

Multiple investment regimes in Russian subsoil use: just a postponed reality or an utopia ?

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“Foreign investment in the energy sector: Balancing private and public interests”,
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- 1) Author's historical proposal: multiple investment regimes in Russian subsoil use**
- 2) Real historic development: fluctuations between investment-friendly multiplicity & fiscal-oriented fixed & unified simplicity of regimes
- 3) Which way to go & how it may work

Author's historical proposal: possible composition of investment regimes (investment matrix/menu) for Russian subsoil use (within legal vs. taxation axes)

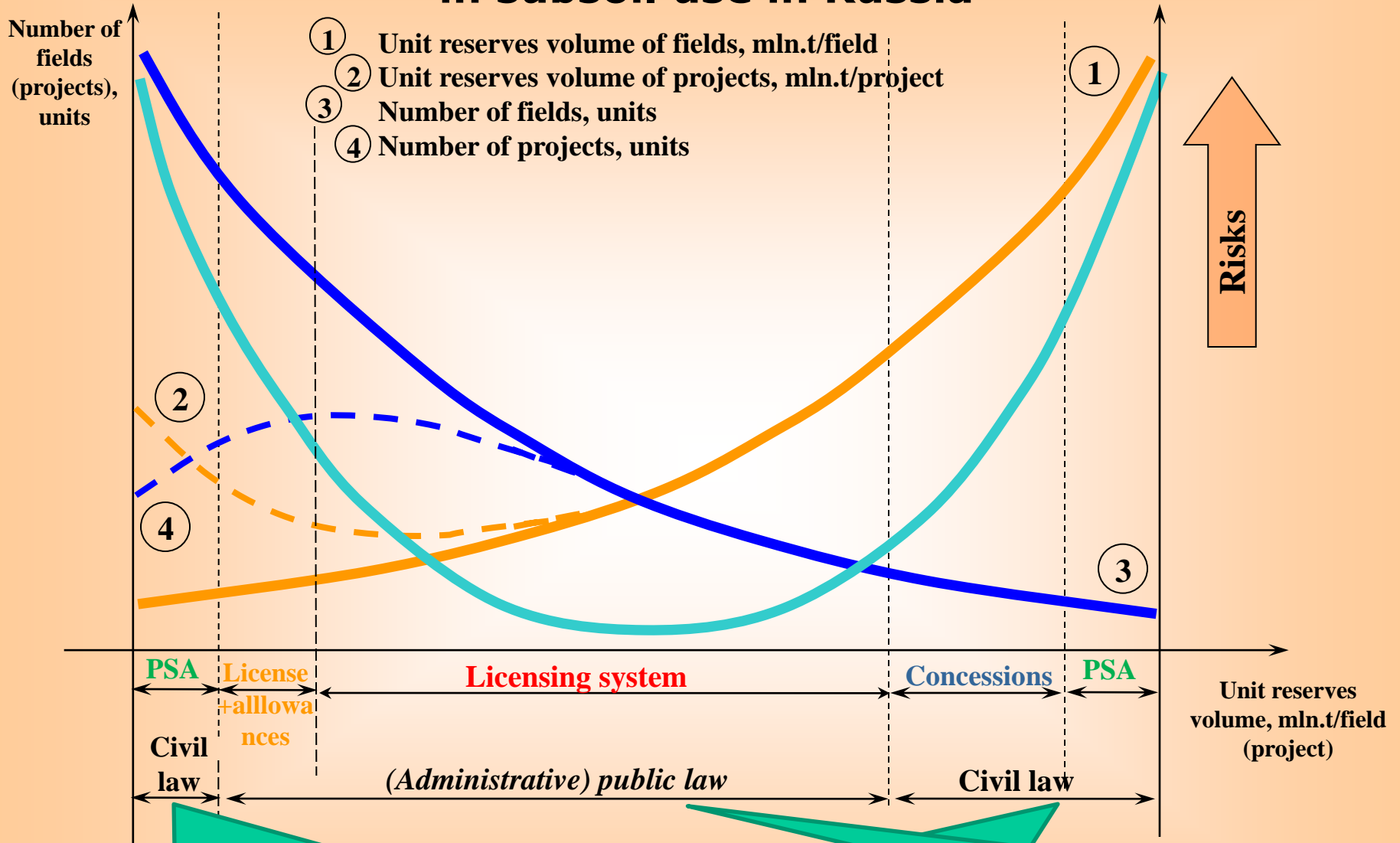
Key idea: to create competition between investment regimes for investor

		Legal system	
		Administrative (public)	Civil
Tax treatment	General (common)	Licenses ①	Concessions ③
	Special (incl. individualized)	Licenses with allowances (differentiated licensing regime) ②	PSAs ④

Different investment regimes in subsoil use: comparative legal & tax advantages/disadvantages

Investment regime	Investment regime's characteristics during project life-time	
	Tax pressure	Legal stability
Licensing ①	Non-optimal (high), established unilaterally	No
Licensing with allowances (special / differentiated tax regimes) ②	Non-optimal (high / diminished), established unilaterally	No
Concessions ③	Non-optimal (high), established unilaterally	Yes
PSA ④	Optimal, negotiated	Yes

Proposed application zones for different investment regimes in subsoil use in Russia

