

# INDUSTRY OF CRUDE OIL, GAS AND PETROLEUM PRODUCTS

1.14

## WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
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.	2023		√	
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			√
Reducing the level of excise taxation for LPG in order to increase the consumption of this petroleum product.	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			√
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 2023, the oil and gas sector was under significant impact of external factors that shaped the production, logistics and final consumption of crude oil and petroleum products. The macroeconomic trends in Europe and globally, under the influence of high inflation, high interest rates and the consequent economic decline, influenced the gradual decline of crude oil prices compared to the previous year. The geopolitical situation, changes and stabilization of trends in global trade, new technology in energy production and use as well as regulations in the field of energy transition have also contributed to the declining trend of demand for oil and petroleum products.

The price of Brent crude oil in 2023 was relatively stable and averaged around USD 83/bbl, which is around USD 18 less than the 2022 average price. The highest price during the year was around 98 USD/bbl in September, while the lowest price was around 71 USD/bbl in March.

Companies operating in the oil and gas sector in the Republic of Serbia, in their energy transition processes in 2023, continued to invest in renewable energy sources, primarily to increase the production of electricity from solar panels

at fuel supply stations. In order to accelerate the process of green transition in the Serbian energy sector and the entire economy, it is necessary to continue the process of adopting appropriate regulations in consultation and cooperation with the economy.

Please note that the price limit of motor fuels in the Republic of Serbia, which was initially introduced on 10 February 2022 through the Regulation on limiting the prices of petroleum products to prevent negative effects resulting from global market disruptions, is still in force, although fuel supply and prices stabilized compared to 2022. 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 has been extended for a second time in October 2023.

According to the Energy Balance of the Republic of Serbia, oil production in the country is carried out at 870 oil and 69 gas wellbores in operation. In addition, in 2023, 42 new wellbores were put into operation (41 development wellbores and 1 exploratory wellbore). In the area of production of petroleum products in the country, NIS a.d. Novi Sad is the

only one that owns a refining complex in Pančevo with a total refining capacity of 4.8 million tons of crude oil per year.

The production of liquefied petroleum gas (LPG), as a natural gas product, takes place at NIS a.d. Novi Sad Oil and gas preparation and transportation unit in Elemir, at Standard gas d.o.o. units in Odžaci and Hipol a.d. units, which use imported gas condensate, i.e. a broad fraction of light hydrocarbons, as a raw material. The production of propane-butane mixture and autogas, as component mixture, is carried out at Petrol LPG d.o.o. Belgrade in its Smederevo unit, while VML d.o.o. Belgrade does the same thing at Jakovo unit.

Transportation of petroleum products in the Republic of Serbia is carried out by rail, ship and road. Transport from the refineries to terminals mainly goes by rail and ship, while transport to final consumers takes place by road. Transnafta AD Pančevo is the only company in Serbia that transports crude oil using pipeline at regulated prices, considering that the above activity is of general interest. The company transports crude using oil pipeline that stretches from the Danube River at Sotin on the border with the Republic of Croatia to the Pančevo Refinery and its total length is 154.5 km. The section Bačko Novo Selo - Refinery Novi Sad is 63.3 km long, while the section Refinery Novi Sad - Refinery Pančevo is 91 km long. The 2023 estimated quantity of imported crude oil transported to the refinery using the DN-2 pipeline section (Novi Sad - Pančevo) is 2,850 million tons, with 0,700 million tons of domestic crude oil. This oil pipeline is part of the main Adria oil pipeline (JANAF), put into operation in 1979. The associated pipeline infrastructure consists of Novi Sad terminal with four crude oil tanks of 10,000 m<sup>3</sup> each and two tanks of 20,000 m<sup>3</sup> each, a dispatch centre and a pumping station, a measuring station in Pančevo and eight block stations along the pipeline route.

The total supply of domestically produced crude oil and intermediate products intended for refining in refineries in 2023 was about 3.882 million tons, which is by about 5.3% less compared to 2022. What is more, in 2023, about 0.830 million tons of crude oil were produced (21.4% of the total consumption), and 3.052 million tons (78.6%) were imported. 4,081 million tons of petroleum products were produced in 2023, which is about 10% less than in 2022. The import of petroleum products amounted to 0.900 million tons as in the previous year, while export was 0.559 million tons, or about 16.3% less.

The total production of natural gas in the country in 2023 was 312,848 million m<sup>3</sup>, about 5.4% less than the previous year,

while the import was 2,645,490 million m<sup>3</sup>, or about 6.9% less.

