

Russian Federation

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, eight partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa) and European Union (EU)'s Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine).

Energy resources and market structure

The Russian Federation (hereafter "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 the United States and Saudi Arabia.

The contribution of the oil and gas sector to the country's industrial production increased in 2018, at 38.9%. At the same time, fossil fuels accounted for as much as 63.2% of Russia's

exports in 2017 according to the Federal Customs Service. Oil and gas revenues contributed to 36% of the country's federal budget in 2016.

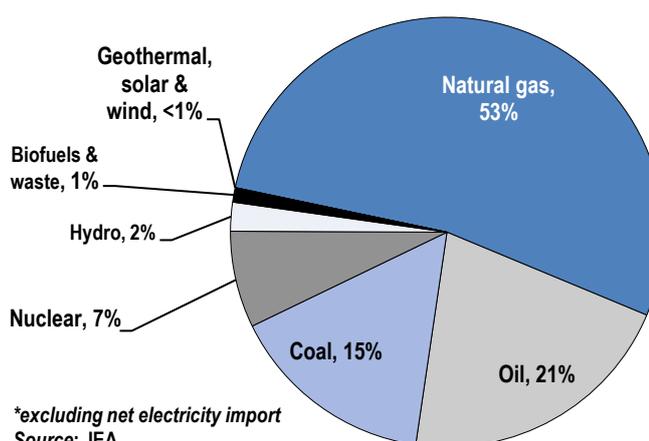
As of 2017, there were 288 oil-extracting companies operating in Russia, 104 of which are subsidiaries of 11 vertically-integrated domestic entities. Most of Russia's refining capacity is in the hands of these vertically-integrated groups. Natural-gas production, on the other hand, is much more concentrated as state-owned Gazprom still accounts for almost 68.7% of total gas production in 2018, down from over 90% in the early 2000s. With over 172 000 kilometres of pipelines in the vast country, the company also dominates the gas-transmission sector and benefits from a legal monopoly on exports, most of which are destined to the Eastern Europe, Caucasus and Central Asia (EECCA) countries and EU member nations. 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 bulk of the electricity transmission and distribution market still remains in the hands of the state-owned Federal Grid Company (FGC).

Energy prices and taxes

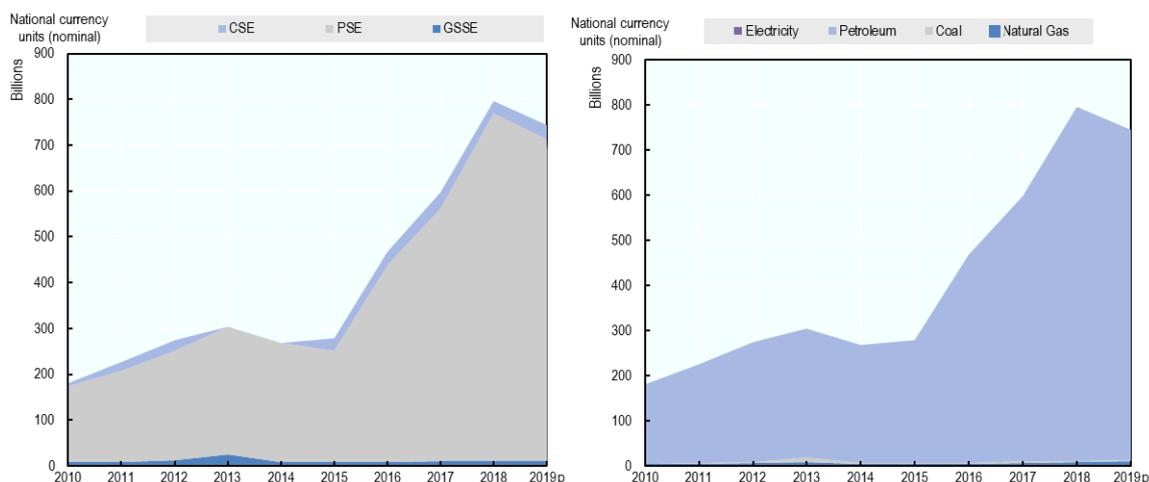
Despite government plans to liberalise the natural-gas market, domestic gas prices remain largely regulated in Russia. While prices for petroleum products are deregulated and set by the market, the government often intervenes to limit price increases in practice, mainly through export taxes. Most notable of this is the export tax rate on crude oil, which the government sets higher than the export tax rate on petroleum products to encourage investments in refining capacity. 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

Total Primary Energy Supply* in 2017



subject to any predetermined price caps or floors, but are merely monitored by the Russian Federal Monopoly Service. In contrast, retail tariffs are regulated 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 of Russia. Low regulated tariffs for electricity and natural gas provide considerable fossil-fuel support on the consumption side, though they are not quantified as part of the present Inventory due to the difficulties of procuring relevant data.

The 2015 fiscal reform at the federal level introduced a new taxation regime featuring a gradual increase in the rate of the mineral extraction tax (MET) and compensatory decrease to the export tax to ensure that the changes in tax rates are revenue neutral. The MET is calculated based on physical production volumes of oil and gas. In May 2016, the government amended the tax rules to allow companies to apply for tax breaks on the MET for projects implemented in the Russian Far East. In 2017, the MET on oil was RUB 919 per tonne, and on natural gas - RUB 35 per 1 000 cubic metres (adjusted for the complexity of gas extraction and transport costs).

The 2015 changes in the fiscal regime, known as the “tax manoeuvre”, was designed to stimulate the technological development of domestic refineries while maintaining revenues of miners at a stable level. In 2018, the taxation regime was revised anew to ensure the decrease of the export duty for hydrocarbons, from RUB 0.833 in 2019 to nil in 2024 in conjunction with a corresponding rise in MET rates. In order to prevent an increase in crude oil prices on the domestic market and maintain the profitability of Russian petroleum refineries, a negative excise duty on crude oil was introduced in 2019, together with an increase on export duties for certain petroleum products. Additional changes are envisioned to move from a production-volume-based tax regime, such as the MET, to a sales-revenue-based system. This change was introduced on a pilot basis in 2018 for a few mature basins in Western Siberia with 20% to 80% depletion, and new wells with 5% depletion.

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.