



RUSSIA: INVENTORY OF ESTIMATED BUDGETARY SUPPORT AND TAX EXPENDITURES FOR FOSSIL-FUELS

Energy resources and market structure

Russia holds the world's largest proven reserves of natural gas (47.8 trillion cubic metres as of January 2013, representing about a quarter of the world's total) and the world's second largest proven reserves of coal. In the case of oil, the country's proven reserves were estimated at 80 billion barrels as of January 2013, with daily production of crude oil averaging 9.9 million barrels in 2012, which made Russia the world's third largest oil producer after Saudi Arabia and the United States. Russia is also the world's second largest producer of natural gas (after the United States) but a relatively smaller producer of coal, with about 353 million tons extracted in 2012, mostly in the form of hard coal. The bulk of fossil-fuel reserves are located in Western Siberia, though some are also found in remote places like East Siberia, Sakhalin Island, and the Arctic.

Oil and natural-gas extraction plays a fundamental role in the Russian economy. The contribution of the hydrocarbon sector (both upstream and downstream) thus represents about a quarter of the country's GDP while the Federal Customs Service reports that fossil fuels accounted for as much as 73% of Russia's exports in 2012. This major contribution of fossil fuels is similarly reflected in the country's energy mix, where natural gas accounts for about 54% of total primary energy supply (TPES), petroleum products 22%, and coal a further 16%. Other energy sources of importance include nuclear power (6%) and hydro-electricity (2%) while remaining renewable sources account for less than 1%. Electricity generation offers a similar picture, with natural gas representing as much as 50% of total power generated, followed by nuclear energy, hydro-power, and coal (16% each). Petroleum products and renewables account for the remaining 2%.

As of January 2011 there were 325 oil-extracting companies operating in Russia, 145 of which were subsidiaries of the eight vertically-integrated domestic majors: state-owned Rosneft and Gazprom Group (including Gazprom itself and its oil subsidiary Gazpromneft), LUKOIL, TNK-BP, Surgutneftegaz, Tatneft, Bashneft, and Rusneft. Gazpromneft and TNK-BP also jointly own Slavneft. Most of Russia's refining capacity is in the hands of these vertically-integrated groups, with Rosneft controlling the country's largest refinery in Angarsk. Natural-gas production in Russia is much more concentrated as state-owned Gazprom still accounts for almost 80% 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 exports¹, most of which are destined to CIS and EU member countries. LNG is also exported from Sakhalin to East Asia.

In line with its geographic size, Russia possesses eight different regional power systems, seven of which are inter-connected. The country also exports significant amounts of electricity to countries in Central and Eastern Europe. While power 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).

¹ Russia's 2006 federal law on gas exports establishes the monopoly of state-owned Gazprom over exports of dry natural gas from Russia. Independent producers (who account for about 20% of total production) must either sell dry gas on the domestic market or liquefy it for export in the form of LNG. See Federal Law No.117 of 18 July 2006 on Gas Exports [ФЗ №117 от 18 июля 2006 г. "Об экспорте газа"].

Prices, taxes and support mechanisms

While officially prices for petroleum products in Russia are deregulated and set by the market, in practice the government often intervenes to limit price increases, most notably through the use of export taxes. This was the case in 2011 when the government reacted by imposing a prohibitive export tax on gasoline (set at more than USD 0.50 per litre) to remedy fuel shortages in the domestic market. More recently, in 2012 Russian authorities negotiated with oil companies a temporary price freeze that capped gasoline prices at their December 2011 levels. As could be expected, those measures have had the effect of reducing the revenues Russian oil companies collect through sales of fuel.

Despite government plans to liberalise the natural-gas market, domestic gas prices remain largely regulated in Russia. In 2006, the federal government announced that domestic gas prices would be raised to European netback levels by 2011. However, in the face of rising oil prices, the authorities instead decided to freeze tariffs from 2011 till 2012, and postponed the targeted increase until 2014-15. As of February 2014, the government was again considering delaying it further until 2017-18. Natural-gas prices have, nonetheless, risen considerably since 2006, increasing at an annual rate of 17 % between 2006 and 2011 in the case of industrial consumers. As of early 2014, domestically traded gas remained, however, twice as cheap as the comparative netback price according to estimates from the Federal Tariff Service (FTS). During the first half of 2013, natural-gas tariffs charged by Gazprom averaged RUB 3 506 (USD 107) and RUB 2 793 (USD 85) per thousand m³ (excluding VAT) for industrial customers and households respectively.

