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TRENDS AND OUTLOOKS

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R95 **RUSSIAN ECONOMY IN 2017. TRENDS AND OUTLOOKS** / [Alexander Abramov etc.; Doctor of sciences (economics) Sergey Sinelnikov-Murylev (editor-in-chief), Doctor of sciences (economics) Alexander Radygin]; Gaidar Institute for Economic Policy. – Moscow: Gaidar Institute Publishers, 2018. – 544 p. – ISBN 978-5-93255-530-9.

The review "Russian economy in 2017. Trends and outlooks" has been published by the Gaidar Institute since 1991. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the socio-political issues and challenges; the monetary and budget spheres; financial markets and institutions; the real sector; social services; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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Yuri Bobylev

4.6. Russian oil and gas sector in 2017[1]

The oil and gas sector is playing an important role in the income generation for the state budget and Russia's trade balance. In 2017, the volumes of crude oil production somewhat fell owing to Russia's commitments to curb production as a result of the oil output cut agreement between some OPEC and non-OPEC countries. Under the so-called tax maneuver in force in the oil industry, refining depth went up, production and export of fuel oil moved down and export of crude oil, a highly lucrative source of state budget revenues, increased. In 2017, natural gas production and export hit an all-time peak. Despite the plunge of oil and gas world prices, the oil and gas sector continues to constitute over a half of Russian exports.

4.6.1. Dynamics of global oil and gas prices

Global crude oil prices in 2017 were under a spell of two major factor: steady oil supply glut and a drastic fall in crude oil prices and the implementation of the agreement between OPEC and other non-OPEC producers including Russia aimed at cutting production. The growth in supply was driven up basically by a rapid increase in the production of shale oil in the United States because of new shale technologies and high crude oil prices that **were** present over the past few years. Facing this context, OPEC countries refused to cut their oil production quota and in fact switched to a policy of retaining their market share in the global oil market. In this context, OPEC opted not to cut its oil production quota and de facto launched a policy of retaining its market share. Subsequently, the price of Russian crude oil dropped to an average of $51.2 and $41.9 per barrel in 2015 and 2016, respectively (*Table 24*, *Fig. 45*).

Table 24

World crude oil prices in 2010–2017, USD/bbl

	2010	2011	2012	2013	2014	2015	2016	2017
Brent crude price, UK	79.6	111.0	112.0	108.8	98.9	52.4	44.0	54.4
Urals crude price, Russia	78.3	109.1	110.3	107.7	97.7	51.2	41.9	53.1
Prices on Russian gas on European market, US$/thousand cubic m.	296.0	381.5	431.3	402.0	376.0	267.9	156.7	194.1

Sources: IMF, OECD/IEA, Rosstat.

The production at cost-intensive oil fields, primarily shale oil fields in the United States, was cut driven by low crude oil prices in 2015–2016. In the meantime, the decline in oil production in cost-intensive regions was actually neutralized by the increase in oil production in OPEC countries seeking to expand their market share and to compensate, at least in part, for falling revenues by boosting oil supplies.

However, significant plunge of crude oil prices recorded in 2016 motivated the oil producing countries to act decisively regarding cutting the oil production. At the end of 2016, OPEC and a group of oil producing countries from outside OPEC, including Russia, concluded a production cut agreement in effect since 1 January 2017. In compliance with this agreement OPEC (13 countries) agrees to reduce its oil production by 1.2 m bpd and the other parties thereto, 11 non-OPEC countries, agree to cut output by 558,000 bpd, Russia by 300,000 bpd against the production level of October 2016. As far as the crude oil production in Russia was

[1] This section is written by Yuri Bobylev, the Gaidar Institute, IAES-RANEPA.

growing and in October 2016 peaked its maximum, the implementation of undertaken commitments meant a refusal from further increase in crude oil production and curbing it in 2017 to the average level of 2016.

