



# Bosnia and Herzegovina ❖

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**B**osnia and Herzegovina is a country in southeastern Europe on the Balkhan Peninsula. Bordered by Croatia to the north, west and south, Serbia to the east and Montenegro to the southeast, it is landlocked except for the 20 kilometer coastline on the Adriatic Sea.

Called Illyricum in ancient times, the area now called Bosnia and Herzegovina was conquered by the Romans in the 2nd and 1st centuries B.C. and folded into the Roman province of Dalmatia. In the 6th century the Byzantine Empire claimed it. Slavs began settling the region during the 7th century. Around 1200, Bosnia won independence from Hungary and endured as an independent Christian state for some 260 years.

The Turks conquered Bosnia in 1463. During the roughly 450 years Bosnia and Herzegovina were under Ottoman rule, many Christian Slavs became Muslim. At the Congress of Berlin in 1878, following the end of the Russo-Turkish War (1877–1878), Austria-Hungary was given a mandate to occupy and govern Bosnia and Herzegovina. As a result, relations with Serbia, which had claims on Bosnia and Herzegovina, became embittered. The hostility between the two countries climaxed in the assassination of Austrian archduke Franz Ferdinand in Sarajevo on June 28, 1914, by a Serbian nationalist. This event precipitated the start of World War I (1914–1918). Bosnia and Herzegovina were annexed to Serbia as part of the newly formed Kingdom of Serbs, Croats, and Slovenes on Oct. 26, 1918. At the end of World War II, Bosnia and Herzegovina were reunited into a single state as one of the six republics of the Communist Yugoslavia.

In a March 1992 referendum, Bosnian voters chose independence, and President Alija Izetbegovic declared the nation an independent state. Unlike the other former Yugoslav states, which were generally composed of a dominant ethnic group, Bosnia was an ethnic tangle of Muslims, Serbs, and Croats, and this mix contributed to the duration and savagery of its fight for independence.

PROFILE	
Population:	3,879,296***
GDP (Current US\$):	31.57 billion****
Per Capita Income: (Current US\$)	8,100****
Surface Area:	51,197 sq. km
Life Expectancy:	78.96 years
Literacy (%):	97.9% (of ages 15 and above)
HDI Rank:	74****
Sources:	
- <a href="https://www.cia.gov/library/publications/the-world-factbook/geos/bk.html">https://www.cia.gov/library/publications/the-world-factbook/geos/bk.html</a>	
- <a href="http://hdrstats.undp.org/images/explanations/BIH.pdf">http://hdrstats.undp.org/images/explanations/BIH.pdf</a>	
(***) For the year 2012	
(****) For the year 2011	

## Economy

Bosnia and Herzegovina (BA) is divided into two entities with significant autonomy – the Federation of Bosnia and Herzegovina (Federation) and the Republic of Srpska (RS). A smaller third jurisdiction – the Brcko District (BD) – is administered separately. The Federation is further divided into ten cantons, which also have significant autonomy.

The country's political environment and complex government structure create significant obstacles to economic development.

Bosnia is a transitional economy with limited market reforms. The economy relies heavily on the export of metals as well as on remittances and foreign aid. The interethnic warfare in Bosnia and Herzegovina caused production to plummet by 80 percent from 1992 to 1995 and unemployment to soar. With an uneasy peace in place, output recovered in 1996-99 at high percentage rates from a low base; but output growth slowed in 2000-02. Part of the lag in output was made up during 2003-08, when GDP

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growth exceeded 5 percent per year. However, the country experienced a decline in GDP of nearly 3 percent in 2009 reflecting local effects of the global economic crisis. One of Bosnia's main economic challenges since the recession began has been to reduce spending on public sector wages and social benefits to meet the IMF's criteria for obtaining funding for budget shortfalls. The convertible mark or BAM - the national currency introduced in 1998 - is pegged to the euro, and confidence in the currency and the banking sector has increased. Bosnia's private sector is growing, but foreign investment has dropped off sharply since 2007. Government spending, at roughly 50 percent of GDP, remains high because of redundant government offices at the state, entity and municipal level. A sizeable current account deficit and high unemployment rate remain the two most serious macroeconomic problems. In 2011, the country continued to recover from a recession caused by the global financial crisis.

Bosnia and Herzegovina offers opportunities to well-prepared and persistent exporters and investors. The country is open to foreign investment and offers a liberal trade regime. Significant industries are: steel, coal, iron ore, lead, zinc, manganese, bauxite, aluminum, vehicle assembly, textiles, tobacco products, wooden furniture, ammunition, domestic appliances, oil refining.

