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# Management of Russian petroleum resources: Obstacles to long term policies

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BOFIT SEMINAR - LONG-TERM GROWTH POTENTIAL OF RUSSIA AND CHINA

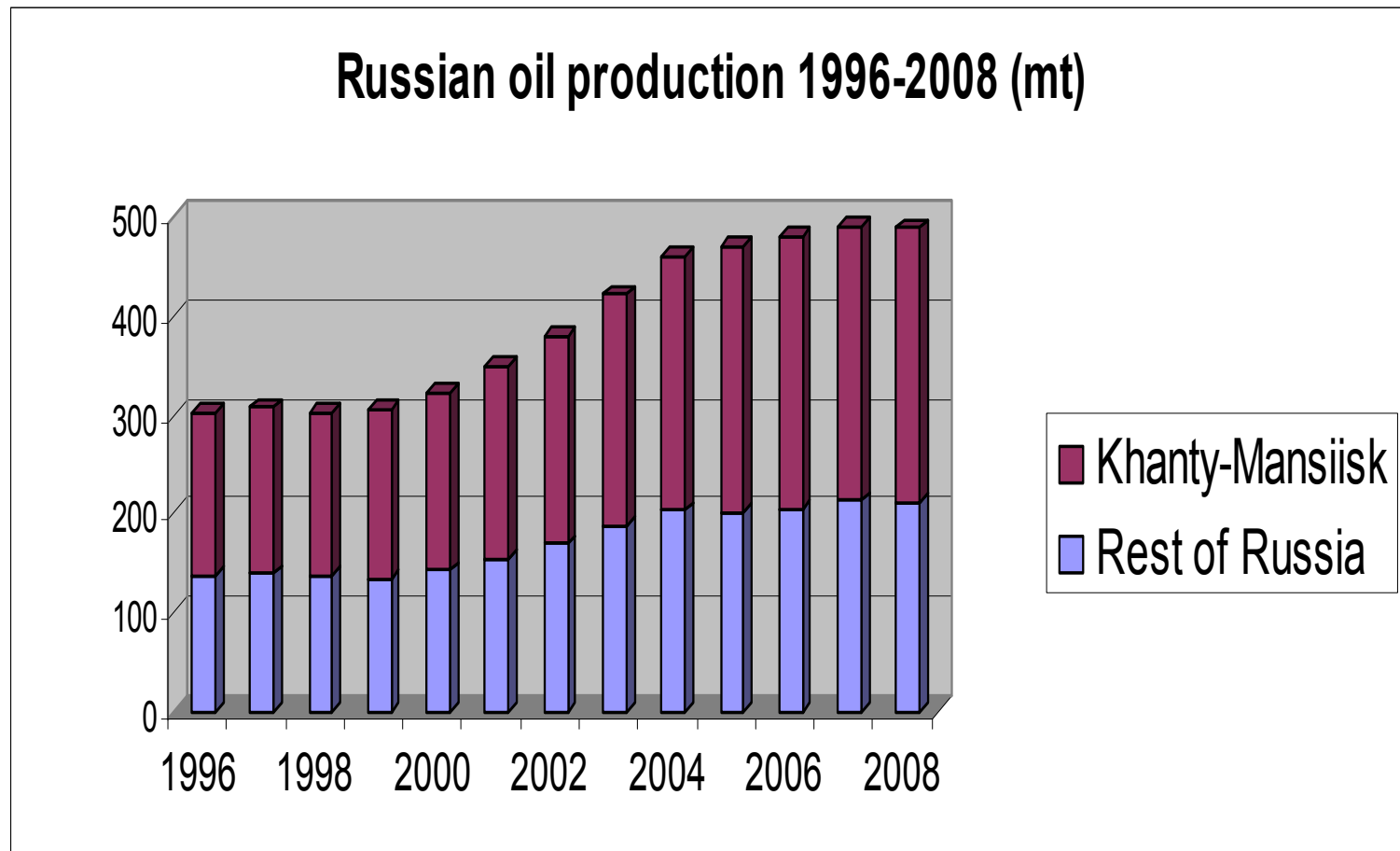
Helsinki, 19 March 2009

# Russia's starting point

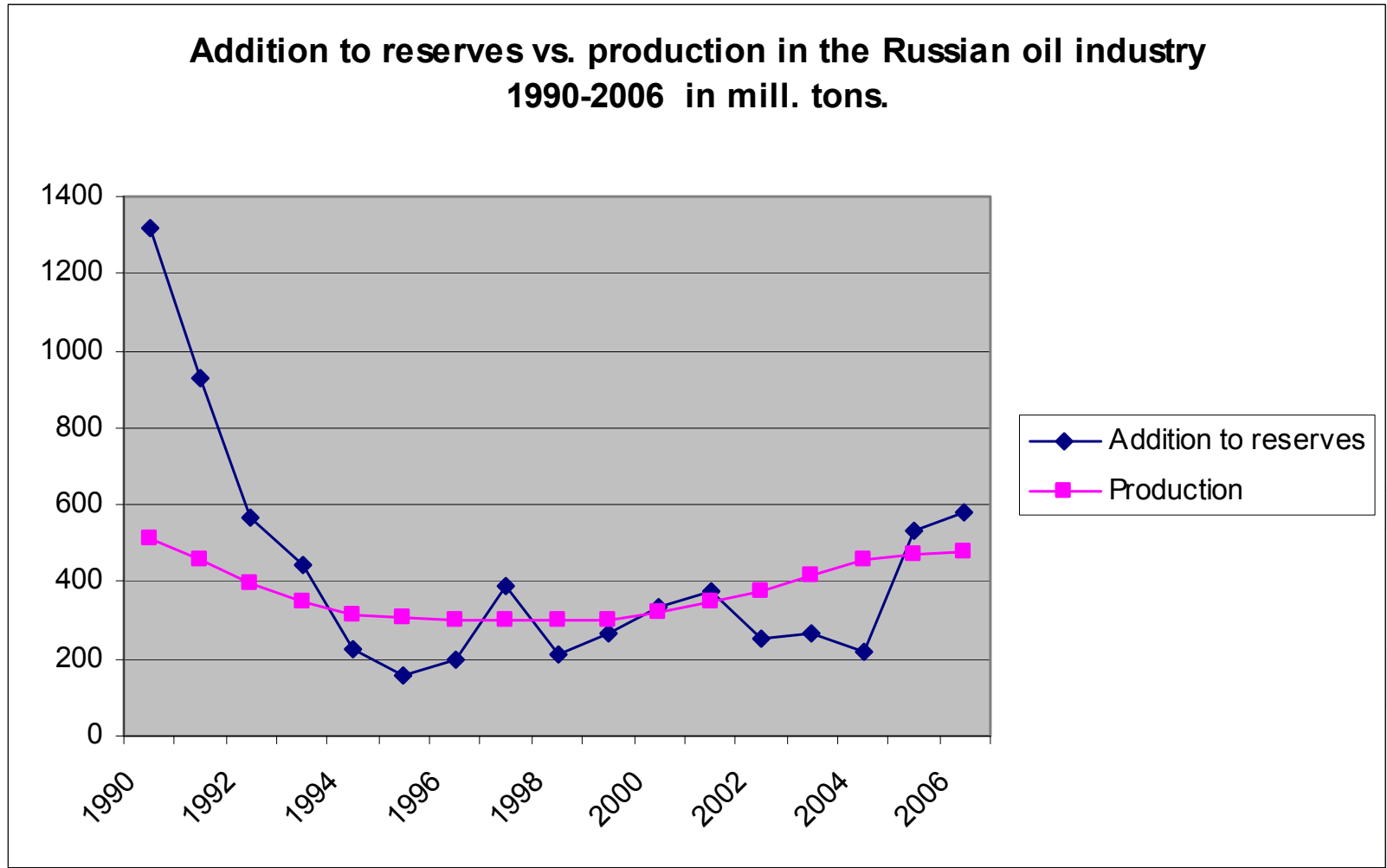
- The Soviet heritage:
  - Enormous oil reserves
    - exaggerated exploration in Soviet times
  - Geographical dislocations
  - Low cost consciousness
- Discovered reserves transferred to existing industrial organizations as licenses
  - Reduced room for manoeuvre for government
  - Industry focus on existing production regions
- No real policy for resources management
- Strong regional monopolization



# Impressive turnaround, but...



# R/P ratio: A cause for concern?



# The real issues

- How much potential is left in producing fields?
- Quality of reserves
- Cost of development
  - Further away, smaller fields
- Timing
- Emerging consensus: More exploration needed

