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# Oil industry investments

*comments by Arild Moe*

OECD-Russia expert meeting on Russia's investment policy:  
Recent trends and spotlight on energy

Moscow, 9 April 2008

# Investment patterns in the Russian oil industry: Tendencies

- Call for more investment in E&P
- Low investments in E&P despite available capital
- Company preference for purchase of assets
- No big difference between private and state controlled companies

# Explanations

- Uncertain property rights
  - Risk of withdrawal of licenses
  - Insufficient protection of investments in exploration
  - Property status of infrastructure not clear
  -
- Lack of incentives and regulatory framework favouring long-term investment
  - Tax incentives small – deduction of development costs
  - Underlying problem: Outdated technical regulation to establish costs



# Explanations cont'd

- Lack of independents and venture capital adds to the problem
- Decision-making structure in the companies
  - Strong centralisation => standardized approaches
  - Augmented by soviet legacy and by short term priorities of leading shareholders
  - A risk-averse environment?
- Most explanations apply to state dominated as well as private companies



- Investment policy must be integrated with a resource management policy
  - Licensing
  - Competition
  - Technology policy
  - Tax policy

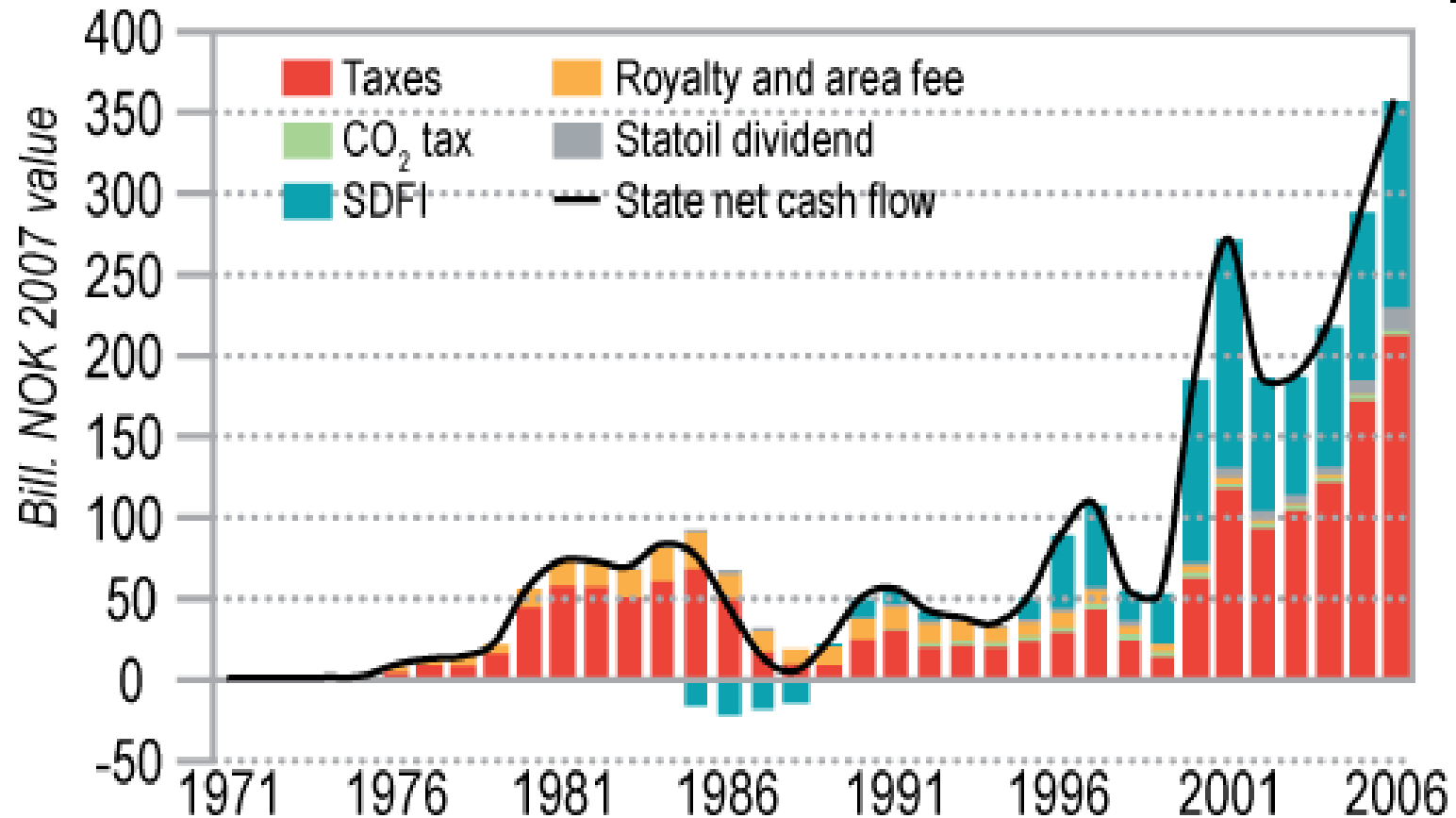


# The Norwegian experience: Investment incentives in new areas

- Investors' willingness to take high economic risks depends on trust in the general conditions in Norway
  - Protection of property rights
  - Independent courts
  - High transparency in public decision-making
    - => Low political risk
- Flexibility: Adjustment of tax rates
  - The role of the oil price
    - => Negotiation power changes over time
- State takes a major share of investments
  - As tax deductions, and
  - as direct financial participation (SDFI)



# State revenues from the Norwegian petroleum sector



Source: Ministry of Petroleum and Energy

Thank you for your attention!

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