THE POSITION OF SC PETROM SA ON THE CENTRAL AND EAST EUROPEAN OIL MARKET

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PETROM SA represents an oil company which acts on a tough competitive market, characterised by international risk factors. Thus, its results and performances are influenced by the quotations of the oil prices, technological development from the alternative energy area, the financial crises, the evolution of the main foreign currencies related to the national one. Into this area of activity, the central and east European market is characterised by the consolidation of five major groups: OMV Austria, PKN Orlen Poland, MOL Hungary, LUKOIL Russian Federation and ROMPETROL SA.

The strategies of some of them, conceived in order to dominate the indigenous oil market, can succeed only if they manage, in the same time with the market development, to attract PETROM SA customers. Thus, the main threat for the Romanian company is represented by the competition, which succeeded to consolidate its presence and position in the field while the national company has been massively restructured after it has been taken over by the OMV.

Key words: strategy, market share, oil, refinery, competition

JEL: F01; L10; M31

I. Introduction

PETROM SA represents the main oil company with Romanian capital. Thus, on the second position after the major stakeholder, OMV Aktiengesellshaft which holds 51,01% of the shares, the Romanian state owns by the Authority of State Assets Recovery 20,64% of them, 20,11% belong to the Property Fund, 2,03% to European Bank for Reconstruction and Development, and 6,21% are traded on the Stock Exchange Market[351].
Taking account of the fact that these factors also influence the competitors, and PETROM SA is advantaged by its significant domestic production, being not so exposed to such kind of risks, it can be appreciated that, in the most significant measure, the company is influenced by the competition and the actions undertaken by the companies from this area in order to dominate or survive on the oil market, this factor representing the main external threat.

II. The regional market

Into this area of activity, the central and east European market is characterised by the consolidation of five major groups: OMV Austria, PKN Orlen Poland, MOL Hungary, LUKOIL Russian Federation and ROMPETROL SA, company registered in Holland, controlled by the KAZMUNAYGAZ Kazakhstan and which main operational base is in Romania.

OMV Aktiengesellshaft (OMV), the main company from the south Eastern Europe, is located in Viena and, starting with 2005 year, has conceived an offensive strategy of development on the external markets having as a priority to consolidate its oil products operations in the east of the continent. The company has an integrated character, besides the oil business it develops operations with natural gases, being the coordinator of the NABUCCO project, focused on the construction of a gas pipeline designed to bring gases from Iran and Caspian Sea area, going around the Russian Federation, in Europe.
From the oil business point of view, into the medium and long term strategy of the OMV company[352], it is emphasised the fact that the Austrian company wants to develop onto the „growth belt" of the European Union, aiming to grow onto the emerging markets from this area and the neighbouring countries possible to be included in the European Union, previously consolidating itself onto an mature market.
Thus, the target market for the Austrian company is formed by the Baltic States, Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Serbia and Montenegro, Croatia, Slovenia, Macedonia, Bosnia and Herzegovina, Albania, and they are completed with Greece and Turkey.

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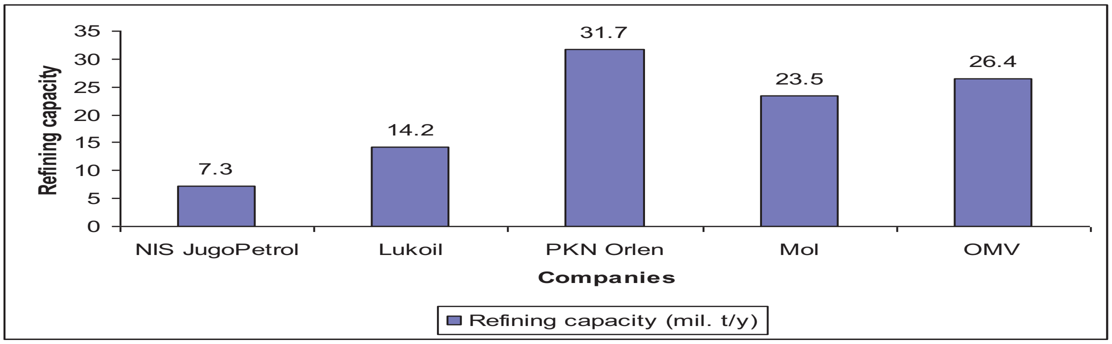
351 PETROM SA, Raportul anual pe 2007, p. 75, www.petrom.com.
352 Wolfgang Ruttenstorfer, director general executiv al OMV, OMV Strategy 2010, Conferinţa Capital Markets Day, Bucureşti, 12-13 octombrie 2005.

