Russian Oil Policy

Goichi Komori*

Summary

This report considers the present situation and future direction of the Russian government's oil policy, which is important in forecasting future crude oil production and exports.

Russian crude oil production in 2009 increased slightly from the previous year to the highest level since disintegration of the Soviet Union. Nine major vertically-integrated oil companies have continued to account for about 90% of crude oil production in Russia.

In November 2009, the Russian government announced "Energy Strategy of Russia for the period up to 2030." The strategy aims to take maximum advantage of the potential of the Russian energy sector and resources to enhance sustainable economic growth, the improvement in quality of living standards and Russia's external economic position. It cites four strategic objectives for the oil sector: (1) satisfying domestic oil demand, (2) guaranteeing supply in the international oil market, (3) contributing to national revenues and export income, and (4) utilizing technological innovations giving considerations to economic efficiency and environment.

The Russian government considers reforming the mineral resources extraction tax and crude oil export duties. It has two alternatives: (1) giving oil companies tax breaks to facilitate development of a framework for the future increase in crude oil production from the long-term perspective while tolerating revenue falls in the immediate future or (2) imposing reasonable tax on oil companies in order to secure revenues for the immediate future. The government may actually have to make the important decision of balancing the two alternatives.

Crude oil price hikes since 2003 have prompted Russia to restrict foreign companies' participation in domestic crude oil production through such measures as a freeze on oil development projects based on new production sharing agreements. Since early 2010, Russia has considered mitigating restrictions on foreign investment in the Russian oil sector. We will have to watch closely to see how such movement would go on.

Introduction

Russian oil production declined in 2008 for the first time in 10 years before scoring a slight increase in 2009. In March 2010, Russia launched crude oil exports via the new Eastern Siberia–Pacific Ocean (ESPO) pipeline to diversify crude oil export destinations.

This report aims to summarize the present situation of the Russian government's oil policy as an important factor in forecasting future Russian crude oil production and exports and to consider

* Senior Researcher, Asia Pacific Energy Research Centre, IEEJ

the future direction of the policy.

First, we review the present situation of the Russian oil industry, including crude oil production and exports. Second, we consider the details of the oil policy as indicated by the Energy Strategy of Russia for the period up to 2030, which the Russian government approved in November 2009. Third, we analyze oil-related taxes affecting the business performance of oil companies operating in Russia. Fourth, we consider how to introduce foreign investment into the Russian oil industry. Based on findings through these analyses, we discuss the future direction of Russia's oil policy.

1. Present Situation of Russia's Oil Industry

1-1 Russian Crude Oil Production

Table 1-1 and Fig. 1-1 indicate Russia's crude oil production and exports between 2000 and 2009. After continuing to increase from 2000, Russian crude oil production dropped 0.7% from 2007 to 488 million tons in 2008. The decline came after the continuous rise of Russian crude oil production for nine years since 1999. In 2009, crude oil production increased 1.1% from the previous year to 493.5 million tons, the highest level since the Russia was newly born upon disintegration of the Soviet Union in December 1991.

Russian crude oil production basically continued to increase from 2000. After reaching 11.0% in 2003, however, annual growth slowed down to 2.5% in 2005, 2.2% in 2006 and 2.3% in 2007.[1] In the background of the slowdown, hike of crude oil price (1) reduced incentives for major Russian oil companies to increase in crude oil production and (2) prompted the Russian

