy, in accordance with defined quality standards and at lowest prices, join the international market through a single market of electric power and gas in BiH, enhance cost-effectiveness and rational use of energy sources and improve energy efficiency, implement liberalisation and introduce competition and transparency, ensure protection of environment in accordance with national and international standards, protect interests of the system users, increase the use of renewable energy sources, meet the conditions of the European Energy Charter Agreement, as well as other international contracts and agreements.*

2.6 Reference to National / Sectoral investment Plans

Pursuant to the Law Establishing ISO and the Grid Code, ISO BiH has developed and approved by State Energy Regulator (SERC) the *Indicative Generation Development Plan for the period 2007-2016*, drawn on the basis of available data in the power sector.

BiH does not have a long-term energy development Strategy. An overall energy strategy as well as entities' strategy documents is in the process of being developed. Progress to date indicates that closer cooperation is required with all key stakeholders in the power sector and the bodies responsible for planning in Bosnia and Herzegovina, in the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS), in order to make the next Indicative Plan for the period 2008 – 2017 as realistic as possible and acceptable to the various parties involved. The indicative generation plan also serves as the basis for development of the *Long-Term Transmission Network Development Plan*, based on which specific annual and multi-annual investment plans are made.

It is noted that the Energy Sector Study in Bosnia and Herzegovina (*funded through a World Bank loan under Power III*) on the development of the Energy sector of BiH started in November 2006 and has been completed at the end of March 2008. This Study provides a basis for the Energy Balance Projection until 2020 and the investment plans to cover future needs. The Study covers all the energy sub-sectors; electricity, gas, coal, oil and renewables. The Study provides recommendations for efficient integration of BiH into the energy sector of the EU. The Study will be a source of data for development of the Energy Strategies in BiH.

3. Description of Project

3.1 Background and Justification

Energy is a key sector for the BiH economy, particularly in terms of attracting foreign direct investment (FDI) and for export. Furthermore, as a cost to business it has significant employment implications as well as affecting the overall development and competitiveness of BiH enterprises. Currently electricity is the key element of the formal energy sector, apart from fuel for transportation. Gas is less significant but expected to expand. Fuelwood is the major source of energy for households.

BiH ratified the Energy Community Treaty in July 2006, and assumed a series of obligations by so doing. This is a core element of the legal and policy environment. BiH authorities are stretched in this area and require support. Reform of the energy sector along the lines described above and creation of unified energy market is critical to supporting both the BiH link-up with energy markets in SEE and EU, and sustainable economic development in BiH.

An unbundled energy sector with competitive markets and transmission linkages to the SEE and EU could, over time, provide cheaper energy inputs for domestic industry, thereby enabling BiH companies to become more competitive. In addition, the creation of a SEE market with connections to BiH provides an important export opportunity for BiH.

Institutionally, at State level there is an Energy Department within MoFTER, and each Entity also has a Ministry responsible for energy. For more detailed information regarding BiH energy institutions please refer to Annex III.

Key elements of the domestic legal and policy environment regarding power are in place and include the State and Entity electricity laws and the Entity Restructuring Plans already adopted by the respective parliaments. Power transmission is already unbundled and the ISO and TRANSCO are operational. Independent regulatory commissions for power are established and operational. Power generation and distribution, which is currently within the three power utilities, needs to be unbundled; allocating the assets, liabilities and staff to the new companies and corporations. Understanding of the need for and process of energy reform, the significance of the Energy Community Treaty and the Energy Charter Treaty is weak in both the sector staff and the consuming public at large. This project would be a continuation of ongoing technical assistance. Continuity will be important to ensure BiH is able to satisfy Energy Community Treaty requirements and optimally manage transition in this key sector. Other donors have been and remain involved in the sector and are looking for leadership from the EC. Close coordination with other donors has been established with other donors in the sector, is imperative and is envisioned to continue.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact

This project, as the continuation of EC projects for energy sector of BiH and in cooperation with other donors, will support the set up of a functionally separate energy structure in electricity and gas. It will be compatible with the EnC treaty requirements, which calls for competitive markets nationally, which are linked with the SEE and the EU markets. This will ensure competitive energy available for local industry, and provide reliable and safe supply of energy products. Such

a reformed and restructured sector creates the required climate for investment in both the electricity and gas sectors and improves environmental performance and sustainable development of the sector through implementation of energy efficiency and use of renewable energy.

