

# **RUSSIA: RECENT POLITICAL DEVELOPMENTS AND OIL**

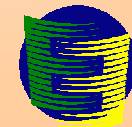
**Dr.A.Konoplyanik  
Deputy Secretary General  
The Energy Charter Secretariat**

**CGES Conference on “Russian oil and OPEC’s policies”,  
March 15, 2004, London**

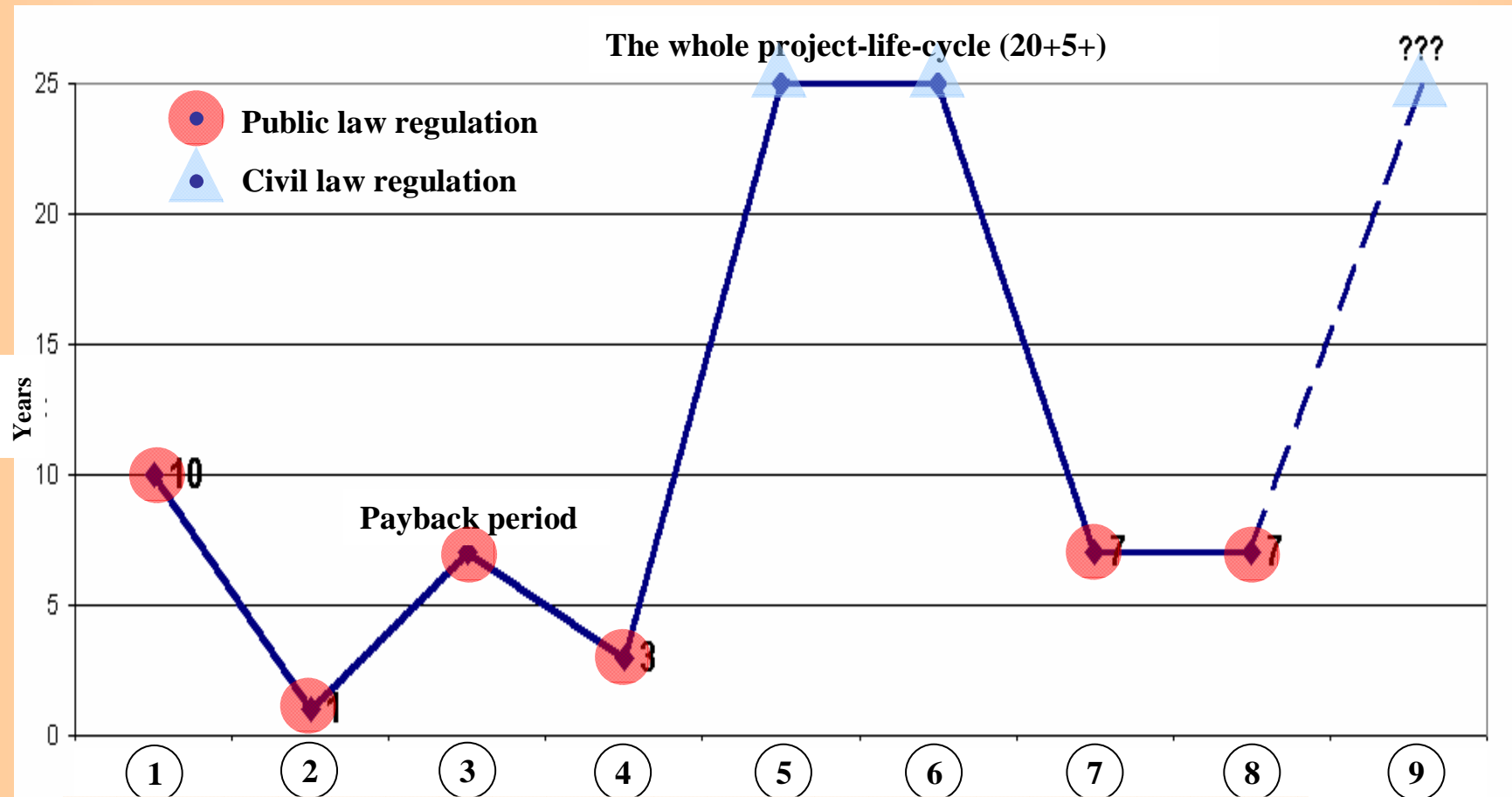
# POSSIBLE COMPOSITION OF INVESTMENT REGIMES IN RUSSIAN SUBSOIL USE

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

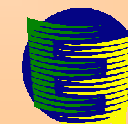
There is no must to have only one legal regime for subsoil use in Russia, especially taking into consideration huge geographical dimensions and geological complexities in different areas of the country. Russia is among a dozen of oil-producing countries worldwide that has more than one legal regime for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