Table 1-1 Russian Crude Oil Production and Exports

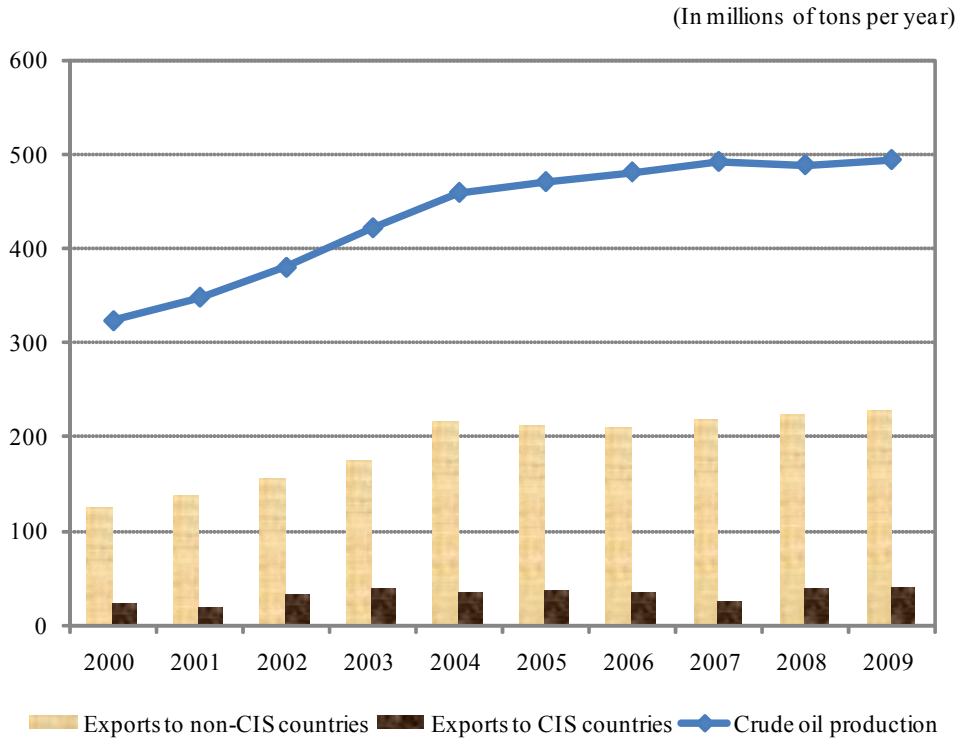
(In millions of tons per year)

	Crude oil production	Crude oil exports		
		Exports to non-CIS countries	Exports to CIS countries	Total
2000	323.2	123.4	21.2	144.6
2001	348.1	137.0	18.5	155.5
2002	379.6	155.0	32.0	187.0
2003	421.4	174.8	37.5	212.3
2004	458.8	214.7	34.2	248.9
2005	470.2	211.8	34.8	246.6
2006	480.5	209.2	34.4	243.6
2007	491.5	216.6	23.3	239.9
2008	488.0	223.3	37.1	260.4
2009	493.5	227.0	38.9	265.9

Sources: PlanEcon Energy Report, Vol.11, No. 1, April 2001, p.9 (2000); Eastern Bloc Energy (2001-2002), Russian Energy Monthly (2003-2008)

[1] "Russian Energy Monthly," Eastern Bloc Research Limited.

Fig. 1-1 Russian Crude Oil Production and Exports



Sources : Same as for Table 1-1

government and major Russian oil companies to restrict investment from abroad.

The annual average price of Russian crude oil rose from $27.12 per barrel in 2003 to $34.52/barrel in 2004, $50.84/barrel in 2005, $61.44/barrel in 2006, $68.94/barrel in 2007 and $94.77/barrel in 2008.[2] A price hike means an increase in income from the export of one barrel of crude oil. Less crude oil is required to earn the same income than was required in the past. Russia's crude oil export duties, which rise progressively in line with price hikes, have reduced incentives for major Russian oil companies to increase in crude oil production.

Meanwhile, restrictions on foreign investment can be interpreted as indicating that the Russian government and major Russian oil companies have recovered their self-confidence. Generally, oil-producing countries tend to provide incentives for foreign investment when crude oil prices are slumping. When crude oil prices are rising rapidly, however, they tend to view their independent oil development as feasible and hence restrict foreign investment.

Cited as specific actions that Russia has taken in regard to such tendency are the revision of its production sharing law and the imposition of restrictions on foreign investment in strategic oil concession areas. The production sharing law was revised in June 2003 to raise barriers against foreign companies' participation in oil development projects under production sharing agreements.[3]

---

[2] Based on data from the U.S. Energy Information Administration website. The average price of Russian crude oil stood at $60.37 per barrel in 2009 and $75.48 in the first seven months of 2010.

[3] Under the revised law, a production sharing agreement may only be applicable in the case when the second tender is held after the absence of bids in the first tender. This means that now, no one can make bids in the first tender under any production sharing agreement. At the same time, the Russian government cancelled the licenses of about 20

In April 2008, the Russian government decided to only allow companies with more than 50% Russian ownership to participate in projects for developing strategic oilfields.[4]

Table 1-2 indicates crude oil production breakdown by Russian oil companies (in 2009 and in the first half of 2010). Nine major vertically-integrated oil companies produced 438.03 million tons of crude oil in 2009,[5] accounting for 88.6% of Russia's total output. The vertically-integrated oil companies' share of crude oil production has remained at around 90% since 1995 (15 such companies existed).

