

Successful Gazprom in Serbia

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Abstract- Gazprom is a global energy company. Its major business lines are geological exploration, transportation, storage, processing, production and sales of gas, gas condensate and oil.

Russian holds the world's largest reserves of natural gas (see fig. 1).

It alone produce 22% of the world's gas, and in recent year has become the world's top gas exporter, mainly to Europe.

In addition to the rich endowment of gas, the Russian state has followed strikingly different paths in the oil and gas industries since the breakup of the Soviet Union.

The Russian government followed a different strategy. It retained the largest stake in the Russian gas behemoth, Gazprom, and has been able to run the enterprise as a state-controlled firm.

Only when it was confident that the enterprise was under unequivocal control of the Kremlin was the Russian government willing to sell larger stakes—while retaining a controlling share—to private investors and favored companies in the west.

Gazprom is the richest company in Russia. In 2005 Gazprom alone accounted for 8% of Russia's GDP, and provided about 25% of its earnings to the federal budget.

Even before the new company acquisitions of 2005 and 2006, Gazprom had become the largest gas company in the world. It supplies most of the gas used by households and industry in Russia, as well as gas that generates around 50% of Russia's electricity.

Long term contract (2012—2021) between Russian and Serbia was signed on October 13-2012 aimed in gas supply to be increased to 5 bcm per year.

New company was established under name of Naphtha Industrial Serbia (NIS) on October 1/2005.

Index Terms- Gazprom— Nis—South Stream—Filing Station—Bulgargaz

I. INTRODUCTION

The Soviet Union created a separate gas industry in 1943 during World War II.

In 1965, it centralized gas exploration,

In August 1989, the Ministry of Gas Industry was reconfigured as State Gas Concern Gazprom, which became the country's first state corporate enterprise.

Gazprom is a reliable supplier of gas to Russian and foreign consumers.

Gazprom is a global energy company. Its major business lines are geological exploration, transportation, storage, production, processing and sales of gas, gas condensate and oil (see tab 1)

Gazprom possesses the largest gas transport system in the world, with approximately 158,200 kilometers of gas trunk lines. Major new pipeline projects include North Stream and South Stream of Serbia. The company has a number of subsidiaries in various industrial sectors, including finance, media and aviation, as well as majority stakes in various companies.

Gazprom holds the world's largest natural gas reserves. The Company's share in the global and Russian gas reserves makes up 18 and 72 per cent respectively.

II. THE OBJECT OF THIS PAPER

The goal of this paper to introduce about meaning of Gazprom and its influence on local and world economies.

Cooperation in gas sector

On October 13, 2012, Russia and Serbia signed an Intergovernmental Agreement on natural gas supply in 2012-2021, allowing gas supply to be increased to 5 bcm per year. Based on an Intergovernmental Agreement dated March 27, 2013, Gazprom Export and Yugorosgaz signed a long-term contract for natural gas supply to Serbia until the end of 2021. As at January 1, 2015, a total of around 12.14 bcm of gas had been supplied under the contract with this company, including 1.36 bcm in 2014.¹

For restructuring the sector a new company was established under name of Naphtha Industrial Serbia (NIS) on October 1- 2005, where also underground store (UGS) was signed on January 25 -2008 it's head quarter placed in Novi Sad by value of 450 mcm maximum daily withdrawal productivity of 5 mcm in Serbia, Hungary, Bosnia and Herzegovina.²

51% of Nis's share were sold to Gazprom for (400 million euro) and (550 million euro) in investment until 2012.

These investments include Serbian South stream gas pipeline project and the construction of (UGS) facility in Banatski Dvor.³

Moreover the restricting plan aimed to transfer the sector into partial private sector when 20% of the remaining Nis's shares were listed on the Belgrade Stock Exchange since 30 August 2010.