Electricity tariffs, which are closely related to natural-gas prices, 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 FTS and the Ministry of Economic Development (MED) through measures such as prices caps and cross-subsidies benefitting certain residential consumers. In 2011, for instance, the government intervened to limit annual electricity price increases for residential consumers to 15 % in response to growing network charges. Meanwhile, the Ministry of Energy estimates the total cross-subsidies from industrial and commercial consumers to residential consumers at around RUB 207 billion a year (USD 5.8 billion). This results in residential retail tariffs for electricity that are much lower than the OECD average.

Despite its vast and diversified territory, Russia's taxation system is highly centralised as the majority of taxes on energy production and use remain levied at the federal level. Regions only have limited authority over instruments such as the corporate profit tax and excise duties though they do control property and land taxes. Taxes on mineral-resource extraction and export duties together account for most of Russia's taxes on energy production. The current tax on mineral resource extraction (MET) was introduced in 2002 and is based on the physical quantities of hydrocarbons extracted. Rates vary by type of resource and with changes in the world price of oil and forecasted inflation. For 2013, those rates were RUB 470 (USD 14) per tonne of oil and RUB 265 (USD 8) per thousand m³ of natural gas. Export duties are also levied on most exports of petroleum products and natural gas at rates that are adjusted by the Russian government on a monthly basis.

Normal value-added tax (VAT) is levied on most domestic sales of energy products at the standard rate of 18%. In addition, Russia applies excise duties at the federal level on a specific range of fuels (i.e. diesel fuel, gasoline, naphtha, and heating oil) that are further differentiated by their octane rating. As of July 2013, specific rates of excise were RUB 5 860 (USD 177) per tonne of diesel fuel and heating oil, RUB 10 100 (USD 305) per tonne of low-octane gasoline, and RUB 5 750 (USD 174) per tonne of high-octane gasoline. Other energy products such as kerosene or heavy fuel oil are not subject to federal excise duties.

The bulk of support to fossil fuels in Russia goes to producers of oil and natural gas such as Rosneft, Gazprom or LUKOIL. One large group of measures consists of partial or full exemptions from the federal extraction tax benefitting certain fields in particular regions. Prominent examples include temporary tax exemptions for fields located around East Siberia (e.g., the Yakutia and Irkutsk regions), the Sea of Azov, the Caspian, and in the Yamalo-Nenets autonomous district (*okrug*). Other measures encouraging the extraction and processing of hydrocarbons would comprise a property-tax exemption for trunk oil and gas pipelines and direct support from the federal government for developing an oil-refining and petrochemicals complex in Nizhnekamsk (Republic of Tatarstan).

On the consumption side, the federal government used to negotiate lower fuel prices for agricultural producers directly with oil-refining companies but this support mechanism was phased out starting in 2013. Meanwhile, 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 IEA estimates that these tariffs resulted in subsidies worth about USD 18 billion and USD 22 billion for electricity and natural gas respectively in the year 2011 (IEA, 2012).

Data documentation

General notes

Although Russia is a federation comprising 83 sub-national jurisdictions², a cursory review of regional policies suggests that the overall value of sub-national support for fossil fuels is much less significant than that of federal support. This is partly because Russia possesses a highly centralised budgetary and fiscal system, which acts to limit the amounts of support that can be provided by the country's provinces, republics, districts, and territories. While there exist a few regional spending programmes that provide targeted support to the local oil and natural-gas industry (e.g., support for exploration and research activities or expenditure in relation to environmental liabilities), beneficiaries tend to be small- or medium-sized companies receiving small amounts of support.

Regional government ownership of upstream oil and gas enterprises is very limited. More common is the ownership of electric-power utilities by these governments. However, even though this ownership results in considerable decision-making power over the purchase of natural gas as fuel for electricity generation, transactions are generally market-driven while natural-gas prices remain regulated at the federal level (see "Prices, taxes and support mechanisms" above). The measures listed in this inventory are therefore predominantly federal ones despite the fact that Russia comprises a large number of sub-national jurisdictions.

The fiscal year in Russia coincides with the calendar year.

