

OIL AND GAS SECTOR

1.00

WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
Repeal the Regulation on the limitation of the price of petroleum products.	2022			√
Introducing the marking of marine fuel sold to vessels in the domestic water transport.	2021			√
Reintroducing excise refund for marine fuel used in the domestic water transport.	2021			√
Applying a general VAT rate of 20% on CNG consumption, as well as an adequate level of excise taxation, in order to eliminate the effects of CNG's preferential status in relation to other motor fuels.	2021			√
Reducing the level of excise taxation for LPG in order to increase the consumption of this petroleum product.	2021			√
Concluding bilateral agreements on carriers' eligibility for VAT refund on fuel purchased in Serbia with Bulgaria, Turkey, Greece, North Macedonia and Montenegro, as well as with other countries from which trucks use Serbia as transit country.	2021			√

CURRENT SITUATION

In 2022, the oil and gas sector experienced a stable recovery from the imbalances caused by the COVID-19 pandemic, as global energy demand resumed its growth. Although there was a gradual recovery in oil prices from the previous year's lows, the situation remained unstable due to the geopolitical conditions, which contributed to market uncertainty.

The price of Brent crude oil reached its peak of 122.01 USD/bbl in June 2022. Subsequently, there was a decline, and by December, it reached its minimum of 76.10 USD/bbl for the year 2022. The average price in 2022 was 100.93 USD/bbl, which was 30.07 USD/bbl higher than the average price in 2021.

In the energy sector, there are ongoing efforts towards transitioning to cleaner and renewable energy sources, driven by environmental concerns and global activities to combat climate change. However, fossil fuels still dominate the energy mix, and oil and gas remain crucial for meeting global energy demand. As the transition to cleaner energy sources continues, the oil and gas industry will play a vital role in fulfilling global energy needs while exploring greener alternatives. Additionally, with the growing energy demand, understanding new trends and challenges in the oil and gas sector becomes crucial for further economic progress.

Price limitations on motor fuels in the Republic of Serbia,

which were initially introduced on February 10 of 2022, through the Regulation on limiting the prices of petroleum products to prevent negative effects resulting from global market disruptions, remained in effect in 2023. Similarly, the Regulation on the temporary measure of limiting the price of gas and compensation of the price difference for natural gas procured from imports or produced in Serbia in the event of natural gas market disruptions, was also extended into 2023.

According to data published by the Energy Agency of the Republic of Serbia, the total consumption of crude oil and intermediates from domestic production, imports and stocks in 2022 stood at 4.087 million tons, which is a 3.6% increase on 2021. In 2022, about 0.824 million tons of crude oil was produced (20.2% of total consumption), while imports accounted for 3.263 million tons (79.8%).

The total consumption of motor fuels in 2022 was about 2.8 million tons, which is about 8% more than a year before. In the structure of motor fuel consumption, gasoline accounted for 16.3%, diesels 78.3%, and LPG 4.3%. Total gasoline consumption has increased by 5.1%, compared to 2021, consumption of Euro diesel increased by 9.9%. The consumption of extra light Euro L gas oil increased by 3.7%, while the consumption of liquid petroleum gases, including auto gas, decreased by 9.6%.

The annual production of natural gas, delivered to the country's transport distribution system in 2022, totaled

2,070 GWh, which is 12.0% less than the production in the previous year. In 2022 a total of 36,158 GWh was available from import, domestic production and underground storage, and 28,203 GWh of natural gas was consumed. Most of the natural gas (23,786 GWh) was imported from the Russian Federation. Domestic production of 2,069 GWh in 2022 could meet only 7.3% of the demand, which is a decrease compared to last year, when 7.9% of needs could be met from production. In 2022, there were no gas exports.

POSITIVE DEVELOPMENTS

Significant progress has been made in promoting renewable energy projects, such as wind and solar energy.

The commitment to diversifying the energy mix is in line with the global trend towards cleaner energy alternatives, ensuring a sustainable and environmentally friendly future.

Active efforts are being made to reduce emissions and promote energy efficiency in the sector, as well as the adoption of advanced technologies.

The transition to renewable energy sources requires careful planning and investment in infrastructure, while balancing the needs for oil and gas production.

REMAINING ISSUES

The price limitation on petroleum products in the Republic of Serbia in 2022 and 2023 have had a negative impact on the business operations of companies engaged in the sale of petroleum products. Despite the stabilization of global and regional markets and derivative prices, the repeal of Regulation on limiting the price of petroleum products in the Republic of Serbia was not considered.

A special problem within the limits of oil derivatives prices in the Republic of Serbia is the non-market price of Eurodiesel fixed by the Regulation for registered agricultural holdings, determined as binding for one supplier on the market, which has led to a significant redistribution of market shares in the agricultural supply segment and where there are indications of inappropriate consumption the same.

Furthermore, the establishment of a mechanism to control the procurement and use of diesel fuel at a subsidized price for farmers, as stipulated in the Regulation on limiting the prices petroleum products, was also not considered.

Despite intensive and continuous controls of illegal trade in petroleum products within the country, it is necessary to continue such efforts while ensuring the development and capacity-building of inspection authorities to carry out control activities.

As well as in the previous period, the high level of excise taxes on liquefied petroleum gas (LPG), which is among the highest in the region, discourages the use of this environmentally friendly derivative.

Additionally, the lack of excise duties and a lower tax rate of 10% for trading in compressed natural gas (CNG) makes it more competitive compared to other motor fuels.

Another problem that has come into focus after the stabilization of the petroleum products market is that vehicles in international passenger and freight road transport purchase smaller quantities of fuel in Serbia, while there is an increasing number of domestic carriers who buy fuel outside of Serbia due to more favorable excise policies in neighboring countries.

FIC RECOMMENDATIONS

- Bearing in mind that the amendments to the Excise Law in September 2023 systemically regulated the regression of part of the excise duty for fuel purchased by registered agricultural holdings, consider abolishing the fixed price of Eurodiesel in the Regulation on limiting the price of oil derivatives.
- Repeal the Regulation on the limitation of the price of petroleum products.
- Introducing the marking of marine fuel sold to vessels in the domestic water transport.

- Reintroducing excise refund for marine fuel used in the domestic water transport.
- Reducing the level of excise taxation for LPG in order to increase the consumption of this petroleum product.
- Applying a general VAT rate of 20% on CNG consumption, as well as an adequate level of excise taxation, in order to eliminate the effects of CNG's preferential status in relation to other motor fuels.
- Concluding bilateral agreements on carriers' eligibility for VAT refund on fuel purchased in Serbia with Bulgaria, Turkey, Greece, North Macedonia and Montenegro, as well as with other countries from which trucks use Serbia as transit country.