¹ www.Gazprom.com/documents/Annual_Report_Eng_2004.pdf

² www.Gazprom export.com

³ www.Serbia's NIS to expand in four E. European states

III. EXPLORATION AND PRODUCTION

NIS is the only company in Serbia which deals with exploration and production of crude oil and natural gas, as well as with production of geothermal energy. The company disposes with all necessary equipment for the performance of a whole range of complex activities such as geophysical exploration, control of production of crude oil, gas and geothermal energy. The majority of NIS oil fields are located on the territory of Serbia, in the province of [Vojvodina](#), but [upstream](#) has business operations both in Serbia and abroad. In 2011 NIS started to expand business in south-east Europe: in [Bosnia and Herzegovina](#), [Romania](#) and [Hungary](#).

Table 1. Russian Oil and Gas Export and Total Export Revenues

| year | Oil and oil product | | Natural gaz | | Total export |
|------|---------------------|-------------------|-----------------|-------------------|-----------------|
| | Million US'00\$ | % in total export | Million US'00\$ | % in total export | Million US'00\$ |
| 1994 | 13.1 | 22% | 9.5 | 16% | 60.8 |
| 1995 | 16.9 | 22% | 11.1 | 15% | 75.9 |
| 1996 | 21.9 | 26% | 13.7 | 16% | 84.1 |
| 1997 | 21.0 | 25% | 15.6 | 19% | 82.9 |
| 1998 | 13.9 | 19% | 12.9 | 18% | 71.8 |
| 1999 | 19.1 | 26% | 11.1 | 15% | 73.9 |
| 2000 | 36.1 | 34% | 16.6 | 16% | 105 |
| 2001 | 35.1 | 34% | 18.1 | 17% | 104.3 |
| 2002 | 42.0 | 38% | 16.5 | 15% | 111.6 |
| 2003 | 57.1 | 40% | 21.2 | 15% | 144 |
| 2004 | 84.9 | 43% | 24.5 | 12% | 199.1 |
| 2005 | 132.1 | 48% | 35.7 | 13% | 274.5 |
| 2006 | 171.5 | 49% | 50.7 | 14% | 350.7 |

Table 1. Russian Oil and Gas Export and Total Export Revenues.

Filling stations in Belgrade

NIS owns the largest network of [filling stations](#) in Serbia - 334 filling stations, 10 loading terminals, 18 liquefied petroleum gas (LPG) bottle shops, 44 warehouses, aviation fuel pumping facility at [Belgrade Nikola Tesla Airport](#) and a network of depots across Serbia.

(LPG) retail includes all the regional sales centers in major cities in the country.⁴

IV. MARKET AND FINANCIAL DATA

As of 2013, NIS posted a profit of approximately 48 billion RSD (€422 million) and 264 billion RSD (€2.31 billion) of revenues. It has 7,629 employees. As of 29 May 2015, NIS has a [market capitalization](#)

, Serbia paid \$720 per 1,000 cubic meters of gas last year, which is significantly more than the average price other European countries, such as Germany, Austria, France and the Netherlands are paying. The average price of Russian gas to those countries last year was \$574 for 1,000 cubic meters, almost one third lower than the price that Serbia is paying.⁵

Other countries in the Balkans, such as Croatia, Macedonia and Slovenia, are paying a lower price; only Bosnia and Herzegovina is paying more- \$731 per 1,000 cubic meters.

The high price as related to the debt of more than a billion euros that Serbia owes to Gazprom.