By supporting demonstration projects the present project also addresses social and educational issues, as required by the EnC Treaty and various EU Directives. This will build on achievements by the forthcoming IPA 2007 project. The IPA 2007 project will provide the primary legislative bases for energy efficiency (EE) and renewable energy sources (RES), defining responsibilities at the appropriate level of government. Following the work of the IPA 2007 programme, a large EE project will be identified and a feasibility study prepared for each of the two municipalities to be selected under the IPA 2007 programme. These projects will receive concessional funding from an IFI (KfW). IPA 2008 funding will provide a supervisory contract to oversee the works, and this contract will equate to 10% of the total loan value to be allocated, likely to be at least EUR 10 million.

The IPA 2007 programme also focuses on improved public consultation and educational programmes aimed at the public. The emphasis is on awareness of the changes taking place in the energy sector and the need for efficiency improvements. The same campaigns may also be used for improving the way the public at large deals with the sector, especially in relation to public hearings at the regulatory commissions. Other jurisdictions have shown the value of schools programmes in this context. Additionally, awareness and educational programmes should address internal energy sector stakeholders, such as ministries, government agencies, and utilities to provide information regarding the Energy Community Treaty for South East Europe (EnC) and relevant EU Directives and increase understanding of upcoming changes and thus aim to reduce resistance to change, particularly for those working within the sector.

3.3 Results and measurable indicators

Result 1.1: A comprehensive energy strategy in BiH is prepared and under implementation and a mechanism is in place enabling periodic review and updating of the strategy and policy.

OVI 1.1: Strategy document prepared and adopted, strategy document implementation to plan.

Result 1.2: Two municipalities supported in implementation of the feasibility study selected in each municipality for receipt of loan from KfW for a major energy efficiency project, including renewables if appropriate.

OVI 1.2: Works contract implemented to plan, baseline surveys at beginning and later stages indicate improvement in: awareness and practical understanding of energy efficiency and conservation issues (i.e. energy programmes, lighting, labelling etc.), renewables, consumer protection among smaller consumers (i.e. domestic users and SMEs) and the public at large, as well as among those responsible for developing and implementing energy efficiency and sustainable energy policies; energy efficiency and renewable use in each municipality; uptake of EE and renewables by public decision makers and policy makers.

3.4 Activities

Activity 1.1.1 (to be implemented under a service contract (Contract 1.1): Comprehensive energy strategy in BiH, harmonizing Entity strategies, is prepared. It is developed through mechanisms

agreed with government counterparts and its development and implementation is carried out through a consultation process.

Activity 1.2.1 (to be implemented under a service contract (Contract 1.2) and a KfW² loan (Contract(s) 1.3): Implementation of EE and/or RES measures, involving works, carried out. Supervision contract is carried out.

3.5 Conditionality and sequencing

Result 1.2 will be inter-dependent with the IPA 2007 project. The IPA 2007 project will, *inter alia*, carry out the following upon which IPA 2008 will build:

Feasibility study for each municipality for loan funded project, including:

- Business plan;
- Loan finance for the projects is indicatively EUR 10 million; the larger municipality is expected to have a larger share of the loan finance; co-finance is expected to be around 15%;
- Technical specifications for what is to be done under the loan to be provided by KfW;
- Bill of quantities and tender documents for KfW works contract to comply with KfW requirements;
- Technical specifications for the contract for the supervision of the KfW funded Works Contract;

For Activity 1.1.1 - Complete review of actual situation to be undertaken during the Inception period with all donors, donor funded consultants and key sector stakeholders including Ministries, regulators and operating companies– 3 months.

3.6 Linked activities

This project builds on a series of previous projects, some complete, some ongoing and some to start in 2007. Ongoing CARDS projects are Technical Assistance Support to the Energy Department of MoFTER (TASED) and the Energy Regulation System (EnREG). TASED aims to build the capacity of the Energy Department in MoFTER by developing an energy database and energy balance model and by increasing the capacity of Energy Department staff through “on-the-job” training. EnREG is providing assistance to existing regulatory commissions in improving their regulatory performance. As indicated above in 3.5, IPA 2008 will build on the work to be carried out by IPA 2007 with regard to energy efficiency and renewable energy.