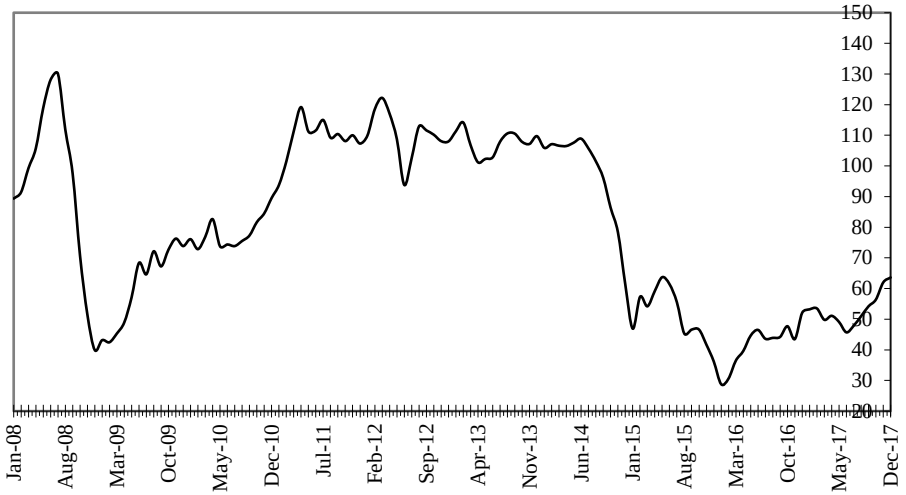

Fig. 45. Urals crude price in 2008–2017 гг., US$/b

Source: Росстат.

In an effort to decrease further the oil supply glut, the OPEC and non-OPEC parties to the agreement decided in May 2017 to extend the agreement for another nine months, that is, between July 2017 and March 2018. In late November 2017, parties to the agreement took a decision to extend the effective date of the agreement through the end of 2018.

As a result of the agreement, the excessive supply was cut and the world prices went up noticeably. For example, the Brent price rose from USD 44 a barrel in 2016 to USD 54.4 a barrel in 2017. The Urals price averaged USD 53.1 a barrel in 2017, up USD 11 a barrel against 2016. Meanwhile in December 2017, the Urals price hit USD 63.6 a barrel up USD 19.7 a barrel against November 2016 (the last month prior to signing of agreement on production cut) and up USD 11.5 a barrel compared to December 2016.

The surplus of commercial crude stockpiles (crude oil inventories) have decreased markedly (stocks in oil terminals), thus evidencing a gradual market rebalancing. According to the data released by the monitoring committee of the parties to the agreement, the excess of commercial crude oil stocks for the average five-year level constituted 340 million barrels, by the year-end – 118 million barrels down 65 percent.

A markedly buoyant demand also had a positive effect on the market balance and on oil prices. Global oil demand increased 1.5 mb/d in 2017 (or 1.6% year-on-year), according to the International Energy Agency estimates, OECD.

However, the recovering growth in the US shale oil production as well as increased crude oil production by some non-OPEC countries have recently become a challenge to the agreement. Advances in shale oil technologies and cost-effective methods allowed the US oil industry to adapt to a relatively low crude oil prices. As a result, the number of operating oil rigs has been increasing in 2017. According to the recent forecast of the U.S. Energy Information Administration (EIA), the US crude oil production in 2017 constituted 9.33 million

barrels per day, adding another 0.47 million barrels per day (up 5.3 percent) against the previous year.

Prices on Russian natural gas exported abroad on long-term contracts, as a rule, are linked to the prices of petroleum products and owing to this factor follow the world crude oil prices. Following a significant decrease in 2015-2016 the sale price on Russian gas on the European market in 2017 went up to USD 194.1 per thousand cubic meters (up 23.9 percent compared to the previous year). Meanwhile changes that took place on the European market over recent years–increased supply of gas by other natural gas producers and lower spot prices on natural gas compared to the prices of long-term contracts signed by Gazprom produce downward pressure on the Russian natural gas.