Table 1-2 Russian Crude Oil Production Breakdown by Company (In 2009 and the 1st half of 2010)

(Crude oil production in millions of tons, shares and year-to-year changes in percentage points)

	2009		1st half of 2010		
	Crude oil output	Share	Crude oil output	year-to-year change	Share
Rosneft	116.33	23.6	60.45	7.6	24.2
Lukoil	92.18	18.7	45.20	-1.6	18.1
TNK-BP	70.34	14.3	35.50	3.4	14.2
Surgutneftegas	59.59	12.1	29.23	-1.1	11.7
Gazprom Neft	29.82	6.0	14.73	0.9	5.9
Tatneft	25.95	5.3	12.81	0.1	5.1
Slavneft	18.88	3.8	9.15	-2.3	3.7
Russneft	12.69	2.6	6.23	-2.2	2.5
Gazprom	12.10	2.5	6.67	17.0	2.7
Bashneft	12.25	2.5	6.86	15.5	2.8
Others	43.23	8.8	22.59	6.6	9.1
Total	493.50	100.0	249.42	3.1	100.0

Sources: "Russian Energy Monthly," Vol.XXIII, No.11, January 2010, p.10、Vol.XXIV, No.5, July 2010, p.13.

As of 2010, Rosneft and Gazprom Neft are the state-run oil companies in operation. These state-run oil companies' share of Russia's crude oil production was only 4.6% in 2003. But the share rose to 12.1% in 2004 and 29.6% in 2009. The share rose much in 2004 as Rosneft made Yuganskneftegaz (a blue-chip subsidiary of Yukos that went bankrupt in 2006) its subsidiary and Gazprom made Sibneft (which has been later renamed Gazprom Neft) its subsidiary.

1-2 Russian Crude Oil Exports

Russian crude oil exports scored a smooth increase of 83.4% from 144.6 million tons in 2000 to 265.9 million tons in 2009. (Crude oil production increased 52.7% from 2000 to 2009.) In both

production sharing agreements which were effectively idled as of June 2003.

[4] Details are available in section "4. Measures for introduction of foreign investment in the Russian oil industry".

[5] Nine firms excluding Gazprom and "others."

2000 and 2009, exports to non-CIS countries (including European countries and China) accounted for about 85% of total exports and those to CIS countries for about 15%. Russia has thus given priority to non-CIS countries as export destinations.

The diversification of export destinations is an important future challenge for Russia. In a bid to diversify crude oil export destinations, Russia has promoted the construction of crude oil export pipelines. In October 2009, it completed the first phase (the Taishet–Skovorodino portion) of the Eastern Siberia–Pacific Ocean (ESPO) pipeline.[6] The second phase pipeline from Skovorodino to Kozmino on the Pacific coast of Russia's Maritime Province is under construction and is scheduled to be completed in 2014. Until the second phase of the pipeline is completed, crude oil will be transported by tanker trunks from Skovolodino to Kozmino for export. In late 2009, the first ESPO crude oil export shipment from Kozmino was made. Upon the completion of the second phase, the ESPO pipeline transportation capacity is projected to reach 50 million tons per year.

The ESPO pipeline project includes a plan to construct a branch pipeline from Skovorodino to China with a transportation capacity of 30 million tons per year. The Russian portion of the branch pipeline was completed in late August 2010.[7] At the end of September 2010, construction of the Chinese portion was completed and the pipeline was finally connected between Russia and China[8].

1-3 Russian Petroleum Product Consumption

Table 1-3 and Fig. 1-2 indicate changes in Russian consumption of petroleum products (gasoline, diesel oil and fuel oil). Gasoline consumption increased 35.0% from 23.29 million tons in 2000 to 31.46 million tons in 2009. Diesel oil consumption expanded 10.4% from 24.97 million

Table 1-3 Russian Petroleum Product Consumption

(In thousands of tons per year)

	Gasoline	Diesel oil	Fuel oil
2000	23,293	24,966	29,179
2001	24,931	25,988	27,481
2002	25,521	24,039	25,479
2003	25,699	24,126	24,024
2004	26,488	25,425	21,726
2005	26,297	25,857	19,995
2006	27,930	27,031	19,703
2007	28,794	29,440	16,627
2008	31,339	31,270	11,745
2009	31,456	27,567	9,024

Sources: 1990-2007: "Energy Statistics of Non-OECD Countries," IEA, 2009 Edition.

