

THE RUSSIAN FEDERATION: OIL POLICY AND WTO

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As a leading oil producing and exporting country the Russian Federation does pursue a well elaborated domestic and foreign energy policy, based on her official Energy Strategy till the Year 2020. This document aims at an adequate and guaranteed supply in oil for the internal market, keeping Russia as a major exporter of oil and oil products, as well as at a higher energy efficiency in the national economy, conducive to a better ecology and extra export sales without depleting the national resources. In international relations the Strategy plays a blueprint for both a dialogue with consuming countries (the EC, USA) and consultations with OPEC.

Geologically Russia concentrates 12-13% of world oil reserves and is the producer of oil comparable to Saudi Arabia. In 2002 we expect to extract up to 330 mln. tons of oil and export about 150 mln. tons what is considered as the full use of our recent domestic capabilities. The latter are, however, limited by the under investing in 90's, as well as the fact that from 1992 the new prospecting for oil was virtually stopped and thus the Russian commercial oil deposits since that time have been depleted by 12%.

In the process of market reforms the oil industry was privatized and is represented now by eight large integrated companies, dominating the domestic market. Some of these ("Lukoil", "Ukos", "Slavneft") are also active abroad trying to set up over there the downstream operations for their owns. The Governments expect these companies to give the priority to the domestic supply, allowing the exports after their fulfillment of the respective "internal balance targets" only, and this regulation is enforced by the sharing of access to the export pipelines managed by the state "Transneft" company. Due to the gap in

domestic and world prices the foreign sales are charged with the export custom duties variable depending on the international oil prices level.

With this in mind Russia hopes to keep its oil exports for the next 20 years at the level 160-170 mln. tons against a more dynamic growth in foreign sales of gas, coal, oil products and electricity.

Forming more than 1/3 of the export value, oil is the important factor in attaining the budget and balance of payments equilibrium. It is estimated that in 2002-2005 the Russian State budget can be balanced subject to world market prices not lower than 16\$/barr, foreign debt service assured with \$18/barr and the 2003 budget appropriations are based on \$21,5/barr price with a view to accumulate some extra budgetary revenues and foreign currency.

This is why Russia is in favour of relatively high world market prices. However, it is not a selfish policy, but a desire to overcome the recent supply / demand disarray, which we see as to be not cyclical, but structural one. Indeed, for the last ten years or so, world oil sector was noticeable depleted and at the same time, under invested, thus pressing the production costs up. The lower limit of these costs appear to be now about \$18/barr and consequently many producing and consuming countries agree that, under circumstances, a new reasonable and remunerative level of prices is to be nowadays somewhat higher than 20-22\$/barr. In particular, Russia and OPEC see their commercial corridor as \$22-28/barr with a need for an intervention (more supply or restrictions) in case of overstepping this borderline up or down.

Russia is not a member of OPEC and is not going to be the one, but we prefer to consult with this Organization regularly within its session and beyond. As a result, even not being bound by the OPEC disciplines, Russia from time to time sets up the restrictions of her oil production and export (for example, in the IV quarter of 2001 and I-II quarters of 2002), should other non OPEC producers do the same. However, the Government is in the mood not to extend these

limitations over III quarter, thus manifesting that the Russian oil policy is basically independent.

Moreover, Russia is now in a dialogue with the European Union and the USA aiming at a more secure and balanced oil supply, including through an accumulation of the strategic oil reserves and long term delivery commitments.

As to the EU, this dialogue is wider in its nature and covers all types of energies, which Europe may need in the future. In addition to the primary energies (gas, oil, coal) Russia persist in, as a package, supplying the EU also with electricity, nuclear fuel, oil products and some energy intensive goods (petrochemicals, metals, fertilizers e.t.c). The increment in supply is seen attainable against an adequate inflow of the European capital and know how into the Russian energy sector and the freedom of transit of our oil through the territories of the EU candidate countries (up to 90% of all Russian oil exports are transported by the cross border pipelines). It is also understood that the EU will not apply to these shipments its 30% ceiling for the purchases from one particular source of supply.

After active discussions at expert level in 2000-2001, this dialogue has then been slowed on the official level and the last report on the matter of the respective Intergovernmental group to the recent EU-Russia summit (29.05.2002) was rather modest in its contents.

