



# Weekly Briefing

**Montenegro Economy briefing:  
Exploitation of oil in the coast - a chance or danger?  
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## **Exploitation of oil in the coast - a chance or danger?**

In the last weeks, one of the basic economic issues is the issue of oil exploitation on the Montenegrin coast. The economic significance of this issue is certainly great, but this issue also takes on a social character, especially if one has in mind that Montenegro is the only ecological state according to the Constitution. However, the question arises as to how much research and potential exploitation of oil in the Montenegrin coast is a real problem of the environment and what economic benefits it can bring to Montenegro which economy is dominantly dependent on tourism as one of the leading sectors? Also, what is not recognized in public is the delicacy of this issue and questioning this potential at the moment when the Montenegrin government faces major financial problems - too much indebtedness and budget deficit, as well as a still high unemployment rate (in comparison with the developed countries of the European Union ). Can potential oil fields in Montenegrin coast and their exploitation affect the rehabilitation or improvement of these problems?

### **Research on the existence and stock of oil - lot of economic benefits and a lot of dissatisfaction in society**

The Government of Montenegro announced that the Seismic 3D Underwater Survey will be conducted by the Greek company Energean Oil and Gas in January 2019. Previously, in March 2017, Government of Montenegro has signed concession contract with Greek company for production and exploration of oil and gas in the Montenegrin submarine. The project will last 45 days and involves 3D seismic testing of the Montenegrin undersea. According to estimates, in the part of the Montenegrin coast (two blocks) managed by Energean Oil and Gas, it has 144 million barrels of liquid resources and 51 billion cubic meters of natural gas.

However, immediately after the announcement of this activity, many NGOs, environment protectionists, etc. expressed concern about the effects and impact on the environment. In relation to that, protest march of citizens and NGOs are organized along the Montenegrin coast.

The planned research method will have a minimal environmental impact, as evidenced by just over 500 pages of the Environmental Impact Assessment Report recently submitted to the Agency for the Protection of Nature and the Environment, in accordance with national legislation. The most of the potential impacts on economic activities related to sea such as fishing, tourism, maritime transport, as well as environment, marine animals, air and human health are considered as low or moderate after applying all planned mitigation measures. Nevertheless, it is up to the government to supervise that in the undersea testing process all measures will be taken to bring this initial research project to the highest world standards, which means taking into account, inter alia, biodiversity and the protection of all plant and animal species in this sea area. So, the social revolt seems unnecessary so far.

It seems that the Government itself also sees that it must use all the potentials for the purpose of significant economic growth and development. Reliance on tourism is significant and means a surplus on the account of services in the foreign trade balance of Montenegro. But reliance on tourism alone is not enough. One of the potentials is definitely mineral resources and potential oil discovery. The existence of oil should be examined, and the recent elaboration of the Geological Institute of Montenegro on the potential of mineral raw materials of Montenegro encourages that we have raw materials and that there is quite a space for investments in this sector. This was, among other things, mentioned in Podgorica, at the Ninth Conference of the ESEE Countries (Eastern and Southeastern Europe), and organized by EIT RawMaterials and the Leoben Regional Center within the Montan University of Austria and the Adria Regional Center. A general overview of the framework and the current situation

in the mineral resources and oil sector in Montenegro is indisputable, but it should also point out the overall economic and social significance.

Oil and mineral resources are the basis of today's society and are important for the whole world and for future social development, but, specifically in Montenegro and Europe, for a secure economy in the future, it is necessary to provide safe supply. The economy of the future is undoubtedly linked to sustainable development, but this does not mean that one should ignore what constitutes one of the still dominant sources of energy, but also one of the greatest potentials for overall economic development.

Nevertheless, if research shows that there are resources that can turn into non-risk hydrocarbon reserves, what economic benefits will Montenegro enjoy?

Research shows that one of the most important effects of such inventions is definitely new companies and the new employment of hundreds of people in the local oil industry, which, from the aspect of Montenegro, is not a negligible number. This further means new taxpayers, or more money in the state budget on various bases. In addition, according to the legislation in the field of hydrocarbons, the state's revenues from oil and gas exploration and production will be based on the volume of hydrocarbons produced, so depending on the daily production from 2 to 12 percent of production would go to the state budget. Another type of budget revenues would be profit tax from hydrocarbon production, i.e. hydrocarbons tax which would amount to 54%, according to the Law on Hydrocarbons Tax. That would affect the inflow of additional revenues in the Pension Fund and the Health Fund, and the like. So, therefore, less pressure on a country that faces a number of problems in this field.

The entire exploration of Montenegro's hydrocarbon potentials will last for several years. It should be borne in mind that it is not just a question of whether there are natural resources to be answered, but also whether these resources can be converted into unriskey hydrocarbon reserves, which implies it will be economically justified to exploit and offer the same to the market. If these questions are answered positively, then Montenegro will have significant

benefits in the medium and long term from the production of hydrocarbons. These benefits include the first very significant investments required for the development of the sector, whereby the necessary financial resources are provided by private companies, and not by the state. The benefits could be recognized at labor market too. It would have effects on direct employment in the local oil industry, such cases are accompanied by employment in related economic sectors, manufacturing and service activities. Thus, job creation would reduce unemployment as highly qualified labor force, as well as low-skilled unemployed as well as those without previous working experience. There are also indirect effects on the labor market in terms of job creation and employment in related sectors and activities, such as the provision of certain services which have not been existed or existence of such as services is at low level and the procurement of raw materials and semi-products necessary for production. This may represent an opportunity for the development of new businesses and the development of economic sectors that are associated with possible future development of the oil industry. In addition, the latest knowledge, expertise and new technology sectors will be on the rise, and young people could find new spheres of interest in studying, professional development, work and career building.

The economic effects of the potential exploitation of Montenegro's hydrocarbon potentials could also be reflected in the reduction of gas import costs, but also in reducing the scarcity of petroleum products and the provision of energy resources in the country. This would further affect the improvement of the ratio between exports and imports and economic growth.

Direct revenues to the state budget have already been mentioned. In this connection, the Oil Fund for future generations will be formed, according to Norwegian model. This Fund will be financed from the hydrocarbons tax, i.e. 85% of its revenues will belong to the Fund and 15% to the state budget. It seems that Montenegro has been well prepared for this moment, primarily with the fact that a set of special laws and by-laws regulating hydrocarbon

exploration and production activities, and the tax aspect of these activities, have been adopted to ensure that most of the wealth gained in this new industry is for long-term benefits to citizens.

So, if the unrisky hydrocarbon reserves is discovered, the Montenegrin economy can enjoy many benefits. In addition to the impact of total energy production, the main recognised benefots of of potential exploitation of oil are related to the growth in investments in this area, improvement of performances at labor market performance, foreign trade balance, as well as budget performance through revenue' growth. Also, tranfer of technology, know-how, knowledge and work experience in the field of production are the positive effects of these activities too. In addition, different analyzes and estimates indicate that the exploitation of hydrocarbons does not significantly affect the environment and biodiversity and and that nature will not suffer because of economic benefits. It remains to see the results of research and further development of activities in this area.