4.6.2. Dynamics and production structure in oil and gas sector

Volumes of crude oil production in 2017 were governed by Russia's compliance with its commitment to curb oil production taken within the framework of the agreement between OPEC and a group of non-member countries.[1] In 2017, the Russian oil production reached 546.8 million tons or 99.9 percent in comparison with the previous year (*Table 25, Table 26*). In the meantime, natural gas production (including natural, associated and condensate) went up to 704.1 billion cubic meters, which was an all-time high. Russia boasts of significant capacity potential to maintain and increase oil and gas extraction. At the same time, the oil sector faces deteriorated production conditions. Considerable share of producing fields demonstrate a downward trend of extraction and the new deposits in the majority of cases have not as good mining-and-geological and geographic parameters. Their development requires higher investment, running and transportation costs. In order to offset falling production on the brown fields, it is necessary of develop both new oil deposits in regions with underdeveloped infrastructure or in those regions that lack infrastructure all together, and to develop low quality deposits in developed regions.[2]

Table 25

Production and refining of crude oil in Russia in 2010–2017

	2010	2011	2012	2013	2014	2015	2016	2017
Extraction of crude oil including gas condensate, million tons	505.1	511.4	518.0	523.3	526.7	534.0	547.6	546.8
Primary crude oil refining, million tons	249.3	258.0	270.0	278.0	294.4	287.2	284.5	284.0
Share of crude oil refining in crude production, percent	49.4	50.4	52.1	53.1	55.9	53.8	52.0	51.9
Crude oil refining depth, percent	71.1	70.8	71.5	71.7	72.4	74.4	79.1	81.0

Sources: Rosstat, Russian Energy Ministry.

Year 2017 demonstrates that the tax maneuver has delivered positive outputs: a structural tax reform in this sector envisages gradual reduction of export duties on both crude oil and petroleum products, as well as higher mineral extraction tax (MET).[3] According to the adopted parameters of tax maneuver effective marginal export duty rate was cut from 59 percent in 2015 to 30 percent in 2017. Meanwhile, export duty rate on heating oil went up from 66 percent to

[1] See Yu. Bobylev. Global Oil Market in 2017: constraints to production and prices. Russian Economic Developments. 2018. №1, pp. 12-14.

[2] See Yu. Bobylev, O. Rasenko. Russia Oil Sector: main trends. Moscow, Delo Publishers, RANEPA, 2016; Yu. Bobylev. Development of Oil Sector in Russia. Voprosy Ekonomiki. 2015. №6, pp. 45–62; Bobylev Yu. The Development of the Russian Oil Sector. Problems of Economic Transition. Vol. 58. 2016. Issue 11-12: The Real Sector Potential. pp. 965–987.

[3] See Yu. Bobylev. Tax Maneuver in Oil Industry. Russian Economic Developments. 2015. №8, pp. 45-49.

100 percent from crude oil export duty rate. Such restructuring of the tax system has created incentives for upgrading of oil refining capacities and has resulted in trend changes.

New trends emerged in 2015–2016, and some of them deserve to be mentioned here: (1) oil refining depth increased notably as production and exports of fuel oil declined, (2) crude oil exports, more lucrative for state budget revenues than fuel oil exports, increased, (3) crude oil refining declined in volume terms due to the above two factors (*Table 26*). In 2017, oil-refining depth hit Russia's all-time high of 81 percent. Note that in the period of 2000–2014, that is, during a long period until the "tax maneuver" took force, depth of oil refining in Russia constituted 71–72%, meanwhile, this indicator comes to 90–95% in leading industrial countries. Over last three years production of heating oil in Russia contracted by 33.7 percent.

