

OIL INDUSTRY OF THE RUSSIAN FEDERATION

OIL PRODUCTION AND REFINING IN RUSSIA

Low global oil prices did not prevent production from further expansion in the Russian Federation, where oil and condensate output increased by 2.6% to 547.5 million tonnes in 2016. Oil exports to non-CIS countries grew by 5.1% compared with 2015. Russia's participation in the agreement among oil producers to limit oil production will have an effect on oil production and exports in 2017.



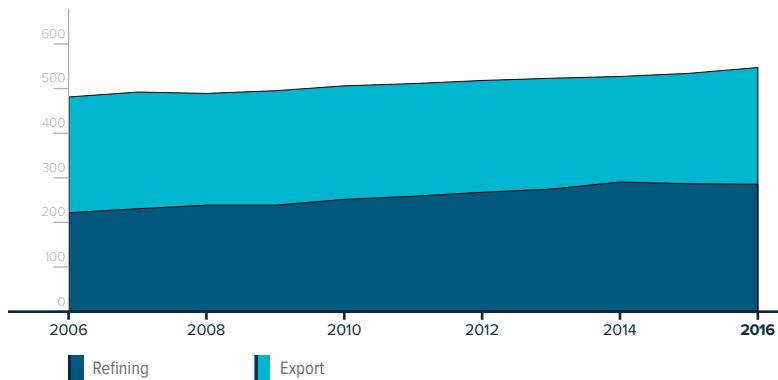
547.5
mn t

of oil and condensate produced in 2016

Primary oil refining in the Russian Federation declined by 1.1% in 2016 as the depth of oil refining increased. Petrol and diesel fuel production increased over the course of the year, while fuel oil production decreased slightly. In addition to global market prices, changes to tax, customs and tariff legislation will impact the dynamics of Russian oil refining in 2017. The final configuration of a major tax manoeuvre that was initiated in 2014 took effect starting from 1 January 2017. The export duty rate for crude oil was reduced based on a maximum cut-off rate of 30%, which was compensated by growth in the mineral extraction tax (MET). The export duty rates for light petroleum products were reduced to 30% of the crude oil export duty, while the export duty rates for dark petroleum products were increased to 100% of the crude oil duty. The new tax system parameters will contribute to a further decline in fuel oil production and an increase in the depth of refining.

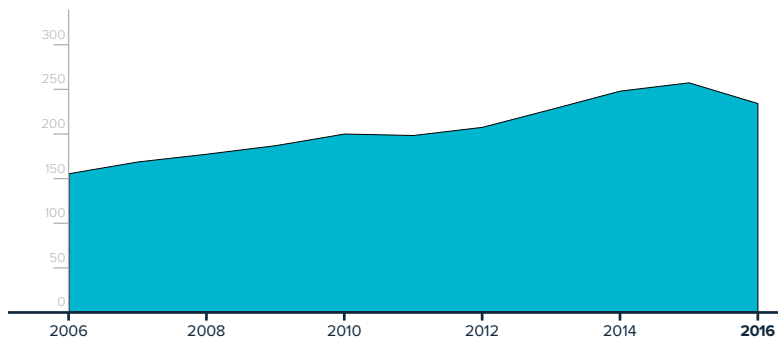
OIL PRODUCTION, EXPORT AND REFINING¹ DYNAMICS (mn t)

Source: Russian Ministry of Energy



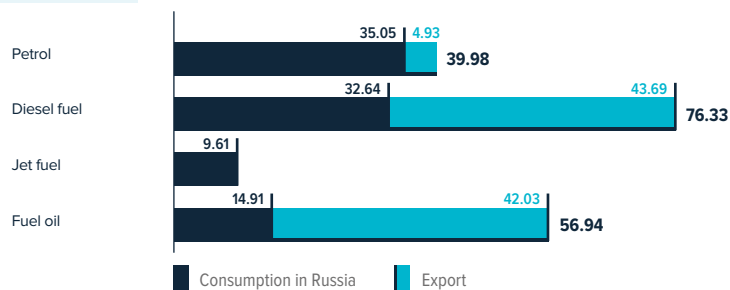
PETROLEUM PRODUCT EXPORTS (mn t)

Source: Bank of Russia, Federal Customs Service



CONSUMPTION AND EXPORT OF KEY PETROLEUM PRODUCTS IN 2016 (mn t)

Source: Russian Ministry of Energy



¹ Refining = production – export.