The EBRD is about to embark on a short term project to develop a methodology of how to unbundle the existing electricity producers. Results of this study should be available by autumn 2008. The issues to be addressed include the consideration of a share transaction versus asset transfer. A energy study in Bosnia and Herzegovina financed by World Bank loan was completed in April 2008, providing input data for a comprehensive energy strategy. The Study has collected

² Please refer to Chapter 3.2, Assessment of Project Impact

data related to energy system demand/supply balances and possible future investments. The project included all energy sources, electricity, oil, gas, coal and renewable.

The USAID funded project REAP concentrates on completing legal work in the gas sector, work associated with regulation and monitoring the evolution of the Action Plans related to creating the unbundled companies in the electricity sector.

3.7 Lessons learned

There is considerable experience in BiH gained in the development of the electricity laws and the formation of ISO and TRANSCO. A number of lessons emerge:

1. It is difficult to define a time schedule that is observed by all parties; however, it essential that clear targets and time frames are put in place and followed.
2. Flexibility of approach is essential along with an ability to change course to adapt to new situations.
3. Working in isolation leads to project failure. Close cooperation is required at all levels, especially between all three governments, as well as with other consultants.

Donor coordination is vital in resolving issues. In this environment which is heavily politicised ensuring that the international community presents a unified view is paramount and can, and has, overcome even the strongest opposition with time, perseverance and carefully targeted and coordinated assistance. Contact and cooperation between State and Entity governments and agencies needs to be improved to get buy-in from all parties. The institutional set up in the energy sector remains problematic and the needs in the sector are considerable and growing rapidly as the sector seeks to meet the challenges of meeting EnC Treaty obligations and EU Directives as well as growth. The EC is recognised as the lead donor in the sector. Should there be a lack of progress in the short term in relation to areas where development is necessary and where political agreement is necessary but where this political agreement may not be forthcoming, the proposed interventions should focus on areas where clear progress can be made and the needs are, in any case, far in excess of the support that even this full programme could provide (i.e. energy efficiency, renewable, public education and awareness).

4. Indicative Budget (amounts in EUR)

			SOURCES OF FUNDING									
			TOTAL EXP.RE		IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activity 1.1.1	X		750.000	750.000	100							
Contract 1.1: Development and Implementation of Energy Strategy in BiH			750.000	750.000	100							-
Activity 1.2.1		X	11.000.000	1.000.000	9.1	10.000.000	90.9			10.000.000		
Contract 1.2: Supervision of works			1.000.000	1.000.000	100							
Contract(s) 1.3: KfW loan			10.000.000			10.000.000	100			10.000.000		
TOTAL IB			750.000	750.000	100							
TOTAL INV			11.000.000	1.000.000	9.1	10.000.000	90.9			10.000.000		
TOTAL PROJECT			11.750.000	1.750.000	14.9	10.000.000	85.1			10.000.000		

Amounts net of VAT

(1) In the Activity row use "X" to identify whether IB or INV

(2) Expressed in % of the **Total** Expenditure (column (a))

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1.1	Q1 2009	Q3 2009	Q4 2010
Contract 1.2	Q2 2009	Q4 2009	Q1 2012
Contract 1.3 ³	See footnote		

All projects should in principle be ready for tendering in the 1ST Quarter following the signature of the FA

6. Cross cutting issues

6.1. Equal Opportunity

No discrimination of whatever nature will be applied.

The principle of non-discrimination regarding nationality, gender, religion and race will be applied during tendering, contracting and implementation of this project and all parties involved in all phases of the project will have equal opportunity.

6.2 Environment

The institution building projects foreseen under this intervention will not have an environmental impact during their implementation. They will however contribute to sustainable economic development, as described in the overall objective.

All investments shall be carried out in compliance with the relevant Community environment legislation. In particular, the procedures for environmental impact assessments as set down in the EIA directive will fully apply to all investment projects and if a project is likely to affect sites of nature conservation importance, an appropriate nature conservation assessment shall be made, equivalent to that provided for in Article 6 of the Habitats Directive". The application of the European Principles for the Environment will be ensured.

6.3 Minorities

Please see 6.1 above.