Table 26

Production of crude oil, petroleum products and natural gas in 2010–2017 in percent to previous year

	2010	2011	2012	2013	2014	2015	2016	2017
Extraction of crude oil including gas condensate	102.1	100.8	101.3	100.9	100.7	101.4	102.5	99.9
Primary crude oil refining	105.5	103.3	104.9	102.7	104.9	97.3	98.7	99.8
Gasoline	100.5	102.0	104.3	101.3	98.8	102.3	101.9	98.4
Diesel fuel	104.2	100.3	98.7	103.1	107.4	98.9	100.2	101.4
Heating oil	108.5	104.6	101.6	103.3	102.0	91.1	80.2	90.7
Natural gas	111.4	102.9	97.7	102.1	95.7	98.7	101.0	107.9

Sources: Rosstat, Ministry of Energy of Russia.

The structure of the oil sector is characterized by a predominance of major vertically-integrated companies and high share of state property. In 2017, five major companies (Rosneft, LUKOIL, Surgutneftegaz, Gazprom, and Tatneft) accounted for 80 percent of crude oil extraction. Recently, the market share of Rosneft drew significantly. In 2013, Rosneft took over TNK-BP and in 2016 acquired controlling stake in Bashneft. The share of Rosneft in the overall crude oil production moved up from 22.3 percent in 2010 to 38.3 percent in 2017 (*Table 27*). Small and medium-size oil producing companies are few in Russia. Oil companies producing up to 2.5 million tons per year (up to 50 thousand barrels per day) account for merely 3 percent of the total production (in USA – 46 percent). Such companies are efficient in developing marginal oilfields and tight oil.

Table 27

Crude oil production structure in 2010–2017

	Oil production in 2010, million t	Share in total production, percent	Oil production in 2016, million t	Share in total production, percent	Oil production in 2017, million t	Share in total production, percent
1	2	3	4	5	6	7
Rosneft*	112.4	22.3	211.1	38.6	209.3	38.3
LUK	90.1	17.8	83.0	15.2	81.7	14.9
TNK-BP	71.7	14.2	–	–	–	–
Surgutneftegaz	59.5	11.8	61.8	11.3	60.5	11.1
Gazprom, including Gazprom neft	43.3	8.6	55.2	10.1	56.9	10.4
Of which: Gazprom	13.5	2.7	17.4	3.2	17.4	3.2
Gazprom neft	29.8	5.9	37.8	6.9	39.5	7.2
Tatneft	26.1	5.2	28.7	5.2	28.9	5.3

Cont'd

1	2	3	4	5	6	7
Bashneft	14.1	2.8	–	–	–	–

Slavneft	18.4	3.6	15.0	2.7	14.3	2.6
RussNeft	13.0	2.6	7.0	1.3	7.0	1.3
NOVATEK	3.8	0.8	8.0	1.5	7.7	1.4
PSA operators	14.4	2.9	16.0	2.9	16.5	3.0
Other producers	38.2	7.6	61.7	11.3	64.0	11.7

* From 2016 including Bashneft.
Sources: Ministry of Energy of RF, own calculations.

4.6.3. Dynamics and structure of oil and gas exports

Against a backdrop of falling crude oil production and growth of oil domestic consumption Russia's crude oil exports somewhat contracted in 2017. In 2017, Russia's exports of crude oil and petroleum products constituted 410.8 million tons, down 2.4 percent against the previous year. It should be noted that 2015-2017 saw a notable growth of 13.1 percent of crude oil exports spurred by the "tax maneuver" and a 10 percent decline in exports of petroleum products mainly owing to a fall of fuel oil exports (*Table 28*, *Table 29*). The share of net exports of crude oil and petroleum products in 2017 constituted 73.1 (*Table 28*). The share of crude oil in total oil exports constituted 63 percent, and that of petroleum products – 37 percent. At the same time, the share of exports in diesel fuel production accounted for 66.7 percent, and in gasoline production – 11.4 percent (to compare in 2010, the share of exports in gasoline production accounted for 8.2 percent, in 2015 – 12.1 percent, and in 2016 – 13 percent).