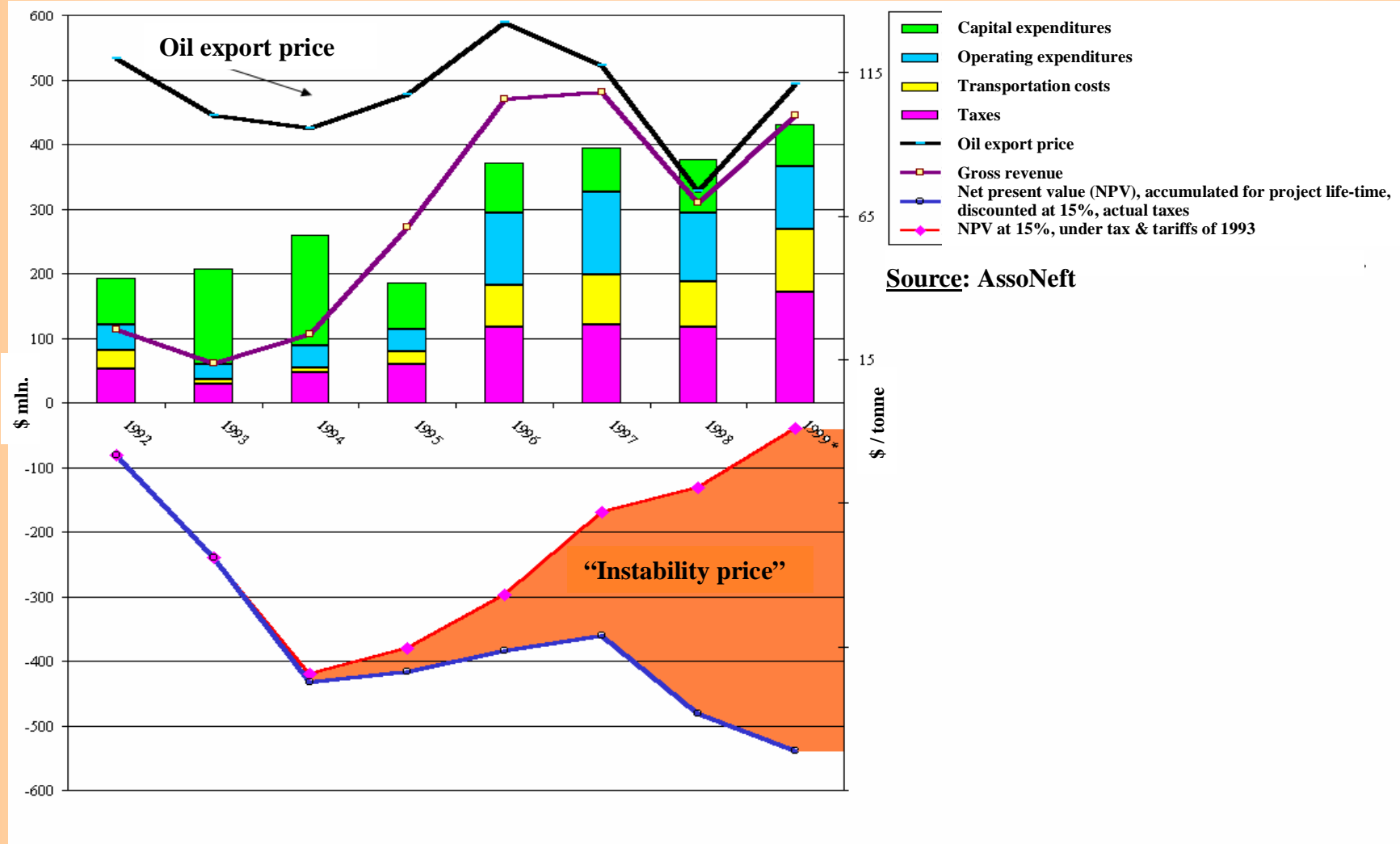
# DURATION OF THE “GRANDFATHER’S CLAUSE” IN RUSSIAN INVESTEMENT RELATED LEGISLATION



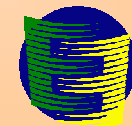
1. Fundamentals of the USSR legislation on Foreign Investments (June 1991)
2. Law "On Foreign Investments in the RSFSR" (July 1991)
3. Decision of the Government of RF №1375 (July 1992)
4. Decree of the President of RF №1466 (September 1993)
5. Decree of the President of RF №2285 (December 1993)
6. Law "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+?)