Methodological note

A large part of support to fossil fuels in non-OECD countries (and in a few member countries such as Mexico) takes the form of price controls or regulations benefitting final consumers. In many cases, this occurs through the government mandating that state-owned oil and gas companies charge lower retail prices, thereby lowering the revenues these companies collect through sales of fuel. This often results in the government subsequently intervening to compensate state-owned oil and gas companies for the

² The Russian federation currently consists of 46 *oblasts* (provinces), 21 republics, 9 *krais* (territories), 4 autonomous *okrugs* (districts), 2 federal cities (Moscow and Saint Petersburg), and one autonomous *oblast*, for a total of 83 sub-national jurisdictions.

losses they incurred in the downstream sector due to the regulated prices, with this compensation taking many forms. Some governments choose, for example, to compensate national oil and gas companies through targeted tax concessions (e.g., VAT exemptions) or equity injections.

At present, this inventory does not attempt to estimate the amounts of support that regulated prices generate, and instead focusses on direct budgetary transfers and tax expenditures, including those benefitting national oil and gas companies. For that reason, some of the measures classified here under “Producer Support Estimate” may have been introduced by governments with a view to compensating domestic, vertically integrated oil and gas companies for the lower prices they are required to charge, resulting in these measures being connected to some extent to consumer support.

Estimates of the support directly conferred to final consumers by regulated prices are, however, available from the International Energy Agency (IEA), which estimates these induced transfers as part of its annual “World Energy Outlook” publication. Readers are therefore advised not to compare or add together the OECD and IEA estimates given the significant risk of overlap and double-counting this involves.

Producer Support Estimate

Readers are advised that some fiscal measures related to oil and natural-gas production may not constitute tax expenditures under an alternative baseline where resource taxes (or production taxes) vary with market conditions and production costs. This inventory uses the annual amounts of tax expenditures as reported by the Ministry of Finance of the Russian Federation or other government agencies.

Government Investment into the Nizhnekamsk Plants (data for 2008-2010)

This measure consists of grants by the federal government that were provided between 2008 and 2010 for developing an oil-refining and petrochemicals complex in Nizhnekamsk (Republic of Tatarstan). Funding for the project was split between the private sector and the federal government through an investment fund set up in 2006 (the Investment Fund of the Russian Federation), with the objective being to improve refining capacity and supporting infrastructure (e.g., railroad and pipelines).

Data on public funds come from annual reports on the execution of the federal budget by the Federal Treasury for the years 2008-10. We then allocate those annual amounts to bitumen, diesel fuel, kerosene-type jet fuel, LPG, gasoline, and heavy fuel oil on the basis of the IEA’s Energy Balances for Russia’s oil-refining sector.

Sources: Government of the Russian Federation [Правительство РФ] (2006), Federal Treasury of Russia [Федеральное казначейство России] (various years), IEA.

Tag: RUS_dt_01

Temporary Exemption from Export Customs Duty for Oil Produced in East Siberia (no data available)

In December 2009 the federal government decided to suspend the collection of export duties for oil produced from certain newly-developed onshore fields in East Siberia. This temporary exemption from export duties was meant to encourage the further development of these new fields and the transportation of their oil output through the East Siberia-Pacific Ocean pipeline for delivery to China and other East-Asian consumers.

In practice, the Russian government sets export duties in East Siberia on the basis of individual fields' profitability and world oil prices. This resulted in the duties being effectively waived for 13 newly-developed onshore fields in December 2009 and nine others in January 2010. Subsequent increases in world oil prices have since led the federal government to reinstate export duties on these fields, though at a reduced rate.

While there are no official estimates of the revenue foregone due to this temporary exemption, independent studies using the standard rates of export duties as baseline suggest that the costs for the Russian government could have reached USD 130 million for 2009 and USD 4 billion for 2010 (Gerasimchuk, 2012).

Sources: Decision of the Commission of the Customs Union № 510 of 8 December 2010 [Решение Комиссии Таможенного Союза № 510 от 8 декабря 2010], RIA Novosti (2011a, 2011b, 2011c), RBC (2013), Gerasimchuk (2012).

Temporary Exemption from Export Customs Duty for Oil Produced in the Caspian Sea (no data available)

As is the case for oil produced from certain fields in East Siberia, the Russian government decided in December 2010 to suspend the collection of export duties for oil produced from selected newly-developed offshore fields in the Caspian Sea. Two such fields are at present eligible for the exemption (Korchagin and Filanovskiy).

