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Churilov Submits His Plan

How to Attract Foreign Credits and Investment

Following is a translation of excerpts from a Rosneftgas plan to attract foreign investment in Russia's energy industry. This plan was developed by a group of Rosneftgas specialists under the supervision of Lev Churilov, the president of the corporation, and was recently submitted to President Boris Yeltsin.

According to unofficial estimates, foreign companies are prepared to invest from \$60 billion to \$70 billion dollars in the Russian oil industry. Considering the development prospects of the world energy markets — which are characterized by the diminishing reserves of the energy resources in the industrially developed countries, political instability in the Middle East, and the loss of public confidence in nuclear energy — we can forecast that this figure will grow significantly in the near future. As a result, serious thought needs to be given to the question of how this investment and credits are to be used by the Russian oil industry.

The Main Guidelines

The concept of attracting and using foreign credits and investment in the Russian oil industry should rest on the following guidelines:

1. The relations among all states should be based on the principles set forth in the European Energy Charter and the legally binding documents related to it. Ac-

ording to these documents, there should be created a single energy and economic-legal space for the whole industrially-developed world.

The "rules of the game" in this space will be of non-discriminatory nature, i.e. they will be standard for all participants. Such rules will cover access to energy resources and markets, energy transportation (including transit regulations), new technologies, and capital markets. They will also provide for the balance of interests of potential investors and host countries related to the mode of investments and various trade-political issues.

2. The distribution and the particular form of foreign investments and credits should be determined by the priority and urgency of the tasks to be solved with the help of foreign capital. The short-term priority issue is to reverse the decline of oil output. The stimulation of idle wells — the number of which in the Russian Federation accounts for nearly 25,000 — promises a quick return of invested capital (3-4 months). The annual amount of non-recovered oil due to the idling of nearly 12,400 wells is estimated at 30 million tons, which is equivalent to the loss of \$3.6 billion in hard-currency revenues. The total cost of repairing all idle wells is estimated at \$1.4 billion dollars.

Western investors — especially small- and medium-size companies — can be invited to make direct investments in this area on the basis of service contracts. Another — and a more preferable

approach for our country — is to use foreign credits for purchasing the necessary equipment which could be operated by domestic producers.

To date, credits worth nearly \$5.5 billion dollars are being negotiated — \$1.1 billion of this amount can be raised before the end of 1992. The repayment of this credit should be made in the form of shipments of incrementally produced oil.

3. In the medium term (over the period of 3-5 years), the decline in oil production can be slowed down by putting into operation new oilfields with proven reserves. These fields have not yet been developed because of the lack of funds.

Foreign companies should be invited to participate in such projects through tenders, and receive guarantees that their investments will be repaid through the exports of a portion of the recovered oil.

The new approach for selecting oilfields to be developed jointly with foreign companies should entail the allocation of new, potentially high-capacity areas to foreign firms. They should not be involved in the development of oilfields for which funds have been allocated from the state budget.

Tenders should be the main channel through which Western firms are invited to participate in the development of oilfields in Russia. It should be stressed that

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Shafranik's Vision for the Oil Industry

Time for a Russian Multinational!

By Yuri Shafranik

Modern world economy is unthinkable without multinational corporations which, in a certain sense, form its core. These corporations are based not only in the USA and Japan, but also in Brazil, Mexico and South Korea. Incidentally, the performance of Samsung is studied by all those seeking to set up companies capable of transforming the national economy into a world leader. The performance of such oil multinationals as Petrobras (Brazil), Petroven (Venezuela), and Petromex (Mexico) is no less informative.

Creating the Russian Oil Giant

In Russia's present environment, the first efficient multinationals are most likely to emerge in the field of raw-materials production—primarily, in the oil-production and refining industries. Industries such as electronics will probably have to wait for several years.

The sooner the Russian public opinion accepts the idea of a multina-

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tional as the most efficient agent of furthering the country's economic interests, the sooner the process of creating a Russian oil giant will begin. But this is not going to be easy. For many years, the words "international monopoly" used to be a bugbear in Russia. Animosity toward this concept runs so deep that it will require great effort to help Russian citizens accept a structure that represents the mainstay of economic activity in all of the industrialized world.

In the West, multinationals are under strict control of public and government, and almost no one perceives them as a threat to their personal security or to that of their nation. This concept is yet to be understood in Russia.

Stop Selling Crude!

Russian multinationals should be set up as joint-stock companies with oil-producing and oil-refining associations, as well as oil-equipment factories, as their founders. The founders should not only be Russian, but also include organizations from other CIS countries.

Thus, Azerbaijan produced 40% of the total oil equipment of the former USSR. Oil refining capacity in Ukraine exceeds its oil output by a factor of 10. Political disagreements should not hamper economic cooperation in its modern civilized forms. Incidentally, the economic potential of Azerbaijan and the Ukraine can only grow thanks to their cooperation with Russia.

The main goal of the future multinational companies will presumably be the efficient use of raw materials for setting up modern oil refining enterprises. It is time to stop selling crude oil! Even the Tzarist Russia did not do that.

Oil refineries and oil-producing associations equipped with the latest technologies will boost the development of our engineering enterprises which produce corresponding equipment. Mechanical engineers will set higher requirements for their suppliers, etc., starting a chain reaction. Therefore, if a Russian multinational is able to achieve its goals, it will stimulate transformation of a major sector of the Russian economy to one which meets world standards.

Can't Wait

We cannot wait for years before natural competition, mergers, and takeovers will result in the setting up of a number of Russian multinational corporations. We should start developing feasibility studies and undertake preliminary organizational efforts in order to create favorable conditions for them without pressuring the state bodies to join such multinationals. Otherwise, all our gains will amount only to another renaming of a ministry, which has already been renamed into a concern or God knows what.

The list of founders of Russian multinationals should not be limited only to

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