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



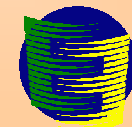
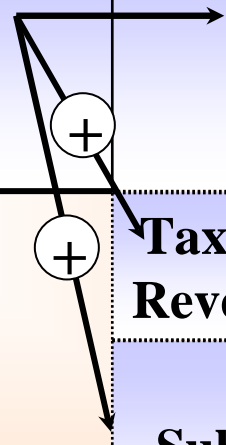
Source: AssoNefit



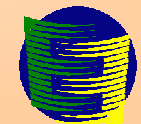
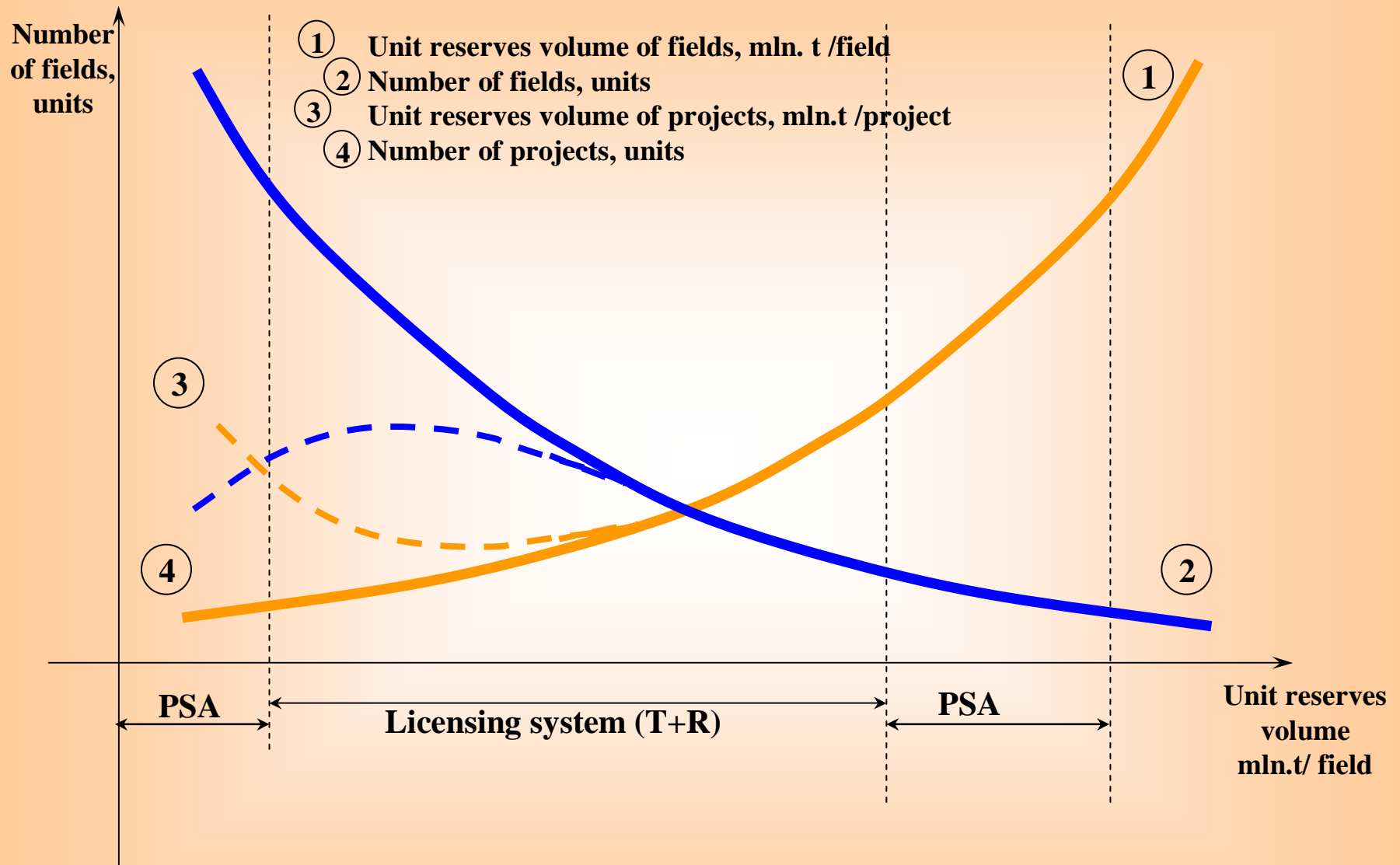
# EVOLUTION OF THE TAX REGIME FOR SUBSOIL USE LICENSING SYSTEM