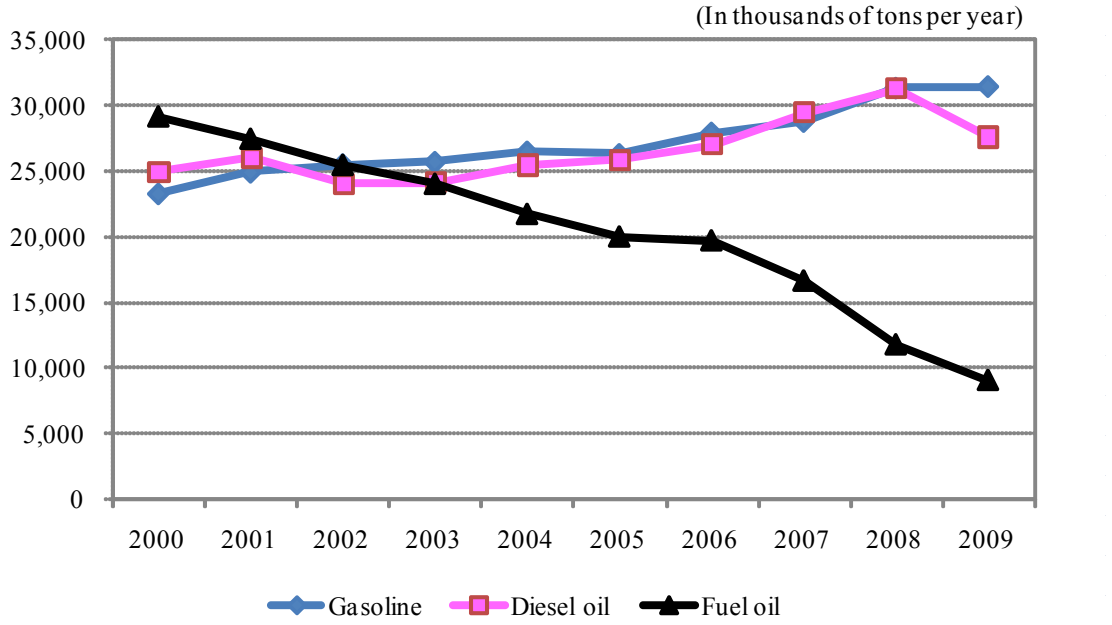
2008-2009:"Russian Energy Monthly," Eastern Bloc Energy Ltd, Vol.XXIV, No.1, March 2010, p.27.

[6] Masumi Motomura, "Russia will operate a pipeline for the Far East," Oil and Natural Gas Review(in Japanese), Japan Oil, Gas and Metals National Corporation, Vol. 44, No.4, p.25.

[7] Interfax, "Russia & CIS Oil and Gas Weekly," August 26–September 1, 2010, p. 1.

[8] "Nihon Keizai Shinbun," September 28, 2010.

Fig. 1-2 Russian Petroleum Product Consumption



Sources : Same as for Table 1-3

tons to 27.57 million tons in the same period. Demand for gasoline and diesel oil rose in the transportation sector. Fuel consumption declined 69.1% from 29.18 million tons to 9.02 million tons in the same period. Fuel oil exports increased while domestic consumption decreased.

2. Energy Strategy of Russia for the Period up to 2030

2-1 Overview

The Russian government announced Energy Strategy of Russia for the period up to 2030 in November 2009. After releasing Energy Strategy of Russia for the period up to 2020 in August 2003, the government in March 2007 said it would revise the strategy into a new strategy covering the period through 2030.[9]

Energy Strategy of Russia for the period up to 2030 says that its objective was to utilize entire potential of energy sector in a maximum efficient manner, in order to promote sustainable economic growth, the improvement in quality of the Russian people's living standards and the enhancement of Russia's external economic position. The objective adheres to the Energy Strategy of Russia for the period up to 2020, which aimed at the efficient utilization of natural resources and energy and the efficient utilization of energy potential for economic growth and living standard improvements.

The following three principles are given for implementing Energy Strategy of Russia for the period up to 2030:

[9] "Russia and CIS Oil & Gas Report," Interfax, March 3, 2005.