## POSITIVE DEVELOPMENTS

First of all, the supply of petroleum products on the global market stabilized, judging by their availability and supply possibilities, which certainly had a positive effect on the region of Southeast Europe, as a result of which the vast majority of countries in the region abolished the price limit of petroleum products.

The state bodies' activities in the field of energy transition continued. There was a public hearing on the Draft Regulation on the establishment of the Integrated National Energy and Climate Plan of the Republic of Serbia up to 2030 with projections until 2050, and its adoption is expected soon. In the following period, a public hearing is expected on the Energy Development Strategy of the Republic of Serbia until 2040, with projections until 2050.

There have been improvements in establishing a system of fuel supply subsidies to farmers at a preferential price; namely, in early 2024 excise tax refund was introduced, which after latest increase of May 1, 2024 amounts to RSD 53.8 per litre, up to 100 litres per hectare of registered area, up to 100 hectares of area at most. This created the preconditions for solving the issue of price limits on petroleum products.

## REMAINING ISSUES

The price limits on petroleum products in the Republic of Serbia in 2022 had a negative impact on companies and disrupted the petroleum product market. Although the supply of petroleum products has significantly improved compared to 2022 and is running smoothly, Serbian state authorities still regulate the prices of petroleum products.

The non-market price of Eurodiesel for registered agricultural holdings remains a related and very significant problem, established as binding for one supplier on the market, which has led to a significant redistribution of market shares in the agricultural supply segment. As stated, in early 2024, farmers got excise tax refund for dedicated fuel consumption as a type of subsidized price, which is another reason why the price of Eurodiesel should no longer be regulated.

Please note that as of 2026, the Carbon Border Adjustment Mechanism (CBAM) will be applied to certain goods exported to the EU, i.e. a cross-border tax calculated on the basis of

emissions of carbon dioxide or other gases with a greenhouse effect during production. Certain companies are also obliged to measure carbon dioxide emissions as of October 2023. What Serbia lacks at the moment is harmonized national regulations in the scope of preparation for CBAM mechanism implementation, as well as the possibility of emissions trading.

Currently, the majority of vessels in domestic water transport are being illegally supplied with derivatives via tank trucks, in places that do not meet the minimum safety and environmental criteria. By introducing the marking of petroleum products sold to vessels in domestic water transport, misuse of unmarked (customs) goods in cabotage would be prevented, which would have a positive impact on the revenues of the budget of the Republic of Serbia and enable a simple check of ships in domestic traffic regarding the place of supply.

Re-introducing of an excise refund on fuel used in domestic water transport, for which shipper provides an evidence of supply at places envisaged for the supply of vessels with fuel, would positively impact the river transport competitiveness as an ecologically safe way of transport. Also,

excise refund on this type of fuel would make refuelling at legal bunkering stations an attractive option for shippers, eliminating safety and environmental risks that exist in the current way of refuelling via truck tanks.

The intensive and continuous control of illegal trade in petroleum products in the country needs to continue, including capacity building of inspection authorities to perform control.

Due to the high LPG excise duty, which is among the highest in the region, the use of this environmentally friendly derivative is discouraged.

The lack of excise duty and a lower tax rate of 10% for trading in compressed petroleum gas, CNG, on the other hand, makes it more competitive compared to other motor fuels.

Vehicles in international passenger and freight road transport in Serbia buy smaller quantities of fuel, while, on the other hand, there is an increasing number of domestic carriers who buy fuel outside of Serbia due to more favourable excise policies in neighbouring countries.

## FIC RECOMMENDATIONS

- Bearing in mind the refund of excise duties for agricultural holdings in 2024, consider abolishing the fixed price of Eurodiesel in the Regulation on limiting the price of petroleum products.
- Repeal the Regulation on the limitation of the price of petroleum products.
- Harmonize national regulations for the implementation of the Carbon Border Adjustment Mechanism (CBAM) and the introduction of the emissions trading system.
- Introduce the marking of petroleum products sold to vessels in domestic water transport.
- Re-introduce excise refund on fuel used in domestic water transport.
- Reduce the level of excise taxation for LPG in order to increase the consumption of this petroleum product.
- Apply a general 20% VAT rate on CNG consumption and introduce an adequate level of excise taxation, in order to eliminate the effects of CNG's preferential status compared to other motor fuels.
- Conclude bilateral agreements on carriers' right to VAT refund on fuel purchased in Serbia with Bulgaria, Turkey, Greece, North Macedonia and Montenegro, as well as with other countries whose trucks use Serbia as a transit country.