BEFORE 2002:	AFTER 2002:	AFTER 2004:
1. Profit tax	1. Profit tax (Tax Code, Chapter 25)	
2. Royalty 3. “Geology”(*tax 4. Excise tax	2. Mineral Resources Production Tax (flat rate) (Tax Code, Chapter 26)	<div style="text-align: center;"> <b>MRPT</b> (differentiated)                 </div> <div style="text-align: center; border-top: 1px dashed black;"> <b>Tax on Incremental Revenues (R-factor)</b> </div> <div style="text-align: center; border-top: 1px dashed black;"> <b>Tax on Right of Subsoil Use (tax on reserves)</b> </div>

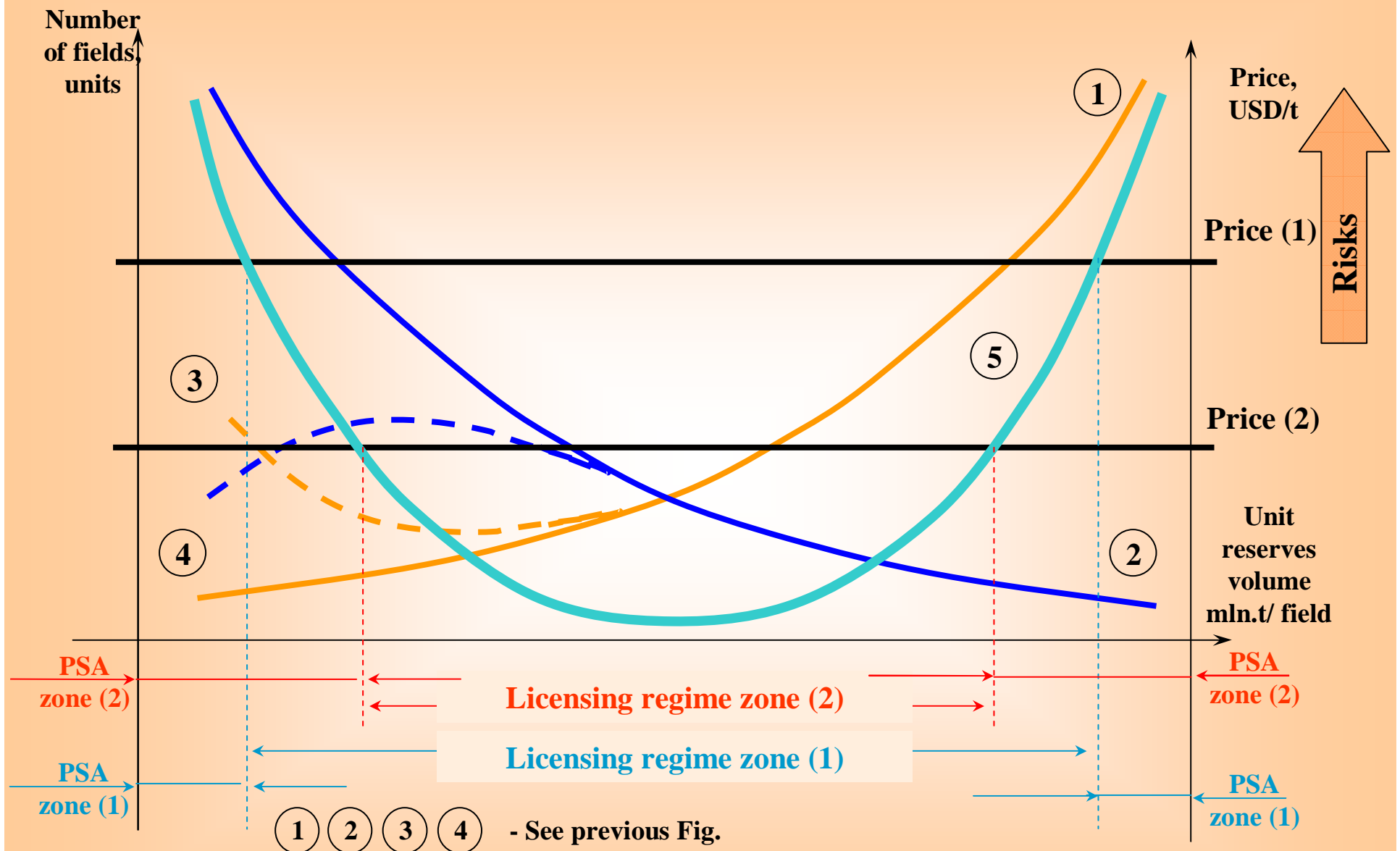
(\* - Duty for reproduction of mineral resource base