Table 28

Ratio of production, consumption and exports of crude oil and natural gas in 2010–2017

	2010	2011	2012	2013	2014	2015	2016	2017
Crude oil, m t								
Production	505.1	511.4	518.0	523.3	526.7	534.0	547.6	546.8
Exports, total	250.4	244.6	239.9	236.6	223.4	244.5	254.8	252.6
Exports to - non-CIS countries	223.9	214.4	211.6	208.0	199.3	221.6	236.2	234.5
Exports to CIS countries	26.5	30.2	28.4	28.7	24.1	22.9	18.6	18.1
Net exports	249.3	243.5	239.1	235.8	222.6	241.6	254.0	252.0
Domestic consumption	125.9	140.7	142.1	137.5	141.3	122.2	138.3	147.1
Net exports as percent of production	49.4	47.6	46.2	45.1	42.3	45.2	46.4	46.1
Petroleum products, m t								
Exports, total	132.2	130.6	138.1	151.4	164.8	171.5	156.0	148.4
Exports to non-CIS countries	126.6	120.0	121.2	141.1	155.2	163.3	148.1	137.4
Exports to CIS countries	5.6	10.6	16.9	10.3	9.6	8.3	8.0	11.0
Net exports	129.9	127.2	136.8	150.0	162.8	170.2	155.3	147.7
Crude oil and petroleum products, m t								
Net exports of crude oil and petroleum products, m t	379.2	370.7	375.9	385.8	385.4	411.8	409.3	399.7
Net exports of crude oil and petroleum products as % of crude oil production	75.1	72.5	72.6	73.7	73.2	77.1	74.7	73.1
Natural gas, billion cubic meters								
Production	665.5	687.5	671.5	684.0	654.2	645.9	652.6	704.1
Exports, total	177.8	184.9	178.7	196.4	172.6	185.5	198.7	210.2
Exports to - non-CIS countries	107.4	117.0	112.6	138.0	124.6	144.7	164.7	175.9
Exports to CIS countries	70.4	67.9	66.0	58.4	48.0	40.7	34.0	34.3
Net exports	173.5	179.2	171.6	189.3	165.5	178.4	189.8	201.4
Domestic consumption	492.0	508.3	499.9	494.7	488.7	467.5	462.8	502.7
Net exports in percent to production	26.1	26.1	25.6	27.7	25.3	27.6	29.1	28.6

Sources: Rosstat, Russian Ministry of Energy, Federal Customs Service, own calculations.

Analysis of Russia's crude oil exports over the course of a long period demonstrates a significant increase in the export-led component of oil industry. The share of net exports of crude oil and petroleum products in crude oil production went up from 47.7 percent in 1990 to 73.1 percent 2017. This, however, is due not only to the increase in absolute volumes of exports

but to market transformation of the Russian economy, more efficient oil consumption and the replacement of petroleum products by natural gas.

Exports of natural gas in 2017 went up 5.8% in comparison with the previous year and hit 210.2 billion cubic meters, which is an all-time maximum. Exports growth was achieved due to deliveries to countries of far abroad, exports of natural gas to CIS countries was falling over recent years. Share of net exports in the natural gas production in 2017 constituted 28.6 percent.

Table 29

Dynamics of exports of crude oil, petroleum products and natural gas from Russia 2010-2017, in percent to previous year

	2010	2011	2012	2013	2014	2015	2016	2017
Crude oil	101.2	97.6	98.2	98.6	94.4	109.4	104.2	99.1
Petroleum products	106.2	98.5	104.4	109.6	108.7	104.1	91.0	95.1
Natural gas	105.6	104.0	96.6	109.9	87.9	107.5	107.1	105.8

Sources: Rosstat, FCS.