While there are no official estimates of the revenue foregone due to this temporary exemption, independent studies using the standard rates of export duties as baseline suggest that the costs for the Russian government could have reached USD 2 million for 2010 (Gerasimchuk, 2012).

Sources: Decision of the Commission of the Customs Union № 510 of 8 December 2010 [Решение Комиссии Таможенного Союза № 510 от 8 декабря 2010], RBC (2010), Gerasimchuk (2012).

Exemption from Extraction Tax for Technological Losses Incurred during Extraction (data for 2009-2010)

This measure provides oil and natural-gas companies operating in Russia with full exemptions from the extraction tax for the amounts of commercial minerals (including crude oil, condensate, and natural gas) lost during the extraction process. Those amounts have to be within technologically-acceptable limits approved by the responsible governmental agency and can sometimes be relatively large where capital equipment is obsolete.

Official estimates of the revenue foregone due to this tax expenditure are only available for crude oil and are taken from the Tax Policy Guidelines for 2009–11, in which the Ministry of Finance proposed to phase out this exemption. The measure was, however, still applicable as of July 2013.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ], Ministry of Finance of the Russian Federation [Минфин России] (n.d.), Ministry of Natural Resources and Environment of the Russian Federation [Минприроды России] (2011).

Tag: RUS_te_01

Exemption from Extraction Tax for Associated Gas (no data available)

This measure allows oil companies operating in Russia to benefit from exemptions from extraction tax for the amounts of associated natural gas they produce. It is estimated that Russia produces every year

between 40 and 60 billion m³ of associated gas as part of the oil-extraction process, most of which ends up being flared rather than processed and used. While there have been proposals to discourage the flaring of associated natural gas through increased rates of extraction tax, no legislative amendments have been made to date. Technical regulations were, however, adopted in 2011 that seek to increase the utilisation rate of associated gas.

Although there are no official estimates of the revenue foregone due to this exemption, independent studies suggest that the costs for the Russian government could range between USD 60 million and USD 190 million a year (Gerasimchuk, 2012).

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ], Gerasimchuk (2012).

Tax Holidays for Newly-Developed Oilfields in Specific Regions (data for 2010-)

This measure groups together different tax holidays that have been granted to oil producers exploiting certain fields in specific regions of Russia starting in January 2007. Tax holidays take the form of relief against the country's federal extraction tax and concern newly-developed fields in three different regions: East Siberia, the Sea of Azov and the Caspian, and the Yamalo-Nenets autonomous districts in the North.

Tax holidays in East Siberia were first introduced in January 2007 and concentrate on onshore fields located in the Republic of Sakha (Yakutia), in the Territory of Krasnoyarsk, and around Irkutsk. Exemptions remain valid for a period of 10 years after a field's exploitation has started (15 years in the specific case of licenses for simultaneous geological survey and production) and last until cumulative output reaches 25 million tonnes. Of the 13 oil fields that were initially eligible for the exemptions, only the Vankorskoe field has since ceased to attract support as its cumulative output now exceeds 25 million tonnes. In the particular case of East Siberia, tax holidays are presumably meant to encourage the development of fields located in regions where climate conditions impose additional costs on producers.³

Similar exemptions from extraction tax were introduced in January 2009 for certain offshore fields in the Sea of Azov and in the Caspian, though with a limit on cumulative output of 10 million tonnes and a validity period of seven years (12 years in the specific case of licenses for simultaneous geological survey and production). The Korchagin field in the Caspian has to date been the main beneficiary of this provision.

Another set of exemptions also benefits oil companies producing from certain fields located around the Yamal Peninsula and in the Nenets autonomous district (*okrug*). In that case, the exemptions are valid for a period of seven years (12 years in the specific case of licenses for simultaneous geological survey and production) and last until cumulative production reaches 15 million tonnes.

Total estimates of the revenue foregone due to all these exemptions come from budget documents and are entirely allocated to crude oil.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ], Ministry of Finance of the Russian Federation [Минфин России] (2010).

³ The Republic of Sakha is known for being the Northern hemisphere's "pole of cold", with record temperatures there having reached levels comprised between -60°C and -70°C.

Tag: RUS_te_02

Exemption from Extraction Tax for Super-Viscous Oil (no data available)

This provision was introduced in 2007 to exempt production of super-viscous oil in Russia from the country's federal extraction tax. Super-viscous oil is here defined as oil having a viscosity exceeding 200 mPa s.⁴

While there are no official estimates of the revenue foregone due to this exemption, the amounts of support it gives rise to are likely small since annual production of super-viscous oil in Russia amounts to about 25 thousand tonnes only. Independent studies suggest that the costs for the Russian government are in the neighbourhood of USD 2 million a year (Gerasimchuk, 2012).