# PSA /T+R PREFERENTIAL APPLICATION ZONES



# CHANGING RANGE OF PSA / T+R ZONES WITH OIL PRICE FLUCTUATIONS



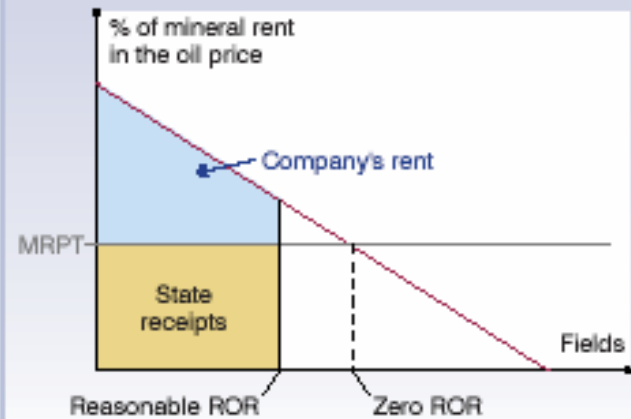
⑤ - Overall risk of financing oil and gas projects dependent on resource range zone

① ② ③ ④ - See previous Fig.

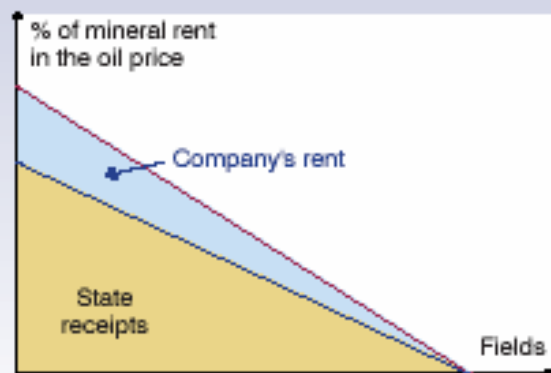


# FLAT-RATE TAX SYSTEM, PSA AND TRANSFER FROM MRPT TO PSA

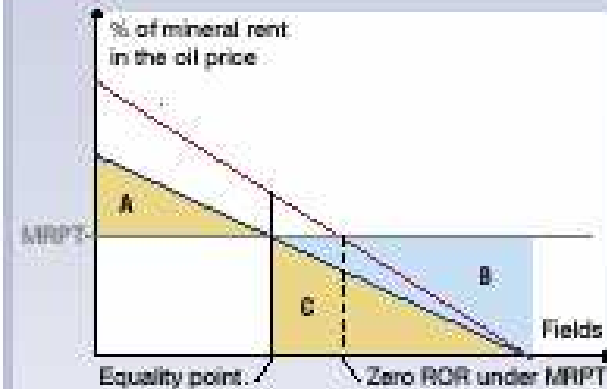
**Figure 1: Flat-rate tax system**



**Figure 2: PSA**

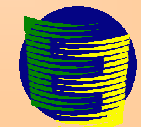


**Figure 3: Transfer from MRPT to PSA**



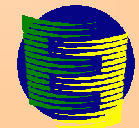
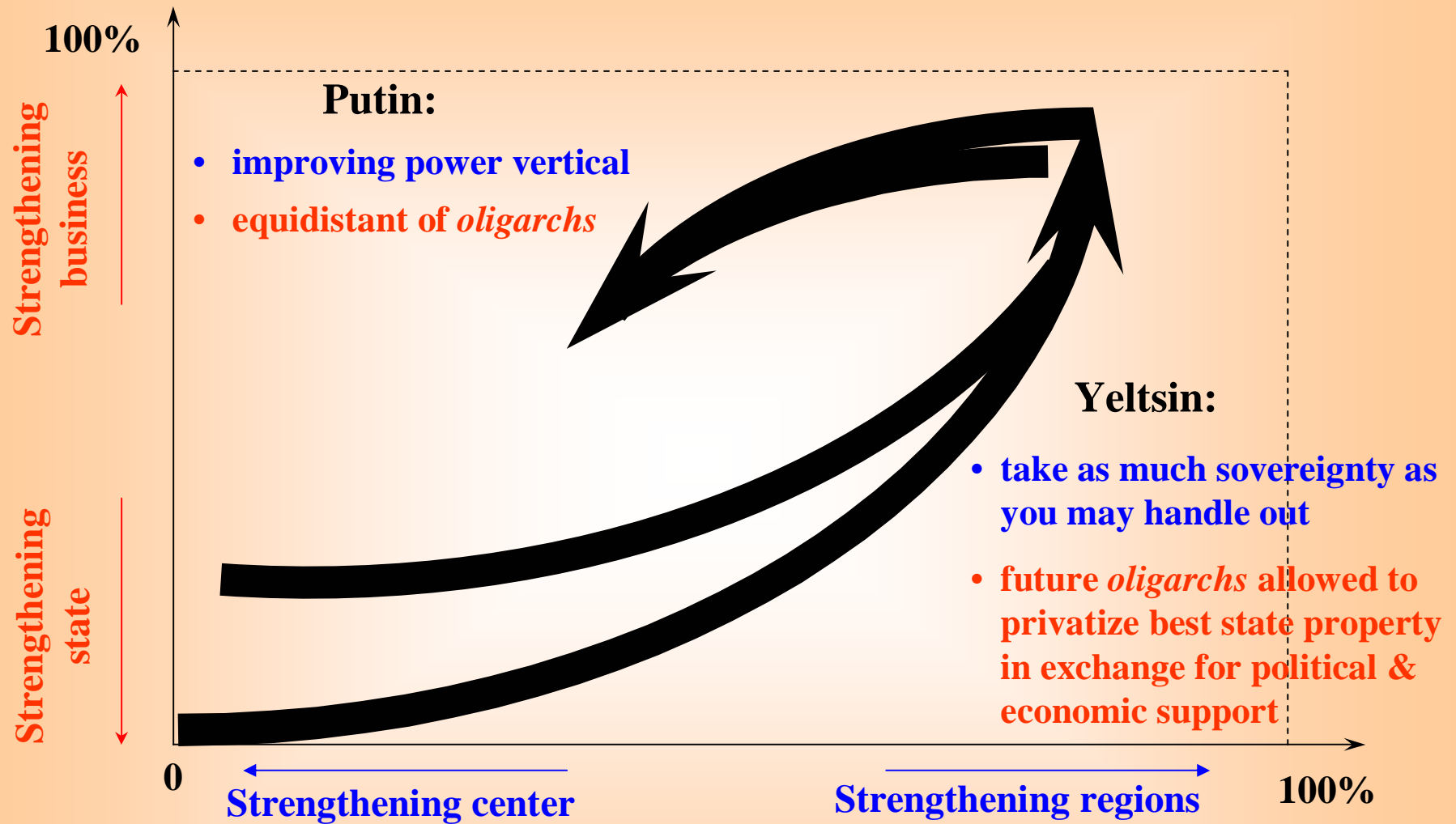
Equality point  
Point at which  
PSA and MRPT  
terms are of equal  
competitiveness

- A: Companies' incremental rent-type earnings under MRPT, which transferred into state take under PSAs
- B: Revenues that the opponents of PSAs wrongly claim are lost to the state under transition to PSAs
