

# OIL AND GAS SECTOR

2.20

## WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
In order to increase the legal certainty for companies, it is vital to continue the reform of parafiscal charges by enacting the Law on Fees for the Use of Public Resources, as well as avoid the introduction of new or increases of existing parafiscal charges	2015	√		
The need to increase the predictability of doing business still exists, and this should be done by engaging and consulting industry representatives in the process of enacting or amending existing laws and by-laws that may have an impact on their businesses, and also by a consistent enforcement of the existing regulations, and through activities of competent authorities and institutions	2015		√	
Having proven to be a successful approach to fighting illicit trade, intensive controls of the presence and concentrations of markers in oil products should be continued, as should improvements in regulations by adopting suggestions made by energy companies, as well as the control of base oil imports through the further implementation of the flowchart of activities for inspection control in the area of illicit trade of base oils	2013		√	
It is still necessary to enact a Law on Explosive Substances, supported by related by-laws, all of which would define activities in the area of the manufacturing and marketing of explosives and other hazardous substances	2014			√
Control of base oil imports and use should be maintained with the implementation of the flowchart of activities for inspection control in the area of illicit trade of base oils	2016	√		

## CURRENT SITUATION

Crude oil prices continued to increase in 2018. The average price was around USD 72 per barrel for Brent crude (generally accepted as the world crude oil price benchmark), peaking at USD 86 per barrel on 3 October and, with a downward trend until the end of the year, falling to USD 50 per barrel on 24 December. However, in the first half of 2019 the price again recovered to an average USD 71.32 per barrel in May. Short-term prices in the future will be heavily affected by the growth of the global economy and the consequent demand for oil as well as measures of joint control of production by OPEC and the Russian Federation.

According to the Energy Balance of the Republic of Serbia, the country's consumption of oil products in 2018 was estimated at around 3.54 million tons, an increase of around 19% compared with 2017. An estimated 3.84 million metric tons of oil products was produced locally, with an additional 0.99 million metric tons imported, and 0.79 million metric tons exported. The projected natural gas consumption in 2018 was around 2,483.07 million cubic metres, down 9% compared to the previous year, with

440.89 million cubic metres produced locally and 2,042.18 million cubic metres imported.

The oil product market has improved significantly, due to the elimination of illegal blending of base oils in diesel fuel. It is estimated that in 2017 over 14,000 metric tons of imported base oils was blended and sold as diesel fuel, generating an annual loss to the state budget of over EUR 9 million in unpaid excise duties and VAT. Imports of base oils significantly decreased in 2018, and were in line with the current needs for lubricant production in the country (where base oils are the main raw material). It should also be noted that the aforementioned trend is continuing in 2019 as well.

On the other hand, the LPG market remains under pressure from fiscal duties, which are the highest in the Balkan region and the neighbouring Austria and Hungary. Negative trends also affecting the LPG market are illicit trade activities.

Market inspectors have also continued marking and monitoring the quality of oil products. In 2018, market inspectors collected 5,608 fuel samples, and found 91 samples with an insufficient concentration of markers, or 1.62% of

the total number of samples. Of all collected samples, 4,897 were taken from petrol stations, 132 from wholesale facilities, and 461 from end-users, while 118 were taken in cooperation with the Ministry of Interior. Additionally, 3,320 fuel samples were taken for the purpose of quality control, of which 254 samples from wholesale facilities and 3,066 from petrol stations. Of that number, 61 samples, or 1.99%, all from petrol stations, were found not to comply with quality requirements. Market inspectors pulled from the market over 25.2 metric tons of diesel fuel, around 2.5 metric tons of gasoline, 51.6 metric tons of fuel oil and 410 litres of LPG.

Furthermore, market inspectors carried out 26 controls of base oil importers, and issued 25 pre-emptive measures, thus applying strong pressure on the illegal import and blending of base oils.

Lastly, market inspectors continued their control of energy companies and the requirements for holding licences for the storage, wholesale and retail sale of oil and oil products. In 2018 a total of 339 inspections were carried out: 295 petrol stations, 21 wholesale facilities, 9 warehouses, 3 CNG filling stations, 10 gas cylinder filling stations and 1 facility for the production, distribution and management of heating distribution systems; in 302 cases it was established that minimum requirements were met, while 23 cases were not within the inspectorate's jurisdiction.

## POSITIVE DEVELOPMENTS

In line with the Government of Serbia's commitment to press ahead with tackling illicit trade, continuous efforts were made towards implementing the National Program for the suppression of illicit trade. Apart from the measures aimed at decreasing the overall volume of the shadow economy in the country, we should particularly point out a consistent adoption of flowcharts for the inspection of certain products, including the flowchart for the control of base oil trading, which is crucial for the oil and gas sector. The adoption of the aforementioned flowchart by the Coordination Commission for inspection oversight of the Ministry of Public Administration and Local Self-Governance has ensured the regularity of base oil control over a longer period, and eliminated the most acute illicit trade issue in the oil product market.

By the end of 2018, the Law on Fees for the Use of Public Goods was adopted by the National Assembly of the Republic of Serbia. This was a major step in the process of regulating parafiscal charges, which are of importance not only for the Oil and

Sector, but for all other business sectors as well. The law has clearly identified the existing fees for the use of public goods and put a stop to the introduction of new parafiscal charges. Within the jurisdiction of this law, activities of governmental authorities have continued in 2019 as well. We should point out that the adoption of the Decree on the Criteria and Calculation of Fees for Environmental Protection and Improvement, as a by-law to the aforementioned law, has also defined criteria for identifying business activities that affect the environment according to generated pollution as well as the amounts of the related fees for the protection of the environment.

The Ministry of Mining and Energy has launched activities to regulate operational reserves of oil products as prescribed by the Law on Energy, by forming a working group with the aim of adopting appropriate by-laws.

## REMAINING ISSUES

The consistent focus on curbing illicit trade in the sector should be kept since there is a constant and significant interest for smuggling oil products, as well as for their illegal trade and use. The import and illegal blending of base oils has been eliminated, but it is still necessary to intensively implement the flowchart for the control of base oil trading.

However, there was no progress in initiating and implementing inspections of oil products imported into the country for the purpose of re-export. A draft flowchart of activities for the control of LPG re-export was prepared in 2018, but as of this day it is still under review by the Coordination Commission.

In the judicial proceedings where market inspectors have seized certain quantities of fuel suspecting criminal offences, and public prosecutors have issued orders to energy companies to store those quantities pending court verdicts, there is an urgent need to speed up the process of concluding related storage agreements between the Directorate for the Management of Confiscated Property and energy companies, with prior agreements between public prosecutors' offices and the Directorate for the Management of Confiscated Property.

In order to facilitate the acquisition of energy licences for legalized energy facilities, it is necessary to harmonize the Law on Legalization of Buildings with the Law on Energy.

It is still necessary to develop new regulations for the production and trade of explosives and other hazardous substances.

## FIC RECOMMENDATIONS

- Inspection of oil products imported into the country for the purpose of re-export should be reinforced through coordinated actions of the relevant authorities, in view of abuses to which such goods declared for this purpose are subject.
- Promptly conclude agreements on storage of confiscated oil derivatives between the Directorate for the Management of Confiscated Property and energy companies.
- Enact by-laws necessary for the creation of operational reserves, in accordance with the Law on Energy.
- Resolve the discrepancies between the Law on Legalization of Buildings and the Law on Energy relating to the documentation needed for the acquisition of energy licences for legalized energy facilities.
- It is still necessary to enact a Law on Explosive Substances, supported by related by-laws, all of which would define activities in the area of the manufacturing and marketing of explosives and other hazardous substances.