³ Contracting of KfW loan is subject to activities of the KfW and the responsible BiH authorities, therefore implementation of Contract 1.2 will depend on the dynamics of Contract 1.3

ANNEXES:

ANNEX I. Logical framework matrix in standard format

ANNEX II. Amounts (in EUR) Contracted and disbursed by quarter for the project

ANNEX III Institutional framework

ANNEX IV Reference list of relevant laws and regulations

ANNEX I. Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX for Project Fiche	Programme name and number: Support to Bosnia and Herzegovina (BiH) in meeting the requirements of the Energy Community Treaty and continue energy sector reform and development		
	Contracting period expires: N+2		Disbursement period expires: N+5
	Total budget : EUR 11.75 million		IPA budget: EUR 1.75 million
Overall objective	Objectively verifiable indicators	Sources of Verification	
The overall objective of this project is to assist in the reform of the energy sector in BiH which creates a market-oriented energy sector, regulated and integrated into the regional markets of South Eastern Europe and the European Union, meeting obligations undertaken in relation to the Energy Community Treaty , as well as other international obligations.		EU REPORTS State and Entity Government reports Statistics reports	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
Improved capacity in BiH for developing and implementing a comprehensive energy strategy and improved application of measures involving energy efficiency and renewable sources of energy with the perspective for introducing such approaches into management of public sector facilities.	BiH-level priorities defined for EU integration in the energy Improved implementation and understanding of international obligations Improved understanding and implementation of energy efficiency measures and measures involving renewable sources of energy end-users.	EU REPORTS State and Entity Government reports Statistics reports Official gazette records at state and entity level; International org. REPORTS Annual Work Plan in the Ministry	
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
Result 1.1: A comprehensive energy strategy in BiH is prepared and under implementation and a mechanism is in place enabling periodic review and updating of the strategy and policy. Result 1.2: Two municipalities supported in implementation of the feasibility study	OVI 1.1: Strategy document prepared and adopted, strategy document implementation to plan. OVI 1.2 : Works contract implemented to plan, baseline surveys at beginning and later stages indicate improvement in: awareness and practical understanding of	Action Plans, Implementation reports Project and Monitoring Report Annual Work Plan in the Ministry Minutes of meeting Press, Radio articles Feasibility study	

<p>selected in each municipality for receipt of loan from KfW for a major energy efficiency project, including renewables if appropriate.</p>	<p>energy efficiency and conservation issues (i.e. energy programmes, lighting, labelling etc.), renewables, consumer protection among smaller consumers (i.e. domestic users and SMEs) and the public at large, as well as among those responsible for developing and implementing energy efficiency and sustainable energy policies; energy efficiency and renewable use in each municipality; uptake of EE and renewables by public decision makers and policy makers.</p>		
<p>Activities</p> <p>Activity 1.1.1 (to be implemented under a service contract (Contract 1.1): Comprehensive energy strategy in BiH, harmonizing Entity strategies, is prepared. It is developed through mechanisms agreed with government counterparts and its development and implementation is carried out through a consultation process.</p> <p>Activity 1.2.1 (to be implemented under a service contract (Contract 1.2) and a KfW loan (Contract(s) 1.3)): Implementation of EE and/or RES measures, involving works, carried out. Supervision contract is carried out.</p>	<p>Means</p> <p>Technical Assistance</p> <p>Supervision (service Contract) Works (KfW loan)</p>	<p>Costs</p> <p>EUR 750,000</p> <p>EUR 1 million</p>	<p>Assumptions</p> <ul style="list-style-type: none"> -Full involvement of relevant BiH authorities and local authorities. - Progress on public administration reform -Project documents (design) not timely completed - Loan funds by KfW implemented in accordance with the IPA disbursement schedule. - Buy-in by sector stakeholders, education facilities and mass media

ANNEX II. Amounts (in EUR) Contracted and disbursed by quarter for the project

Contracted	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Contract 1.1				750.000										
Contract 1.2				1.000.000										
Cumulated				1.750.000										
Disbursed	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Contract 1.1				150.000		400.000		200.000						
Contract 1.2				200.000		250.000		200.000		125.000		125.000		100.000
Cumulated				350.000		1.000.000		1.400.000		1.525.000		1.650.000		1.750.000

ANNEX III Institutional framework

At the State level, the following organisations will be included:

Ministry of Foreign Trade and Economic Relations (MoFTER) as the lead beneficiary, bearing in mind its responsibility „ Ministry of Foreign Trade and Economic Relations is responsible for activities and tasks within the jurisdictions of BiH and which are **related to policy defining**, basic principles, **coordination of activities and harmonization** of entities' authoritative bodies and institutions on the international level in the field of agriculture, **energy**, environment protection, development and usage of natural resources and tourism.”