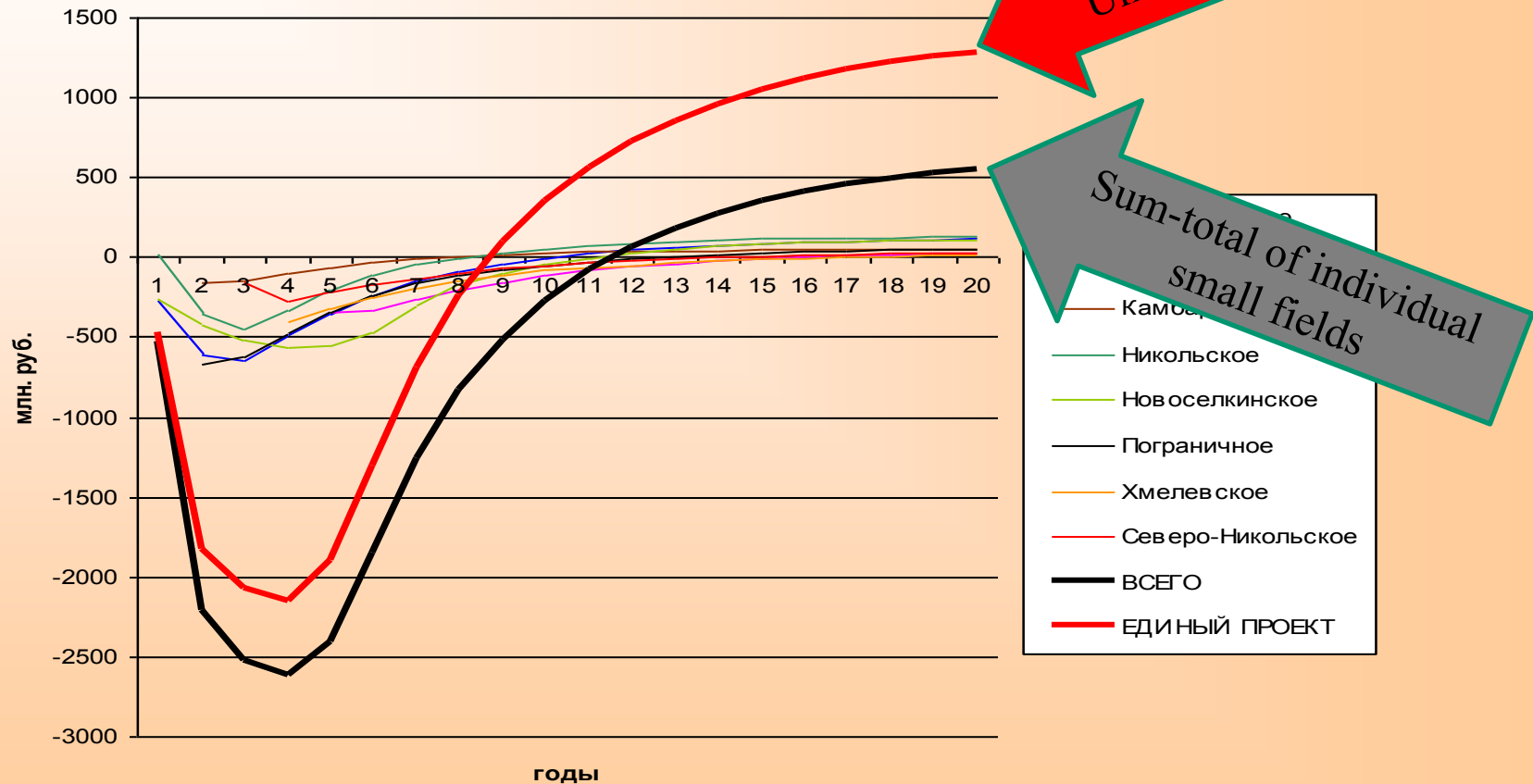


Zone of responsibility of **regional** authorities
 => “one key” of the two (the “second key”)

Zone of responsibility of **federal** authorities =>
 “one key” (the “first” one) or both “two keys”

Cumulated DCF/NPV of individual fields and of united project combined of these fields (Udmurtia project case)

Чистый дисконтированный доход по каждому месторождению и в сумме



Source: В.Грушин, А.Конопляник, Н.Оксенгорн. О порядке перевода мелких месторождений углеводородов на режим СПП (в порядке обсуждения). – «Нефтяное хозяйство», июнь 2002, № 6, с.83-89.

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Six Major periods of oil taxation development in Russia (1)

