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Dvorkovich Tasked With Creating Incentives for Arctic Extraction

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An offshore drilling platform lit up at night. Russia's antitrust body is backing a bill that would allow private companies access to offshore reserves.

Prime Minister Dmitry Medvedev on Thursday appointed his deputy, Arkady Dvorkovich, to oversee the creation of tax and customs incentives for oil companies developing hydrocarbon reserves in the Arctic, in a measure aimed at increasing economic feasibility and attracting more private investors to resource potentially rich maritime territories.

A working group of government officials and heads of companies developing Russia's offshore fields will have three months to draft a set of economic measures to increase investment in exploration projects, as Russia lags behind its foreign peers in the race for developing underwater reserves in the Arctic.

"It's a strategic issue. The offshore areas in the Arctic may contain about one fourth of the world's hydrocarbon reserves, according to expert estimates," Medvedev said at a cabinet meeting. But the "huge investment and economic possibilities" offered by this challenging environment have yet to be exploited, he said.

Dvorkovich, who oversees the energy sector in the government, echoed the idea later that day, saying that existing investment commitments by companies that are launching the offshore exploration projects in the Arctic are insufficient and "much more must be done" for effective use of the offshore reserves.

"But, to do more, stimuli like tax breaks and customs incentives are needed, and it makes no sense to demand something from the companies until these stimuli are introduced. Investing more will just not pay off for them," he told a news conference after the cabinet meeting.

Creating a favorable tax regime for investors will involve setting a minimum size of taxes for companies at the early stages of developing projects, with the tax burden rising only by the time of "active exploration and reaching a maximum level of output," Dvorkovich said, adding that the working group will present its proposals by October for the State Duma to approve the amendments to the current legislation during the fall session.

The introduction of tax and customs incentives is expected to result in total oil output on the Arctic territories reaching 380 million tons by 2030, while gas output might reach 1.76 trillion cubic meters, Natural Resources and Environment Minister Sergei Donskoi told the cabinet.

This measure will also boost government revenues from these projects 45 percent by 2030, he said.

The figures are contained in the government's strategy to develop the offshore territories in the Arctic between 2012 and 2030, as drafted by the Natural Resources and Environment Ministry.

The strategy presented by Donskoi at the cabinet meeting proposes two scenarios for developing the Arctic. The no-change scenario involves maintaining the current tax regime in the area, with only two state-run companies, Rosneft and Gazprom, having access to the underwater hydrocarbon reserves.

For the time being, the law exclusively authorizes these two majors to drill offshore — a duo that is insufficient to develop the vast, frigid and financially demanding territory.

In an effort to attract more funding and involve additional companies in Arctic exploration, the government plans to move to a more progressive scenario by proposing a new tax regime for offshore projects, Donskoi said, adding that a lack of sufficient funding makes effective exploitation of the hydrocarbon reserves impossible in the foreseeable future.

In order to share the investment burden and get access to state-of-the-art technologies, Rosneft earlier this year attracted several international oil firms — ExxonMobil, Eni and Statoil — to join it in developing Russia's potentially vast reserves in the Arctic, which are estimated at more than 110 billion tons in oil equivalent.

Meanwhile, the Arctic territories remain closed for private Russian companies such as LUKoil and TNK-BP — a restriction that the Federal Anti-Monopoly Service proposed to remove prior to Thursday's cabinet meeting.

The service published the proposed amendments to the Law on Subsoil Resources on its website on Wednesday, after years of campaigning, mostly by privately controlled LUKoil, the country's second largest oil producer.

A spokeswoman for the Natural Resources and Environment Ministry, which penned the original subsoil law, said Thursday it is now studying the proposal.

Only Gazprom and Rosneft meet the law's requirement of having more than 50 percent of their shares under government control, but the proposal by the Federal Anti-Monopoly Service would blot out that restriction. The amendment says any company incorporated in Russia can have access to offshore fields.

LUKoil spokesman Dmitry Dolgov said the company supported the move.

"We have long spoken about this," he said. "If the amendments pass, we will take it as creating a level playing field for all."

In a letter that came to light in April, top executives of LUKoil, TNK-BP, Surgutneftegaz and Bashneft asked then-Prime Minister Vladimir Putin to allow their companies access to offshore development.

LUKoil generates enough cash – and potential to borrow – to finance the expensive projects on the country's Arctic sea shelf, Dolgov said. The government has already handed over a handful of exploration licenses to Gazprom and Rosneft, but other alluring deposits still remain available, he said.

"We are ready to study any proposals," Dolgov said.

The Federal Anti-Monopoly Service is not willing to lift all limitations. According to the amendments, if a Russian company is partly foreign-owned, defense and security agencies can still use their discretion to ban that company from bidding for any oil and gas exploration licenses.

The future of the proposal remained unclear Thursday, and Dvorkovich told the news conference that it had not been officially presented to the government.

He said that no decisions had been made yet on attracting more investors to offshore projects, although he went on to say that "this decision can't be ruled out."

He added, however, that state control during offshore exploration must be maintained.

"It should be discussed additionally whether it will be control by state-owned companies or direct control by the government. We should attract more companies to develop the shelf, but the question of whether we should maintain the obligatory agreement with two state companies remains open," he said. "For now, we will act within the framework of existing legislation."

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