

Assessments of the Russian petroleum industry

Professor Rodion Kandyba of Pyatigorsk State University

This work is devoted to the review of interview with Deputy energy Minister Kirill Molodtsov published February 10, 2017 (<https://minenergo.gov.ru/node/7155>) and a final interview with the Minister of energy of Russia Alexander Novak, published December 24, 2018 (<https://minenergo.gov.ru/node/13576>), in the results of 2016 and 2018 respectively were summed up. The materials were posted on the website of the Ministry of energy of the Russian Federation. Kirill Molodtsov's interview was mostly devoted to the technical aspects of the Russian oil industry development in the coming years, and Alexander Novak's interview was devoted to the regulation of the domestic oil market in Russia.

The interview with Molodtsov is still relevant, as it mentions the programs that will be implemented in the coming years. He believes that the main achievement of the Russian oil industry in 2016 is that the companies not only maintained their stability, despite geopolitical processes, sanctions, but also put into operation new fields (NOVATEK, LUKOIL, Rosneft, Gazprom Neft). Russian companies have managed to adapt to the harsh environmental conditions and made a number of major transactions, both in the domestic and foreign markets: the privatization of Bashneft and Rosneft, as well as the purchase of 49% of Indian Essar Oil from Essar Energy Holdings Limited and its affiliated companies.

The depth of processing of crude oil increased to 79%, and the production of fuel oil decreased by 19.8% to 56.9 million tons (according to the end of 2018, the depth of oil processing in Russia was 83.1%).

The production of a significant part of the equipment for oil and gas facilities, which was usually purchased from foreign manufacturers, is now mastered by domestic producers. In 2016, the implementation of 14 research and development projects related to the development of offshore fields was approved.

Molodtsov notes that the issue of natural rent withdrawal should be resolved without compromising the financial stability and investment attractiveness of the industry. To do this, it is necessary to reorient the taxation of the oil industry from production volumes to financial results. Among the priorities for 2017 was the adoption of the Energy strategy of Russia until 2035 (in 2018, this strategy has not yet been adopted, only its draft has been developed).

Molodtsov believes that by 2035 it is necessary to diversify the geographical structure of energy exports with a significant increase in the market share of the Asia-Pacific region — from 15% in 2016 to 39% in 2035.

At the beginning of the interview with Alexander Novak, attention is paid to the issue of cooperation with OPEC. Novak explains that while Russia was satisfied with the price of oil around \$ 60 a barrel, it went on an agreement with OPEC on reduction of volumes of extraction to offset the risks connected with seasonal falling of demand in the winter, and, as a consequence, the decline in oil prices.

The total share of reduction in oil production in Russia will be 230 thousand barrels per day. The reduction will take place smoothly, as it is impossible to do it sharply in the geological and climatic conditions of Russia. The reduction will begin in January 2019. Novak was asked whether Russia is helping the new agreement to reduce production to a greater extent OPEC countries than itself. He replied that for Russian oil companies the price level is not as important as for companies in some other countries, because of the low cost of production and the weak exchange rate of the ruble, but for the budget it creates additional challenges.

Over the two years of the OPEC+ Russia agreement, Russia has earned an additional \$ 120 billion.

The issue of taxation in the oil industry is frequently discussed. Documents on the completion of the tax maneuver were adopted in 2018, This enabled a reduction of export duties on oil from the current 30 to 0% from 2019, for six years; at the same time provides for a gradual three-year increase of the tax on extraction of mineral resources. It also created conditions for the development of oil refining at any oil price and reduced the volatility of fuel prices. Economic conditions were created to increase supplies to the domestic market.

Since in Russia road funds are formed from excise taxes, floating excise tax on oil products, which would vary depending on the price of oil, creates risks for their filling. Instead of floating excise, it was decided to use a damping element of reverse excise of a similar purpose (return of excise taxes from oil volumes that are processed for domestic consumption in Russia).

The issue of the agreement with the oil companies to freeze retail fuel prices was also concluded in May and became fully effective from November 2018. This had a positive impact on wholesale prices. Novak was asked whether it was worth completing the agreement earlier due to the sharp drop in world oil prices. He

replied that due to the fall in oil prices, the domestic fuel market brings profit to companies, there is sufficient marginality in both wholesale and retail trade. New circumstances will arise from January 1, 2019, when due to the growth of excise taxes will decrease marginality. VAT will also increase, and the export duty on oil and oil products will be reduced by 5 percentage points within the tax maneuver. But these factors will be damped at such oil prices. If oil prices rise significantly, a damping excise may be involved, but at current prices it is simply not needed.

The agreement on the freezing of fuel prices is a kind of insurance mechanism in case there is a sharp increase in oil prices on the world market. The term of the agreement until March 31, 2019 is due to the fact that it is needed to see how the damping excise tax will work in January - February. If the excise tax is required, January payments will be in February, February payments – in March. These two months are needed to assess how it will all work, so that companies, for example, do not get a financial gap and do not shift this factor in the price of fuel.