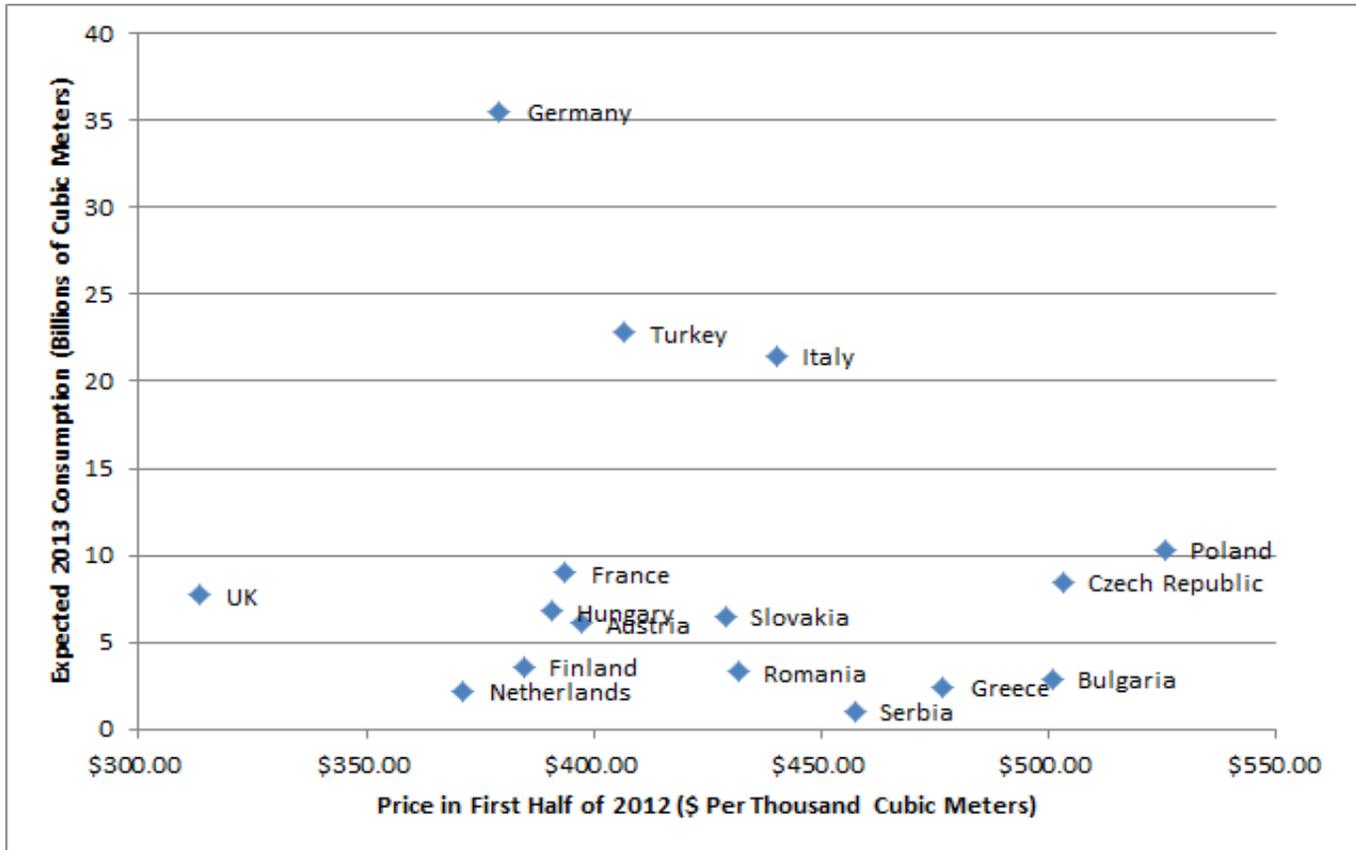
In 2014 capital investments of NIS group reached 39.4 billion dinars, which is 29% less, while the value of direct and indirect taxes reached 136.2 billion dinars, which is 13% more than in 2013.

Measures to increase business efficiency and consistent implementation of the cost reduction program led to a positive effect of 8.3 billion dinars.

⁴www.gazprom-neft.com/press-center/news/3914.

⁵www.belex.rs/eng.

Figure 1. Price in first of half 2012 (\$ per thousand cubic meters).



Source: forbes.com

V. FILING STATIONS IN BULGARIA

Gazprom Net’s subsidiary – Serbian has opened its first GAZPROM branded filling station in Bulgaria.⁶

The Bulgarian market has been identified as a priority market to develop the retail network under Gazprom brand in the region. NIS is currently completing the construction of 9 more filling stations, with an additional 10 stations also planned to further develop Gazprom branded retail network. By the end of the year there will be a total of over 40 stations in Bulgaria. NIS now operates Gazprom branded filling stations in three countries in Balkan region following the opening of gas stations in [Serbia](#) and [Romania](#) at the end of 2012.