Owing to the plunge of global prices on crude oil and natural gas, the share of oil and gas sector products in Russian exports declined markedly. In 2014, with the world oil price at USD 97.7 a barrel it accounted for 65.2 percent including crude oil and petroleum products – 54.2 percent, and natural gas – 11 percent, and already in 2017 it accounted for 52.8 percent, of which crude oil and petroleum products – 42.2 percent and natural gas – 10.6 percent (*Table 30*). At the same time, in spite of the price plunge oil and gas sector products constitute above one-half of Russian exports.

Table 30

Value and share of exports of oil and gas sector products in Russia's exports in 2017

	Exports, billion US dollars.	In percent to total volume of Russian exports
Oil and gas sector, total	189.70	52.8
Crude oil and petroleum products	151.55	42.2
Crude oil	93.31	26.0
Petroleum products	58.24	16.2
Natural gas	38.15	10.6

Sources: FCS, own calculations.

4.6.4. Dynamics of domestic prices on energy products

The pricing mechanism for crude oil and petroleum products in the Russian domestic market is based on equal-netback pricing, that is, prices are equal to the world price less export duty and transportation costs. The domestic price in dollar terms declined in the second half of 2014-2016, due to a tumbling global prices on crude oil and petroleum products (*Table 31, Fig. 46*). In 2017, owing to a certain upward trend in world prices domestic prices on crude oil and petroleum products went up significantly. At the same time, there is still a wide gap between world and domestic oil prices due to the export duty. In the meantime, a convergence of international and domestic prices is observed owing to a lower rate of export duty envisaged as part of the tax maneuver. In 2014, the domestic oil price (producers' price) constituted 42% of the global price Urals crude price on the European market), while in 2017 – 66 percent.

Table 31

Domestic prices on crude oil, petroleum products and natural gas in USD terms in 2010–2017 (average producers' prices at year-end, USD/ton)

	2010	2011	2012	2013	2014	2015	2016	2017
Crude oil	248.2	303.3	341.1	346.1	178.9	156.7	207.8	302.4
Gasoline	547.9	576.9	628.7	614.4	372.3	301.8	380.3	460.0
Diesel fuel	536.1	644.9	774.2	698.0	419.3	349.4	421.3	515.2
Heating oil	246.3	274.6	275.3	235.8	128.7	49.5	129.7	166.1
Gas, USD/thousand cubic m	20.5	21.3	40.3	39.8	29.1	24.5	23.6	34.2

Source: own calculations based on data released by Rosstat.