- C: Incremental state earnings under PSAs through development of non-profitable fields under MRPT with flat rate





# EVOLUTION OF STATE ECONOMIC POLICY IN MODERN RUSSIA



## INCREMENTAL RUSSIAN “OIL RENT” ASSESMENTS, USD bln. / year

<b>G.Gref (Ministry of Economic Development and Trade)</b>	} 1,5-2
<b>V.Milov (Institute of Energy Policy)</b>	
<b>E.Yasin (High Economics School)</b>	2-3
<b>V.Putin (Russia’s President)</b>	3
<b>E.Gaidar (Institute of Economies in Transition)</b>	3-4
<b>M.Zadornov (State Duma)</b>	3-5
<b>I.Nikolaev (Financial &amp; Business Consultants)</b>	5
<b>V.Orlov (Council of Federation)</b>	5-10 ?
<b>S.Stepashin (Audit Chamber)</b>	8
<b>A.Zhukov (State Duma)</b>	10 (max.)
<b>S.Glaziev (“Rodina”)</b>	17 (8 – no damage)
<b>V.Klepach (Development Center)</b>	20-25
<b>E.Gourvich (Economic Expert Group)</b>	30
<b>Communist Party of Russian Federation</b>	40
<b>Acad. D.Lvov (all natural resources)</b>	52-56
<b>Maximum assessments</b>	up to 80

