

SeeNews

Research on demand

SEE Oil Industry on the Way of Recovery

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SEE OIL INDUSTRY DEVELOPMENT IN 2011-2013

The oil industry in Southeast Europe (SEE) in the period 2011-2013 underlined the dependency of the countries in the region on crude oil imports, which exceeded considerably domestically produced oil. Five countries from the region had proven oil stocks. Romania owned the largest reserves, followed by Albania, which reported a decrease of 13.57% y-o-y in its stocks in 2013.

Stock of Proven Reserves of Crude Oil as of Jan 1 (millions of barrels)			
Country	2013	2012	2011
Romania	600	600	600
Albania	172	199	199
Serbia	78	78	78
Croatia	71	71	71
Bulgaria	15	15	15

Source: U.S. Energy Information Administration

In 2013, total oil production in the region was 165,587 barrels per day (bbl/d), up 2.40% compared to the previous year, when the countries' output amounted to 161,702 bbl/d, and 1,890 bbl/d less than the production in 2011. Romania continued to lead in the SEE region in terms of crude oil production. Its output was larger than the combined output of the rest of the SEE countries in each of the years in the period 2011-2013. Serbia reported an annual increase of 7.60%, compared to 2012, and became the second largest producer, outpacing Croatia. Albania continued increasing its annual oil production in 2012 and 2013, albeit slower compared to the staggering 50% growth in 2011 and 2010, when the country produced 15,544 bbl/d and 10,926 bbl/d, respectively. By data from the U.S. Central Intelligence Agency (CIA) for 2011, the country's production exceeded its domestic needs, making Albania the sole net exporter of crude oil in SEE.

Total Oil Production (bbl/day)			
Country	2013	2012	2011
Albania	17,038	16,865	15,544
Bosnia and Herzegovina*	-32	-32	-32
Bulgaria	3,384	3,384	3,384
Croatia	20,238	20,075	21,893
Macedonia	41	41	41
Serbia	21,221	19,722	21,306
Romania	103,697	101,648	105,341

*Negative value indicates refinery processing loss
Source: U.S. Energy Information Administration

Crude oil production in SEE, excluding Romania, Bulgaria and Slovenia, will keep climbing to 3.88 million tonnes in 2015, driven by rises in Albania and Serbia. However, the depletion of oil stocks might reduce the production in the region by 12% to 3.43 million tonnes by 2020, according to forecasts of the Croatian-based Energy Institute Hrvoje Pozar (EIHP).

Demand for crude oil is expected to continue to rise, which will lead to an increase of imports to 14.68 million tonnes in 2020 from 8.62 million tonnes in 2010 and the risk of even greater dependency of the region on imported oil. EIHP expects that imports of crude oil in Croatia, Serbia, Bosnia and Herzegovina, and Macedonia will go up by 35% in 2015 and by another 26% in 2020, compared to 2010. However, the recent macroeconomic conditions and the slow pace of economic recovery in Europe may reduce the consumption of crude oil in SEE countries below the forecasts, especially in the mid-term, as business confidence felt to a six-month low in May 2014 and unemployment remains trapped in double-digit numbers.

Annual Domestic Consumption of Petroleum Products in '000 bbl/d			
Country	2013	2012	2011
Albania	28	26	26.3114
Bosnia and Herzegovina	36	35	35.3987
Bulgaria	94	91	83.5848
Croatia	84	82	79.4257
Macedonia	16.67	17.0832	19
Montenegro	4.46	4.7453	4
Romania	215.25	216.331	217
Serbia	16.4959	14.9973	16.5808
Slovenia	50.3973	55.2503	55.1342

Source: U.S. Energy Information Agency

In line with the slow economic recovery in the region, demand for petroleum products increased just slightly, with total consumption of 545,270 bbl/d in 2013, through 542,410 bbl/d in 2012, and 536,440 bbl/d in 2011. Notwithstanding the rise, levels remained far from the pre-crisis consumption of 587,470 bbl/d in 2008. Demand for petroleum products in SEE's biggest consumer - Romania, inched down by 0.80% in 2013, compared to 2011. Bulgaria and Croatia followed in terms of consumption, with an average annual growth of 6.08% and 2.84%, respectively. The three countries together had 72.12% of the region's petroleum products consumption in 2013.

The major supplier of petroleum products for the region is Russia, delivering 73% of the total crude oil imports in Bulgaria, 36% in Romania and 88% in Croatia, according to 2009 Eurostat data. Other sources of crude oil imports are Ukraine, Algeria, Libya and countries in the Middle East, including Iran, Iraq and Saudi Arabia. Albania and Montenegro import their crude from neighbouring countries like Greece and Italy.

