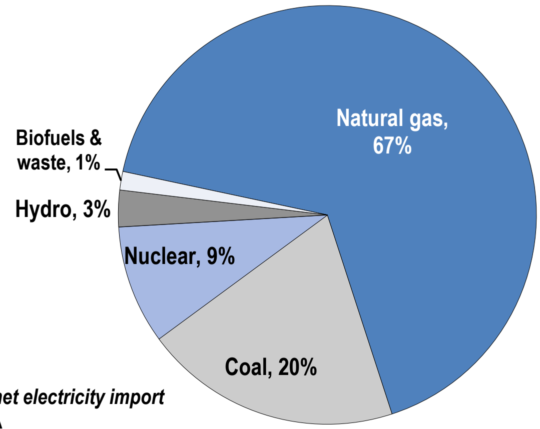
Russia

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight large partner economies (Argentina, Brazil, Colombia, the People's Republic of China, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

The Russian Federation (thereafter "Russia") plays a critical role in the ever-growing global energy market. The country is the third largest producer of fossil fuels in the world, holds second largest proven reserves of natural gas, and the world's third largest reserve base of coal. As for oil, the country holds 6.4% of global reserves and is the world's third largest producer after Saudi Arabia and the United States.

Total Primary Energy Supply* in 2016



****excluding net electricity import***
Source: IEA

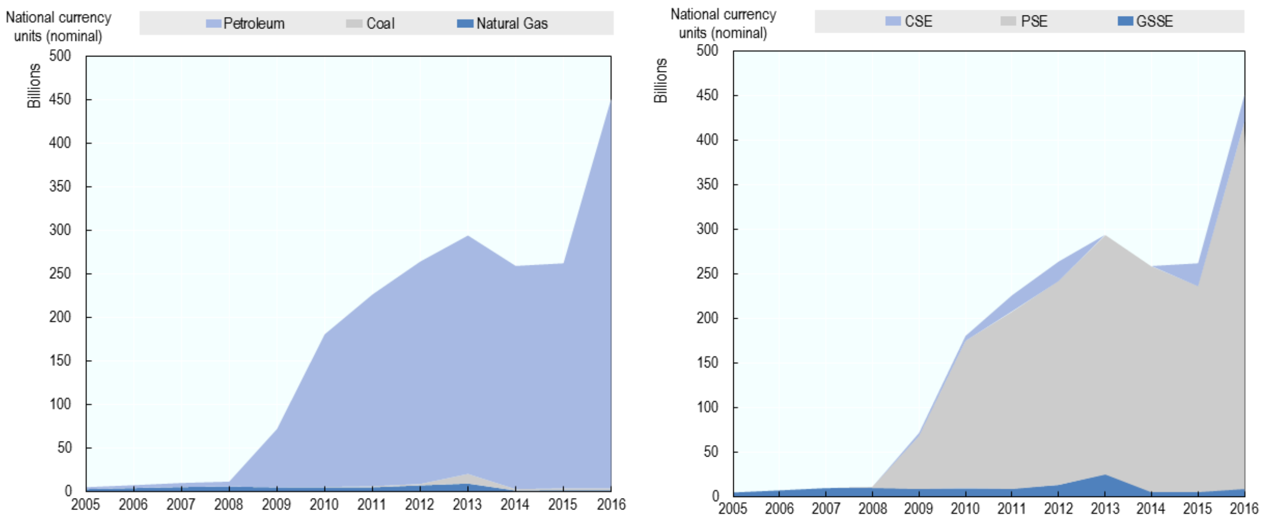
The contribution of the hydrocarbon sector (both upstream and downstream) to GDP decreased substantially from a quarter in 2010 to 5.6% in 2016, which was caused mainly by a contraction of world oil market prices. At the same time, fossil fuels accounted for as much as 69% of Russia's exports in 2016 according to Federal Customs Service.

As of January 2016 there were 295 oil-extracting companies operating in Russia, 107 of which were subsidiaries of 11 vertically-integrated domestic majors. Most of Russia's refining capacity is in the hands of these vertically-integrated groups. Natural-gas production on the other hand is much more concentrated as state-owned Gazprom still accounts for almost 66% of total gas production, down from over 90% in the early 2000s. The company also dominates the gas-transmission sector and benefits from a legal monopoly on exports, most of which are destined to the Commonwealth of Independent States (CIS) and European Union (EU) Member States. Gas in liquefied form is also exported from Sakhalin to East Asia. Given its geographical size, Russia possesses seven different regional electricity grids, all but one of which are inter-connected. The country also exports significant amounts of electricity to countries in Central and Eastern Europe. While electricity generation has largely been privatised, the transmission and distribution of electricity remains to a great extent in the hands of the state-owned Federal Grid Company (FGC).

Energy prices and taxes

Despite government plans to liberalise the natural-gas market, domestic gas prices remain largely regulated in Russia. On the other hand, prices for petroleum products are deregulated and set by the market, though in practice the government often intervenes to limit price increases, most notably through the use of export taxes. Electricity tariffs have been only partially deregulated so far. Although the Federal Government recently liberalised the wholesale electricity market, the retail segment remains heavily regulated. Wholesale spot prices are thus not subject to any predetermined price caps or floors, but are merely monitored by the Russian Federal Monopoly Service. On the contrary, retail tariffs are controlled by the Federal Tariff Service (FTS) and the Ministry of Economic Development (MED) through measures such as price caps and cross-subsidies benefitting certain residential consumers.

Total support for fossil fuels in Russia by fuel type (left) and support indicator (right)*



Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate.

*The above charts are based on an arithmetic sum of the individual support measures identified in the Inventory. Because they focus on budgetary costs and revenue foregone, the estimates for partner economies do not reflect the totality of support provided by means of artificially lower domestic prices. Particular caution should therefore be exercised when comparing these estimates to those reported by the IEA for these countries.

Recent developments and trends in support

In Russia, producers of oil and natural gas such as Rosneft, Gazprom or LUKOIL attract the largest share of all support for fossil fuels, primarily through partial or full exemptions from the federal extraction tax benefitting certain fields in particular regions. On the consumption side, the low regulated tariffs for electricity and natural gas also provide considerable incentives for consuming fossil fuels, though they are not quantified as part of the present inventory.

The fiscal reform at federal level carried out in 2015 introduced a new taxation regime featuring a gradual increase in the rate of the mineral extraction tax (MET). For desalted, dehydrated, and stabilized oil that does not qualify for any MET reductions, this rate was increased from RUB 493 per tonne in 2014 to RUB 919 per tonne in 2017. At the same time, a new formula for calculation of the MET was introduced, which incorporated a number of coefficients reflecting properties of oil, location, depletion of the field and other conditions. Through this formula, many tax reductions are granted to qualifying oil. In practice, such reductions have substituted the MET exemptions that were in place before the fiscal reform. At the same time, the rate of export duties for crude oil has been lowered from 59% in 2014 to 30% in 2017.

Examples of measures	
Exemption from the Extraction Tax for Oil produced from Domanic, Bazhenov and other productive deposits	To stimulate oil extraction from hard-to-get hydrocarbon deposits of the Bazhenov formation in West Siberia the Federal Government introduced an exemption from extraction tax in 2015. Exemptions remain valid for a period of 12 years after a field's exploitation has started.
Reduced Extraction Tax for Newly-Developed Offshore Oilfields North of the Arctic Circle (2009-)	Rebates from extraction tax are granted to companies recovering oil offshore North of the Arctic Circle. Eligible fields are those situated on the continental shelf for which cumulative production has not yet reached 35 million tonnes.