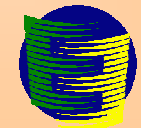
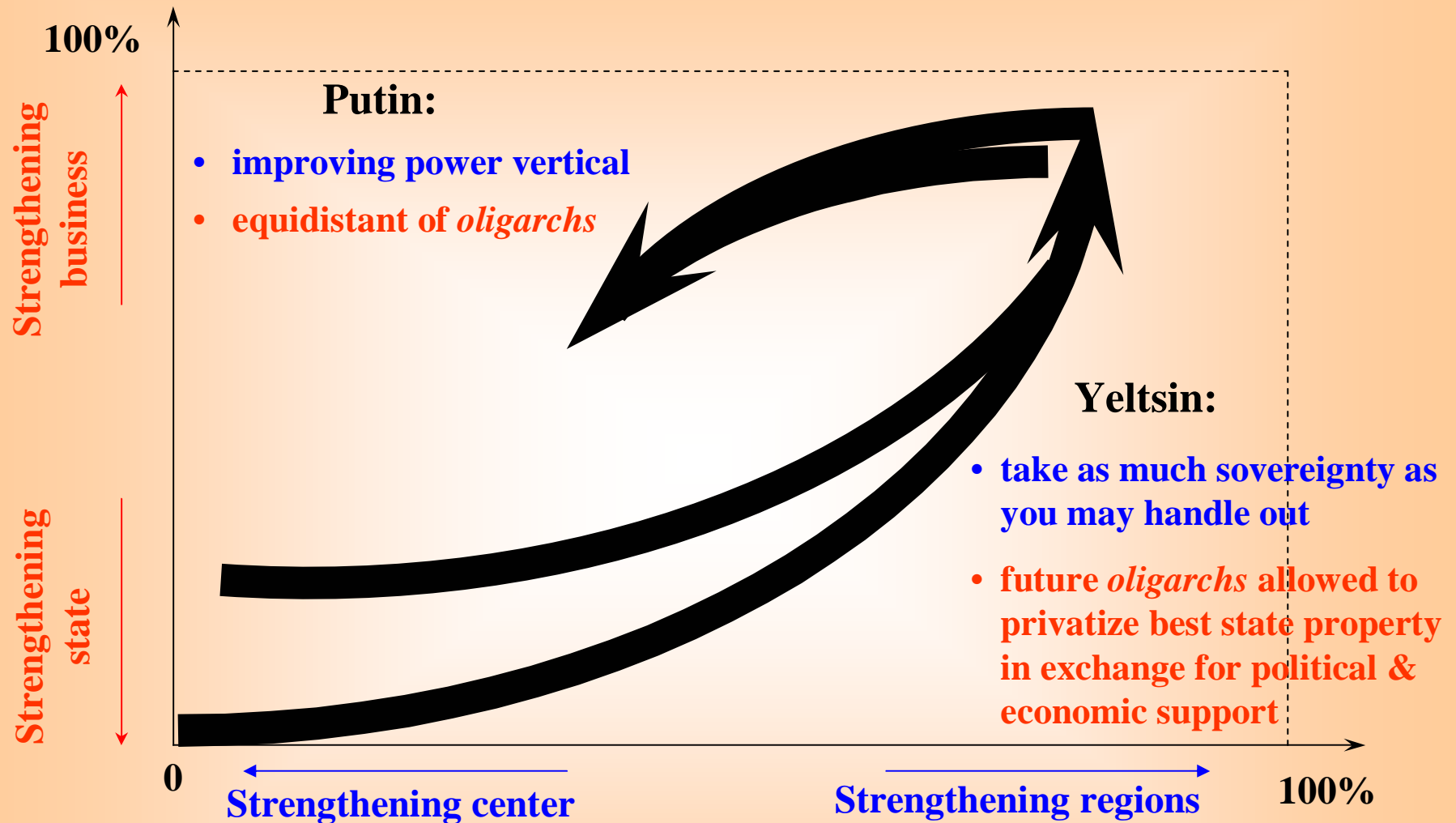