SEE Crude Oil Imports		
Country	bbl/d	Year
Albania	N/A	
Bosnia and Herzegovina	22,140	2010
Bulgaria	124,700	2010
Croatia	51,470	2013
Macedonia	51,510	2013
Moldova	N/A	
Montenegro	N/A	
Romania	122,000	2010
Serbia	33,330	2013
Slovenia	N/A	

Source: U.S. Central Intelligence Agency

FUEL RETAIL CHAINS

In the period 2011-2013, SEE faced a reduction in the number of filling stations. Croatian INA's filling stations across the region went down to 444 in 2013, from 448 in 2012 and 456 in 2011. The OMV retail chain shrank to 785 in 2013 from 798 filling stations in 2012. Slovenian Petrol d.d. was an exception as it reported a rise in its fuels distribution network in the period 2011-2013.

Romanian oil and gas group OMV Petrom SA, majority-owned by Austria's OMV AG, once again ranked first in the top 20 of the biggest oil and gas companies in the region in terms of total revenue in 2013, as it did in 2012. However, OMV Petrom's total revenue dropped by 2.97% year-on-year to EUR 4.270 bln in 2013. The company was also among the oil and gas firms in the region which boosted their earnings last year. Its profit reached EUR 1.079 bln, up 24.10% on the year in 2013.

Bulgaria's sole oil refinery, majority-owned by the Russian Lukoil OAO, Lukoil Neftochim Burgas AD was second in the ranking in terms of total revenue, with Slovenia's petroleum and fuel retailer Petrol d.d. coming at third place.

Lukoil Neftochim Burgas' revenue shrank by 7.15% in 2013 to EUR 3.906 bln, while its net loss widened more than two times to EUR 123.3 mln in 2013. Petrol d.d. reported a total revenue of EUR 3.281 bln, up 0.54% on the year, and net profit of EUR 30.2 mln in 2013.

Romania's OMV Petrom Marketing SRL, wholly-owned subsidiary of OMV Petrom SA, placed fourth in the SEE TOP 20 Oil & Gas ranking for 2013 with total revenue of EUR 3.259 bln and its net profit increased by 14.78% on the year to EUR 65.7 mln.

Filling Stations Across SEE in 2013							
Country/company	INA	LUKOIL	Petrol AD	Shell	OMV	Petrol d.d.	Rompetrol
Albania		2					
Bosnia and Herzegovina	45	N/A				37	
Bulgaria		200	345	100	93		61
Croatia	392	48				97	
Kosovo						7	
Macedonia		26					
Moldova		N/A			86		53
Montenegro	1	10				8	
Romania		301			545		747
Serbia		118			61	8	
Slovenia	6					319	
Total	444	705	345	100	785	476	861

Source: Company websites and annual reports

Croatia's INA d.d., majority-owned by the Hungarian oil and gas group MOL Nyrt, took the fifth spot, reporting a total revenue of EUR 3.246 bln, a 8.92% decline, compared to 2012. The company's earnings tumbled as it turned to a net loss of EUR 213.8 mln in 2013, from a net profit of EUR 175.3 mln the year before.

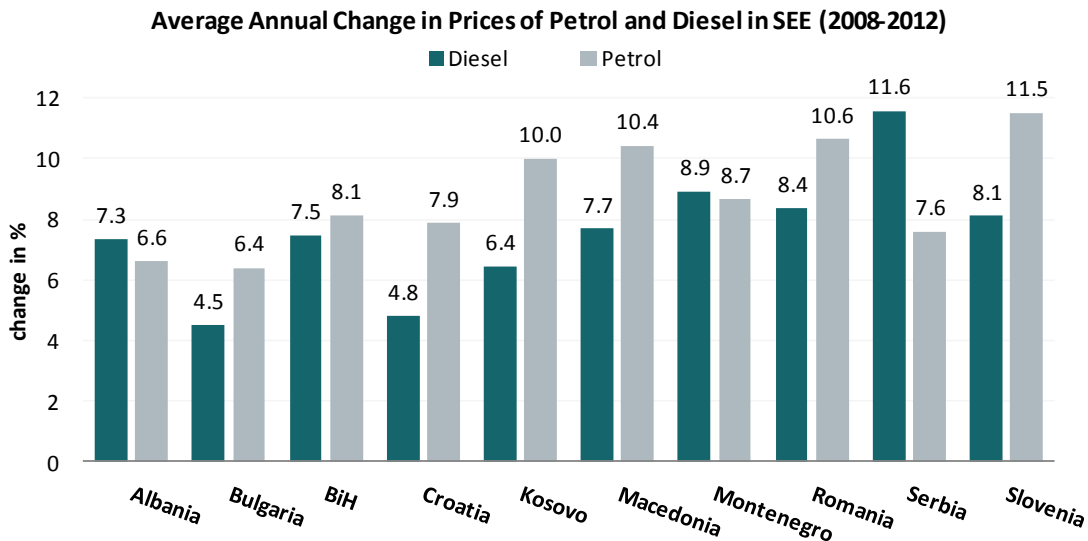
The majority of the filling stations in the region are under control of foreign oil and gas corporations like Austria's OMV AG, Russia's Lukoil OAO, and Royal Dutch Shell PLC. However, there are big fuel chains in SEE that for now are out of the grasp of foreign owners like Bulgaria's Petrol AD and Slovenia's Petrol d.d.

