

# **The Russian oil and gas industries reform**

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# The Russian reform and the importance of the hydrocarbon sector

1. The first world gas producer : 641 Bcm
2. The second world oil producer : 9.62 Mb/d
3. Russia has 38 % of the world gas proven reserves
4. Russia has 6 % of the world oil proven reserves.

Gas exportations in 2005: 233 Bcm with 156 Bcm on the European markets and 77 Bcm on the CIS markets.

# The evolution of reform in the oil industry

## ◆ Two main phases

### 1. The « privatisation period » : 1992-2000

Creation of an oligopoly in the oil sector dominated by a small number of major private industrial and financial groups.

### 2. The State's willing to take back control on the oil and gas industry : 2000-2006

# The main Russian oil companies in 2003

Oil companies	Oil production in Mb/d
Lukoil	1.6
Yukos	1.2
TNK-BP	1.2
Surgutneftegaz	1.1
Sibneft	0.6
Rosneft	0.4
Slavneft	0.4
<b>Total</b>	<b>8.49</b>

## The main Russian oil companies in 2005

Oil companies	Oil production in Mb/d
Lukoil	1.8
TNK-BP	1.5
Rosneft	1.5
Surgutneftegaz	1.3
Sibneft/Gazprom	0.9
Yukos	0.5
Slavneft	0.5
<b>Total</b>	<b>9.44</b>

# The teaching of the of Russian oil privatisation

**A powerful state and a strong legal system would be needed to control within the framework of private enterprise, a sector yielding important revenue and involving a small number of extremely powerful players, the only ones in the oil and gas sectors capable of funding and developing production.**

# The teaching of the of Russian oil privatisation

- ◆ The privatisation has not allowed to define a secure and complete system of private property rights : The weakness of the market institutions is the main explanation of this situation.
- ◆ The actors in the oil industry have develop cash stripping and asset stripping behaviours => an unbalanced management of the oil industry
- ◆ The State has not the tools to regulate the oil industry: problem of the weakness of the market institutions.

# An unbalanced management of the oil industry

- ◆ The maximisation of the oil production with the use of western technologies on the existing fields : a short term strategy
- ◆ Few investments in oil exploration : Since the mid-1990 and especially in recent years, additions to reserves have generally been less than production.

=> The future of the Russian oil production is uncertain.

# Evolution of the Russian oil production

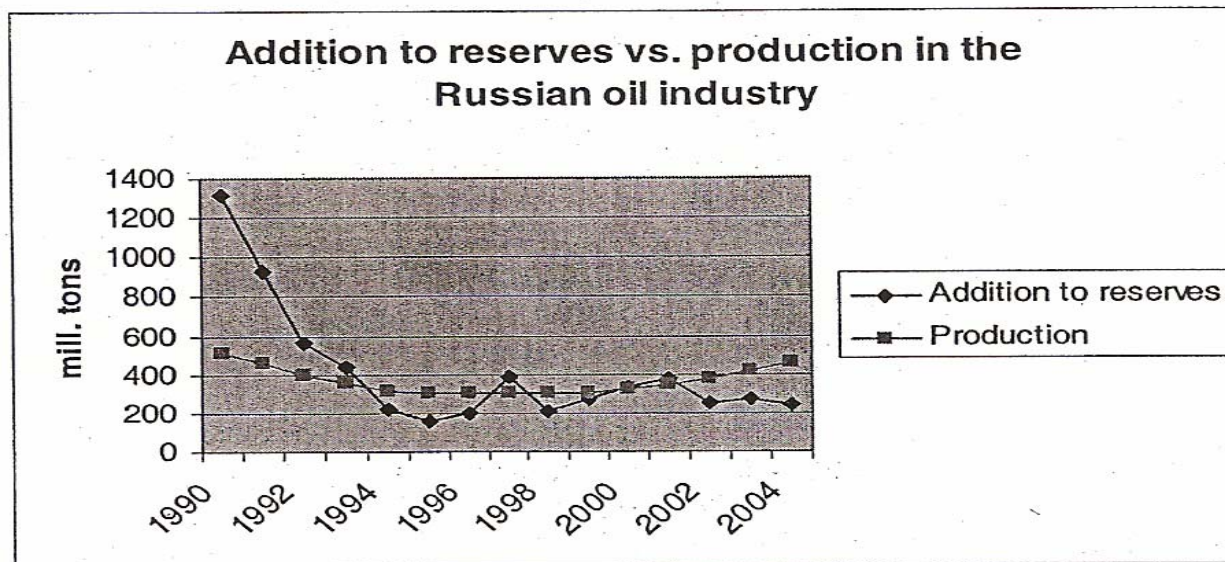
- ◆ 2000 : 6.49 Mb/d
- ◆ 2002 : 7.62 Mb/d
- ◆ 2003 : 8.49 Mb/d
- ◆ 2004 : 9.3 Mb/d
- ◆ 2005 : 9.44 Mb/d
- ◆ 2006 : 9.62 Mb/d

# The problem of exploration

- ◆ Yukos spent less than 2 % of its investment resources on exploration in 2000 and in 2002.
- ◆ The percentage was the same for Sibneft
- ◆ It was 5 % for TNK.
- ◆ Only Lukoil and Surgutneftegaz have maintained in some respect significant exploration investment.

# Addition to reserves vs production in the Russian oil industry

Figure 3. Addition to reserves vs. production in the Russian oil industry



Source: P. V. Sadovnik, 2005: "Osnovnye raboty federalnogo agenstva po nedropolzovaniyu v chasti uglevodorodnogo syr'ya i podzemnykh vod v 2004 g. i zadachi na 2005 g.," *Mineralnye resursy Rossii – ekonomika i upravleniya*, 2, pp. 20–26.

# The Russian oil production forecasts

<b>Mb/d</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>
<b>Yukos</b>	11.0		11.0
<b>Long term energy plan: 2003</b>	8.5	7.2-9.8	6.3-10.4
<b>Ministry of Foreign Affairs: 2002</b>	5.6	5.6	
<b>IEA, 2004</b>	10.4		10.6

# Privatisation of the oil industry : some conclusions

1. The future of the oil industry in the long term remains uncertain
  2. The State has not the right tools to regulate the oil industry
- ⇒ We have a private appropriation of the oil rent.
  - ⇒ The viability of the oil industry in the long term needs some important evolutions in the Russian model.
  - ⇒ The problem: find the right incentives to modify the asset and cash stripping behaviours

# The main hypothesis

- ◆ The creation of an oil and company mainly controlled by the State is a mean to offset the weakness of the market institutions. It is also a mean to create new incentives in the oil industry in order to have a more balance development in this sector.

# The new « Russian oil and gas model »

- ◆ Different types of ownership rights : public and private ownership rights (the ownership of Gazprom : 51% State ; 49 % private investors).
- ◆ Strict State control over oil and gas reserves
- ◆ Internationalisation of the Russian oil and gas companies

=> The aim of the Russian State is to create oil and gas companies able to compete with the biggest international oil companies.

# Implications for the international oil companies

- ◆ Access to Russian oil and gas reserves will be difficult :
  - Limited access and on some specific projects
  - With the contribution a Russian actor : example of Sakhaline II and Shell

# A new approach in the development of the world oil and gas industries ?

◆ Russia tries to promote a new model : « Assets againts Assets » (example of Shtokman) :

=> The international oil companies These could be developed some Russian oil and gas fields in exchange of assets in the western companies (like distribution gas companies in the European market)