



OECD Policy Framework for Investment – What is there for Russia investment policy in the energy sector?

**Seminar on “Recent developments in Russia’s
investment environment and policy”**

Helsinki, 21-22 November 2007

**Blanka Kalinova, OECD, Directorate for Financial &
Enterprise Affairs, Investment Division**

Main points

- **Why Russia needs an investment strategy for the energy sector?**
- **What should be the main elements of Russia's investment policy?**
- **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
 - dominance of large energy firms
- **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: growing state involvement through state-controlled companies

Implications for investment policy

- **Financial resources**: domestic resources insufficient to cover huge investment needs
- **Managerial and technical expertise**: domestic capacities insufficient to cope with technological challenges (in downstream & upstream segments)
- **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(s)?

- **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

The PFI: Investment policy

- **General aspects**
 - Transparency and accessibility of investment policy measures
 - Avoiding unnecessary regulatory and administrative burden
- **Aspects relevant for investors in the energy sector**
 - Non-discriminative treatment of foreign investors
 - Transparency of remaining discriminatory restrictions
 - Timely, adequate and effective compensation for expropriation
 - Ratification and implementation by the government of international arbitration instruments

Russia's forthcoming law on strategic sectors in light of the PFI

- **Transparency and predictability**
 - definition of essential national security interest
 - number and definition of 'strategic sectors'
 - clarity of screening and authorisation procedures
- **Procedural fairness**
 - information requested from foreign investors
 - rights and obligations of the agency taking decisions
 - possibility of appeal procedures

The PFI: Investment promotion and facilitation

- **Institutional aspects**
 - Investment promotion agency (IPA): well-defined legal status, structure, mission and funding; regular evaluation of its performance
- **Aspects relevant for investors in the energy sector**
 - Contribution of IPA to streamlining administrative procedures
 - Role of IPA in facilitating foreign firms' establishment and operations (one-window facility)
 - Transparency of existing investment incentives and their regular evaluation

Other policy areas covered by the PFI

● 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