**THE RELATIONSHIP BETWEEN THE STATE
AND THE ENERGY BUSINESS:
THE CASE OF RUSSIA**

**Dr.A.Konoplyanik
Deputy Secretary General
The Energy Charter Secretariat**

**NOC-IOC Relationships that Drive Growth,
May 19-20, 2004, Pennyhill Park Country Club, Surrey, UK**

EVOLUTION OF STATE ECONOMIC POLICY IN MODERN RUSSIA



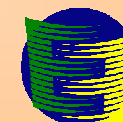
POSSIBLE COMPOSITION OF DIFFERENT INVESTMENT REGIMES IN SUBSOIL USE IN RUSSIA

		Legal system	
		Administrative	Civil
Tax treatment	General (common)	Licenses	Concessions
	Special (incl. individualized)	Licenses with allowances	PSAs

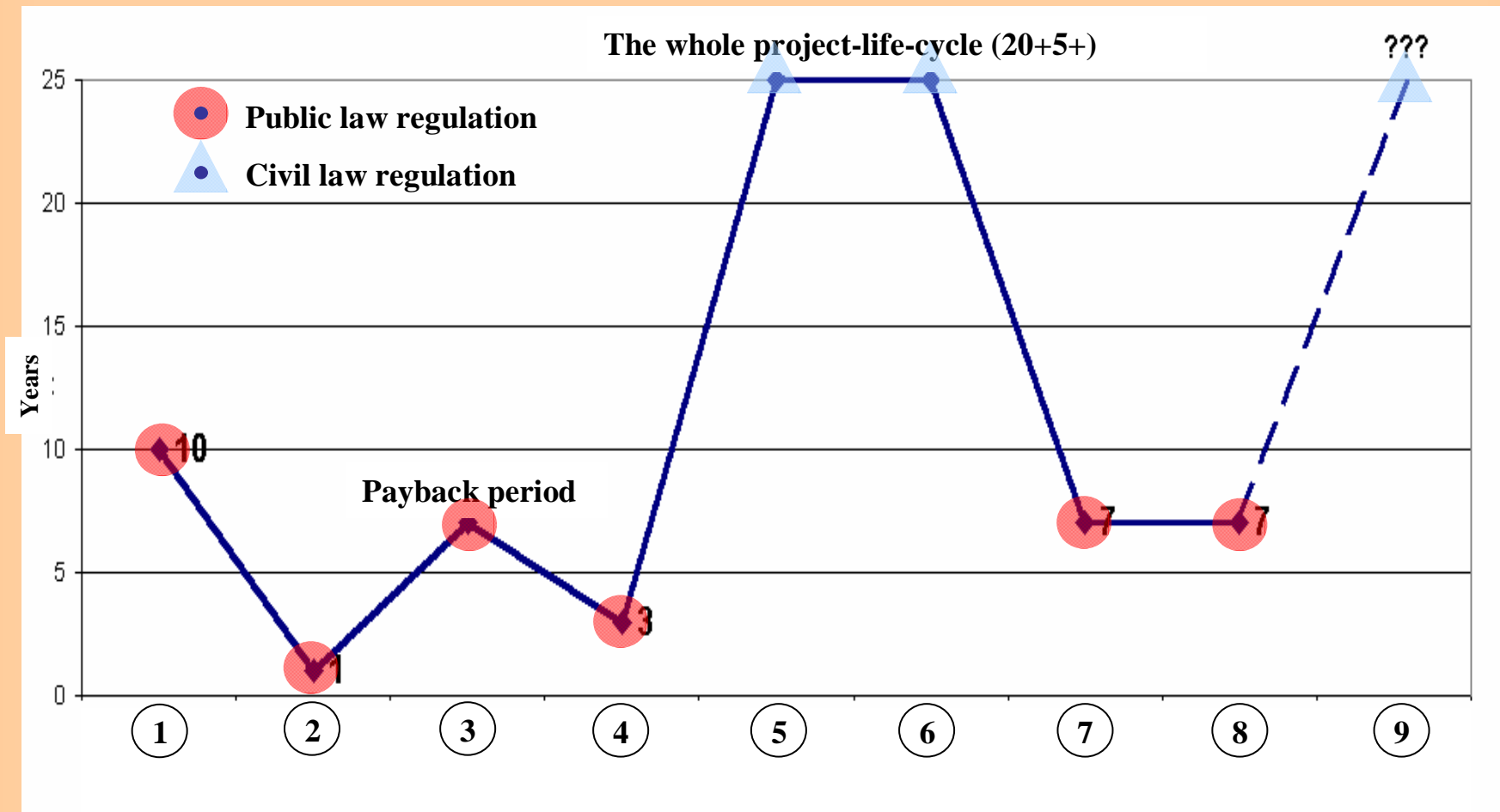
There is no must to have only one legal regime for subsoil use in Russia, especially taking into consideration huge geographical dimensions and geological complexities in different areas of the country. Russia is among a dozen of oil-producing countries worldwide that has more than one legal regime for subsoil.