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ], Gerasimchuk (2012).

Tax Holidays for Newly-Developed Offshore Oilfields North of the Arctic Circle (data for 2009-)

The federal government decided in January 2009 to grant tax holidays against the extraction tax 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. The tax concessions remain valid for a period of 10 years after a field's exploitation has started (15 years in the specific case of licenses for simultaneous geological survey and production), and are meant to compensate for the challenges faced by oil companies operating in the Arctic.

As of June 2013, no commercial offshore oil production had started north of the Arctic Circle, hence the annual amounts of support reported are nil. The Gazprom group is, however, expected to start exploiting the Prirazlomnoe field in the Pechora Sea in late 2013.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ].

Tag: RUS_te_03

Tax Holidays for New Offshore Oilfields in the Black and Okhotsk Seas (data for 2012-)

This measure comprises a set of exemptions from Russia's extraction tax that aims to encourage the development of new oil fields located in the Black and Okhotsk seas. It was introduced by the federal government in January 2012 on a temporary basis and applies until a field's cumulative production reaches 20 million tonnes (30 million tonnes for fields located in the Sea of Okhotsk). The tax concessions remain valid for a period of 10 years after a field's exploitation has started (15 years in the specific case of licenses for simultaneous geological survey and production).

While no support is reported for the year 2012, this will change in future years as new fields come on stream in the two areas concerned by this measure.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ].

Tag: RUS_te_04

⁴ Millipascal-seconds (mPa s) are a standard unit of dynamic viscosity.

Tax Holidays for Newly-Developed Onshore Oilfields North of the 65th Latitude (data for 2012-)

This measure was introduced in January 2012 by the Russian government and complements other similar tax holidays by extending exemptions from extraction tax to certain newly-developed fields in the Yamalo-Nenets autonomous district (*okrug*) north of the 65th parallel.⁵ Exemptions apply until a field's cumulative production reaches 25 million tonnes and remain valid for a period of 10 years after a field's exploitation has started (15 years in the specific case of licenses for simultaneous geological survey and production).

While no support is reported for the year 2012, this will change in future years as new fields come on stream in the area concerned by this measure.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ].

Tag: RUS_te_05

Lower Coefficient of Extraction Tax for Investment into Exploration and Prospecting (data for 2010-)

This tax provision dates from January 2002 in its current form though an earlier version had been applied since 1992. It allows oil and natural-gas companies investing their own funds into exploration and prospecting to benefit from a reduced adjustment coefficient (0.7) when calculating their liabilities under the country's extraction tax. This coefficient normally adjusts rates of extraction tax based on a field's depletion and changes in world oil prices and exchange rates.

Although the measure applies to all commercial minerals (including crude oil, natural gas and condensate), official budget documents only report estimates in relation to crude oil.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ], Ministry of Finance of the Russian Federation [Минфин России] (2010, 2013).

Tag: RUS_te_06

Lower Coefficient of Extraction Tax for Oil Produced from Mature Fields (data for 2010-)

To increase the recovery of oil from mature fields, the federal government introduced in January 2007 a tax provision that lowers the standard coefficient used in adjusting rates of extraction tax. This reduced depletion coefficient ranges from 0.3 to 1 and serves to differentiate rates of extraction tax based on a field's cumulative output. Mature fields are here defined as fields having a cumulative output of more than 80% of oil reserves initially approved by Russia's Federal Agency for Subsoil Use. This provision concerns about 10% of all oil produced in Russia (i.e. 43 million tonnes in 2010) but not all eligible producers make use of it since it requires them to monitor production volumes closely.

Estimates come from official budget documents and are entirely allocated to crude oil.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ], Ministry of Finance of the Russian Federation [Минфин России] (2010).

⁵ This does not include fields located around the Yamal Peninsula, which have been subject to another set of exemptions since January 2009 (see "Tax Holidays for Newly-Developed Oilfields in Specific Regions" above).

