

It can be argued that in Serbia NIS is operating profitably thanks underestimated domestic raw materials, while its competitors had to provide a profit margin - a margin actually determined by NIS, as the dominant market player. It was even calculated that the effect of low mining tax on the market can be illustrated by comparison - for NIS' competitors to get the same benefits from the state of Serbia, they would have to be allowed not to pay 70 percent of excises!

During the pre-election jitters in Serbia, just ahead of the visit of the Serbian Prime Minister Aleksandar Vucic to Moscow (26 March), the Board of Directors of NIS, on 24 March, announced that in this Russian-Serbian company, an interesting change occurred: a new CEO was elected - Kiril Tjurdenjev, who chaired the Board of Directors of the "Joint Oil and Chemical Company" last year at this firm and was the first deputy CEO of NIS, while the former CEO, Kiril Kravchenko, was moved to the Board of Directors of NIS, retaining the position of the deputy CEO of Gazprom Neft, in charge of foreign asset management.

A home and a private company

This personnel change, after eight years of Kiril Kravchenko's rule over NIS, was not unexpected as it was announced that it would happen during May this year. It is difficult to estimate whether the pre-election trip of Mr. Vucic to Moscow accelerated this personnel change, given that it is highly unlikely that the Serbian Prime Minister could express any opinion to president Putin about the work of the previous NIS management. Generally speaking, except when a few years ago Mr. Vucic once quite angrily demanded that part of the profits of NIS belonging to the Serbian side be entirely paid to the budget of Serbia, he never and nowhere publicly commented about the operations of the company, controlled by the Russian mega company under the famous interstate agreement signed in 2008, which became effective in the following year, 2009.

The press release and the statements after the above meeting between Putin and Vucic practically do not offer any concrete insight whatsoever into the past operations of Russian companies in Serbia, although Mr. Vucic said that the participants "discussed in a very concrete way what type of cooperation is needed in the field of companies". In this context, he mentioned that he was pleased that "Petrohemija" no longer owed anything to Gazprom that all bills had been paid and that these days there were talks about future cooperation. In parallel, in Belgrade, Serbian Ministry of Economy issued a new call for privatization of "Petrohemija" and "Azotara" in Pancevo. However, whether such information from Moscow and Belgrade are in any way related, is a question which remains unanswered.

When it comes to personnel changes in NIS, the only thing that is interesting is that two Kirils have not entirely switched their places, as expected, whereas Kravchenko (according to his own words) had not been appointed the chairman of the Board of Directors of the Joint Company. This little catch probably does not point to any bigger conclusions, and one can imagine that Kravchenko's replacement is only part of the normal rotation of highly-

positioned managers in Gazprom Neft. Incidentally, Kiril Kravchenko revealed with a few of his moves that he felt at home in Serbia - he bought a house and property in the vicinity of Novi Sad, and founded his own private company in Serbia (which is obviously tolerated in Gazprom Neft when it comes to top management). After all, he has over the last eight years in Serbia made some highly useful and lucrative deals for the Russian side, while the silence of the representatives of the minority owner of NIS, the Serbian state, in the governing bodies was to say the least conspicuous.

Profitability, taxation, profits

However, there is an increasing number of expert analyses of the economic effects of the sale of 51 percent of Serbia's share in NIS for 400 million euros in 2009, suggesting that the Serbian side not only failed to get a good price for the majority package of shares in this transaction, but it afforded Gazprom Neft such privileges on the internal market not customary in cooperation between states, which have been and still are to the detriment of the citizens, and the Serbian budget. That was only mentioned in the last election campaign by the "Vojvodina candidate" for the president of Serbia, head of LSV, Mr. Nenad Canak - who urged the Serbian Government to end the arrangement between Serbia and the Russian Federation relating to NIS. Canak stressed "political reasons" (proclamation of Kosovo's independence and withdrawal of Russia from South Stream), while experts who rely on official business reports of NIS, have in recent years increasingly insisted on the legal and economic arguments to "reset" the energy agreement signed between Serbia and the Russian Federation.

Experts, naturally, start first from the fact that the key for the privileged position of NIS in Serbia lies in Article 13 of the interstate agreement, which prevents any regulatory changes in the current legal and economic status of NIS "until profitability of the given projects has been achieved". "Design, construction and use of the pipeline and of underground gas storage, and reconstruction and modernization of the technological complex" of the "Joint Stock Company Naftna Industrija Srbije" have previously been included into "the given projects", in addition to the entire production, processing and transport of oil. The most important thing, evidently, is that it was forbidden to "exacerbate taxation conditions", which has not only prevented Serbia from increasing the current mining tax level of only three percent, but it also hampered it from having any real insight into the revenues of NIS. Although the "viability of the given projects" is quite a vague definition, experts referred to here, believe that there are strong arguments to prove that the "viability" has already been reached. Thus, they mention that NIS based on the 2012, 2013, 2014 and 2015 operation results has paid off dividends (25 percent of the profits) totalling some 312 million euros (over 37 billion dinars), and that the undistributed profits on 31 December 2016 equalled 971 million euros (51 percent of undistributed profits belongs to Gazprom Neft, under the interstate agreement. Therefore, it turns out that based on this, they earned about 495

million dollars during the analysed period). As a result, when on the basis of the data presented, the share belonging to the majority owner is identified, and this added to dividends of the Russian side, it turns out that by the end of last year Gazprom Neft made 654 million euros, far above its investment of 400 million euros (NIS' own investments made possible by borrowing are a separate matter). In fact, when a discount of 2.5 percent on invested cash is applied to the 400 million euros investment, it turns out that "net present value" amounts to 309 million euros, under the profitability index of 1.77. Hence, the Serbian side no longer has an obligation to retain the mining tax and the concession price at the level from eight years ago.