### **Competition Evolution and Environment**

Bosnia and Herzegovina was one of the six constituent Socialist Republics of the Socialist Federal Republic of Yugoslavia (SFRY). Despite common origins, the economy of the SFRY was much different from economies of the Soviet Union and other Eastern European socialist countries.

Following World War II there was an implementation of Soviet-style five-year plans and reconstruction through massive voluntary work. The countryside was electrified and heavy industry was developed. The economy was organised as a mixed planned socialist economy and a decentralised, worker managed market socialist economy: factories were nationalised, and workers were entitled to a certain share of their profit. Privately-owned craft shops could employ up to 4 people per owner. Land was partially nationalised and redistributed, and partially collectivised. In 1950s socialist self-management was introduced, which reduced the state control of the economy. Managers of socially owned companies were supervised by worker councils, which were made up of all employees, with one vote each. The workers were organised into trade unions which spanned across the country.

However, during and after the oil crisis of the 1970s, the foreign debt grew massively and by early 1980s it reached more than US\$20bn. Yugoslavia took on a number of International Monetary Fund (IMF) loans and subsequently fell into heavy debt. As a condition of receiving loans, the IMF demanded "market liberalisation" of Yugoslavia. The Yugoslav wars, consequent loss of market, as well as

mismanagement and/or non-transparent privatisation brought further economic trouble for all former republics of Yugoslavia in the 1990s. Still regarded as a transition economy, Bosnia and Herzegovina sees the long-term goal of EU membership as a driver to further economic growth and development. Fostering a dynamic, competitive private sector is one of the top economic priorities.

### **Competition Legislation and Institutions**

The Council of Competition was established in May 1st, 2004 as an independent public body mandated to ensure consistent implementation of the Act on Competition passed in 2001. It is located in Sarajevo and it has exclusive competence to decide on the presence of prohibited competition activities in the market of Bosnia and Herzegovina.

For the first time, this Act established the competition policy as one of more important instrument and pillar in creation and strengthening the single economic area / market in Bosnia and Herzegovina.

The Act on Competition, passed in 2001, comprised the basic rules of competition within the meaning of Article 81 and 82 of the EC Treaty, but it did not apply to practices and resolutions of the modern European legislation – *acquis* in this field. Therefore, a new Act was passed and it has been in effect since July 27, 2005. Compatibility of the new Act on Competition with stipulations and regulations of the European Union legislation in the field of market competition ensures the effective and transparent application of the law, simple procedures, reduced duration of the proceedings and in general, reduced level of the state intervention in this field.

Compared to the previous Act, the new Act grants the motivated penalty policy for undertakings (Leniency policy), effective mechanism of market control and establishes the cooperation with international agencies in this field.

This Act shall apply to all forms of prevention, restriction and distortion of the market competition on the whole territory of Bosnia and Herzegovina or out of the territory of Bosnia and Herzegovina having the substantial effect on the market of Bosnia and Herzegovina. The special attention is directed towards the agreements on dominant position and abuses of dominant position, and on rules and procedures concerning the competition between undertakings.

New Act on Competition ensures the increased and precisely defined competencies of the Council of Competition in carrying out the administration and professional duties referred to the different aspects of the market competition control (i.e. methods of carrying on the proceedings, final decision making, penalty policy and duration of the proceedings).

The Council of Competition of Bosnia and Herzegovina has been a member of the International Competition Network (ICN) since middle of 2005.

### **Anticompetitive Business Practices**

Prohibited competition practices are explained in part two of the Act on Competition.

All agreements, contracts, single provision of agreements or contracts, concerted practices, explicit and tacit agreements between the undertakings, as well as decisions by associations of undertakings the object or effect of which is to prevent, restrict or distort market competition in the relevant market, are prohibited, and in particular those which:

- a) directly or indirectly fix purchase and selling prices or any other trading conditions;
- b) limit or control the production, markets, technical development or investment;
- c) share markets or sources of supply;
- d) apply dissimilar conditions to equivalent transactions with other undertakings, thereby placing them at a competitive disadvantage; and
- e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

Any abuse of a dominant position by one or more undertakings in the relevant market is prohibited. An undertaking has a dominant position in the relevant market of goods or services, when due to its market power it can act in the relevant market considerably independently of its actual or potential competitors, buyers, consumers or suppliers, taking into account the market share of that undertaking in the relevant market, market shares of its competitors in that market, as well as the legal and other barriers to the entry of other undertakings in the market. An undertaking is presumed to be in a dominant position in the market of goods or services, if it holds more than 40 percent of the market share in the relevant market of Bosnia and Herzegovina.