The Gazprom branded network will have over 250 filling stations operating in the Balkan region by the end of 2015, with 80 of these in Bulgaria. NIS will manage the retail network.

The Gazprom branded premium filling stations offer clients the latest euro standard fuels – diesel, gasoline, LPG and lubricants. Filling stations will include a shop, a restaurant and a café. Customers will also be able to use other services such as free wireless internet. ⁷

⁶www.Board of Directors". nis.eu. Retrieved 5 August 2014.

⁷www.gazprom-neft.com/press-center/news/903972/

Launching a retail network under the Gazprom brand in Bulgaria is the next step towards achieving their strategic objective to develop a sales network in Europe Cooperation in gas sector in Bulgaria

On November 15, the Bulgarian state-owned gas distributor Bulgargaz signed a ten-year contract with Russian Gazprom regarding the annual purchase of 2.9 billion m3 of gas. The contract will come into force at the beginning of 2013. Bulgaria’s Prime Minister BoykoBorisov announced that they include a 20% decrease in gas prices and the withdrawal from existing services provided by the two intermediaries: Russian-Bulgarian Overgas (ownership: 50% Gazprom, 50% Overages Holding) and Russian-German Wee (ownership: 50% Gazprom, 50% Winter shall).According to Bulgaria, the contract also includes more flexible terms and conditions regarding supplies: the ability to renegotiate the contract after six years following its establishment and a more favorable ‘take or pay’ clause (the level of compulsory payment has been set at 80% of the contracted volume of gas - currently standing at 90%).⁸

At the same time, on the day the contract was signed, the Russian-Bulgarian company South Stream Bulgaria (ownership: 50% Gazprom, 50% Bulgarian Energy Holding) issued a final investment decision regarding the construction of the Bulgarian section of the South Stream gas pipeline which will carry Russian gas to Europe. Similar decisions were issued last month

⁸www.gazprom-neft.com/press-center/news/1095170/

by the companies responsible for the construction of particular sections: the submarine section and the section through the territories of Serbia, Hungary and Slovenia.

The information on the terms and conditions of the contract revealed in the press indicates that it has been a success for Bulgaria in terms of negotiations. It succeeded in securing one of its main demands: bypassing companies which act as supply intermediaries and at the same time Bulgaria likely obtained one of the highest price discounts among European customers of Gazprom. According to unofficial information, the price has been reduced from US\$ 524 to US\$ 420 for 1000 m³. This success was due to the very strong negotiating position of Bulgaria, which used its geographical position in order to demand preferential conditions in the gas contract in exchange for approval of south stream pipeline's construction.

VI. CONCLUSION

In August 1989, the Ministry of Gas Industry was reconfigured as State Gas Concern Gazprom, which became the country's first state corporate enterprise.

A Russian-Serbian Intergovernmental Agreement was signed on February 7, 1995. To strengthen Gazprom's position in the region, a new Russian-Serbian joint venture, Yugorogaz (50% Gazprom-owned), was established in July 1996 under an Intergovernmental Agreement dated April 11, 1996.

Srbijagas, established on October 1, 2005 by the government of the Republic of Serbia in the course of restructuring the state-owned enterprise Naphtha Industrial Srbije (NIS).

NIS is the only company in Serbia which deals with exploration and production of crude oil and natural gas. Gazprom purchased 51 % of Nis's shares for (400 million euro) and (550 million euro) in investment until 2012 on 25 January 2008.

NIS owns the largest network of [filling stations](#) in Serbia - 334 filling stations, 10 loading terminals, 18 LPG bottle shops, 44 warehouses.

In 2013 NIS posted a profit of approximately 48 billion RSD (€422 million) and 264 billion RSD (€2.31 billion) of revenues.

Serbia paid \$720 per 1,000 cubic meters of gas, which is significantly more than the average price other European countries, such as Germany, Austria, France and the Netherlands are paying. The average price of Russian gas to those countries was \$574 for 1,000 cubic meters, almost one third lower than the price that Serbia is paying.

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Bulgaria signed a ten-year contract with Russian Gazprom regarding the annual purchase of 2.9 billion m³ of gas.

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