- Transmission System Operator (TRANSCO)
- Independent System Operator (ISO)
- State Energy Regulatory Commission (SERC)

At the Entity level, the following organisations will be included:

- Ministry of Energy, Mining and Industry of FBiH (MEMI) – as the entity level governments have key responsibilities in terms of ownership of energy facilities and implementation of energy policy they are key beneficiaries
- Ministry of Economy, Energy and Development of RS (MEED) - as the entity level governments have key responsibilities in terms of ownership of energy facilities and implementation of energy policy they are key beneficiaries
- Federal Electricity Regulatory Commission (FERC)
- Regulatory Commission for Energy of RS (REERS)

The three power utility companies currently responsible for generation and distribution: Electroprivreda BiH, Electroprivreda RS and Electroprivreda HZ HB.

The gas utility companies responsible for transmission and distribution, currently the companies operating in Sarajevo, Lukavica, Visoko and Zvornik.

A significant aspect of the project will be the overall coordination, cooperation and involvement of the above entities along with consumer representative bodies as they emerge.

ANNEX IV

4.1 Reference list of relevant laws and regulations

4.1.1 Relevant laws and regulations at state level

There are several laws that are considered the cornerstones of the electric sector development in BiH. At state level the following have been adopted:

- Law on Transmission of Electric Power, Regulator and System Operator of BiH (Official Gazette BiH 7/02)
- Law Establishing an Independent System Operator for the Transmission System of BiH (Official Gazette BiH 35/04)
- Law Establishing the Company for the Transmission of Electric Power in BiH (Official Gazette BiH 35/04)
- Grid Code (Official Gazette BiH 48/06)
- Market Rules (Official Gazette BiH 48/06)

4.1.2 Reference list of relevant laws and regulations at entity level

At the entity level, the following laws have been adopted:

- Federation of BiH Law on Electricity (Official Gazette BiH 41/02)
- Republika Srpska Law on Electricity (Official Gazette RS 66/02)

Additionally, at Entity level Action Plans for Restructuring the Power Sector were adopted by the respective parliaments in 2002 (RS) and 2004 (FBiH). The Action plan for Restructuring the Power Sector of RS have been in force since 2003 (Official Gazette 69/03) and Action plan for Restructuring the Power Sector of FBiH, was updated and revised and is in force since 19.06.2005.

4.1.3 Reference list of relevant Treaties and Agreements at International level

The key documents applicable at the international level are the Energy Treaty (EnC), the Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA).

Energy Community Treaty for South East Europe (EnC)

BiH has entered into international agreements in the energy field. The most important is the Agreement on Establishment of the Energy Community which has been ratified and entered into force on 1st July, 2006.

The basic goals of the EnC are the creation of a stable and regulatory framework and market space, which enables a reliable supply of energy products and also attract investments into the energy sector, especially electricity and natural gas. Competition is seen as a critical item in terms of supply, such as alternative routes of gas supply for example. The overall objective is to improve the availability and security of supply to SEE citizens and archive a corresponding improvement in the quality of life. Environmental protection, energy efficiency and conservation are seen as an integral part of the process, including the development of renewable resources.

By concluding this Agreement, contracting parties from the region commit to establish a common electricity and gas market among themselves, which will function in accordance with the standards of EU energy market, with which it will eventually be integrated. This is to be achieved by gradual takeover of parts of so-called *acquis communautaire* (legal heritage)

of the EU, pertaining to energy, environment protection and competition. It is a matter of implementation of relevant EU directives and regulations for energy and environment protection.

By participating in this process, Bosnia and Herzegovina confirms its commitment to energy sector reform, energy market liberalisation and harmonisation of its policy with the EU Member Countries.

Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA).

BiH is also a signatory member of the Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA).

PEEREA's objectives are:

- the promotion of energy efficiency policies consistent with sustainable development;
- the creation of conditions which induce producers and consumers to use energy as economically, efficiently and environmentally soundly as possible;
- the fostering of cooperation in the field of energy efficiency.

The Contracting Parties undertake to establish energy efficiency policies and legal and regulatory frameworks which promote, inter alia, the efficient functioning of market mechanisms, including market-oriented price formation.

Kyoto Protocol

BiH ratified the Kyoto Protocol.