

When GazpromNeft owned Naftna Industrija Srbije NIS confirmed recently that they are giving up on the investment in Novi Sad Refinery, and news appeared in the media that Russia is giving up on the construction of South Stream, the public wondered whether all obligations of the Russian partner are fulfilled.

While Gasprom claims they are, former minister of energy Petar Škundrić said that NIS has not completed its investment obligation. The only true answer to this can be given by audit reports, which are not in the possession of the Ministry of Mining and Energy. In the meantime MOI confirmed for VOICE NGO that the investigation on the privatization of NIS is ongoing. Demands are coming from Vojvodina to do an audit of the oil-gas arrangement. They point out that despite of all this NIS still has a favorable position regarding the payment of ore rent and that Serbian laws are still not applied to that company, which is why less money is going into the Serbian budget.

When the Agreement on cooperation in the area of oil and gas trade was signed by the representatives of Serbia and Russia seven years ago, three projects were defined at the beginning. The parties agreed that they will provide assistance for the construction of the main gas pipeline system from the Russian Federation through the Black Sea and the territory of Serbia, for the delivery of natural gas to other European countries, the so called South Stream. The Agreement includes the construction of the underground gas storage unit "Banatski Dvor" and the reconstruction and modernization of the technology complex owned by NIS.

In case of the changes of Serbian legislation that would lead to deterioration of the position of the Russian party, it is provided that the legislation that was valid on the date of signing the agreement would be applied. That is the explanation for the favorable position of NIS when it comes to ore rent, which is 7% according to Serbian laws, and only 3% for this company according to the old laws, even though it was provided by the same agreement that old laws are applied "exclusively to the taxation of the activities regarding the implementation of the projects mentioned above" the construction of the South Stream, construction of the underground gas storage and modernization of NIS complex, and not to the exploitation of gas and oil.

On the same year, then minister of mining and energy in the Government of Mirko Cvetković, Petar Škundrić and representative of the Russian Gaspromnjeft signed the Contract on sale and purchase of NIS shares. Instead of using this contract to additionally define the project provided by the Agreement, this document provides an investment obligation for Gasprom, which was supposed to obtain 500 million euro for NIS through special purpose loans, in order to conduct the Program of reconstruction and modernization

(PRM) of the technological complex of NIS. The program was supposed to be completed by the end of 2012, and two parties had a contractual obligation to name an audit company which will prepare a report on the fulfillment of the investment obligation every 12 months. Breaking the investment obligation is grounds for the breach of the contract.

Where are the audit reports?

Provincial secretary for energy Nenad Stanković pointed out in his statement to VOICE that this institution has no information that the ministry in charge named an audit company and that the reports on the fulfillment of the investment obligation were done. Provincial secretary explained that Vojvodina Secretariat is neither in charge nor entitled to follow the fulfillment of the investment obligation.

Stanković reminded that the implementation of the project South Stream, provided by the Agreement and not even mentioned in the Contract, is questionable and he estimated that the reconstruction and modernization of the technology complex is questionable too.

“We think that this Agreement is supposed to be reconsidered by the Parliament of Serbia” says the provincial secretary.

In May this year Stanković sent a request for the interpretation of the Energy Agreement, especially the part about the taxation and ore rent, to the Ministry of Mining and Energy. In the request it is stated that NIS is still paying the reimbursement for the use of minerals according to the old law, which is three percent, while they are still referring to the Agreement, which provides the construction of the South Stream among other things.

The provincial secretary gave his opinion that the exploitation of oil and gas has nothing to do with the three projects provided by the Agreement - South Stream, underground gas storage and modernization of the technology complex, so that provisions according to which NIS pays three percent for the ore rent cannot be applied.

Energy minister Aleksandar Antić, however refused to interpret the provisions of the Agreement. In the answer to the Provincial Secretariat for Energy he stated that the request should be backed up by law, and that it should be referred to the Parliament of Serbia by the Parliament of Vojvodina.