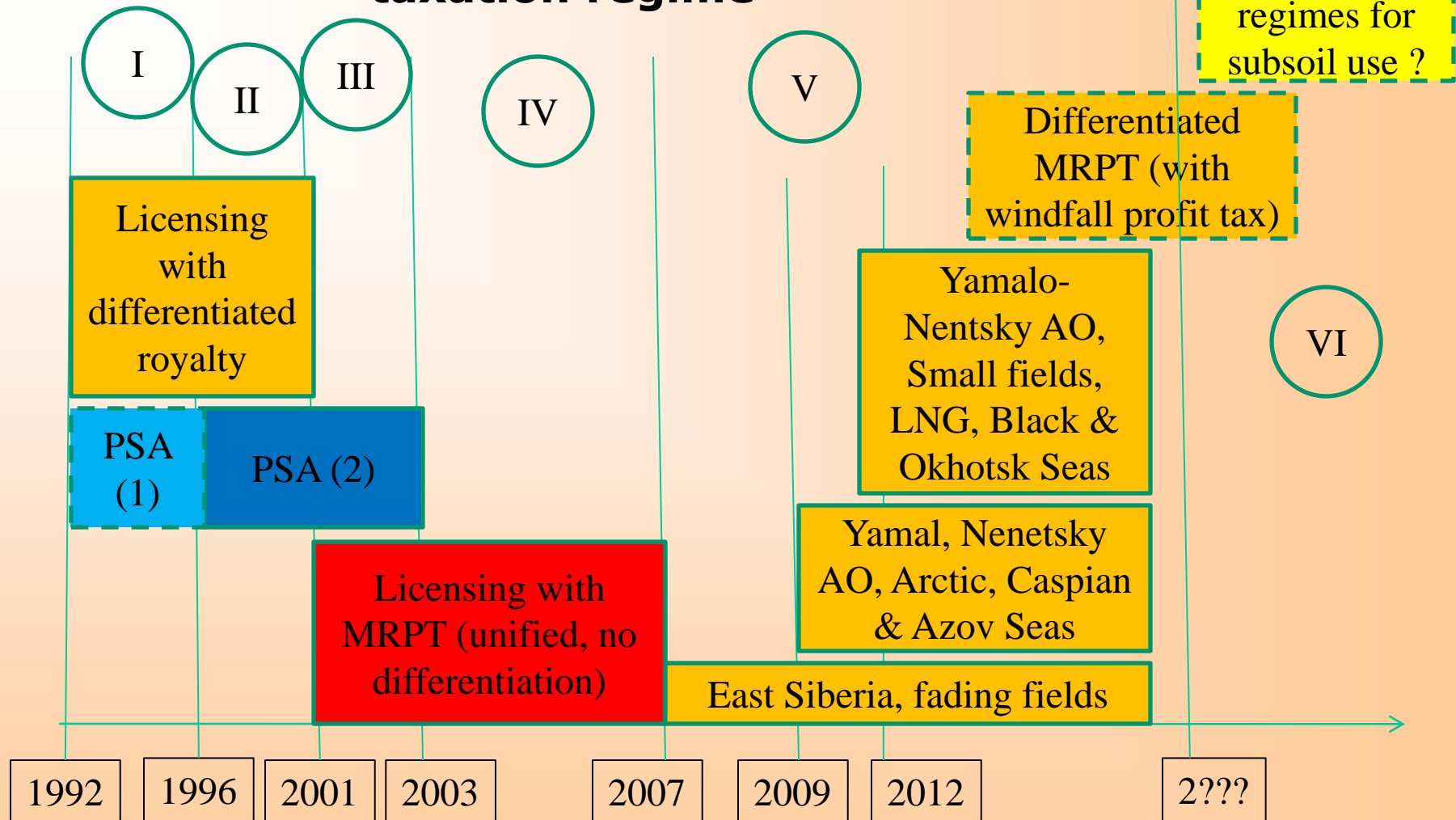
- 1) **1991-1996:** Development of tax system within market-oriented economy started (RFSS=>WB/HU). Licensing system of subsoil use (Law “On Subsoil”, 1992) allows multiple investment regimes with different taxation models (Art.12). Payments for subsoil use (royalty) introduced with differentiated levels. Law on concessions and other petroleum agreements (for foreign investors only, 1993) approved by Supreme Soviet but vetoed by President. PSA regime established (Law “On PSAs”, 1995). Law on concessions (2nd version – for foreign & domestic investors, 1995) has not passed State Duma. Tax legislation is not codified.
- 2) **1997-2000:** Tax Code introduced. Tax Code chapter on “tax on incremental earnings” (windfall profit tax) adopted in first reading. Differentiated tax regime de facto in place under licensing with differentiated royalty. PSA regime further developed.

Six major periods of oil taxation development in Russia (2)

- 3) **2001-June 2003:** Transition from differentiated to unified tax regime. Substitution of royalty, VMSB, excise tax by MRPT. Introduction of systemic oil customs export duty. PSA still acting.
- 4) **June-2003-2006:** Factual cancellation of PSA regime. Establishment of single & unified tax regime. Law on infrastructure concessions adopted, but it excludes subsoil use.
- 5) **2007-nowadays:** Differentiation of MRPT-based tax regime started. Introduction of regional & for individual projects tax allowances (slow start of deviation from unified tax regime).
- 6) **2??? & onwards:** Continuation of further differentiation of tax regime (based on economically justified logic) , incl. multiple investment regimes, or ...?

Based on: А.Конопляник. Реформы в нефтяной отрасли России (налоги, СРП, концессии) и их последствия для инвесторов. – М.: «Олита», 2002; Е.Дьячкова. Экономическое регулирование нефтегазовой отрасли в постсоветской России. – М.: ООО «Геоинформмарк», 2011