Further consolidation of the fuel retail market in SEE seems unlikely for the time being as the major markets in the region currently accommodate three to five well-established players.

Although the region has a well-developed and expanding network of filling stations, further investments are needed for the modernisation and construction of storage facilities.

FUEL PRICES IN SEE

All of the SEE countries saw a growth in fuel prices in the period 2008-2012. The uptrend was following the rise of the crude oil price, which almost tripled between December 2008 and March 2012. Crude oil prices were mainly buoyed by expectations for an economic recovery.



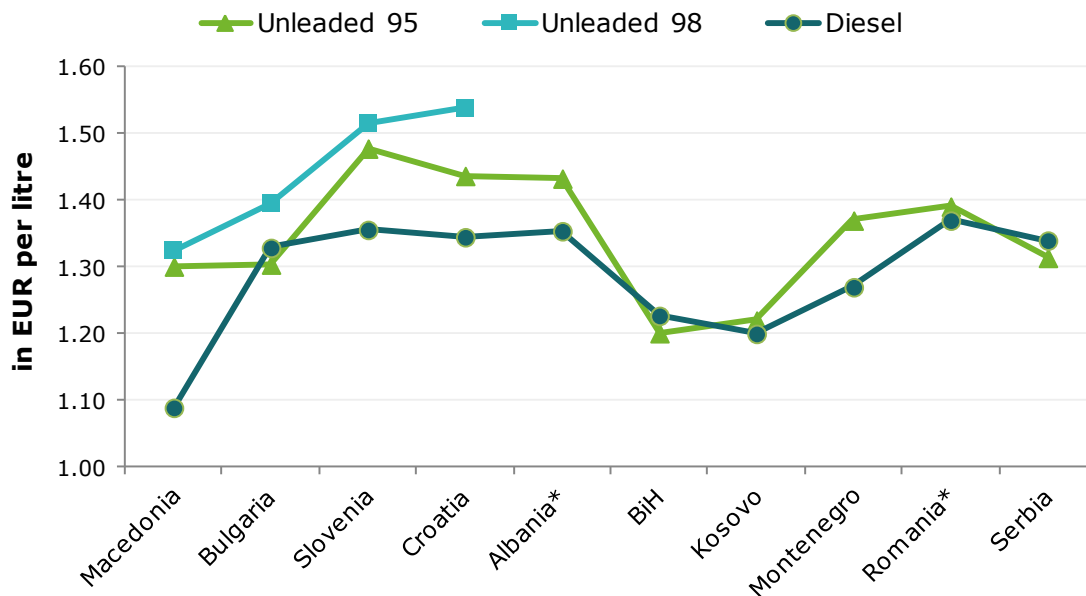
Source: The World Bank

Among the other factors for the increase in fuel prices in some SEE countries were higher taxes imposed by the national governments to cushion budget deficits and fluctuations in currency exchange rates. Likewise, Romania's government raised the Value Added Tax rate to 24% as of July 1, 2010, as part of a wider austerity package drafted together with the International Monetary Fund and aimed at curbing the country's widening budget deficit.

Slovenia and Serbia were the countries to report the biggest average annual increase in fuel prices in the period 2008-2012, with annual growth of 9.81% in Slovenia and 9.59% in Serbia. Bulgaria posted the lowest average annual change of fuel prices, with increase of 4.54% for diesel and 6.41% for petrol.

The average fuel prices in SEE remained lower than the EU average at end-July 2014. Generally, the highest fuel prices were reported in Slovenia, followed by Croatia, while filling up was cheapest in Macedonia, Bosnia and Herzegovina, and Kosovo.

Petrol and Diesel Prices in SEE as of end-July 2014



* As of Aug 11, 2014

Source: *Touring Club Suisse*

In SEE, diesel was cheaper than petrol, with the widest price margin between the two observed in Macedonia. Bulgaria and Serbia were exceptions from that trend as both countries recorded almost equal price levels between diesel and unleaded petrol, with a little advantage for the diesel price.

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