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ENERGY

SECTORIAL OVERVIEW JUNE/JULY 2016

IN THE FOCUS

Prices of energy sources dropped in July by 4,8% as compared to May
Although the prices of gas and coal rose, a drop of oil prices prevailed.

Key companies on the energy sources market are recording a fall of profits
Net profit of the Russian Company Gazprom dropped by 5%, whereas the profit of the American giant Exxon fell by 59%.

Russia has decided to reduce its dependance on exports of oil
The largest oil exporter beyond OPEC has turned to fostering growth through redirecting the economy from the sector of energy sources to the food production sector. Last year, Russia recorded a fall in economic growth, because of the sanctions and low energy source prices. Along with Russsia, Saudi Arabia is also searching diversification.

Iran is opening up to foreign investors
After lifting of the sanctions in January, the Government of Iran has decided to renew the energy infrastructure through attraction of foreign investments. At the end of July, a draft document on investments to this sector was published. The document estimates that foreign companies will invest up to 50 billion $ annually.

Petrol price in Serbia is lower as compared with the average price in the region
Other oil derivatives are more expensive as compared with the region's average. Lower prices of gas on the global market made impact on the domestic market.

GLOBAL MARKET

94,3 mb/d
2016

Global oil production in the second quarter of 2016 was on the level of 94.3 million barrels per day (mb/d), which was lower by 1.4 mb/d as compared with the previous quarter. Oil production in 2016 is declining because the record law prices from the beginning of the year resulted in cutting investments and closing down of oil rigs and plants, because of unprofitability of production. Nevertheless, the fall is smaller than expected, because closing down of unprofitable facilities goes more slowly because of the struggle for supremacy on the market.

Oil demand has grown, primarily as a consequence of increased demand for fuel. In the USA, the total demand grew by 1% as a result of higher production activity of the country and the higher fuel demand. Oil demand in India grew by 7% as compared with the previous year. Although the biggest world economies recorded growth in demand, in Saudi Arabia, Brasil and Canada, oil demad dropped. According to the recent figures, oil demand in Saudi Arabia fell by 6%, and in Brasil by 2% as compared with the previous year.

DOMESTIC MARKET

- Serbia manages to meet the needs for electric power on the basis of its own inputs, whereas it has large structural import dependance on gas, oil and oil derivatives. Therefore, global trends have a large impact on domestic sectors of oil and gas, and lower impact on the sectors of coal and electric power.

- Concentration of Serbia's foreign trade in the energy sector is shown in the fact that the export of top 4 exporting companies accounts for 92% of total export, whereas four largest importers account for 82% of imports. Out of the total number of companies participating in the international trade of energy sources, one quarter are exporters (237), from among which only a half are net exporters, whereas 90% of companies trading in energy sources deal with import (881), 96% of which are net importers.

OIL AND OIL DERIVATIVES

Petrol price in Serbia is lower as compared with the average price in the region (it is lower only in Hungary, Bulgaria, Macedonia and Bosnia and Herzegovina), whereas prices of other oil derivatives are higher as compared with the average in the region (8,6% higher diesel price and 7,6% higher price of liquid oil gas). Low oil price in the world (50% lower as compared with the previous year) can be an optimum moment for accummulation of mandatory strategic stocks for critical 90 days, which Serbia as the EU candidate country has to fulfil. Another favorable fact is that the July stocks of oil are higher as compared with the stocks from the previous year. Foreign trade balance of oil, oil detivatives and similar products still records a deficit, but it is lower as compared with the previous year. Total deficit was reduced by about 8%, first of all because of reduction of imports by 13%, although exports fell by 30% in the same period. The countries from which Serbia imported crude oil this year, along with Russia, are Iraq (28%) and Nigeria (9%). The only market to which Serbia exports crude oil is Bosnia and Herzegovina, but this year in 16% lower amount than previous year.

GAS

Gas price in June was by one third lower as compared with the same month previous year. Domestic companies have managed to absorb to a certain extent negative impact of such a low gas price, since they lowered the costs of gas transport, and consumptin of gas in this month was higher by about 5% as compared with the demand in the previous year. Nevertheless, and demand for gas in this month was formed according to the nine-month average of oil price on the global market, it can be expected that the falling trend in oil price will continue, because the average oil price in 2016 is much lower than in 2015. Foreign trade deficit in this sector is cut almost by half, because of the drop in oil prices on the global market, due to which import of gas is also much lower. Although Serbia exported 16% more gas this year than in previous year, it is imporant to understand that Serbia does not export the gas it produces, and its export is not competitive, because it actually exports to the countries of the region the gas imported from Russia.

COAL AND ELECTRIC POWER

Price of electric power is higher than in previous year. Price of electric power for households grew by 7%, whereas the coal price for households has not changed substantially. Coal exploitation and electricity generation grew in the first six months this year as compared with the previous year (5% and 6% respectively). The reason for that is full stabilization and recovery of electric power system after the floods. Foreign trade balance of electric power moved from the deficit recorded in the first half of the previous year to the surplus of 54 m € in the first two quarters of the current year. Twice as lower quantities of coal were imported as compared to the previous year, because the domestic production grew, and imports of electricty has been declining since February this year, whereas its export has increased manifold.

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