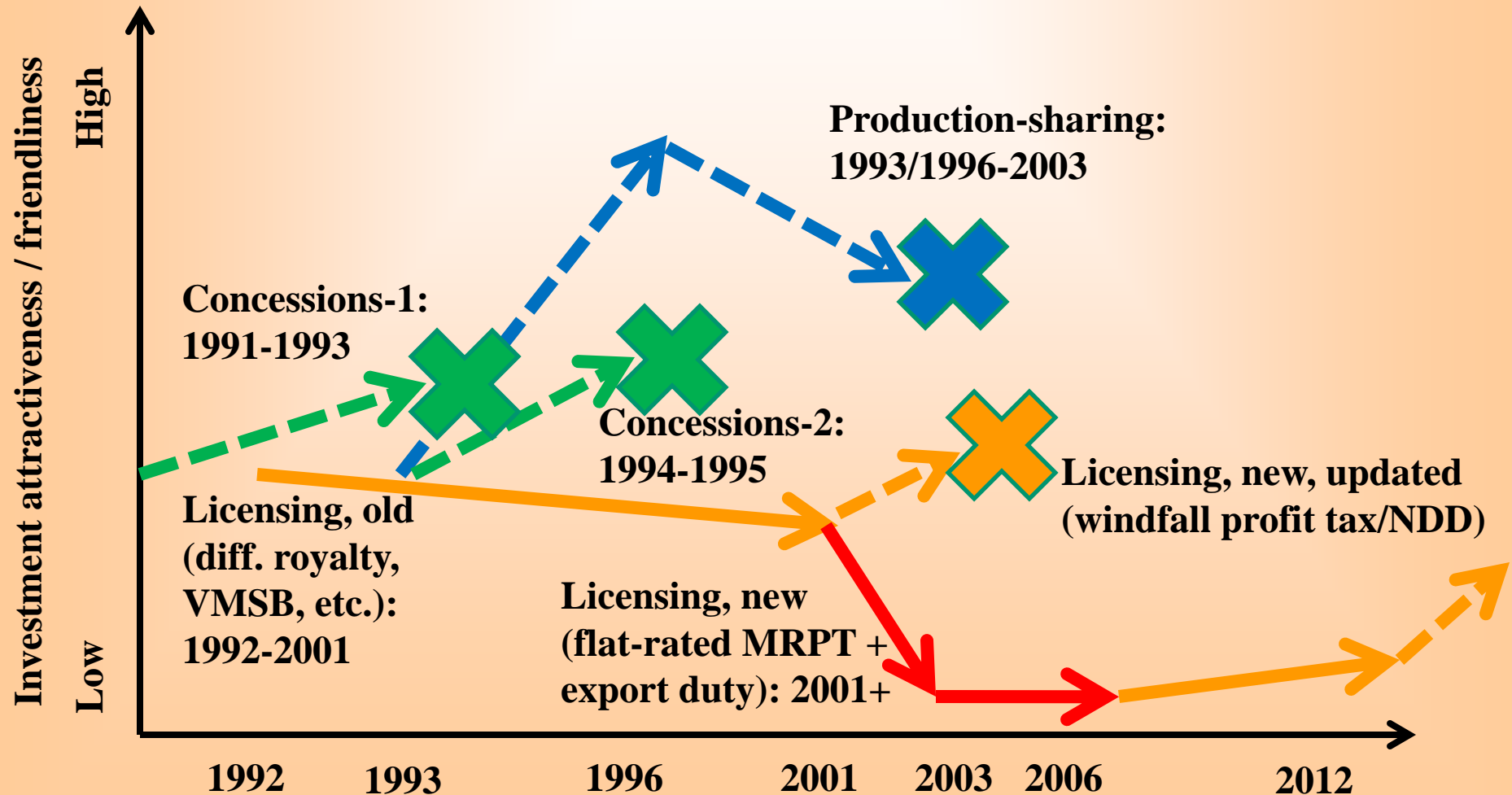
Evolution of differentiation in Russian oil taxation regime



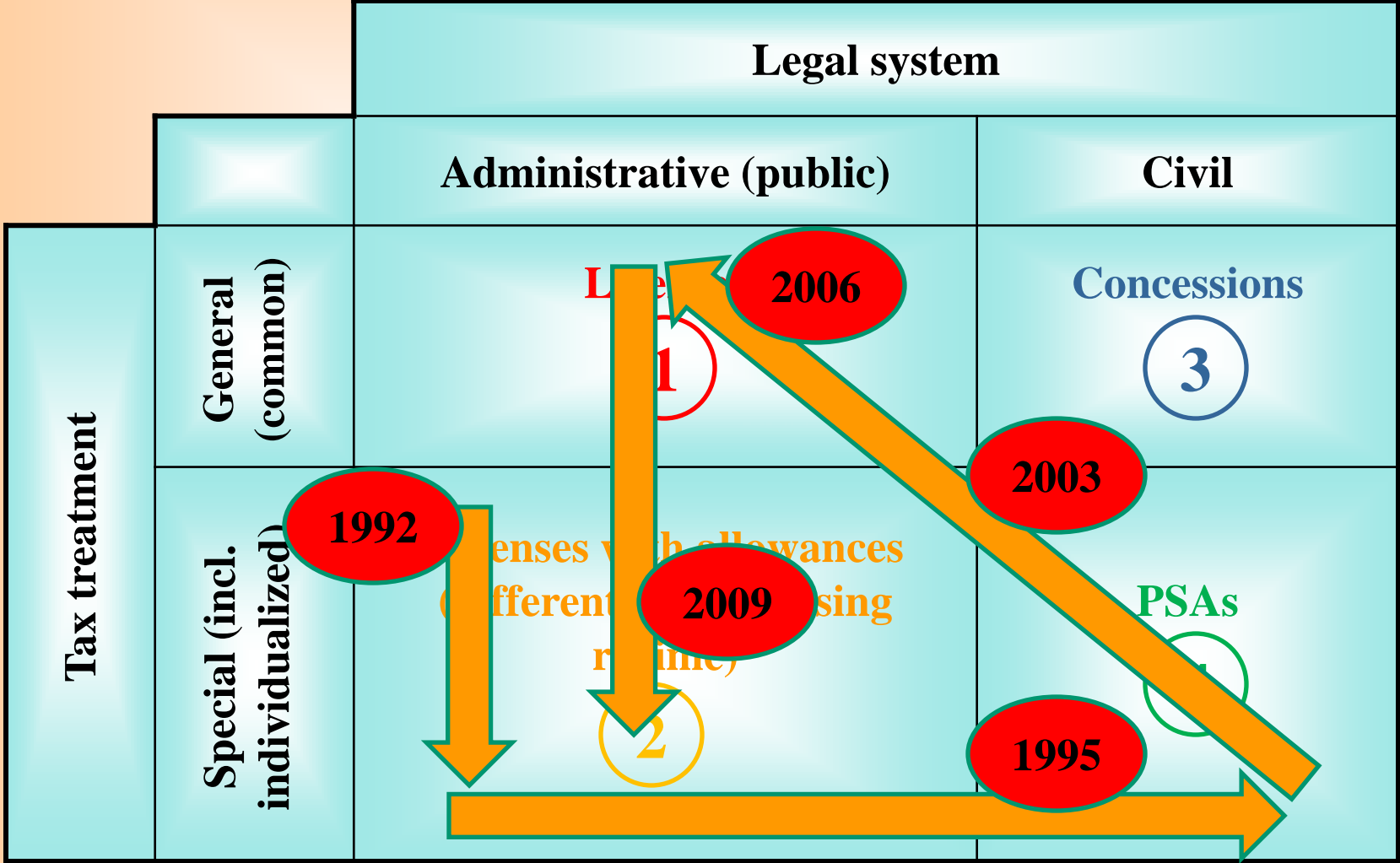
Legend: (i) colours correspond to that of investment regimes as in slides 3-4; (ii) PSA(1) = 3 acting PSA projects in Russia signed; PSA(2) = period of factual action of PSA Law; (iv) Roman figures in circles – periods as in Slide 7