An axis of the consolidation and development of the Austrian company, both from refining and distribution point of view, is known as Danube 13, showing very clear the area in which OMV wants to be the leader, more precisely in the countries placed on the middle and downstream Danube. This one represents a first step in order to expand the Austrian concern's operations with oil products, tightly linked with the general frame of European Union development.

Figure 1. *Oil refining into the Danube basin*



Source: Data processed in accordance with Gerhard Roiss, deputy executive on Refining&Marketing in OMV, Refining and Marketing Strategy 2010, p. 10, Capital Markets Day Conference, Bucharest, 12-13 October 2005 and the Annual Reports of MOL and PKN Orlen, released on the sites: www.mol.hu and www.orlen.pl.

Observations:

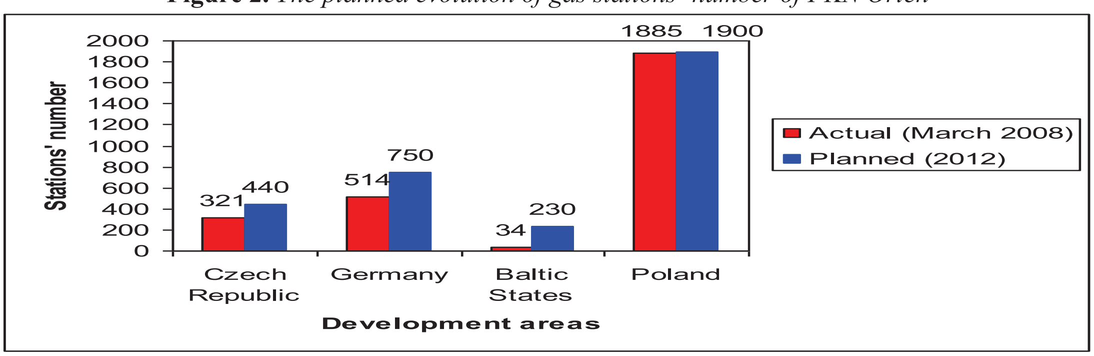
- data for MOL also includes the refining capacity of INA Croatia and IES Mantova Italy;

- data for PKN Orlen also includes the refining capacity of UNIPETROL Czech Republic and Mazeikiu Lithuania;

- data for OMV also includes the refining capacity of PETROM SA Romania.

PKN Orlen, set up in 1999 by the merger between Petrochemia Plock and Centrala Productow Naftowych (the largest refining unit has been merged with the most important distributor), represents the main oil refiner from Central Europe, with an annual processing capacity of 31,7[353] million tones. Oil refining is done in 7 units: Plock, Trzebinia and Jedlicze placed in Poland, other three: Litvinov, Kralupy and Pardubice in Czech Republic, and another one, Mazeikiu in Lithuania.

Figure 2. *The planned evolution of gas stations' number of PKN Orlen*



Source: Data processed in accordance with reports, press releases and official analyses posted on www.orlen.pl

Practically, the Polish company has planed to have the most developed gas stations network in the central and east European area (from 2.754 it wants to reach, over four years, at 3.320), reason for which PKN is going to consolidate its position into this area, to finalise the brand strategy in Germany and the Baltic States, to implement the biofuels sales and analyse the development on the Ukrainian market.