Antić added that the Ministry gives opinions on the application of the law and other documents, but he also said that “opinions of the state authorities are not obligatory.”

Škundrić: NIS did not complete its investment obligation

Former minister of mining and energy in the Government of Mirko Cvetković and the person who signed the NIS sale contract, Petar Škundrić, said that NIS has not completed its investment obligation, even though it was supposed to be completed in 2012, and the fact that it was not completed can be the reason for the breach of contract with Gasprom. At the

margins of the International forum on the clean energy technologies, Škundrić said for VOICE that NIS still has activities to finish regarding the reconstruction of Novi Sad Refinery.

“Everything else was done by NIS. They did even more, and they took up new investments, like deep processing of oil and so on, which was not provided by the contract, including the exploration of new oil fields, obtaining their own oil reserves, and so on” Škundrić explained.

Former minister, who is now the head of National Oil Committee of Serbia, added that he is convinced that NIS will do more than it was provided by the contract.

“In the next five years I expect that NIS will not only complete its obligation but also further enhance its portfolio, in the sense of exploring new oil resources not only in Serbia but in the region as well, because the exploration is ongoing in Hungary, Romania and the Republic of Srpska. It is very important for NIS to find new oil sources. NIS also stepped out with the retail network in the neighboring country and increased the export of oil products from Serbia to the countries of the region” said Škundrić.

According to his assessment, if Serbia had two more companies like NIS, the State could consolidate its finance and create enough capital for further development, and not only to satisfy the necessary consumption needs in Serbia.

When asked whether he would sign the same agreement today Škundrić said that even today Serbia would not be in the position to negotiate a better contract. “I was not in favor of selling general state property, but I was disciplined in executing what the Government of Serbia arranged through the oil-gas arrangement and in that sense I signed the contract” former minister pointed out.

When asked whether giving up on the South Stream can change the importance of Serbia in the Serbian-Russian energy relations, the former minister estimated that giving up on the South Stream does not mean giving up on the gas pipeline that would deliver gas to Serbia in substantial quantity.

“Our country should and will be the transit country for the gas coming from Russian sources. If Germany could make a deal with Russia regarding the North Stream in this time of crisis, I am certain that Russia has not abandoned completely the Southern Stream, but it only gave up the planned concept. So I expect that in the future we would have an alternative solution for the South Stream” said Škundrić

Gasprom Njeft: We fulfilled the investment obligation

Russian company said in 2012 that they fulfilled its investment obligation.

The total investment of the Gasprom Njeft company in the modernization and reconstruction

of the refinery complex of NIS and improvement of the eco security of the production process have reached the contractual amount of 500 million euro since 2009” it said in the announcement of Gasprom njeft published on the NIS website

It said that the key element of the program of modernization is the construction of the complex for hydro cracking and hydro processing in Pančevo Refinery, which was open at the end of that year.

The media said during the official opening of the Pančevo complex that they have invested 547 million euro into that job, which is the entire contractual obligation of Gasprom. If the Russian partner indeed fulfilled its obligation this means that Serbia did not insist at all on the modernization and reconstruction of the Novi Sad Refinery.

What about Novi Sad refinery?

NIS said for Dnevnik that they cannot be certain when will the unit modernization start in Novi Sad. The company explained that it was planned earlier to invest 130 million euro into Novi Sad Refinery and to build a base oil complex, but due to complex conditions for the operations of oil companies, and having in mind the drop in price of raw oil in the world market, NIS is currently looking into possibilities of project optimization in order to increase efficiency.

At the end of October 2012 a preparation process started in Novi Sad refinery to build a modern plant. It was announced then, that wide spectrum base oils would be placed in the market from Novi Sad refinery, so that this refinery would be considered very rare, and that after modernization it could become almost unique in this part of Europe.

MOI: Investigation is ongoing

Last year Ministry of Interior of the Republic of Serbia formed a task force working on the investigation of possible irregularities during the sale of NIS to the Russian company.

As it was confirmed to VOICE the investigation is ongoing and it was requested by the State Prosecution Office in Belgrade.