Based on: Е.Дьячкова. Экономическое регулирование нефтегазовой отрасли в постсоветской России. – М.: ООО «Геоинформмарк», 2011

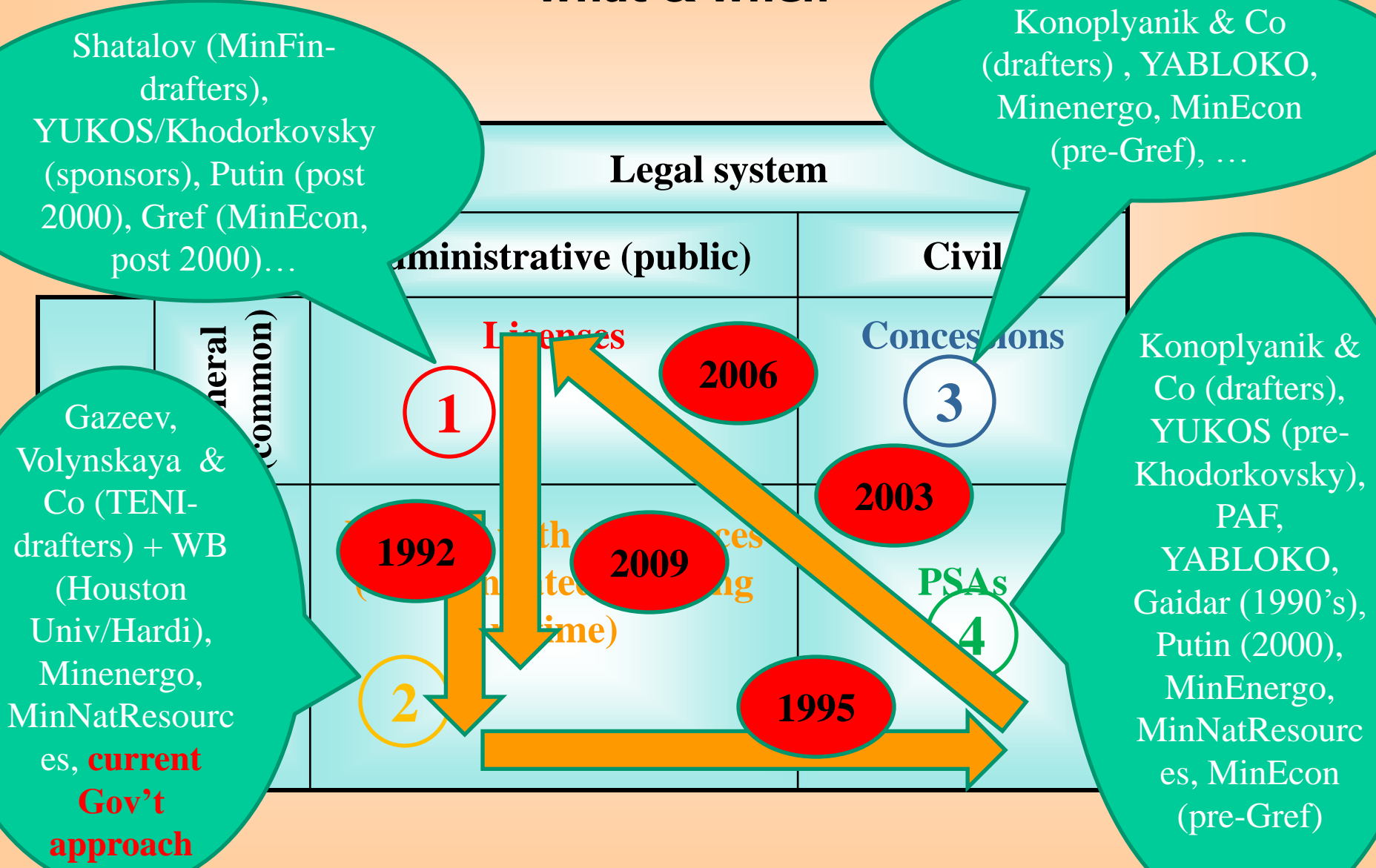
Russian subsoil legislation development: preferential state's alternatives always worsened oil & gas investment climate



Evolution of tax regimes in Russian subsoil: from systemic though limited differentiation (1990's) through resignation of differentiation (2000's) to chaotic & handy differentiation (2010's).