DIFFERENT INVESTMENT REGIMES IN SUBSOIL USE: COMPARATIVE LEGAL & TAX (DIS)/ADVANTAGES

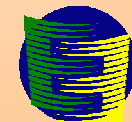
Investment regime	Investment regime's characteristics during project life-time	
	Tax pressure	Stability
Licensing	Non-optimal (high), established unilaterally	No
Licensing with allowances (special tax regimes)	Non-optimal (diminished), established unilaterally	No
Concession	Non-optimal (high), established unilaterally	Yes
PSA	Optimal, negotiated	Yes



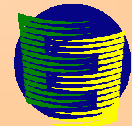
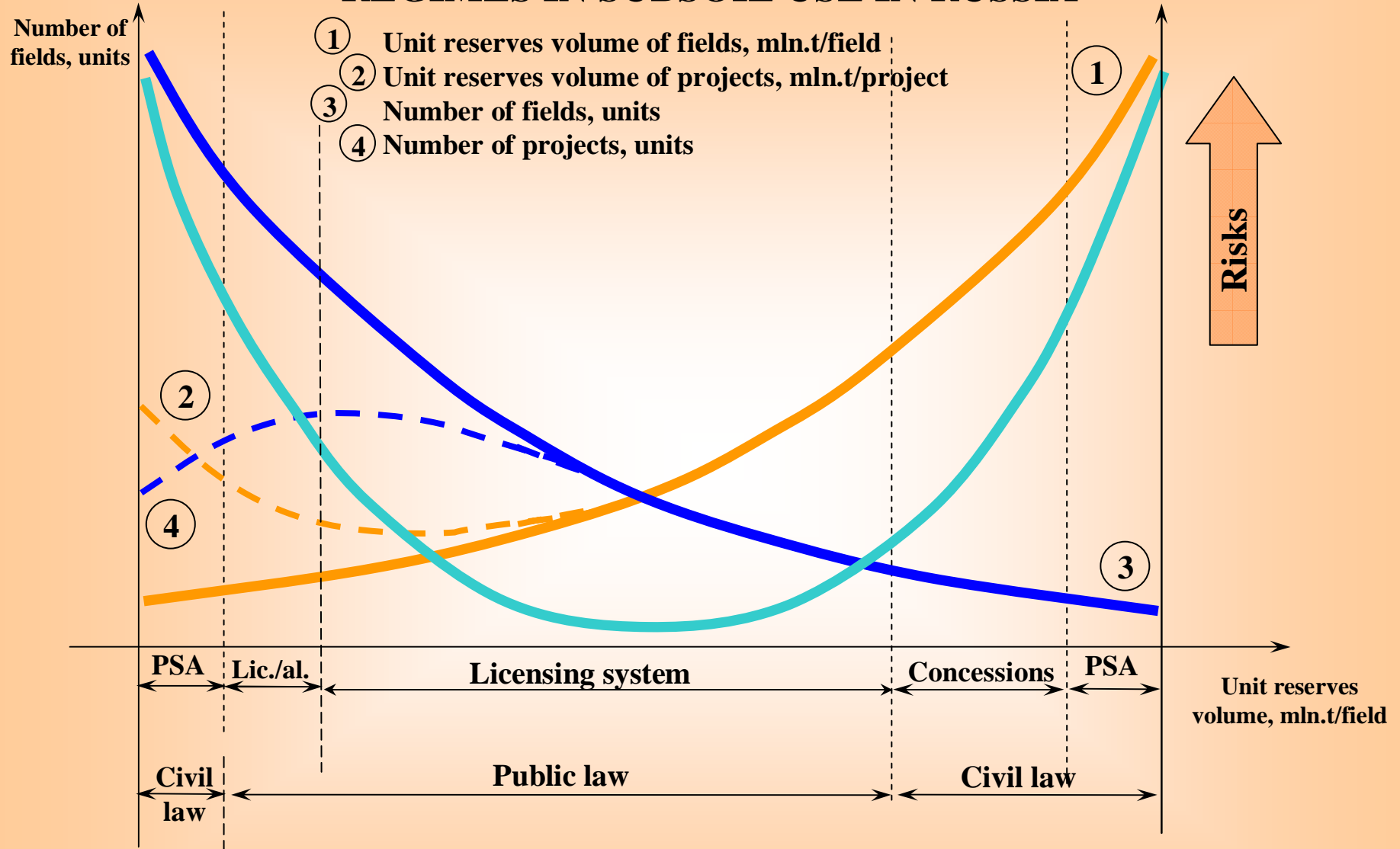
DURATION OF “GRANDFATHER’S CLAUSE” IN RUSSIAN LEGISLATION