(1) The state should undertake persistent activities to realize the direction of the energy sector's most important developments.
(2) Russia should create energy companies that can represent Russia in the external market, function successfully in Russia's domestic competitive market and achieve strong, sustainable development.
(3) The state should take measures to allow private companies to enhance their initiatives in investment and other areas where state policy objectives must be achieved.

The following five challenges are cited under the principles:

(1) Improving efficiency in the reproduction, production and refining of fuels and energy resources to fully meet domestic and foreign demand.
(2) Modernizing and creating new energy infrastructure based on large-scale technological innovations in the energy sector.
(3) Developing a stable, favorable institutional environment for the energy sector.
(4) Improving the energy and environmental efficiency of the Russian economy and the energy sector to restructure and vitalize energy conservation technologies.
(5) Integrating the Russian energy sector deeper into the global energy system.

Energy Strategy of Russia for the period up to 2030 divides the period through 2030 into three phases: the first through 2013 to 2015, the second through 2020 to 2022 and the third through 2030. Priority measures in each phase are as follows:

＊First phase (between the present and 2013–2015)

(1) Russia should overcome the crisis in the economy and energy sector as early as possible, prepare indispensable conditions for accelerating the post-crisis development and remove constraints on development.
(2) Russia should take advantage of the economic crisis to qualitatively revitalize and modernize the fuel/energy industry.

＊Second phase (between 2013–2015 and 2020–2022)

(1) Russia should generally raise the energy efficiency of its economy and energy sector to revitalize the fuel/energy industry in an innovative manner.
(2) Russia should accelerate the implementation of energy projects in Eastern Siberia, the Far East, the Yamal Peninsula and the Arctic continental shelf.

＊Third phase (between 2020–2022 and 2030)

(1) Russia should make highly efficient use of conventional energy resources.
(2) Russia should gradually promote the use of nonconventional energy.

The following 10 achievements are expected by 2030 under the strategy:

(1) Energy security will be achieved for the Russian Federation and its federal subjects.
(2) Diversification of export destinations will allow Russia to participate in building a global energy security system with sufficient capacity.
(3) The Russian economy's dependence on the oil/gas sector will be reduced. The fuel/energy industry's share of Russia's GDP will be reduced from 30% to 18%.
(4) The energy efficiency per GDP will be improved by 2.1 to 2.3 times.
(5) The fuel/energy mix will be optimized. Natural gas's share of energy consumption will be lowered from 52% to 46 or 47%, while non-fossil energy sources' share will be raised from 11% to 13 or 14%.
(6) Energy resources (oil and natural gas) in untapped areas will be developed.
(7) Social partnership between energy companies and society will be promoted.
(8) Energy companies will stabilize financial performances, improve their budget efficiency and secure investment.
(9) Production assets and energy infrastructure will be revitalized and new energy technologies will be developed.
(10) Energy companies will develop their functions while the environment will be conserved. Russia will take advantage of the potential of energy conservation technologies in order to restrain greenhouse gas emissions (annual emissions will be cut to 100–105% of those in the 1990 level by 2030).[10]

2-2 Oil Sector

Energy Strategy of Russia for the period up to 2030 cites the following four strategic goals for the Russian oil industry:

(1) The industry will stably, sustainably and efficiently satisfy Russia's domestic demand for crude oil and petroleum products.
(2) For the sake of Russia's domestic demand and future generations, the industry will proactively and smoothly participate in guaranteeing supply of crude oil and petroleum products in the international market.
(3) The industry will contribute to state revenues and export income.
(4) Russia will attempt the technologically innovative revitalization of the oil sector in consideration of economic efficiency and environment.

The oil industry's phase-by-phase challenges for the period through 2030 are as follows.

＊First phase (between the present and 2013–2015)

Crude oil production and exports are indispensable for rescuing Russia from the economic crisis. A challenge for the promotion of crude oil exports is the development of crude oil export

[10] Russian carbon dioxide emissions stood at 2,179.9 million CO_2 equivalent tons (10.4% of the global total) in 1990 and at 1,587.4 million CO_2 equivalent tons (5.5% of the global total) in 2007 (International Energy Agency, "CO_2 Emissions from Fuel Combustion," 2009 Edition, p. II.4, II.6.).

pipelines and oil-shipping ports. Priority projects for the immediate future are as follows.

