

Serbia mining: According to experts, little chance to increase the mining royalty in Serbia

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Mining royalty in Serbia is too low but the big question is whether the state has the room to maneuver its increase because of the poor situation of our mines, said experts with whom Danas spoke on that subject.

According to the information we received from the Ministry of Mining and Energy, mining royalty in Serbia is three to seven percent of the achieved revenues. Authorities say that the percentage of compensation for the exploration and exploitation of minerals in the neighboring countries is on the same level as in Serbia. However, in many countries in Europe and worldwide, the mining royalty is 20 to 30 percent of companies revenues that are dealing in exploration or exploitation of minerals, so the logical question is whether these compensation percentages should be raised in Serbia. Thus, it could be possible to increase the share of mining in GDP. At this point, based on available data, the mining sector achieves two percent of GDP in Serbia, and that share could rise to five percent.

What is also indicative is the fact that the Petroleum Industry of Serbia pays lower mining royalty than required by legal provisions. The amount of mining royalty for oil in Serbia is seven percent of income and NIS pays only three percent. The reason for this are the provisions of the international agreement between Russia and Serbia signed at the time when the construction of South Stream pipeline was planned. In the meantime that project was abandoned but the amount of mining royalty for NIS remained the same until today.

The Law on ratification of the interstate agreement between Serbia and Russia stipulates that in the event of introduction of changes in the Serbian legislation that lead to a deterioration of taxation conditions of joint stock company Petroleum Industry of Serbia, until achieving the viability of the project, the taxation of that company will be carried out in accordance with the legislation in force on the day of signing the agreement until the completion of NIS modernization. Bearing in mind that the project did not reach its profitability, under this provision of the Law on Ratification of the Agreement, the Petroleum Industry of Serbia pays mining royalty in the amount which was required at the time of signing the Agreement – it is stated for Danas from the Ministry of Mining and Energy.

Ljubodrag Savic, professor of the Faculty of Economics in Belgrade, told for Danas that it will be difficult for the authorities in Serbia to try to increase the mining royalty. - In other words, the State can increase mining royalty but the question is to what extent it would be

advantageous. The increase of mining royalty can only discourage foreign investors to invest in mining sector and those who have already started this activity, to desist from it. A specific example could be the Mining and Smelting Complex "Bor". The State is struggling to find an investor who would support this large complex to continue its operation so there is no room for the State to, let's say - insist upon, when it comes to the amount of mining royalty. Therefore, wishes are one thing and the possibility something else. Given all the above mentioned it is clear that the State is not in a position to think about increasing mining royalty no matter how low it is when compared to the situation in other countries - says our interlocutor. He adds that it would be good if competent authorities could manage to increase mining royalty paid by NIS but he is a pessimist regarding that this could change anything. - At certain point, the interstate agreement between Serbia and Russia was signed and it defined the amount of the mining royalty for NIS, the company owned by the Russian state giant Gazprom. It was stipulated that the compensation would be in the amount of three percent and that it is not increased until certain conditions are changed. It was a good solution at that time because the construction of South Stream pipeline was planned that would provide for Serbia another route of gas supply, sufficient amounts of "blue energy" and profit through transit fees. Unfortunately, the project was ultimately abandoned, not by Serbia mistake, but due to global political circumstances. Taking this into consideration it would be nice if now the State could oblige the Russians to pay a higher mining royalty. However, I think that the authorities in our country have their hands tied when it comes to this issue. Namely, how to ask NIS to allocate more funds for mining royalty when state-owned companies such as Petrohemija have large debts towards NIS - said Savic.

Vojislav Vuletic, Secretary General of the Gas Association of Serbia told for Danas that the State could prescribe higher mining royalty but in this area one should be guided on a case-by-case basis. - It would be completely irrational to raise mining royalty to 30 percent, which the State can certainly do in the case of RTB Bor. It is quite clear that no foreign investor would want to take over a loss-making company and that mining royalty is so high. In these cases one should go with low mining royalty in order to sell such large systems. When it comes to some other smaller mines with mineral resources whose exploitation is commercially viable there is certainly room to increase the compensation. Therefore, it is necessary to form a team of experts who would study the situation in detail and assess in which cases mining royalty should be increased and in which cases not - concludes Vuletic.