POSSIBLE RECOVERY IN DEMAND

The situation in the Russian economy showed signs of stabilisation in 2016. GDP dynamics reached near-zero levels in the second half of 2016 and for the year GDP declined by 0.2%. Industrial production grew by 1.1% largely due to the extractive sectors. Improvements were also seen in car sales, which had stabilised by the end of the year. However, poor dynamics in consumer spending and retail continued to limit the domestic consumption of motor fuel.

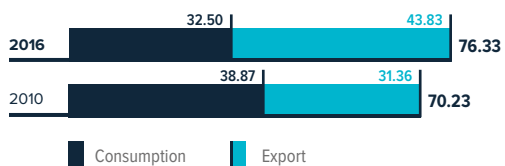
PETROLEUM PRODUCT CONSUMPTION AND EXPORT DYNAMICS (mn t)

Source: Russian Ministry of Energy

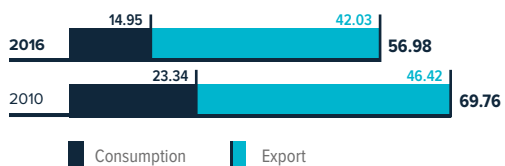
PETROL



DIESEL FUEL

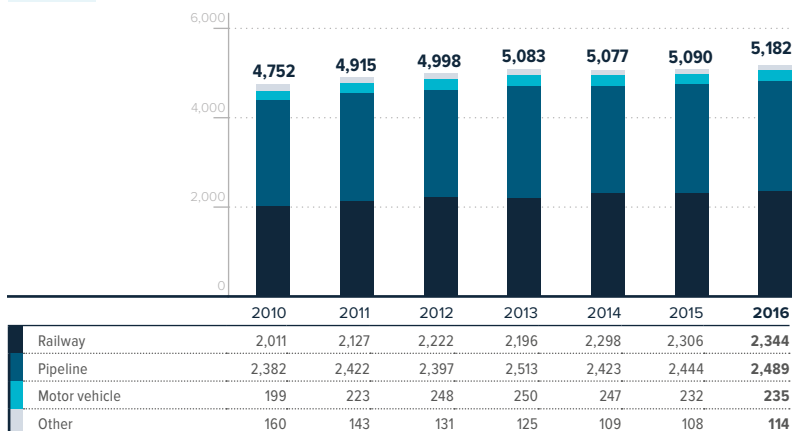


FUEL OIL



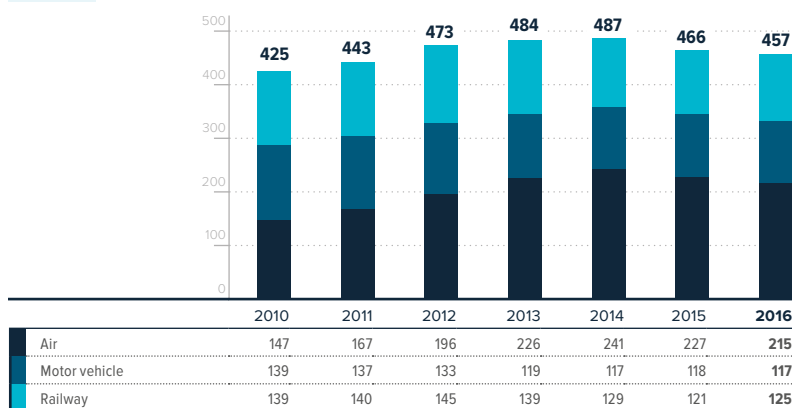
FREIGHT TURNOVER STRUCTURE BY TYPE OF TRANSPORT (bn tkm)