- Crude oil pipelines: “Construction of the Burgas–Alexandroupolis crude oil pipeline,” “the second-phase Baltic pipeline system”
- Petroleum products pipelines: “Север (north),” “Юг (south)”
- Crude-shipping ports: “Primorsk,” “Ust-Luga,” “Nakhodka”

＊Second phase (between 2013–2015 and 2020–2022)

The oil industry will meet the requirement for the development of a qualitatively restructured Russian economy to promote energy conservation and technological innovation. Crude oil production will rise close to the technical-economical upper limit. Crude oil output in the major oil-producing province of Tyumen will then decline, while the decline will be offset by increases in Eastern Siberia and the Far East.

＊Third phase (between 2020–2022 and 2030)

Annual crude oil production will reach a technical-economical upper limit. Russian crude oil and petroleum product exports will enter a downward trend. Advanced petrochemical products and energy-related services will emerge. The Russian oil sector will assume most of the value added through the transportation of crude oil, and production and exports of petroleum products.

Table 2-1 indicates a region-by-region breakdown of projected Russian crude oil production in Energy Strategy of Russia for the period up to 2030. At present, major crude oil producing regions in Russia are Western Siberia, Volga and Ural. In 2008, Western Siberia accounted for 68.2% of Russia’s total crude oil production, Volga for 11.2% and Ural for 10.8%. The three regions combined accounted for 90.1% of Russia’s total oil production that year.

Table 2-1 Russian Crude Oil Production Outlook

(In millions of tons per year)

	2005 Actual	2008 Actual	1st phase (through 2013-2015)	2nd phase (through 2020-2022)	3rd phase (through 2030)
*Total crude oil production	470.2	487.6	486 - 495	505 - 525	530 - 535
*Compared with 2005	100	103.7	103 - 105	107 - 112	113 - 114
*Crude oil production by region					
North/Northwest	24.5	29.1	32 - 35	35 - 36	42 - 43
Volga	52.7	54.1	49 - 50	44 - 45	34 - 36
Ural	49.2	52.6	45 - 47	36 - 41	25 - 29
Caucasus/Caspian Sea	4.9	4.8	7 - 11	19 - 20	21 - 22
Tyumen Province (Western Siberia)	320.2	319	282 - 297	275 - 300	291 - 292
Tomsk Province (Western Siberia)	14.1	13.7	12 - 13	11 - 12	10 - 11
Eastern Siberia	0.2	0.5	21 - 33	41 - 52	69 - 75
Far East	4.4	13.8	23 - 25	30 - 31	32 - 33

Source: Energy Strategy of Russia for the period up to 2030

Russia's total annual crude oil production is projected to increase up to 495 million tons by 2015 (in the first phase), up to 525 million tons by 2022 (in the second phase) and up to 535 million tons by 2030 (in the third phase). Western Siberia, Volga and Ural are expected to see reduced crude oil production. Their combined share of Russia's total crude oil production is projected to fall to 82.9% in the first phase, to 75.8% in the second phase and to 68.8% in the third phase. In their place, Eastern Siberia and the Far East are projected to increase crude oil production. Crude oil production is projected to increase from 500,000 tons in 2008 to 75 million tons in 2030 in Eastern Siberia and from 13.8 million tons in 2008 to 33 million tons in the Far East in 2030.

These crude oil production projections indicate that the Russian government intends to position Eastern Siberia and the Far East as its future major oil production regions, where oil exploration and development have yet to make progress. In order to achieve the projections, Russia will have to make a huge investment in oil exploration and development projects in Eastern Siberia and the Far East.

3. Russian Oil Taxes

Major Russian oil companies dramatically boosted their revenues thanks to sharp hikes in international crude oil prices since the early 2000s. Under such situation, the Russian government has viewed the domestic oil industry as a kind of major financial resource. It plans to collect what it considers is excessive profit from major Russian oil companies and use the funds for diversifying and advancing the Russian economy. The mineral resources extraction tax and crude oil export duties can be cited as taxes that have a major impact on oil companies operating in Russia. Here, we would like to analyze developments regarding the two taxes.