Tag: RUS_te_07

Lower Coefficient of Extraction Tax for Oil Produced from New Small Fields (no data available)

To encourage the development of small oil fields, the federal government introduced in January 2012 a tax provision that lowers the standard coefficient used in adjusting rates of extraction tax. In this particular case, a reserve-volume coefficient has been applied since 2012 to differentiate rates of extraction tax based on a field's initial reserves as estimated by the country's Federal Agency for Subsoil Use. Small fields are here defined as fields having initial recoverable reserves of less than 5 million tonnes.

There are no official estimates of the revenue foregone due to this tax provision.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ].

Special Deductions for Oil Extracted in Tatarstan and Bashkortostan (no data available)

A series of special deductions from extraction tax were introduced by the Russian government in January 2012 to encourage the further development of oil fields located in the republics of Tatarstan and Bashkortostan (both located between the Volga river and the Ural mountains). Deductions are calculated taking into account eligible producers' liabilities with respect to export duties. Eligibility itself is contingent upon meeting certain criteria having to do with licensing and the amounts of initial recoverable reserves.

No official estimates are available for the year 2012 but Russia's Ministry of Finance expects the costs of these deductions to reach about RUB 10 billion in 2013.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ], Ministry of Finance of the Russian Federation [Минфин России] (2013).

Subsidies to Gazprom for the Sakhalin-Khabarovsk-Vladivostok Pipeline (data for 2011-)

To help extend Russia's natural-gas transmission network to the Far East of the country, the government is giving Gazprom subsidies to cover some of the costs associated with the construction of the Sakhalin-Khabarovsk-Vladivostok pipeline. To date, most of the energy used in Russia's Far East comes from locally mined coal and fuel oil, and efforts are now concentrating on increasing the share of natural gas there. Subsidies to Gazprom are financed using royalty revenues from the Sakhalin-1 and Sakhalin-2 offshore projects.

Estimates come from official budget documents and are entirely allocated to natural gas.

Sources: Ministry of Finance of the Russian Federation [Минфин России] (2011), Bayazitova (2010), Gazprom.

Tag: RUS_dt_02

Exemption from Extraction Tax for Natural Gas Used in Gas Cycling (no data available)

This measure was introduced in 2011 to increase the recovery of condensate from existing wells through re-injection of natural gas into reservoirs to maintain their pressure (a process known as "gas

cycling”). Under this provision, the amounts of natural gas re-injected into reservoirs are fully exempted from extraction tax.

There are no official estimates of the revenue foregone due to this tax provision.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ].

Tax Holidays for Gas and Condensate Produced on the Yamal Peninsula (data for 2012-)

This provision was introduced in January 2012 by the federal government to encourage the development of natural-gas and condensate fields located around the Yamal Peninsula and the transformation of their output into LPG. The measure provides companies operating in the region with exemptions from extraction tax until a field’s cumulative output reaches 250 billion cubic metres for natural gas (20 million tonnes for condensate). Exemptions remain valid for a period of 12 years after a field’s exploitation has started.

The measure benefits primarily NOVATEK, a private company that develops the Yuzhno-Tambeyskoe gas-condensate field and is constructing a gas-liquefaction complex on the Yamal Peninsula. Three trains are scheduled to be launched in 2016, 2017, and 2018 respectively.

While no support is reported for the year 2012, this will change in future years as new fields and liquefaction plants come on stream in the area concerned by this measure.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ], Gerasimchuk (2012), Visloguzov (2011).

Tag: RUS_te_08

Differentiated Rate of Extraction Tax for Coal (no data available)

This measure came into force in April 2011 to encourage domestic coal production. It consists of a series of amendments to Russia’s federal Tax Code⁶ that serve to differentiate rates of extraction tax based on the type of coal extracted and mining costs. The Ministry of Finance estimates that this measure has since 2011 reduced revenues from the extraction tax but increased coal production (Interfax, 2012).

No official estimates are available for the year 2012 but Russia’s Ministry of Finance expects the costs of this measure to reach about RUB 2.7 billion in 2013.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ], Ministry of Finance of the Russian Federation [Минфин России] (2013), Interfax [Интерфакс] (2012).

Deductions for Investment in Occupational Safety and Health Protection (no data available)

Coal producers investing in occupational-safety and health-protection equipment in Russia can deduct the amounts invested from their extraction-tax liabilities. This measure was introduced in January 2012 by the federal government. Deductible costs are calculated taking into account the relevant and verifiable expenditures incurred and a mine’s methane content and other hazard factors.

⁶ Federal Law № 425 of 28 December 2010 [Федеральный закон N 425-ФЗ от 28 декабря 2010].