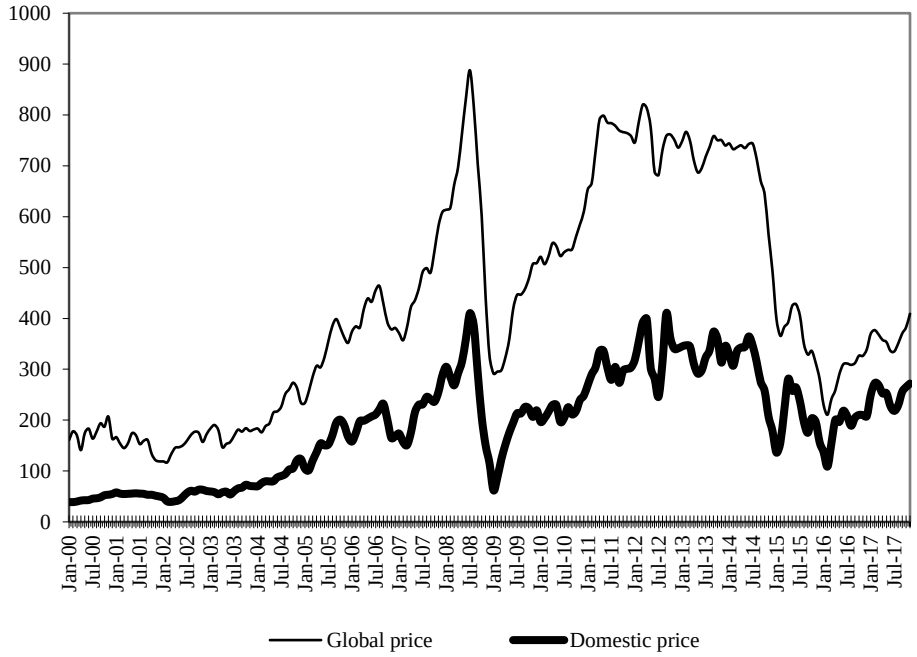

Fig. 46. Global and domestic oil prices in 2000–2017, USD/t

Sources: Rosstat, own calculations.

Upward movement of oil prices in 2017 determined growth of consumer prices on motor fuel which set the pricing policy on net-back prices taking into account indirect taxes (excises, VAT) and markup (Table *32, 33, Fig. 47*). The share of indirect taxes in the consumer price of gasoline is 35–43% in Russia. Thus, regarding the tax burden on petroleum products, Russia ranks in the middle between EU5 (Germany, France, Great Britain, Italy, and Spain) where the share of the tax burden on gasoline reaches 65%, and 20 percent in the USA. With lower non-tax gasoline prices and such level of tax burden the consumer prices on gasoline in Russia are approaching the US prices, but remain significantly lower than in other developed countries. Effective system of export duties and the level of tax burden on petroleum products in Russia ensures lower prices level on motor fuel on domestic market in comparison with the developed countries.[1]

Table 32

Consumer prices on gasoline in Russia 2014–2017, RUB/liter

[1] See Yu. Bobylev. Gasoline Prices in Russia and other countries: comparative analysis. Russian Economic Developments. 2016. №10 pp. 28–31.

	2014 January	2015 January	2016 January	2016 January	2017 January	2017 January
Regular unleaded gasoline	29.53	32.35	33.86	35.28	35.57	37.95
Premium 95 octane and plus	32.64	35.16	36.81	38.34	38.69	41.01

Source: Rosstat.

Table 33

Excise rates of gasoline in 2014–2017, RUB/t

	2014	2015	2016 January-March	2016 April-December	2017
Class 4	9916	7300	10500	13100	13100
Class 5	6450	5530	7530	10130	10130

Source: Tax Code of RF (2014–2017 edition).

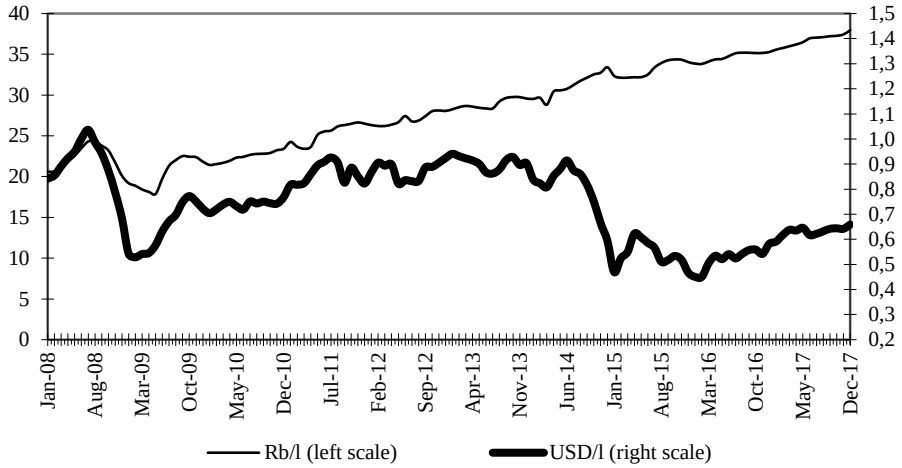

Fig. 47. Consumer price in ruble and dollar terms on regular unleaded gasoline in 2008–2017

Sources: Rosstat, own calculations.