3-1 Mineral Resources Extraction Tax

The mineral resources extraction tax is imposed on oil companies when they produce crude oil in Russia. The tax is calculated according to the following formula[11]:

＊ Mineral resources extraction tax (rubles per barrel)
= 57.4 rubles per barrel × Price coefficient × Depletion coefficient of oilfields

・Price coefficient
= (Russian Ural crude price − 15) × (Ruble/dollar exchange rate/261)
・Depletion coefficient
= 3.8 −(3.5 × Cumulative production/Initial reserves)

No mineral resources extraction tax is imposed in the Sakha Republic, Irkutsk Province or Krasnoyarsk. In Eastern Siberia, the tax will not be imposed until accumulative crude oil

[11] For details, see Tetsuya Furuhata, "Russian mineral resources extraction tax has been eased apparently on slack production,(in Japanese)" Japan Oil, Gas and Metals National Corporation website, April 24, 2008.

production reaches 25 million tons. The minimum standard crude oil price for the imposition of the tax had been $9/barrel between January 2007 and December 2008. Then, it has been raised to $15/barrel since January 2009. The mineral resources extraction tax will also be exempted in initial production stages in the Arctic region (until accumulative crude oil production reaches 35 million tons), in the Caspian Sea and the Sea of Azov (until it reaches 10 million tons) and in the Yamal Peninsula (until it reaches 15 million tons).

For the future, the Russian Ministry of Natural Resources and Environment revealed a plan to reform the mineral resources extraction tax in January 2010.[12] The purposes of the plan are the promotion of oil exploration to support crude oil production growth and the encouragement of small companies' oil production. Specifically, the ministry is considering a 25% cut in the mineral resources extraction tax for oilfields with annual production at 1–3 million tons and a 50% cut for those with annual production below 1 million tons. Some small Russian oil companies have sought to be completely exempted from the mineral resources extraction tax.

3-2 Crude Oil Export Duties

At present, the Russian crude oil export duties are imposed progressively according to four categories of Russian crude oil prices: (1) less than $15/barrel, (2) above $15/barrel and up to $20/barrel, (3) above $20/barrel and up to $25/barrel and (4) above $25/barrel.[13] As of June 2010, the duties were calculated under the fourth category at $40.01/barrel ($292.1/ton).

In December 2009, the Russian government decided to exempt the export duties for crude oil produced in 13 Eastern Siberia oilfields (Vankor, Yurubcheno-Tokhomskiy, Talakan, Alinsk, Sredne-Botuobinsk, Dulisminsk, Verhnechonsk, Kuyumbinsk, North Talakan, East Alinsk, Pilyudinsk, Stanakhsk and Verkhnepeleduysk). In January 2010, nine oilfields (West Ayanskoye, Tagulsk, Suzunsk, South Talakan, Chayandinsk, Vakunaisk, Yaraktinsk, Danilovsk and Markovsk) were exempted from the crude oil export duties.[14]

Russian government ministries have different views about the crude oil export duties. In May 2010, the Ministry of Natural Resources and Environment called for exempting crude oil produced in offshore continental shelf oilfields from the crude oil export duties with a view to promoting oil exploration in offshore continental shelves.[15] The ministry is concerned about sluggish oil exploration in the shelves because between 2005 and 2010 only five new oilfields were discovered in offshore continental shelves. The Ministry of Natural Resources and Environment has issued 47 licenses for offshore continental shelf oilfields to oil companies and plans to issue 42 more such licenses by 2020.

Meanwhile, the Russian Ministry of Finance wants to secure and increase government

---

12 Sergei Glazkov, "MNRE Tries to Stimulate Investments into Subsoil Exploration," Russian Petroleum Investor, February, 2010, p. 6.

13 Crude oil export duties are calculated according to the following equation for each category: (1) duties at zero, (2) (Actual crude oil price − 15) × 0.35, (3) 1.75 + (actual crude oil price − 20) × 0.45, and (4) 4.00 + (actual crude oil price − 25) × 0.65.

14 "Russia & CIS Oil and Gas Weekly," Interfax, May 13–19, 2010, p. 49.

15 "Russia & CIS Oil and Gas Weekly," Interfax, May 20–26, 2010, pp. 41–42.

revenues and has called for introducing lower crude oil export duties for the 22 Eastern Siberia oilfields exempted from the duties as of June 2010.

The lower duties are calculated by subtracting 50 from the actual crude oil price (in terms of dollars per barrel) and multiplying the results by 0.45.[16] Russia's standard crude oil export duties stood at $40.92/barrel in June 2010.[17] The lower crude oil export duties under the calculation formula would have been $13.69/barrel, about one-third of the standard level.