Evolution of tax regimes in Russian subsoil: who supports what & when



Comparison of flat-rate MRPT and PSA systems

Figure 1: Flat-rate tax system

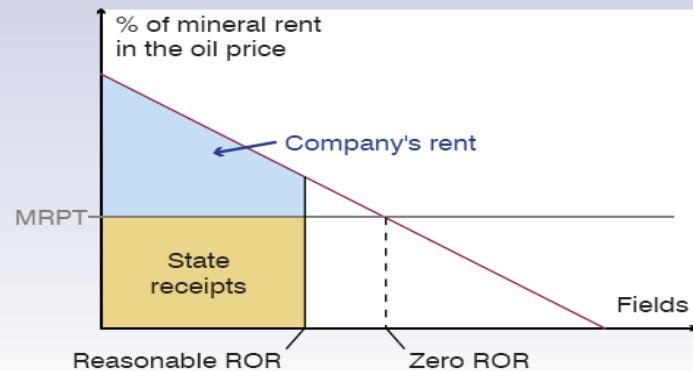


Figure 2: PSA

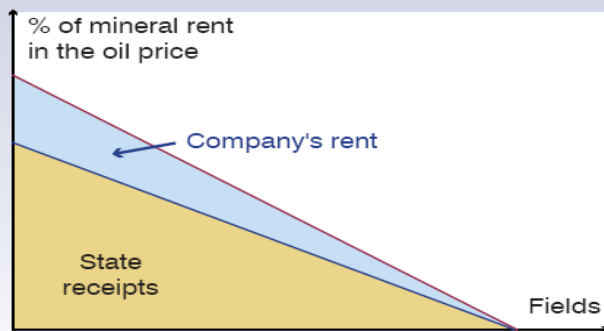
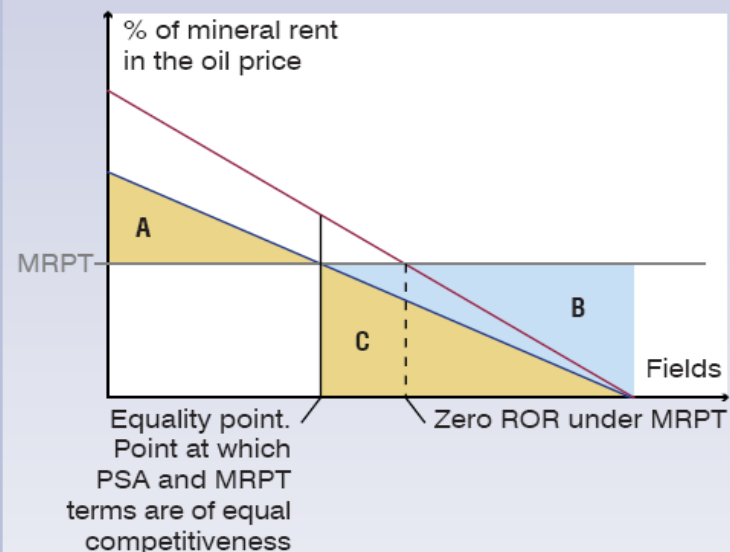