Mining tax, oil and gas

According to the above analyses relying solely on information provided by NIS to the Serbian public, between 2009 and 2016, in Serbia the company produced crude oil and natural gas at the level of 11,446 million conditional tons of oil, and paid to the state only 14 billion dinars, which under average exchange rates of the National Bank of Serbia makes 163 million dollars from the fee for the use of mineral resources, which, according to the Mining and Geological Investigations Law is supposed to make three percent of "the revenue generated by selling technologically processed raw materials" (oil and gas). This three percent is the rate under the 2008 law, while under the later amended law, the base rate for carbohydrates is seven percent. Had the mining tax of seven percent been applied, Serbia would have earned some 381 million dollars from NIS against this mining tax. Russian owners have drastically reduced the number of employees - in 2009, NIS had 12,133 employees, with 5775 employees remaining in 2015, while 5072 people were outsourced (making in total 10,847).

Between 2009 and 2016, NIS paid to Serbia 163 million dollars against the 3% fee "from the revenue achieved by selling technologically processed raw materials". Had the mining tax of seven percent been applied, Serbia would have earned some 381 million dollars against this mining tax from NIS.

In fact, when the mentioned 163 million dollars of the mining tax which have been paid are taken as three percent of the actual revenue from processing, it turns out that these revenues for all of these years amounted to 5.44 billion dollars. Here begins a series of suspicious values. Namely, when oil produced domestically is calculated under the average annual international oil price quotations of the UHALS type (domestic oil is of this type) it turns out that only the price of crude "Serbian oil" used is 5,079 billion, while the price of the domestic gas is 1,255 billion dollars - jointly amounting to 6.34 billion dollars. All this points to the conclusion that the value of the extracted materials in Serbia prior to calculating the mining tax is immediately reduced by some 877 million dollars. Those who claim this have properly based the calculations on the fact that domestic gas is of slightly lower quality than the imported one.

The fact is that the basis of mining tax is the “transfer price” of the raw material (i.e. the accounting value of NIS between the production and processing segments). The transfer price is determined by the so-called export parity or a price that would apply to oil export sales, which is a fictitious value, as domestic oil is not exported, therefore, its actual market value cannot be reliable. Since the state tolerates such calculation of the mining tax base, this suggests that it left the mining tax decisions to NIS, instead of always legally regulating in detail this sensitive calculation.

The above analyses, and this is already common knowledge in our country, contain data about the state levies (mining tax) in the mining of carbohydrates in other countries, where it ranges as high as 50 and 70 percent (Norway and Denmark). In the Russian Federation, such levies are some 7.3 times higher than those paid by NIS in Serbia, which means that this company under the “Russian formula”, here, would have to pay for oil and gas used in the past eight years some 1.19 billion dollars, instead of 163 million dollars.

Nonetheless, the state of Serbia, on the other hand, thanks to the business policy of the Russian owner reaped some benefits from NIS. Besides the already mentioned mining tax, it was entitled to 29.87 percent of dividends (93 million euros), and it is also entitled to part of undistributed profits (290 million euros). Therefore, it can be assumed that on both counts, it disposed of some 383 million euros, which perhaps was the sum used to settle the debts of Srbijagas, HIP and other state bodies towards NIS. 2015 and 2016 financial reports of NIS suggest that under the two domestic laws, Serbia took over HIP’s debt at the level of 105 million euros and debt of Srbijagas amounting to 23.4 billion dinars.

Price of oil, integrity and sovereignty

Interestingly, the experts noted that between 2009 and 2016, NIS achieved cumulative profit of 365 billion dinars (3,278.9 million euros) from the production and exploration of oil and gas and in the field of processing and marketing a loss of 194 billion dinars (1,743 million euros), i.e. that the overall positive result was some 171 billion dinars or approximately 1535.4 million euros. This result is greatly influenced by the fact that Russian owners drastically reduced the number of employees – according to the 2009 financial report, NIS had 12,133 employees, with 5,775 employees remaining in 2015, while 5,072 people were outsourced (making in total 10,847).

In addition, average production costs were around 102.28 dollars per conditional ton of oil. Another thing to be noted is that until 2014, an increase in NIS’ share in the wholesale market of Serbia by some ten percent was recorded, while in the last two years a four percent fall occurred (due to falling prices of crude oil and gas). NIS management was well rewarded despite this fact – during 2015 and 2016 it received a bonus of over ten million euros.

Although here one could mention other interesting data, the above is sufficient to argue that NIS in Serbia is operating profitably thanks to underestimated domestic raw materials,

while its competitors had to provide a profit margin - a margin actually determined by NIS, as the dominant market player. It was even calculated that the effect of low mining tax on the market can be illustrated by comparison - for NIS' competitors to get the same benefits from the state of Serbia, they would have to be allowed not to pay 70 per cent of excises! If we were somehow to summarise the message of the above data, we could say that over the past eight years Serbia invested into NIS the value of its national treasures (oil and gas), which is valued at 4,198,812,447 euros, and that it "earned" a total 793 million euros against the mining tax, dividends, undistributed profits and income taxes - which means that Serbia paid 3.405 billion euros for the consolidation of NIS with Russian mediation. This is the current balance of the deal between the two countries in which one has invested its international political support for "the preservation of the integrity and sovereignty", while the other invested its oil and gas.