1. Fundamentals of the USSR legislation on Foreign Investments (June 1991)
2. Law “On Foreign Investments in the RSFSR” (July 1991)
3. Decision of the Government of RF №1375 (July 1992)
4. Decree of the President of RF №1466 (September 1993)
5. Decree of the President of RF №2285 (December 1993)
6. Law “On Product Sharing Agreements”(December 1995)
7. Law “On Investment Activities in RF, realised in a form of capital investments” (February 1999)
8. Law “On Foreign Investments in RF” (July 1999)
9. Draft Law “On Concessions” (2003+?)



PROPOSED APPLICATION ZONES FOR DIFFERENT INVESTMENT REGIMES IN SUBSOIL USE IN RUSSIA





THREE TYPES OF STATE POLICY TOWARDS BUSINESS: RUSSIA ON THE UPWARD TREND NOW?

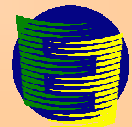
1. To stimulate:

- (a) Business in general**
- (b) Only domestic**
- (c) Only foreign**

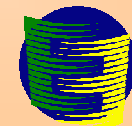
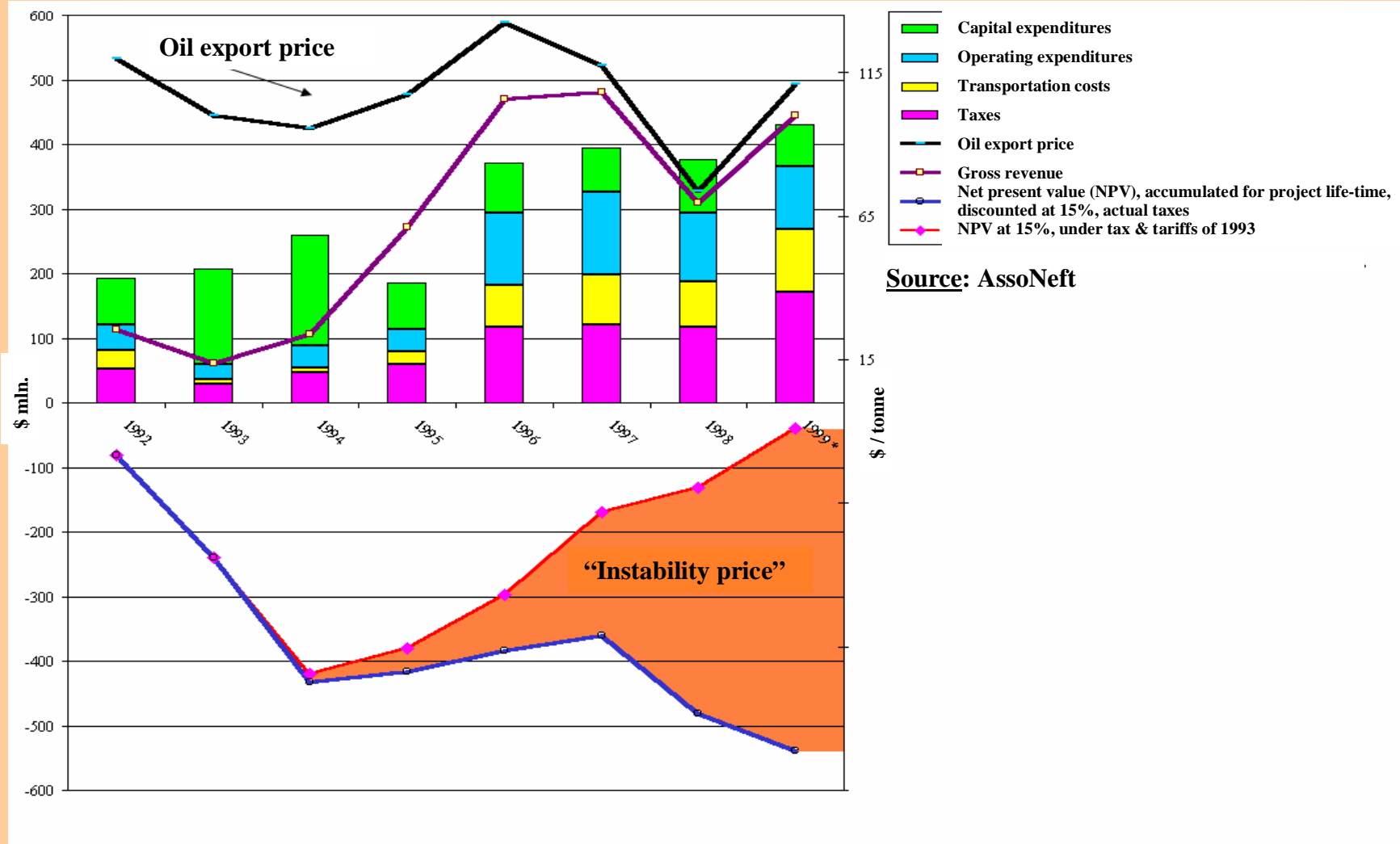
2. To be neutral

