

Serbia Oil derivatives market report: Wholesale and retail market liberalization yet expected in full scale, oil importers and retail distributors price competition

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Although it was liberalized two years ago, Serbian Market of Oil Derivates has not launched its operation completely because they haven't started yet to fight competition at market principles: with quality and competitive prices. Fuel in Serbia is being said for years during summer season to be the worst in surroundings. Serbians also pay more expensive fuel and diesel than drivers in other countries. This thesis has been recently launched again with estimation that state does not do anything in order to solve this problem and that rulebook for minimal technical conditions in trade of oil and oil derivatives and rulebook for quality of motor fuels has actually forbidden import of fuel from EU so the owners of gas station are forced to buy from NIS, the owner of refinery for processing raw oil i.e. production of domestic fuel and diesel. NIS refineries are owned by GazmpromNeft and media reported earlier that Serbian government agreed to this non-free market concessions.

This is not true because oil market in Serbia has been liberalized for two years so far. Prices are free. Even oil traders can form prices more freely than for example Croatia which has just become EU member.

Serbian rules for quality and business conditions for oil market are mostly prescribed from EU legislation. Licenses for participation on the market are being issued by AERS. AERS has issued 172 licenses this way.

The fact that no company has monopoly anymore is recognizable also by the newest license which is issued to the Company for Trade PAN-LEDI DOO Pancevo on 4th June this year. AERS has issued 13 licenses for storage of oil, oil derivatives and biogas. Of course, the number of licenses is not the guaranty for market functioning, but it is pretty good pre-condition

And state which needs to do so much in order to regulate completely some trade conditions of business in sector of wholesale and retail of oil derivatives has not mistaken making a Rulebook for minimal technical conditions for oil and oil derivatives' trade. This document contains measures that should decrease grey economy- illegal import and sale of fuel that is not in accordance with prescribed standards, because import of derivatives whose quality satisfies EU standards is allowed in Serbia.

Unfortunately, there is fuel smuggling still, and that some entrepreneurs import bad quality fuel i.e. some fractions of oil derivatives that are later being resold as fuel i.e. diesel. State needs to investigate this seriously. It is completely clear that there are no smuggling without customs officials who cooperate. This does not exclude responsibility of other national organs, police, various inspections and tax collectors...

Ministry of Energy announces that profit of smuggled fuel , mixing various variants like base oils, various materials declared as biodiesel, easy fuel fractions...will be eliminated by measures of marketing and monitoring.

We are going toward that only fuel which is officially marked and whose quality is estimated can be at the market, like in developed countries.

However, Serbia does not have a laboratory or laboratories where quality of fuel can be tested-Ministry of Energy said. They also stressed for TNG that we have a laboratory since few months ago. But there is no laboratory for biogas.

As they say, Regulation for marking is enforced but only fuel marking will begin until the end of the year. Serbia will get monitoring and at least one completely equipped laboratory until the end of 2014. Monitoring and marking program will contain all gas stations in Serbia and all warehouses.

These measures will have significant influence on fuel quality in salary for sure.

This is pre-condition for equal competition. Importers need to own and rent appropriate warehouses. The one who does not have goods on stock is in situation that we had last year when it was impossible to deliver fuel by water transit because of low water level in Danube.

Comments that prescribed capacity of 5.000 tons is big overburden are often among oil trader. They ask from state to decrease capacity and many of them want to work without warehouses or without any operation reserves. They actually don't want any responsibility for market supply in extraordinary conditions like it was the case with low water level in Danube. They transfer this responsibility to NIS.

Companies that invested in serious gas stations chains, warehouses and increase of business standard, have warehouses for derivatives next to NIS today. In wholesale sector these companies are Naftahem, Speed, Petrobart, MB gas, VML and in retail sector these are Europetrol, Knez Petrol, MB Gas and Avia. There are also foreign chains that are working in Serbia: Eko Srbija, OMV, MOL, Lukoil and Petrol.

Connection of warehouse capacities with derivatives' quality is obvious. Because if fuel direction from producer (NIS) or from import is organized that way to respect rules and goods from lager in warehouses that are controlled, inspection will be able to control which fuel arrives to gas stations much easier.

Origin and quality of fuel will be able to be controlled. The question of prices remains, because when we look at the list of fuel prices in Europe for example, we can see that there are countries where fuel and diesel are cheaper.

If we know that bigger oil companies (Eko Srbija, OMV, MOL, Lukoil) that have its refineries in neighbor countries are working in Serbia next to NIS and that all other oil traders i.e. owners of gas stations can import it (if they don't have a license, they are able to get it), not only NIS can be charged for forming retail price. NIS seems to be the cover for big trade margin to

many oil traders.

If they provide cheaper fuel from abroad, oil traders can form its price, be competitive to NIS and attract buyers easier.

Warehouse is required for something like that, alone or in cooperation with other companies, or to rent a warehouse. The one, who seriously wants to do this business, needs to prepare himself seriously for the market competition. The one who has a warehouse will be able to buy derivatives at the market when the price is lower so it will have reserve and it won't depend on current oscillations.

This is a chance only for big ones. The owners of private gas stations in Serbia need to unite, register and launch strategic thinking how to be competitive with big ones. They will be able to exist in petrol business this way only.

Serbian market of oil derivatives has obviously not yet gotten over the biggest disease of growing up- free market. Who begin first will attract buyers and beat up competition for sure.

Source;Serbia Energy Biz intelligence desk