MOL Group includes the Hungarian firm TVK, the Slovakian company SLOVNAFT, ROTH distribution network, IES (Italia Energia e Servizi) Italy and holds a significant participation

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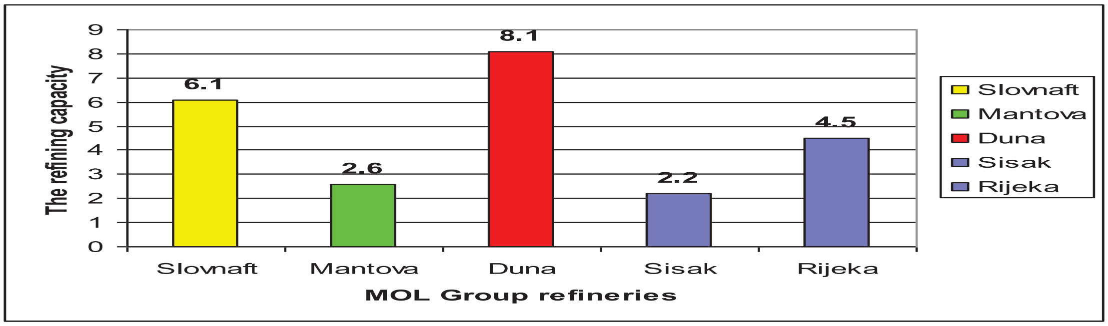
(25%) from INA Croatia, together with this company also controlling 67% from ENERGOPETROL Bosnia and Herzegovina.

Both the partnerships and the acquisitions of MOL are focused on consolidating a business that follows the direction Adriatic Sea – Baltic Sea, sustained by a powerful refining segment, this one being supposed to enter into competition with the interests of the others regional competitors: PKN Orlen, OMV and LUKOIL.

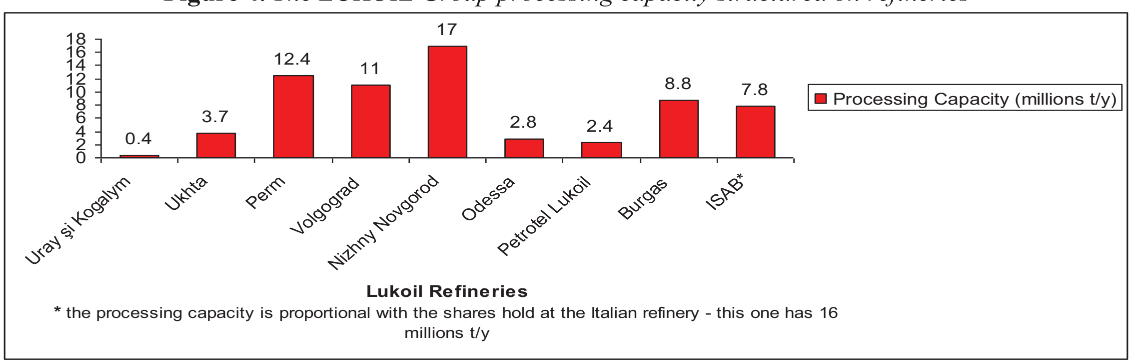
Figure 3. *The total refining capacity of MOL Group*



Source: Data processed in accordance with MOL Strategy 2006-2008, „Setting the pace from „New Europe”” and the company’s Annual Report 2007.

The main oil company from the Russian Federation that undertakes commercial operations into the central and east European area is LUKOIL, one of the largest companies vertically integrated into the oil&gas field from the entire world. The LUKOIL shareholders are mainly (96,90%) Russian economic entities, that are owned by different multinationals (for example ING Bank Eurasia ZAO holds 71,76% from the capital). To the private shareholders are allocated only 3,09% from the shares, while to the foreign ones, 0,01%[354].