3. To de-stimulate:

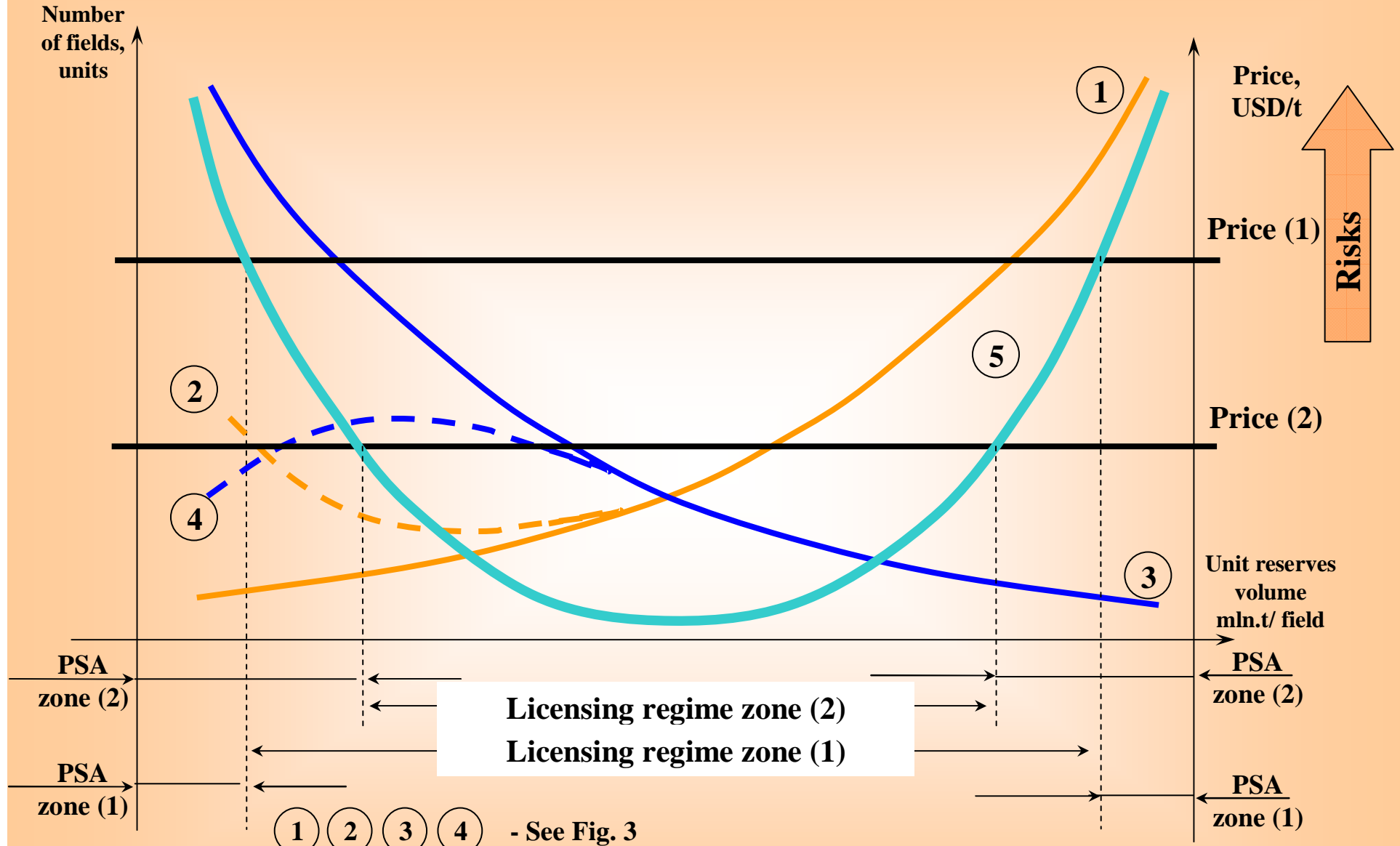
- (a) Business in general**
- (b) Only foreign**
- (c) Only domestic**



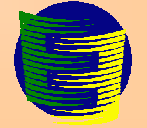
“INSTABILITY PRICE” OF THE RUSSIAN TAX LEGISLATION (for a group of non-integrated oil companies)