Note: (1) E.Gaidar: +3-4 bln USD – no harm for investments and production growth

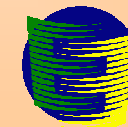
+5-6 bln USD – no production growth

+30 bln USD - oil industry collapse

(2) 3 bln. USD = dividends of Russian oil majors in 2002

Source: compiled on different Russian media sources

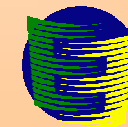
Dr. A. Konoplianiuk, CGES Conference – 15.03. 2004, London - Figure 9



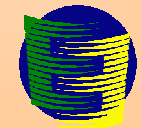
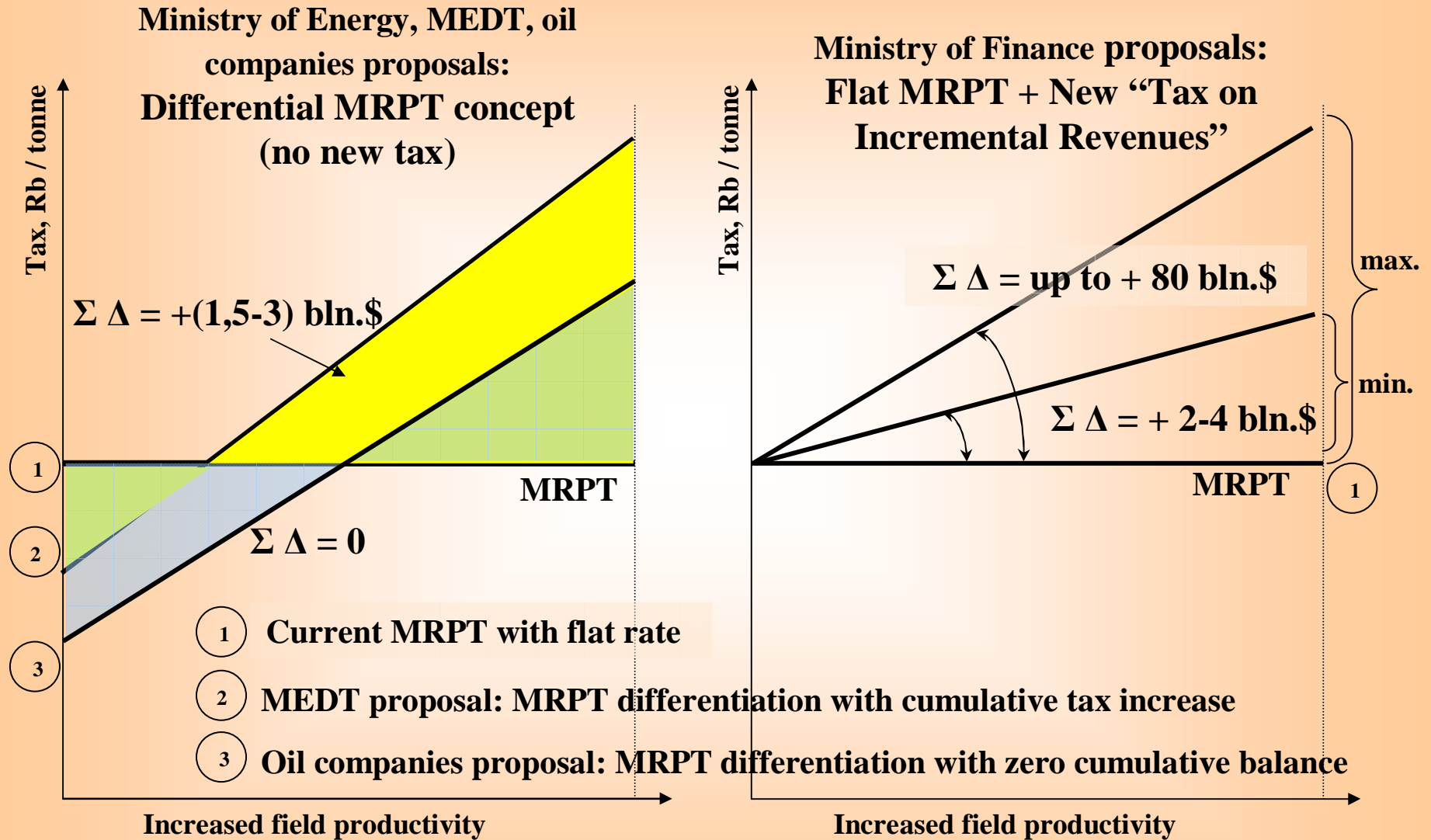
## OIL PRODUCED FROM THE HIGHLY DEPLETED FIELDS AS % OF TOTAL PRODUCTION OF THE COMPANY, % \*