As to the USA, Russia has expressed her political will to undertake a significant oil sales to this country, including for reserves, and the Russian oil export concerned for last May and June is estimated as about 6 mln. tons per month.

Russia runs an extensive infrastructure for the oil exports and in addition to the existing "Druzhba" pipelines network the new Caspian Pipeline Consortium was commissioned in 2001 (with the pumping capacity of 27 mln tons for the first stage an up to 50 mln tons for the final stage) and the new Primorsk oil terminal in Finnish gulf is on an advanced stage of construction.

After the forthcoming connection of “Druzhba” and “Adria” pipelines this network will be able to transport to Europe not only Russian, but all Central Asian oil destined for export. Therefore, some competing pipelines in South Caspian area may be faced an idle run.

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Transforming herself into an open market economy the Russian Federation is firmly determined to join the World Trade Organization, where we have nowadays the observer status only. In addition to the long term economic and trade policy goals such a rapprochement is dictated also by the beginning of the WTO Millenium round of trade negotiations, in which Russia intends to be the full-fledged participant.

Having started two years ago, the respective consultations in Geneva (in the framework of the Special WTO Accession Group on Russia comprised of more the 70 our major trading partners) have resulted in April 2002 in the first draft of the Accession Protocol now under consideration. By sectors, Russia has managed to agree with partners up to 70% of the items in her tariff offer (up to 100% with 14 partners)¹, to advance on some items in services offer, but is not that successful with her offer on agriculture. The requested level of the agricultural support as \$16 b annually is not accepted by our partners, referring to the fact, that the real volume of this budget support for the last three years was not higher than \$1,2 b. annually. Equally, Russia will be under obligation to harmonize about 400 pieces of her legislation and about 1000 other normative acts with what of rules and norms of the WTO that cannot be done overnight.

Unfortunately, the consultations concerned have been from the very beginning conducted by the Russian negotiation team without a proper

¹ Because of the wide range of the products traded between the EU and Russia their mutual consultations on the matter still have modest results.

coordination with the domestic industrial and agricultural interests, that has triggered between these acrimonious accusations. The domestic businesses are of the opinion that they were not fully informed about their future rights and disciplines within the WTO, had not an authoritative say upon the formulation of the Russian negotiating offers and are not well aware now of the process of consultations taken place. On the agenda of these contradictions are also more fundamental issues such as: a) an absence in Russia any meaningful industrial (sectoral) policy that makes her blind while pursue a selective and warranted protectionism in her offers; b) a sleeping state policy for promotion of the industrial exports, which is heavily under financed, but would be of a paramount importance while in the WTO; c) an absence the state structural adjustment measures, which could enable the Russian enterprises to accommodate themselves to a growing external competition; d) a lack of the legal and commercial experts, especially in industry, familiar with the rules, norms and mechanisms of the WTO.

Under these circumstances many Russian business associations consider the official Russian decision to join the WTO as rather political one and dangerous to the Russian economy without its proper preparation for such a membership.

These concerns are not groundless and, in reality, the major merit for Russia to join the WTO right now is not trade benefits as such, but the opportunity to borrow and to transplant into the domestic legal setting the contemporary WTO trade and business legislation, thus making our domestic legal order more sophisticated and comparable with international law.

Nevertheless, the accession negotiations will be continued with understanding that Russia may join the WTO on the standard conditions with due regards to her specifics. In practice, these mean that:

a) Russia will be ready to accept the main texts of the WTO, but not the “WTO plus” agreements which are not obligatory to member states (civil aviation, state procurement, e.t.c).

b) Russia will be provided with transitional periods of 3-7 years before reducing her custom duties and a full implementing of some provisions of GATS, TRIMS and TRIPS.

c) A part of the Russian domestic legislation will be harmonized with the WTO rules and norms before and a part – after the accession.

d) Russia will be provided with maximum permitted competence to participate in the Millennium Round before her full membership in the WTO.

Inside the country the process of the rapprochement with the WTO is coordinated on the official level by the Governmental Commission on the WTO, comprised of about 40 Russian authorities concerned. The businesses are not admitted to this Commission and do influence its performance though the Business Advisory Committee of the Russian Chamber of Commerce and Industry, the All-Russia Union of Industrialists and Entrepreneurs and sectoral business associations.

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