Figure 4. *The LUKOIL Group processing capacity structured on refineries*

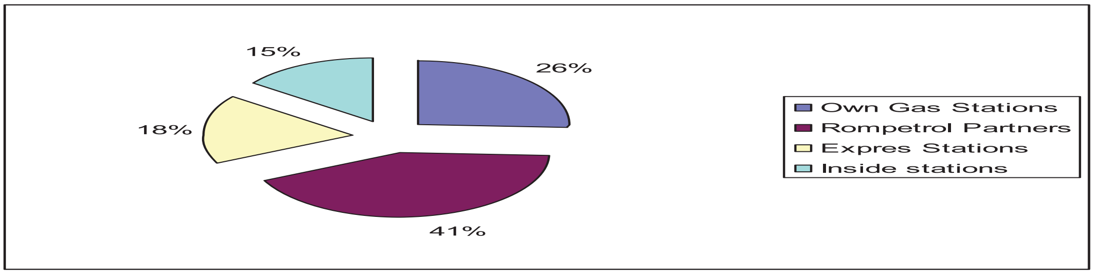


Source: Data processed in accordance with Vagit Alekpeov, Lukoil president, Lukoil – Global Energy Company: Focused on Value Growth, April 2008 and Lukoil and ERG form ISAB Refinery Joint Venture, June 2008, www.lukoil.com.

Represents a multinational company established in Holland, but with the main assets and activities undertaken in Romania (country where it actually came from), south-east Europe, France and Spain.
The areas of business development and consolidation in the ROMPETROL vision are the countries placed close to the Black Sea shore and the Mediterranean Sea basin.

354 www.lukoil.com.

Figure 5. *ROMPETROL DOWNSTREAM distribution structure*



Source: Data processed in accordance with the ROMPETROL Group Annual Report 2007, pp. 9, 16.

III. The place and the role of PETROM SA on the regional oil market

PETROM SA, part of the OMV Group, is adapting to its regional and international interests, and on the domestic market it implements the strategy conceived in order to compete with ROMPETROL SA, LUKOIL Romania and MOL Romania, the other key players on the domestic oil market. Concrete, on the foreign market PETROM SA is primarily involved into activities of obtaining raw materials while at the regional and local level it is focused on the production, processing and the distribution of oil products.

OMV, the main shareholder, wants to maintain its position of the most important company from the Danube basin. On the downstream of this river the Austrian company owns PETROM SA, company that is regionally competed by:

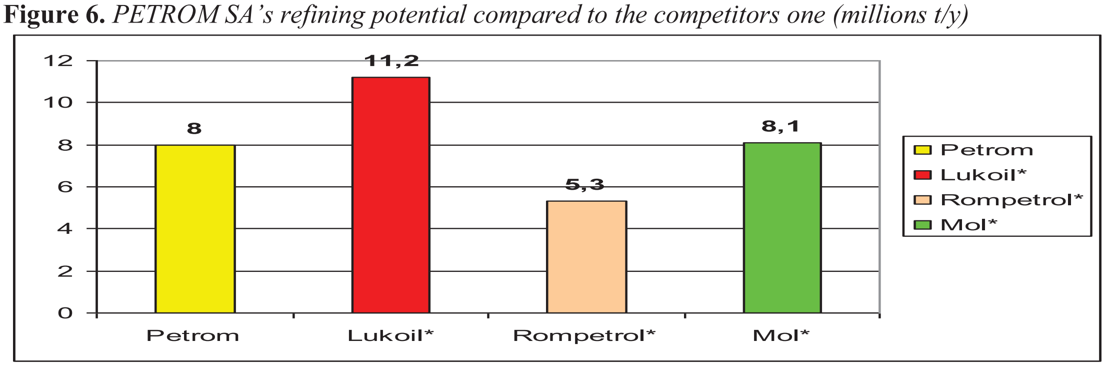
LUKOIL, Russian concern of international level, that benefits of the advantage of raw material resources, refining capacities and superior financial potential;

MOL, which consolidation and radial development also includes this geographical area. The partnerships with SLOVNAFT, INA Croatia, the penetration of the markets of Bosnia Herzegovina and Serbia doubled by the stabilisation at a market share of 10-12% in Romania, threats the OMV interests and its member PETROM SA;

ROMPETROL SA, after the moment when it has been taken over by the Kazakh oil group KAZMUNAYGAZ, has succeeded to eliminate its main weak point: supplying with raw materials. Also, it holds an advantageous position on the PETROM - OMV target market: Ukraine.