Oil produced from the highly depleted fields as % of total production of the company, % *			
Company	Fields depleted at:		
	80% and more	70-80%	less than 70%
Tatneft	66,4	13,7	19,9
Bashneft	53,4	9,7	36,9
Slavneft	25	16,4	58,6
Rosneft	18,8	6	75,2
LUKOIL	18,2	12,1	69,7
Sibneft	13,3	2	86,5
YUKOS	8,7	17	74,3
Sidanko	5,3	4	90,7
Surgutneftegaz	2,3	8	89,7
TNK	1,9	6,2	91,9
* Calculated on the Ministry of energy of RF data on oil production in 2001			

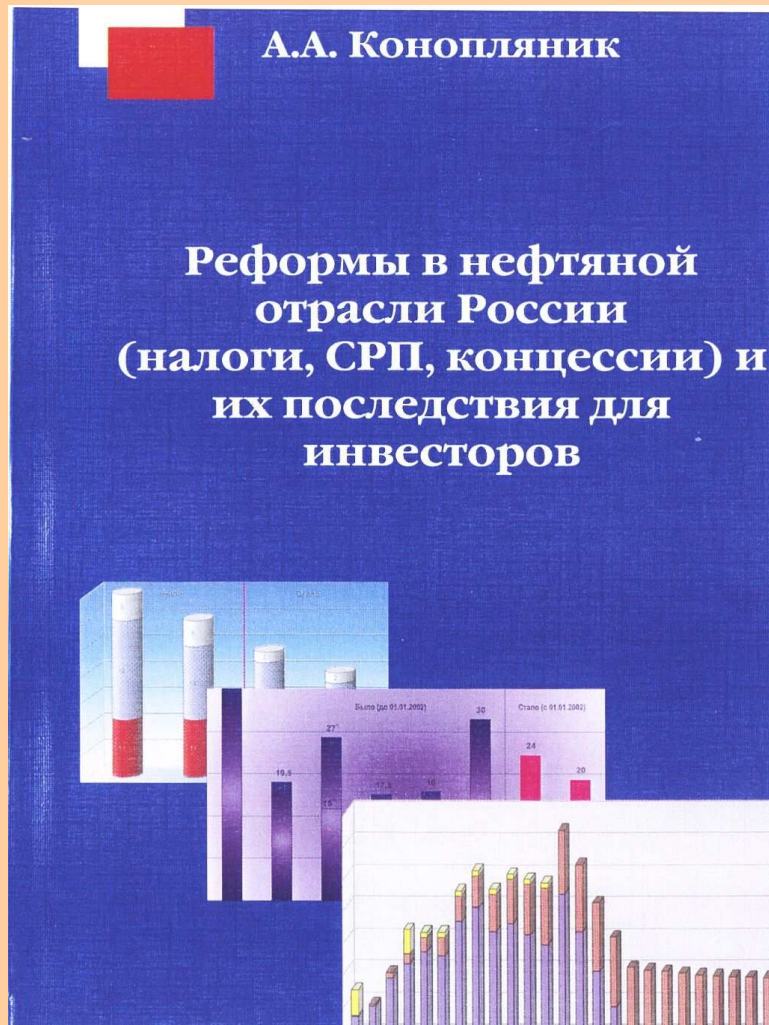
**Source: Oil & Capital, 2003, № 9**



# NEW RUSSIAN OIL TAXATION PROPOSALS: A FIGHT FOR “OIL RENT”



# A.KONOPLYANIK'S MOST RECENT BOOKS ON THE TOPICS OF TODAY'S PRESENTATION



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