Source: Rosstat



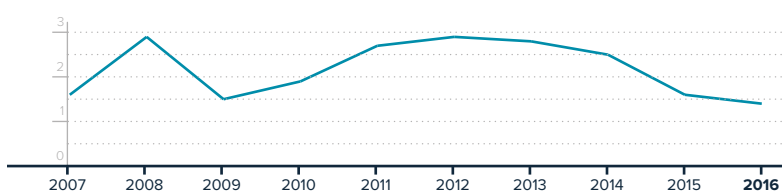
PASSENGER TRAFFIC STRUCTURE BY MAIN TYPES OF PUBLIC TRANSPORT (bn pass. km)

Source: Rosstat



NEW CAR SALES (mn)

Source: The Association of European Businesses in the Russian Federation



OVERVIEW OF KEY CHANGES TO TAX, CUSTOMS AND TARIFF LEGISLATION OF THE RUSSIAN FEDERATION

In 2016, the Russian government continued to gradually adjust the oil industry's taxation system as part of the so-called major tax manoeuvre approved by Federal Law No. 366-FZ of the Russian Federation dated 24 November 2014. The goal of the major tax manoeuvre is to reduce the fiscal role of export duties and simultaneously alter the rates of other key taxes in order to balance the interests of the budget, oil industry and domestic market consumers.

MINERAL EXTRACTION TAX

The MET rate for oil and gas condensate was increased in 2016 compared with the 2015 levels as part of planned changes to the tax burden on the oil production sector by increasing:

- > the base MET rate for oil (from RUB 766 to RUB 857 per tonne);
- > the correction factor (cf) when calculating the MET rate for condensate (from 4.4 to 5.5).

In an effort to reduce the federal budget deficit of the Russian Federation, Federal Law No. 401-FZ dated 30 November 2016 amended the procedure for calculating the MET for oil by supplementing the tax rate calculation formula with an additional coefficient K_k that is equal to 306 in 2017, 357 in 2018 and 428 in 2019.

EXPORT DUTY

The Russian government decided to freeze the export duty rate for oil at the 2015 level for one year (based on the maximum cut-off rate of 42%) and to abandon the planned decrease to 36% in 2016. These amendments were made to customs and tariff legislation with Federal Law of the Russian Federation No. 324-FZ dated 28 November 2015.

The decrease in export duty rates for light petroleum products (from 48% to 40%) and petrol (from 78% to 61%) was continued in 2016. Meanwhile, the export duty rate for dark petroleum products was increased to 82% of the export duty rate for oil.

EXCISE TAXES

The list of excisable goods was expanded in 2016 through the taxation of transactions involving the production and sale of medium distillates. The primary goal of the innovation was to combat surrogates of diesel fuel. The identification of a new excisable product through quality specifications (density and temperature of the hydrocarbon blend distillation) is expected to have a positive effect on the reduction of sales of fuel not subject to excise taxes at filling stations. At the same time, in an effort to mitigate the growth in domestic purchase prices, core consumers of medium distillates are granted the right to apply a tax deduction for the excise tax with a multiplier of 2.

In addition, in order to increase the income of the consolidated budget of the Russian Federation, the excise tax rate for motor fuel underwent an unscheduled indexation in April 2016: growth in the rates totalled RUB 2,600 per tonne for petrol and RUB 1,143 per tonne for diesel fuel.

In an effort to provide funding for the road industry and develop transport infrastructure, Federal Law of the Russian Federation No. 401-FZ dated 30 November 2016 retained the excise rates for petrol that had been in effect from April-December 2016 (RUB 13,100 per tonne for petrol below fifth-class emission standard and RUB 10,130 per tonne for fifth-class emission standard) and increased the excise tax rate for diesel fuel (by RUB 1,507 per tonne).

TAX BURDEN PER TONNE OF EXPORTED OIL (USD)

Source: Russian Ministry of Energy

