

State believes NIS when saying “I swear”

None of the State authorities control the amount of oil and gas that Petroleum Industry of Serbia reports as being exploited, which means that Serbia “take its word for it” to the company which is mainly in private ownership.

NIS main business is exploration, production and processing of oil and gas, transport of petroleum products and the implementation of projects in the petrochemical and energy sectors. That company has a monopoly in Serbia on the exploitation of oil and gas, but also a privileged position which is reflected in the fact that the legislation from 2008 is applied to NIS, and it foresees far less tax liabilities of the company towards the State.

NIS shares are held by the Russian company Gazprom Neft, the State of Serbia and minority shareholders, but the majority share in the ownership of the company has a Russian partner.

However, although other country is the majority owner of NIS, Serbia allowed the company not to be controlled when it comes to the exploited quantities of oil and gas by means of its omissions in the legislation or to “trust its word for it”.

As it was reported to VOICE in the Provincial Secretariat for Energy, according to the applicable rulebook NIS submits quarterly calculation for the mining royalties 15 days after the end of the quarter, where it registers exploited amounts and calculation. NIS also submits annual calculation for the mining royalties.

Practically, this means that NIS itself reports to the State how many raw materials the company exploited, and how it should pay for it.

“At the end of every calculation year, Provincial Secretariat for Energy, Construction and Transport compares declared exploited quantities through QCMR and ACMR forms with the Annual Report of the company engaged in the exploitation of mineral raw materials and – as there were no deviations in the reported amounts – control procedure with the competent tax authority was not initiated” as reported in the response from the relevant Provincial Secretariat.

The Annual Report is generally prepared by the company itself, so the control factor of the State based on this document is again “trust NIS’ word for it”.

VOICE sent questions about control of exploited raw minerals quantities of NIS to the Ministry of Mining and Energy, which also confirmed that they do not perform control on the site.

“Petroleum Industry of Serbia submits to the Ministry QCMR and ACMR forms, based on which the exploitation of mineral raw materials is monitored on a quarterly and annual

basis,” reports the relevant ministry.

According to NIS financial reports the production of domestic oil and gas of the company decreased by almost five percent in 2015 compared to the previous year, while only domestic oil production decreased by eight percent.

Compared to 2013, in 2014 NIS reported a decrease in domestic oil and gas production by 2.8 percent. In the same period, a decrease of domestic oil production was also registered by four percent.

NIS is paying to the State mining royalties for the exploitation of oil and gas. Mining royalty depends on the world prices of oil and gas, but also on the amount of exploited raw materials, and from year to year NIS pays to the state budget less on behalf of mining royalty.

The company was sold in late 2008 within energy cooperation between Serbia and the Russian Federation. Serbia sold 51 percent of NIS shares to Russian Gazprom Neft in the amount of EUR 400 million. Beside NIS, among others, geothermal resources and the right to exploitation were sold.

In order to “achieve profitability of the projects”, including the construction of South Stream, Serbia then agreed to apply to NIS the legislation that was applicable at the date of signing the agreement, which implies far less tax liabilities of the company towards the State. Such legislation is still applied to NIS today, although Russia has abandoned the construction of South Stream.

NIS also inherited the position to be treated by the State as to the public company, and the authorities in Serbia have not changed their attitude even after privatization, or even after the Russian partners have given up the construction of South Stream.