The Ministry of Finance announced that the Russian government approved the application of the lower export duties to crude oil produced at the 22 Eastern Siberia oilfields from July 1, 2010.[18] The lower duties will be imposed only in the initial stage. If the profit rate reaches 15%, oil companies will be automatically required to pay the standard crude oil export duties.

4. Measures for Introduction of Foreign Investment in the Russian Oil Industry

In June 2003, Russia revised its production sharing agreement law to halt the application of production sharing agreements for new oilfield development projects. As international crude oil price hikes were gaining momentum, the Russian oil industry growingly recognized that Russian oil companies could develop oilfields on their own even without introducing foreign investment. A harsher view in the industry was that oilfield development through foreign companies would amount to surrendering Russian national wealth (natural resources) to foreign countries.

In response, the Russian government moved to restrict foreign oil companies' participation in oil development projects. In October 2005, the Ministry of Natural Resources and Environment came up with a proposal to only allow companies with more than 50% Russian ownership to take part in "strategic oil/gas concession areas."[19] The key point was the definition of "strategic oil/gas concession areas." At that time, "strategic oil/gas concession areas" were defined as oilfields with oil reserves of more than 150 million tons and gas fields with gas reserves of more than 1 trillion cubic meters. But the minimum reserve standard for strategic oil/gas concession areas have been lowered gradually in response to requests from the Russian oil/gas industry. In January 2007, "strategic oil/gas concession areas" were finally defined as oilfields with oil reserves of more than 70 million tons or gas fields with gas reserves of more than 50 billion cubic meters.[20] The definition was designed to limit the number of oilfields available for development by foreign companies.

But some moves have emerged to ease restrictions on foreign investment. In April 2010, Russian Energy Minister Sergei Shmatko said he would consider allowing private oil companies to develop offshore continental shelf oilfields.[21] Under the current underground resources law, only

16 The calculation formula: (actual crude oil price − 50) × 0.45

17 The crude oil price for the calculation of the duties was an average price of $80.42/barrel for Russian Ural crude oil between April 15 and May 14 2010.

18 "Russia & CIS Oil & Gas Weekly," Interfax, June 17–23, 2010, pp. 69–70.

19 "Russia and CIS Oil & Gas," Interfax, October 13, 2005.

20 "Russia and CIS Oil & Gas," Interfax, January 25, 2007.

21 "Russia and CIS Oil & Gas," Interfax, April 15– 21, 2010.

state-run companies with five or more years of experience in oil exploration are allowed to develop offshore continental shelf oilfields. The minister proposed that private-sector companies be allowed to develop offshore continental shelf oilfields as far as their completion of projects is guaranteed.

The Ministry of Natural Resources and Environment has also proposed that foreign companies be allowed to have a stake of up to 50% in an offshore continental shelf oilfield development project.[22]

Conclusion

Russia's crude oil production in 2008 posted the first year-to-year decline in 10 years. But in 2009 production turned around, increasing to the highest level since disintegration of the Soviet Union. To keep the level of crude oil production volume is important for the development of the economy, the maintenance of government revenues and the wielding of its influence on the international society. In order to achieve crude oil production growth in the future, Russia will have to promote the development of new oilfields in Eastern Siberia, the Far East and offshore continental shelves.

The Russian government has acknowledged this point. Energy Strategy of Russia for the period up to 2030, released in November 2009, says crude oil production in Eastern Siberia and the Far East will have to be increased to make up for a decline in Western Siberia, a major oil-producing region at present.

It is important for Russia to give oil companies incentives for developing oilfields in Eastern Siberia, the Far East and offshore continental shelves. Investment in such oilfield development will be so huge that Russia will have to consider introducing foreign investment.

From the viewpoint of incentives for the oil industry, the key point is how rates for oil taxes (including the mineral resources extraction tax and crude oil export duties) should be set. In this respect, the Russian government has two alternatives: (1) giving oil companies tax reliefs to promote higher cost oil development projects or (2) imposing reasonable tax on oil companies to secure revenues for the immediate future. The government may have to make an important decision to balance the two alternatives.

From the viewpoint of introducing foreign investment, Russia is required to ease tax and restrictions on foreign companies' equity stakes in Russian oil firms and on foreign firms' participation in the development of promising oil concession areas. While the Russian government is partly considering easing restrictions on the introduction of foreign investment, we may have to closely watch relevant developments until the final conclusion is reached.

Contact: report@tky.ieej.or.jp

[22] "Russia and CIS Oil & Gas," Interfax, March 25–31, 2010.