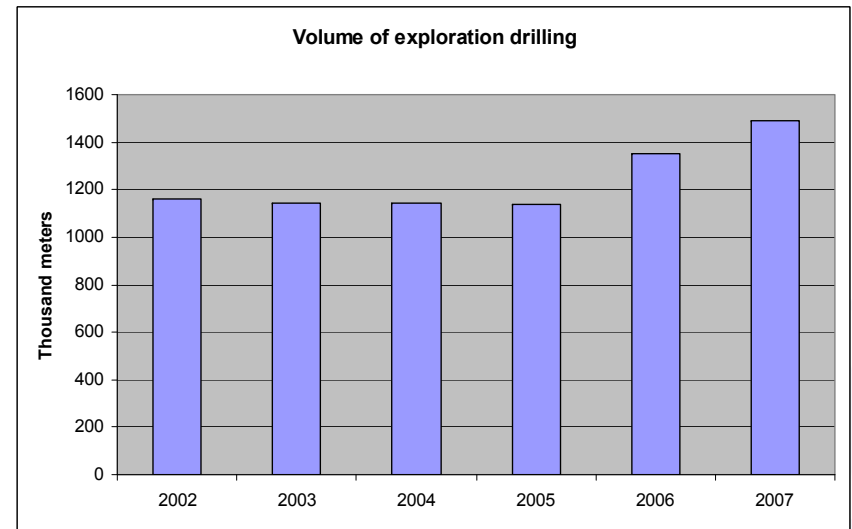
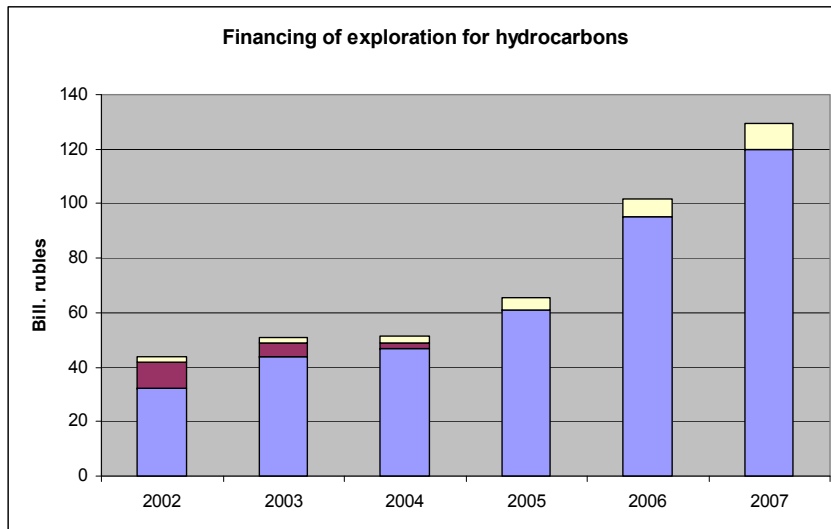


# Response

- Increased exploration budget
- Resurrection of state geological service
- Missing the target?
  - Who will take risks?



# The great revival?



Efficiency of exploration is falling



# Disincentive system

- Licensing system
  - Main focus: Control and distribute assets
  - fiscal elements
  - Reinforcing position of state dominated companies
  - Competition limited
  - Probable, but not guarantee for ‘finder’s rights’
- ‘Strategic sectors’
  - Foreign companies and investors disadvantaged
- Offshore activities
  - Security concerns contribute to impasse
  - Initiative yielded to Gazprom and Rosneft
- Taxation: Exclusively fiscal orientation - maximise state revenues





# Is there an alternative?

- Licensing
  - Encouraging rational resources management
  - Encouraging risk-taking
  - Competition
- Taxation
  - Balancing and objectives and development of resources
  - Flexible rates – reflecting different conditions
- A diversified industry structure
  - Specialised independent upstream companies



# Fundamental requirements

- A solid basis for licensing and taxation
  - Access to data
  - A real market for equipment and services
  - Flexible technical regulations
- Room for independents
  - Access to infrastructure and markets
- State control + monopoly interests: A strong force against change
  - Uncertain property rights - important government instrument (Gaddy & Ickes)



- Present system has efficiency constraints
- Industry structure does not correspond to changing geological conditions
- Financial crisis has made reform even more urgent
  - But can the state afford reforms that would cut revenues in the short term?



# Outlook?

- Falling output
- Increasing production costs

⇒ Reduced surplus from the petroleum sector

⇒ Policy implications, but which?



**Thank you for your attention!**

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