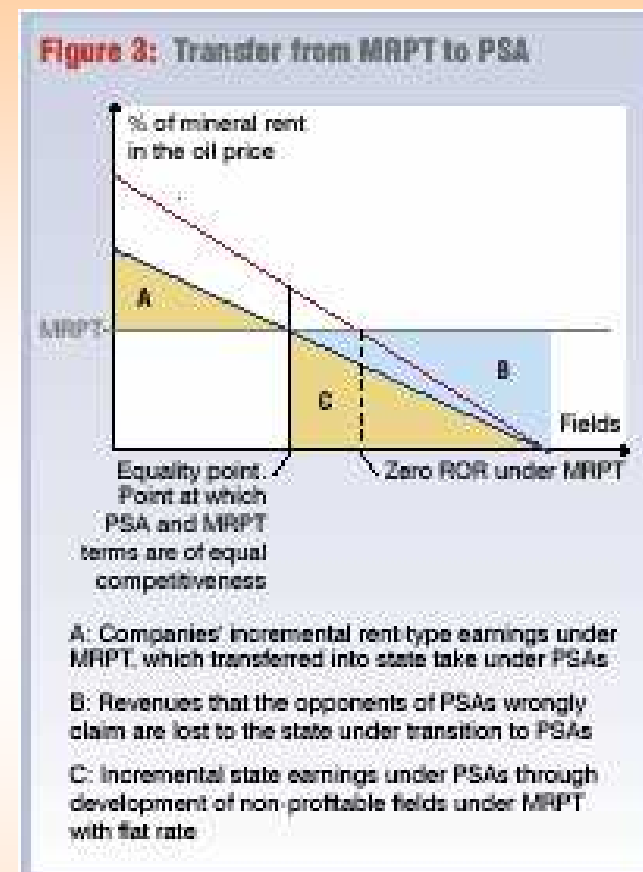
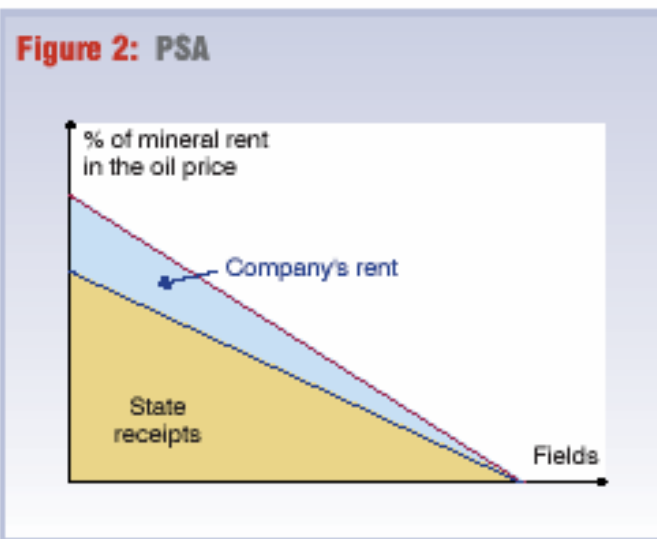
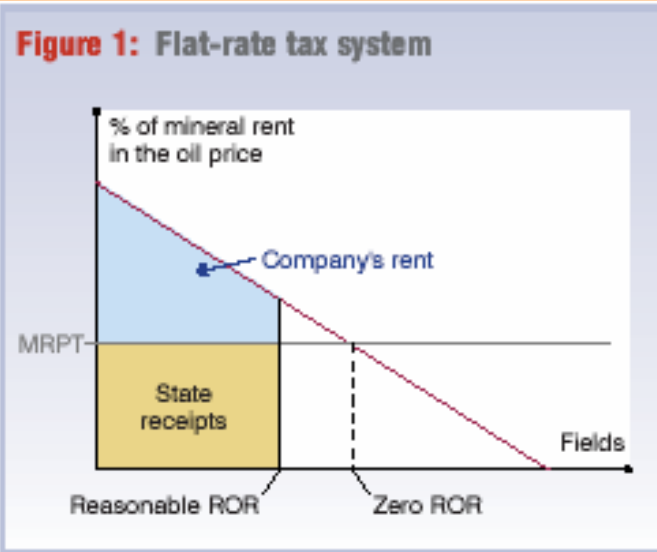
EVOLUTION OF PSA ZONES WITH OIL PRICES FLUCTUATIONS



⑤ - Overall risk of financing oil and gas projects dependent on resource range zone



FLAT-RATE TAX SYSTEM, PSA AND TRANSFER FROM MRPT TO PSA



Source: A.Konoplianiuk "A struggle for mineral rent", -Petroleum Economist, August 2003