Figure 3: Transfer from MRPT to PSA



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

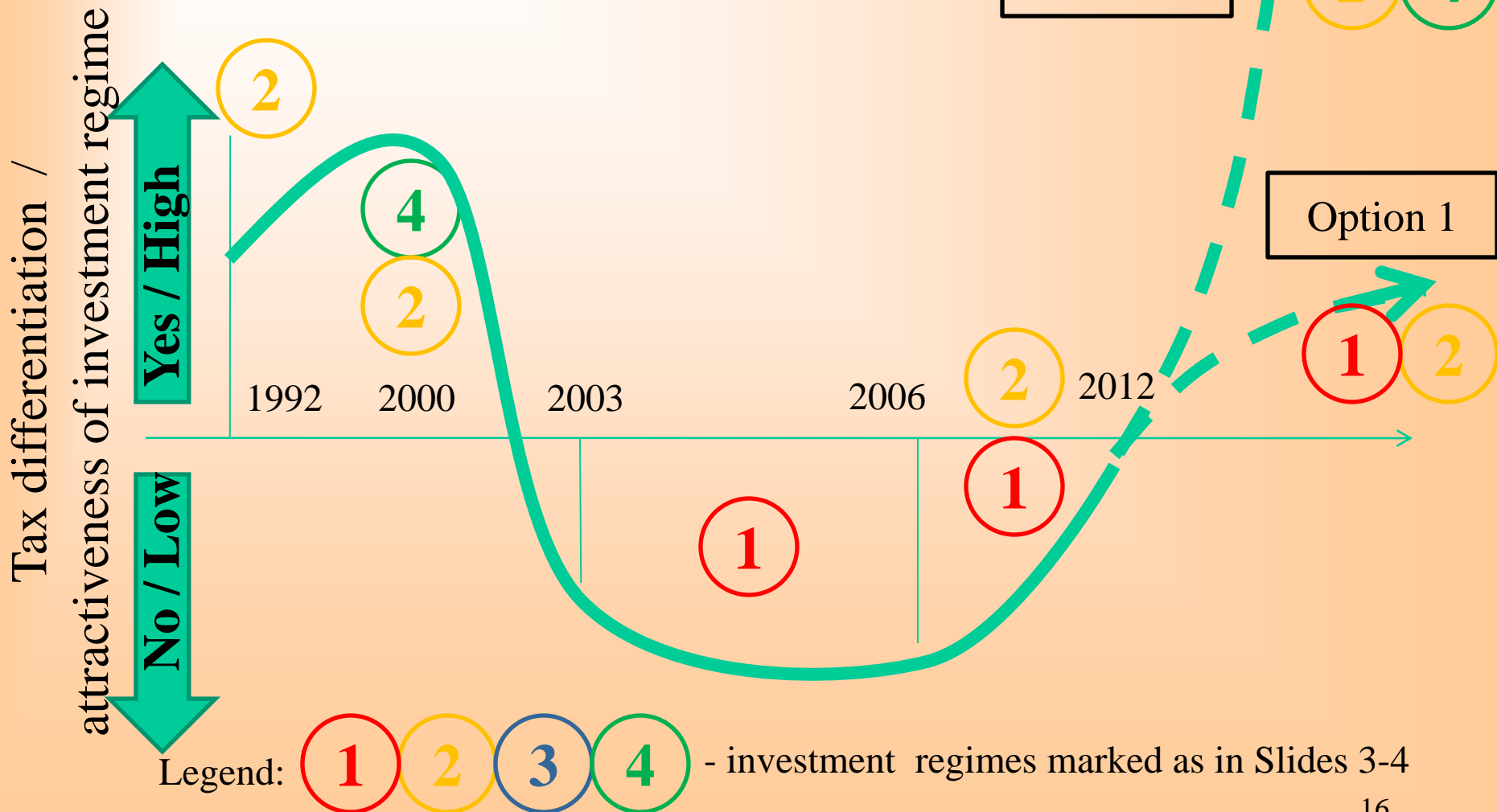
C: Incremental state earnings under PSAs through development of non-profitable fields under MRPT with flat rate

Source: A.Konoplyanik. A struggle for mineral rent. - *"Petroleum Economist"*, August 2003, p. 23 – 24; Андрей Конопляник: «Ухудшение экономических условий возвращает на повестку дня законодателей вопрос целесообразности реабилитации СРП». – *«Нефть и капитал»*, 2009, № 3, с.18-23.