There are no official estimates of the revenue foregone due to this tax provision.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ].

Exemption from Extraction Tax for Fossil Fuels Recovered from Off-Spec Reserves and Slimes (no data available)

Under the Russian Federation's Tax Code, fossil fuels recovered from "off-spec" deposits and slimes are exempted from extraction tax. This measure was introduced in its current version alongside the mineral resource extraction tax (MET) in January 2002.

There are no official estimates of the revenue foregone due to this tax provision. However, the amounts involved are likely small given that the measure has not been very successful to date. Fossil fuels recovered from off-spec deposits and slimes remain negligible in Russia.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ], Gerasimchuk (2012).

Property-Tax Exemption for Trunk Oil and Gas Pipelines (no data available)

This measure exempts certain oil and natural-gas pipelines from the property tax usually levied by sub-national jurisdictions in Russia. The rate of property tax normally amounts to 2.2% of the annual average value of the assets covered by the tax. Although property tax is one of the few taxes falling under the responsibility of sub-national jurisdictions in Russia, this particular exemption for trunk oil and gas pipelines was decided at the federal level⁷ in order to encourage infrastructure investment and limit increases in energy tariffs.

Although there are no official estimates of the revenue foregone due to this exemption, independent studies suggest that the costs for the Russian government may amount to about RUB 60 billion per year (Tovkailo and Sterkin, 2011).

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ], Tovkailo and Sterkin (2011).

Deduction of Technological Losses Incurred during Extraction and Transportation under the Profit Tax (no data available)

This measure provides mining companies operating in Russia with full exemptions from profit tax for the amounts of commercial minerals (including crude oil, condensate, and natural gas) lost during the extraction and transportation process. Those amounts have to be within technologically-acceptable limits approved by the responsible governmental agency⁸ and can sometimes be relatively large where capital equipment is obsolete.

The profit tax in Russia was introduced in 1992 and is levied at a maximum rate of 20% of taxable income (i.e. a taxpayer's total income minus allowable deductions and expenses), of which only 2% finance the federal budget. The remaining 18% are collected by sub-national jurisdictions who are then

⁷ See Federal Government decree No.504 of 30 September 2004 [Постановление Правительства РФ N 504 от 30 сентября 2004 г.].

⁸ In the case of oil and gas, responsible agencies are the Ministry of Energy and Industry in co-ordination with the Federal Agency for Subsoil Use (*Rosnedra*).

allowed to reduce this rate by up to 4.5%, resulting in a minimum 13.5% regional rate. Resource-rich regions in Russia generally make full use of this allowable reduction.

There are no official estimates of the revenue foregone due to this exemption.

Sources: Tax Code of the Russian Federation [Налоговый кодекс РФ], Ministry of Natural Resources and Environment of the Russian Federation [Минприроды России] (2012), Ministry of Finance of the Russian Federation [Минфин России] (n.d.).

Consumer Support Estimate

Regulated Prices for Combustibles and Lubricants Supplied to Agricultural Producers (data for 2009-2012)

Versions of this measure have been in place since the early 1990s to provide farmers in Russia with lower prices for their use of fuel (mostly diesel fuel, but also some gasoline). In practice, the Russian government directly negotiates price discounts with oil-refining companies twice a year during periods of sowing and harvesting. Discounts range between 10% and 30% depending on the region and the year but cannot be such that prices drop below production costs. Eligible agricultural producers are those designated by local authorities.

This practice was given a more formal basis in Regulation № 129 of the Government of the Russian Federation of 5 March 2010. However, the federal government has since decided to phase out this measure altogether starting in 2013. Support to farmers now takes the form of per-hectare subsidies that do not provide direct incentives for fuel consumption.

Data on the annual amounts of support to farmers that this measure gave rise to come from official statements of the Ministry of Agriculture. We allocate those estimates entirely to diesel fuel (the numbers for gasoline are negligible).

Sources: Ministry of Agriculture of the Russian Federation [Минсельхоз РФ] (2012), Government of the Russian Federation [Правительство РФ] (2010).

Tag: RUS_dt_06

General Services Support Estimate

Federal Budget Spending on Exploration and Prospecting for Coal (data for 2005-)

This measure comprises annual spending amounts disbursed by the federal government to finance the coal exploration and prospecting activities sponsored by Russia's Ministry of Natural Resources and Environment. The Ministry's Federal Agency for Subsoil Use (*Rosnedra*) and around 100 smaller entities are then responsible for commissioning the surveys. The resulting geological information is eventually made available to all parties (access fees have been waived since January 2011).

