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Bosnia & Herzegovina: gas disputes along ethnic lines

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Since the beginning of the year, disputes have been mounting in Bosnia and Herzegovina (BiH) over the directions and sources of new gas supplies. These mainly concern the construction of a gas interconnector with Croatia. The plans to increase the capacity of the LNG terminal on the island of Krk, from the current 2.9 bcm to 6.1 bcm by 2025, will create the opportunity to import gas from this country. The Southern Gas Interconnection project, which the government in Zagreb officially supported this February, envisages the construction of the first gas pipeline interconnector between Croatia and BiH with a capacity of 1.5 bcm. The route would be 242 km long in total, and would consist of a 74-km long Split–Imotski section in Croatia and a 74-km long Bosnian section to Novi Travnik (115 km), with a branch to Mostar (53 km).

The project will be implemented by state-owned entities, Croatia's Plinacro and the Sarajevo-based BH-Gas; these companies will also be the new gas pipeline's operators. The total estimated cost is around €100 million, and according to Plinacro the project should be completed by 2024. It will mainly be financed with loans from foreign financial institutions, primarily the European Bank for Reconstruction and Development (a loan of €87 million) and the United States Agency for International Development (USAID), which has offered a grant of $500,000. The construction of the interconnector would make it possible to diversify the sources and routes of gas supplies to BiH, which is currently 100% dependent on imports from Russia (via Serbia and the TurkStream pipeline). In 2021, BiH's gas imports reached 254 mcm.

The project has been under consideration for over a decade; a letter of intent to this effect was signed in 2011. However, real progress only began a few years ago after the European Commission (the Directorate General for Neighbourhood and Enlargement Negotiations, DG NEAR) approved of the gas pipeline construction design in July 2019. In 2021, 30% of the required environmental permits for the new route had been granted for the Bosnian section and 90% for the Croatian section. To this day, however, no actual work on its creation has started because the BiH central government has been unable to reach a consensus to approve a law to implement it. It was opposed by the Bosnian Croats' largest party, HDZ BiH, which demanded that the gas pipeline operator and contractor be a newly established company based in Mostar, and not the gas company BH-Gas from Sarajevo. At the same time, the government in Republika Srpska (another of BiH's federal entities) is pushing for increased imports of Russian gas and expanded connections to the TurkStream pipeline as an alternative to the interconnector with Croatia.

Commentary

- It is in the interest of both Zagreb and Sarajevo to implement the Southern Gas Interconnection project. Plinacro, which will operate the Croatian section of the new gas pipeline, is 100% controlled by the Croatian state. The project's implementation would increase the country's transit capacity, and consequently, its revenues from transit fees. It would also enable the creation of a new market for gas from the expanded LNG terminal on the island of Krk. Finally, the planned gas pipeline also has a strong political context; it would represent the achievement of the priority of all Croatian governments, which is to support the interests of the ethnic Croats living in the south-western part of Bosnia and Herzegovina.
- The pipeline will help increase the volume of gas supplies to BiH and diversify its sources and transmission routes, which is important as domestic demand for gas is expected to rise. According to the Statistical Agency of Bosnia & Herzegovina, gas consumption rose by 12% between 2016 and 2021. The expected increase will be related to the planned reduction of the emissions of the energy and heating sector in BiH Coal is currently the predominant fuel in the country, accounting for around 70% of the energy generated in the country. It is expected that the long-term infrastructure projects announced by the leaders of Bosnia & Herzegovina, such as the modernisation of the heat and power plants (Tuzla, Kakanj), will make it possible to reduce the country's carbon footprint. The gradual shift from coal to gas is also vital environmentally as Bosnia's towns and cities are among the most polluted in Europe. Although BiH has not yet chosen the path of energy transformation at the central level, one option under consideration involves the use of gas as a transition fuel in the process of achieving climate neutrality in 2050 and facilitating the country's compliance with EU requirements in this area. Currently, the share of gas in BiH's energy mix is as low as 3%. Gas is used in industry (48.5%), households (30.1%) and transport (21.4%).
- The extremely complicated internal situation in Bosnia & Herzegovina is the most serious challenge to implementing the Southern Gas Interconnection project. BiH is a federal state that consists of the Federation of Bosnia & Herzegovina and Republika Srpska (RS). Both of these federal entities have competences to decide on energy issues, but they pursue separate and often contradictory policies. Bosnia & Herzegovina as a state does not have a gas law at the central level. In theory, the federal entities can decide for themselves about the shape and direction of their energy investments, but in practice each initiative that is implemented jointly with a third country (as is the case with this project) requires the central government's consent. On this basis, politicians from the largest Bosnian Croat party HDZ BiH have refused to grant permission for the construction of the Southern Gas Interconnection if BH-Gas from Sarajevo becomes its operator. The Bosnian Croats believe that the company has an inappropriate ethnic structure, as it does not employ a single Croat or Serb. As a consequence the Croats, referring to the law on the protection of vital national interests, are insisting on the establishment of a new company based in Mostar.
- The implementation of the Croatian-Bosnian gas interconnection may be complicated further as the Bosnian Serbs are making (so far preliminary) plans to expand an alternative connection: this is an interconnector from Serbia to BiH, which is an extension of the European land branch of the TurkStream pipeline. In August 2022, the Bosnian

Serb Milorad Dodik met President Vladimir Putin in Moscow to discuss the prospects for enhancing energy cooperation between Russia and Republika Srpska. During the visit, plans were confirmed to build a branch of TurkStream (to be called the New Eastern Connection) which would transport additional volumes of Russian gas exclusively to RS. According to the spatial development plan, two 600 MW gas power plants are to be built in Republika Srpska by 2025 (at Prijedor and Banja Luka) so as to guarantee the energy security of RS for the next 50 years. Since 2021, Russia has ensured 100% of gas supplies to Bosnia & Herzegovina via Serbia and TurkStream, and the possible new interconnector would strengthen this dependence. For years, Russia has been using Bosnia's dependence in the energy sector to achieve its goals in BiH: undermining the country's stability and slowing down its accession to the EU and NATO. However, the project to build a new section of TurkStream has still not been approved by the BiH central government, which has concluded that it is incompatible with the EU's guidelines on diversifying gas supply sources, and that Bosnia & Herzegovina, as an EU candidate, is obliged to comply with them.