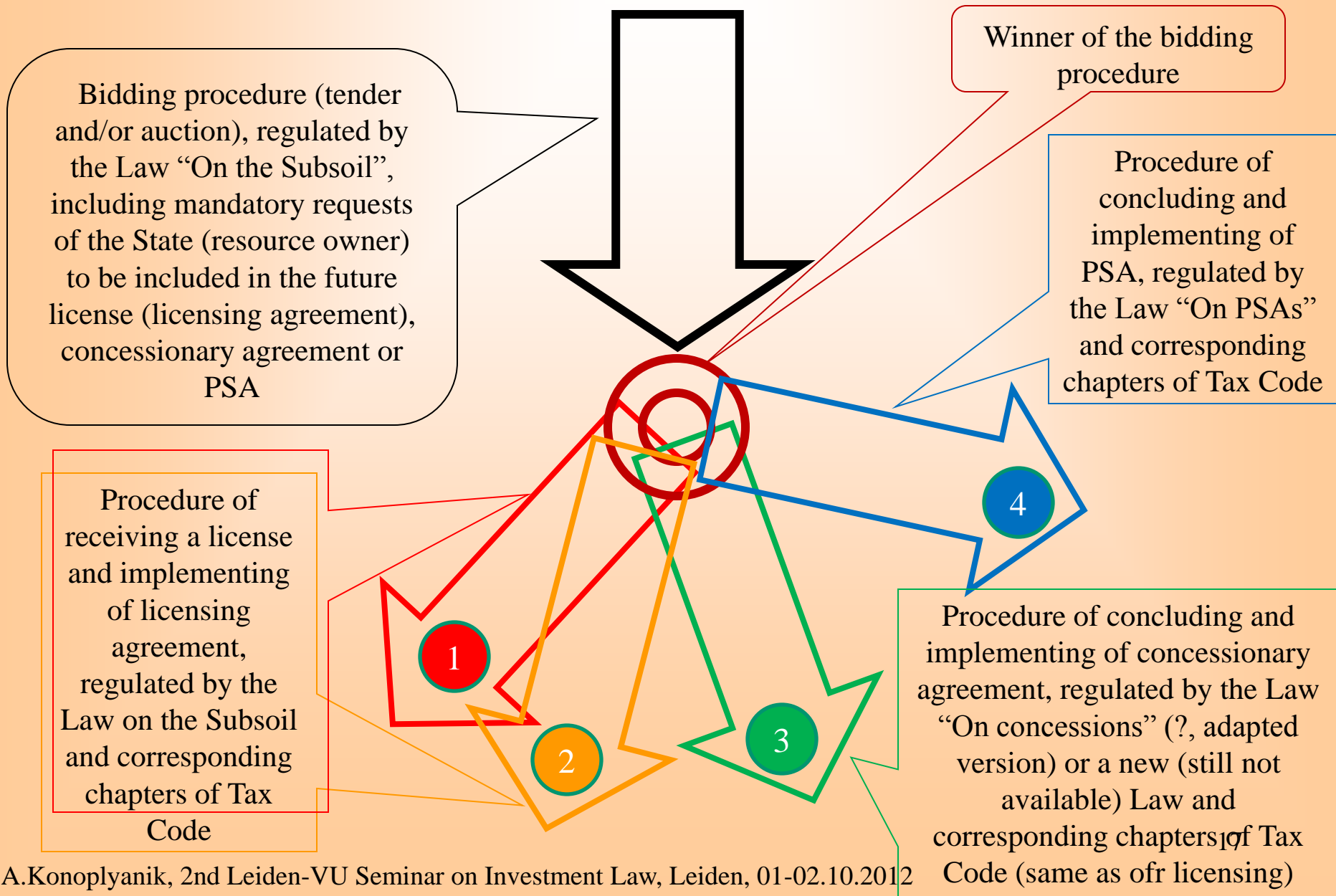
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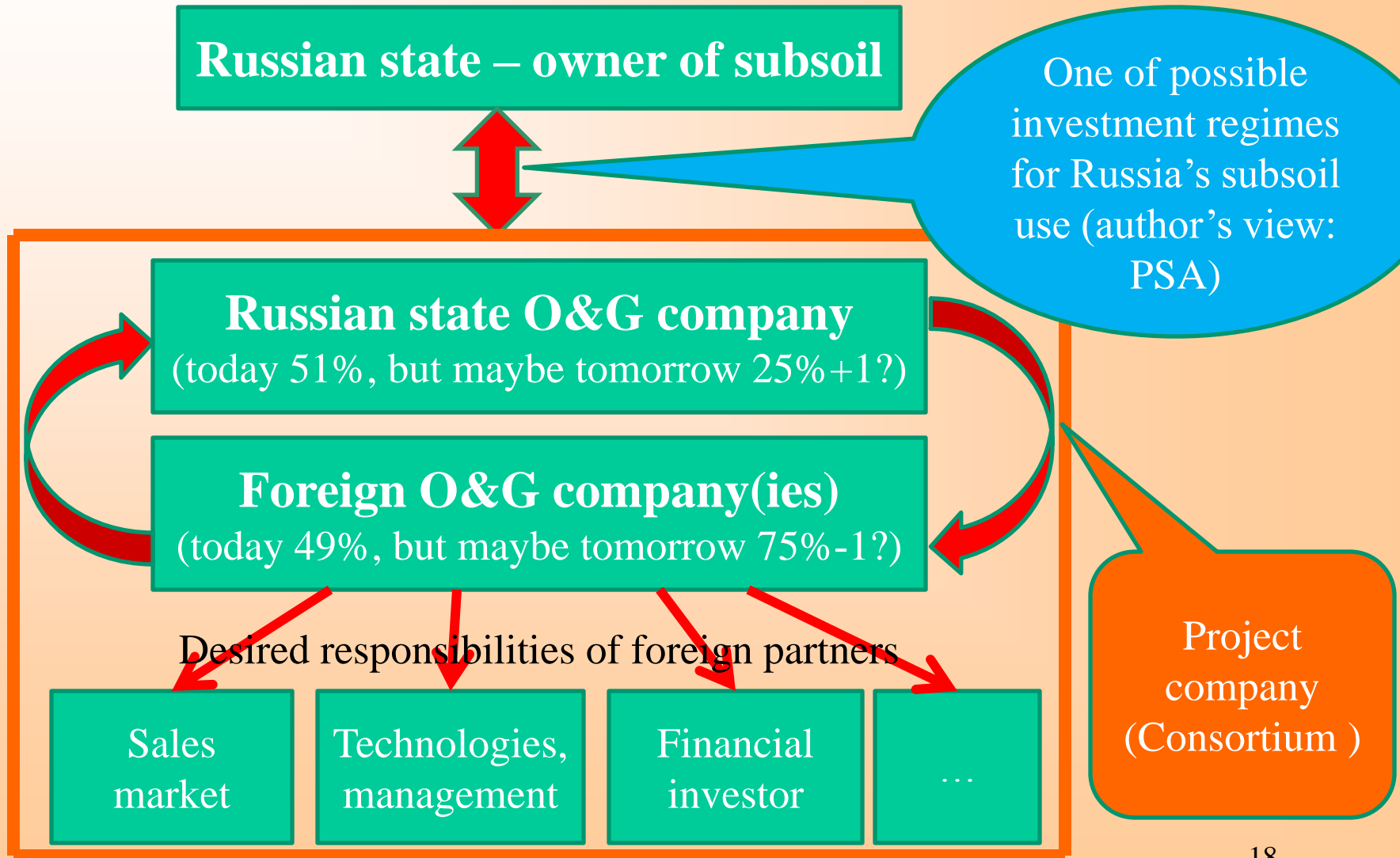
Evolution of differentiation in tax treatment in Russian investment regimes for subsoil use



Equal & competitive investment regimes in Russian subsoil use (historical proposal of the author)



Possible organizational structure of consortia for Russian Arctic offshore O&G development (within author's concept of multiple investment regimes for subsoil use)



**Thank you for your
attention**

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