As it can be observed from the below figure, PETROM SA occupies the third position from the refining point of view into the neighbourhood of Romania, after LUKOIL and MOL.

Figure 6. *PETROM SA's refining potential compared to the competitors one (millions t/y)*

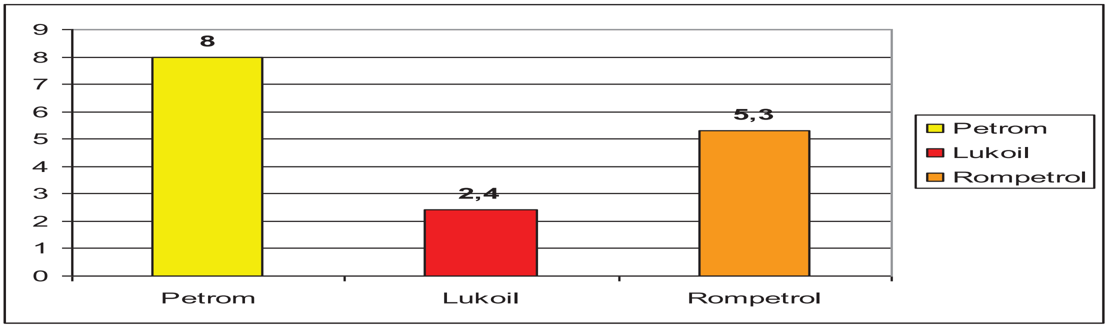


Source: Data processed in accordance with the information from the companies Annual Reports 2007 (supervised)
*for LUKOIL it has been taken into consideration the Petrotel (România) and Burgas (Bulgaria) refineries;
ROMPETROL is represented by the capacity from Petromidia and Vega (both from Romania);
MOL has been taken into account only with Duna (Hungary), refinery that supplies the company's gas stations from Romania.

Such an approach is justified by the fact that all the countries where these processing capacities are placed (Romania, Bulgaria and Hungary) are members of the European Union, the common market tending to the complete liberalisation of merchandise, fact that economically redesigns the area of activity of the mentioned companies, that in order to commercialise their products in the neighbouring countries will not have to fight against protectionist barriers.

Thus, PETROM positioning on the oil products market according with the mentioned criteria, presents a superior relevance than if we had been treated it strictly into the Romanian borders. In this case, PETROM SA would have held the dominant position, as it can be observed from the Figure no. 7:

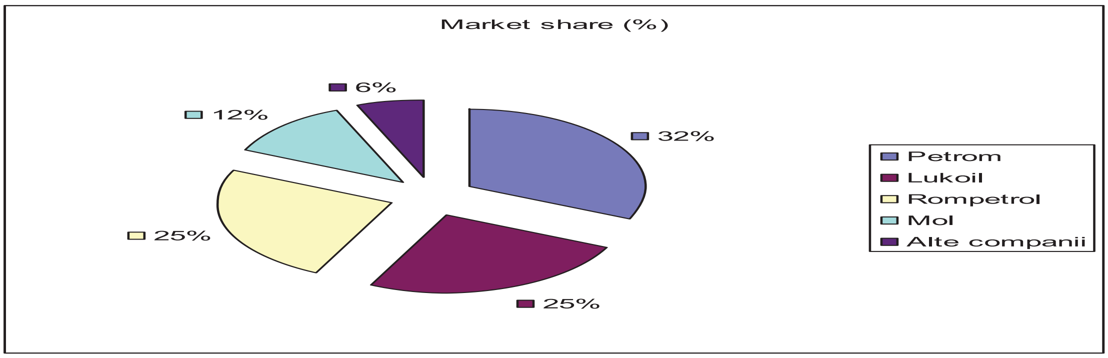
Figure 7. *The PETROM SA and its competitors refining capacity in Romania (millions t/y)*