The concentrations of undertakings that significantly impede effective market competition, are prohibited, in the whole territory of Bosnia and Herzegovina, and particularly, that create a new or strengthen an existing dominant position.

### **Consumer Protection**

High level of consumer protection is one of the objectives that Bosnia and Herzegovina is trying to achieve on its way towards EU accession. Striving in this direction, Bosnia and Herzegovina started activities of harmonising legislation, not only in the area of product safety, but also in the area of protection of consumers' legal and economic interests. In order to ensure consumer protection, Bosnia and Herzegovina has adopted several legal acts, whereby

### **Box 1: A case of fixed prices**

In 2012 Council of Competition BiH sanctioned Apatin brewery for signing prohibited agreements with the distributor of its products on the market of Bosnia and Herzegovina. Apatin brewery was fined with 265,000 KM.

Specifically, the company Dejan commerce from Dobož filed request to Council of Competition BiH for initiating the procedure against Apatin brewery considering that this Serbian company had violated the Competition law because the contract made with the distributor, Dejan commerce, limited the prices of their products. According to the decision of the Council of competition Apatin brewery limited the right of buyer (Dejan commerce) to determine its sales prices. This is considered a severe limitation of the competition, which typically does not have positive effects on the market. In this case, the contractor was unable to change the terms of the contract, therefore, he had to sign the form in which it was offered by Apatin brewery.

Council has found that the provisions of the contract for the period 2008 - 2010 are prohibited which is punishable by fines of up to 10 percent of the total annual income of the offender for the year preceding the year in which the violation occurred.

*Source: <http://www.ekapija.ba/website/bih/page/634397>, approached online 27.11.2012.*

the most important in this area are: The Law on General Product Safety and The Law on Consumer Protection in Bosnia and Herzegovina.

The Law on General Product Safety regulates, in particular, general safety of non-food products placed on the market, presumptions of safety, obligations of producers and distributors, and penalties for placing unsafe products on the market. Penalties are prescribed for not fulfilling these obligations: informing consumers and taking adequate measures to enable them to avoid the risk, keeping documentation for origin-tracking and making it available at the request of competent authorities, informing competent authorities of the safety risks of products placed on the market, and cooperating with competent authorities.

The Law on Consumer Protection in Bosnia and Herzegovina was adopted in July 2002. A new version of this law was adopted in 2006 in order to suit better to standards of consumer protection of EU.

The responsible consumer protection subjects in Bosnia and Herzegovina are the following:

- a) the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina;

- b) the Bosnia and Herzegovina Competition Council;
- c) the Bosnia and Herzegovina Consumer protection council;
- d) the Competition and Consumer Protection Office in the Federation of Bosnia and Herzegovina and the Republic of Srpska;
- e) consumer associations;
- f) educational institutions, media and publications;
- g) inspection and other bodies, according to the law; and
- h) the Institution of the Ombudsman for Consumer Protection in Bosnia and Herzegovina.

### **Sectoral Regulation**

On the national level, the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina has the prime responsibility over the energy sector. On the entity level, the two corresponding ministries are the Ministry of Energy, Mining and Industry of the Federation of Bosnia and Herzegovina, and Ministry of Industry, Energy and Mining of the Republic of Srpska.

The Ministry of Foreign Trade and Economic Relations is also responsible for the tourism and agriculture sectors. In the Federation of Bosnia and Herzegovina, the Ministry of Agriculture, Water Management and Forestry is

responsible for the development and improvement of agricultural production, food industry, water management, forestry, veterinary and rural development. In the Republic of Srpska this area is covered by the Ministry of Agriculture, Forestry and Water Management. The sectors of tourism and hospitality industries are controlled by the Federal Ministry of Environment and Tourism and Ministry of Trade and Tourism of the Republic of Srpska.

The Ministry of Physical Planning is focused on primary activities related to spatial planning in the Federation, land utilisation on federal level, long term planning of natural resources exploitation, and on the preservation and protection of national monuments and areas of outstanding natural, architectural and cultural historic significance. In the Republic of Srpska, the Ministry of Spatial planning, Civil Engineering and Ecology is responsible for this sector.

### **Concluding Observations and Future Scenario**

The revised Act on Competition was adopted in 2005. The Competition Council, established in 2004, is responsible for ensuring the implementation of the Act. There are many relevant institutions regulating this area on the national and entity levels. It is important to achieve coordination between them to satisfy standards of the European Union.

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