



Russia's energy investment policy in light of the OECD Policy Framework for Investment

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Main points

- **Why Russia needs an investment strategy for the energy sector?**
- **What can the OECD Policy Framework for Investment offer to enhance Russia's investment policy in the energy sector?**

The energy sector in Russia's economy

- **Domestic economy**
 - 30% of GDP
 - 50% of budget revenues
 - 60% of export earnings
- **External economic relations**
 - world major oil and gas producer and exporter
 - 20% of inward FDI stock; growing outward investment
- **Main challenges**
 - supply: more difficult exploration and production conditions
 - demand: increasing domestic energy consumption and high energy intensity
 - market structure: dominance of large state-controlled energy firms

Implications for investment policy

- **Financial resources**: domestic resources significant but not sufficient to cover huge needs
- **Managerial and technical expertise**: increasing technological challenges (in oil and gas downstream & upstream)
- **Energy transport**: existing facilities have to be modernised and diversified
- **Market structure**: impact of state-controlled energy groups on competitive environment

What role for the government?

- **Overall investment strategy**
 - public/private investment
 - domestic/foreign investment
 - regional and sectoral aspects
- **Policy coherence**
 - policy areas to be taken into account: tax, competition, corporate governance
- **Policy co-ordination**
 - among different governmental agencies
 - among different levels of government
 - international co-operation

What is the OECD Policy Framework for Investment (PFI)?

Based on good practices of OECD and non-OECD countries to enhance the investment climate:

- **Policy guidance:** a checklist of issues/questions in 10 policy areas to be taken into consideration when developing coherent investment policy
- **An evaluation tool** to assess investment policy implementation

10 PFI Policy Areas

1. **Investment policy**
2. **Investment promotion and facilitation**
3. **Trade policy**
4. **Competition policy**
5. **Tax policy**
6. **Corporate governance**
7. **Policies for promoting responsible business conduct**
8. **Human resource development**
9. **Infrastructure and financial sector development**
10. **Public governance**

Possible applications of the PFI

- Country (self) evaluation: Vietnam – a “diagnostic” tool used to identify policy priorities
- Evaluation tool for the investment policy reviews carried out within the adherence to the OECD Declaration on International Investment and Multinational Enterprises: Egypt and Peru
- Sectoral application: used for Russia’s energy investment policy

General insights

- **Sector-specificities:** significant initial investment costs, usually long-term returns on investment and volatility of world energy prices – all these aspects have to be taken into account when designing energy investment policy
- **General policy aspects** having the major impact on energy investment:
 - Investment policy: transparent and as much as possible stable legal framework in place, equal treatment of investors for property rights, contract enforcement
 - Competition policy: price structure reflecting costs, market structure
 - Tax policy: transparent and predictable tax regime and administration
 - Corporate governance: especially important if dominance of SOE

Russia's specific aspects

- **Heterogeneous policy approach adopted in different energy sub-sectors:** oil and gas (dominant state ownership and control) versus electricity production and distribution (opening to private/foreign operators/investors)
- **Dominance of state-controlled enterprises:** implications for competition policy and corporate governance
- **Energy infrastructures:** their key role in future development
- **Policy coherence:** not always ensured among all policies and at all governmental levels

Examples of PFI policy areas

● Competition policy

- adequate competition laws and resources for competition authorities
- addressing anti-competitive practices by incumbent enterprises, including state-owned enterprises

● Corporate governance

- information disclosure on corporate governance
- equitable treatment of all shareholders
- the ownership function of state-owned enterprises

● Tax policy

- tax burden and its consistency with the investment attraction strategy
- tax compliance costs, tax administration

Infrastructure development

- **Infrastructure development in the PFI**
 - tenders: transparency and procedural fairness for all investors
 - protection of investors from unilateral changes in contract terms and conditions
- **Principles for Private Sector Participation in Infrastructure (2007)**
 - why and when to involve the private sector
 - enabling institutional and regulatory environment for investment
 - effective working partnership: disclosure and complaints procedures
 - responsible business conduct of the private sector participants

Government's action - main insights from the PFI

- **Policy coherence**
 - investment strategy
 - stable & transparent regulatory and institutional framework
 - impact assessment and evaluation of enforcement
- **Policy co-ordination**
 - private-public dialogue and consultations
 - national level: agencies, sub-national authorities
 - Inter-governmental co-operation
- **Partnership with the private sector**
 - role of the private sector in infrastructure development
 - sound framework and incentives to achieve right balance between the legitimate private sector's concerns and public goals