Source: Data processed in accordance with the information from the companies Annual Reports 2007 (supervised)

Into this case, we could consider that PETROM SA has a weak competition on the refining segment and we would over evaluate the competitors' performances regarding the market share that they own. (See the figure no. 8).

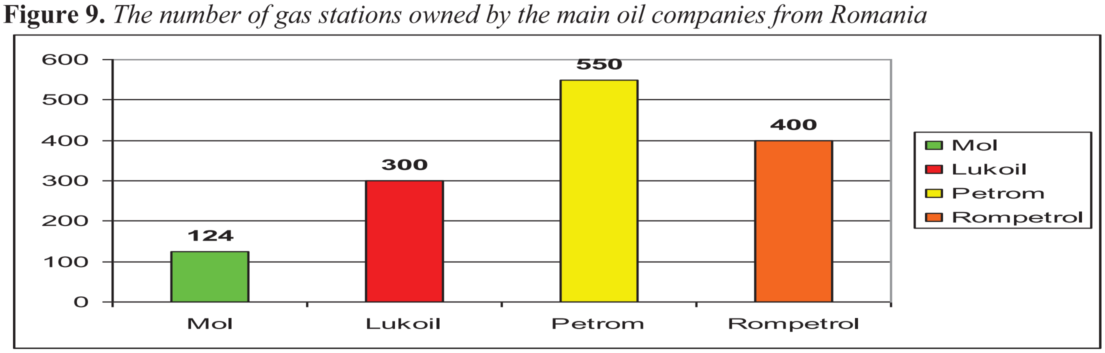
Figure 8. *The PETROM SA and its competitors' market share on the Romanian oil market*



Source: Data processed in accordance with the information from the companies Annual Reports 2007 (supervised)

Even in these conditions, for the Romanian company the market share remains a low one, because even it owns the largest retail network (550 gas stations, with 11% more than ROMPETROL SA (400 stations) and 18% more than LUKOIL (300 stations)) it doesn't goes over 32%, while each of its main competitors controls 25% from the oil market.

Figure 9. *The number of gas stations owned by the main oil companies from Romania*



Source: Data processed in accordance with the information from the companies Annual Reports 2007 (supervised)

IV. Conclusions

Taking account of the aspects presented we can consider that, from the competition point of view on the internal market, PETROM SA is still on the first position, but its market share is progressively decreased by its significant competitors (ROMPETROL, LUKOIL and MOL).

Their strategies, conceived in order to dominate the oil market, can succeed only if they manage, in the same time with the market development, to attract PETROM SA customers, because both ROMPETROL SA and LUKOIL plan to increase their market shares by 5% while the competitors represented by the others companies, except MOL, hold only 6% from the entire national market.

Thus, *the main threat for the Romanian company is represented by the competition*, which succeeded to consolidate its presence and position in the field while the national company has been massively restructured after it has been taken over by the OMV.
ROMPETROL SA has designed an innovative strategy, with a distribution dominated by partner stations, express stations and inside stations. Thus, the précised company attracts the small distributors, occupies the rural market and establish tight commercial relations with its most important customers. In the same time, by the oil terminal planed to be built at Midia (14 millions t/y) it assures the supply with raw material, also guaranteed by its major shareholder: KAZMUNAYGAZ.
LUKOIL Romania intends to buy already built gasoline stations, and its results (the Headquarter recognised the fact that it is its most competitive foreign subsidiary in 2007) will allow to access significant funds in order to achieve this objective. Also the Russian company benefits of a privileged position from the oil supplying point of view because it is owned by one of most important oil exporter from this region.

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