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Ministry to Propose Natural Resource Tax Tweaks

By The Moscow Times

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The Finance Ministry plans to propose gradually cutting oil export duty and increasing the mineral extraction tax, or MET, from 2014 to make the domestic tax system more balanced, a senior official told reporters.

Oil companies say the Russian tax system already makes it nearly impossible to invest in the development of costly greenfield sites, which are essential to maintain production at current levels of around 10 million barrels per day.

Ilya Trunin, head of the tax, customs and tariffs department at the Finance Ministry, told reporters that proposals to gradually cut the oil export duty could be submitted by mid-May.

The proposals would affect Russia's largest oil producers, such as Rosneft, LUKoil and Gazprom Neft.

Trunin added that the duty could be cut by no more than 2 to 3 percentage points annually to test the oil sector's response.

"If [the oil export] tax is 60 percent of the oil price, it could go down to 58 to 57 percent along with [the] increase in MET, which is yet to be calculated," Trunin said.

But as a sign his proposal may face a tough reaction from other ministries, Trunin added that new tax rules could lead to a rise in domestic fuel prices — a sensitive issue for Putin, whose support among Russians is already declining.

The extraction tax was flat for seven years until a 6.4 percent increase in 2012 and another 5.4 percent hike this year to 470 rubles ($15) per ton. There are some tax breaks in MET, depending on the oil field.

Russia's oil export duty for May is expected to decline by 5.8 percent to $378.4 per ton from $401.5 in April, following a drop in oil prices, calculations by the Finance Ministry showed earlier this month.