Domestic prices on natural gas are under the state regulation. In order to ensure competitiveness of the national economy, the government maintains significantly lower level of domestic process on gas compared to the world gas prices. Meanwhile, owing to a regulated increase of the domestic gas prices and a significant decrease of the world prices on gas there is a gradual convergence of domestic and world gas prices. In 2015, domestic gas price (corporate consumers' price less indirect taxes) averaged 26 percent of the price of Russian gas in the European market, and in 2017, it constituted 38 percent.

4.6.5. Prospects for development of the Russian oil industry

Russia disposes of vast oil reserves, which are enough to maintain high levels of crude oil extraction and exports for many years to come. There is a high potential for crude oil extraction owing to both undeveloped deposits in undeveloped areas and oilfields in new producing areas. At the same time, there is a rather significant potential for additional extraction on already producing oilfields thanks to an in-depth development. Russia's oil refining rate constitutes merely 28 percent, which is markedly less than the average world level (to compare the US boasts of the oil refining rate standing at 35–43 percent, and Norway – 46 percent). Moreover, Russia disposes of extensive currently undeveloped unconventional oil reserves including shale oil. Upgrade of the oil refining depth allows satisfying domestic demand in motor gasoline with

relatively lower volumes of oil consumption. The leading industrial countries boast of oil refining depth at 90-95 percent, while in Russia it constitutes 81 percent.

In future, global demand for oil will grow, which will allow Russia to retain and even to increase current volumes of crude oil exports. This being said, shifts in the regional structure of global oil demand prompt diversification of crude oil exports, expansion of shipments to China and other countries of Asia. Meanwhile, potential of the Russian oil sector development to a significant degree will rely on the world oil prices. The oil market outlook is marked by factors, which will be contributing to the retention of relatively low oil prices. The most important factors are extensive shale oil reserves in the U.S., which will be rapidly put into production and create oil glut with global oil price above USD 60 per barrel, which will drag oil prices down.

In the context of low crude oil prices, options for the development of new oilfields and unconventional reserves will be significantly restricted in Russia because investment in the cost demanding projects will be unprofitable (first of all, it is true to the implementation of the Arctic shelf projects). In this context enforced technological sanctions against Russia, which ban exports to Russia of equipment and technologies for the development of deposits located on the Arctic shelf, deep-water oil fields and shale oil deposits will negatively affect the oil industry development.

In the circumstances, conventional oil reserves located onshore will be the basis for further development of the Russian oil sector. In-depth development of producing oilfields and increase of the oil recovery rate are of major importance. Options for additional oil production at such oil fields will largely depend on technological progress, development of import substitution aimed at increasing the oil recovery index.

Measures adopted within the state tax policy should contribute to the development of the oil sector. First of all, it is essential to complete a structural tax reform in the oil sector taxation system, which envisages stepwise reduction of export duties on both crude oil and petroleum products (right down to their cancellation), as well as a higher Mineral Extraction Tax (MET). This creates incentives for further upgrade of the oil refining sector, decreasing Russia's subsidizing of other EAEU countries and will strengthen incentives to lift energy efficiency.

For the greenfield projects it is expedient to apply a special windfall tax, which will ensure both higher resource rent extraction and will create favorable conditions for investment.[1] When in force, windfall tax will automatically make the tax burden compliant with oil production conditions in each specific oil field, thus creating environment suitable for investment, including investment in development projects involving higher-than-normal operating costs

In order to ensure sustainable development of the oil industry it is paramount to implement such measures as conduct coordinated efforts with OPEC countries and other oil producers aimed at maintaining acceptable level of world oil prices, promotion of import substitution capacities of oil exports to East, development of import substitution technologies aimed at upgrading oil extraction index and development of non-conventional oil reserves including shale oil, and development of small- and medium-size oil companies.

[1] See Yu. Bobylev, O. Rasenko. Windfall tax to introduce in oil industry. Russian Economic Developments. 2017. № 10, pp. 65-68.