Spending is meant to support the federal government's long-term objectives in relation to the use of the country's underground mineral resources (see Ministry of Natural Resources and Environment of the Russian Federation, 2008). These include ensuring the access of future generations to the resources and monitoring and conserving the geological environment.

This measure is allocated to the GSSE since it benefits Russia's coal-mining sector as a whole and does not necessarily increase current production or consumption of fossil fuels. We use production data from

the IEA's Energy Balances to allocate the annual amounts reported by the Ministry of Natural Resources and Environment to the various types of coal concerned (bituminous and sub-bituminous coal, lignite, and coking coal).

Sources: Federal Agency for Subsoil Use of Russia [Роснедра] (2010), Ministry of Natural Resources and Environment of the Russian Federation [Минприроды России] (2008, 2012), IEA.

Tag: RUS_dt_03

Subsidies to Coal-Mining and Processing Organisations for Environmental Liabilities (data for 2008-)

This measure comprises payments made by the federal government to coal-mining and processing organisations to cover part of their expenditures in relation to the remediation of damages caused by mining activities (e.g., land subsidence). Subsidies can reach up to 50% of the expenditures incurred by those organisations. The Russian Ministry of Energy and Industry has responsibility over the allocation of payments.

This measure is allocated to the GSSE since it benefits Russia's coal-mining sector as a whole and does not necessarily increase current production or consumption of fossil fuels. We use production data from the IEA's Energy Balances to allocate the annual amounts reported by Russia's Federal Treasury to the various types of coal concerned (bituminous and sub-bituminous coal, lignite, and coking coal).

Sources: Federal Treasury of Russia [Федеральное казначейство России] (various years), Ministry of Energy and Industry of the Russian Federation [Министерство энергетики России] (2010), IEA.

Tag: RUS_dt_04

Federal Budget Spending on Exploration and Prospecting for Hydrocarbons (data for 2005-)

Similar to the corresponding measure for coal (see "Federal Budget Spending on Exploration and Prospecting for Coal" above), this programme consists of payments by the federal government to finance the hydrocarbon exploration and prospecting activities sponsored by Russia's Ministry of Natural Resources and Environment. The Ministry's Federal Agency for Subsoil Use (*Rosnedra*) and around 100 smaller entities are then responsible for commissioning the surveys. The resulting geological information is eventually made available to all parties (access fees have been waived since January 2011).

Spending is meant to support the federal government's long-term objectives in relation to the use of the country's underground mineral resources (see Ministry of Natural Resources and Environment of the Russian Federation, 2008). These include ensuring the access of future generations to the resources and monitoring and conserving the geological environment.

This measure is allocated to the GSSE since it benefits Russia's oil and gas industry as a whole and does not necessarily increase current production or consumption of fossil fuels. We use production data from the IEA's Energy Balances to allocate the annual amounts reported by the Ministry of Natural Resources and Environment to the various hydrocarbons concerned.

Sources: Federal Agency for Subsoil Use of Russia [Роснедра] (2012[a]), Ministry of Natural Resources and Environment of the Russian Federation [Минприроды России] (2008, 2012), IEA.

Tag: RUS_dt_05

Federal Budget Spending on Research and Education Related to Fossil Fuels (no data available)

The federal government of Russia funds several state-owned research and educational institutions around the country that, to some extent, specialise in activities benefitting the fossil-fuel industry. Examples include the Gubkin Russian State University of Oil and Gas (in Moscow), the Saint Petersburg Mining Institute, All-Russia Scientific and Research Geo-Exploration Institute (in Saint Petersburg), Tyumen State Oil and Gas University, and Ufa State Petroleum Technological University. Funding for those institutions comes from both the federal government and the private sector, and serves to conduct basic and applied research and staff training in the area of fossil-fuel extraction.

Annual appropriations directly benefitting research and training programmes related to fossil-fuel extraction could not be distinguished from those funding other programmes not related to fossil fuels. Estimates are therefore not available at the required level of disaggregation. This measure is allocated to the GSSE since it benefits Russia's fossil-fuel sector as a whole and does not necessarily increase current production or consumption of fossil fuels.

Sources: Federal Agency for Subsoil Use of Russia [Роснедра] (2012[b]).

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