

## RUSSIAN EXPORT OF RAW MATERIALS AND BALANCE OF ECONOMIC INTERESTS<sup>1</sup>

IGOR SERGEEV<sup>2</sup>, TATIANA PONOMARENKO<sup>3</sup>

National University of Mineral Resources “Mining” (Russia Federation)

### ABSTRACT

Russia continues to play an important role energy exporter to the EU. Research objective: to generalize and structure economic interests of the European Union and Russia in power sphere, and to define priority directions of the international economic cooperation at corporate level. Research methods: economic-statistical; rather-analytical, the investment analysis. International cooperation in the field of EU energy supply should not be limited mineral exports. It is advisable to involve Russian companies to finance and management segment “downstream” in European countries, by contrast, Western European companies – to finance and management segment “upstream” in Russia. One tool exploration activities can be geological investment certificate.

KEY WORDS: *economic interests, export, gas, geological investment certificate, oil.*

JEL CODES: F15, F21, F 23, F 36, F42.

### Introduction

It is obvious that the stable ensuring of economy with raw materials, especially energetic, is still the main problem for the EU for the next decade. It is important for Russia to develop the oil and gas export to Western Europe, in competition with other exporting countries, especially the Middle East. This issue is actualized in the provisions of the EU “Third Energy Package”, the main element of which is the separation of production and supply of energy resources and energy transportation network management.

New challenges require new tools, methods and forms of economic cooperation. It is extremely important to form a new direction of international economic cooperation in this sphere, which will take into account national and economic interests in the long term. Economic interactions between the power companies of Russia and Europe answer to two criteria: economic efficiency and national economic safety. Object of research – activity of the transnational companies which are carrying out investigation, extraction, transportation and processing of hydrocarbonic raw materials.

Tasks of article: to make the analysis of forms and competitive advantages of the multinational corporation; to reveal forms of co-operation in sphere of deliveries of power resources; to analyse the Norwegian model of development of power resources; to define objects, ways and to offer new tools of investment in prospecting works. Research methods: economic-statistical; rather-analytical, the investment analysis.

---

<sup>1</sup> This article was prepared on the materials of the report “Russian export of raw materials and balance of economic interests” on the German-Russian Symposium “Dialogue of partners on resource policy” Hamburg, October 10, 2012

<sup>2</sup> Igor Sergeev – National University of Mineral Resources “Mining”, Dean, Doctor of Economic Sciences, Professor.  
E-mail: miner-spb@yandex.ru  
Tel.: 108 12 328 8228.

<sup>3</sup> Tatiana Ponomarenko – National University of Mineral Resources “Mining”, PhD in the field of Economics, Associate Professor.  
E-mail: stv\_mail@mail.ru  
Tel.: 108 12 328 8253.

### 1. The purpose of the research

To summarize and to structure the economic interests of the European Union and Russia in the sphere of production, trade and consumption of energy resources, as well as to identify priority directions of international economic cooperation at the corporate level.

### 2. Method of research

The theoretical base for the research are the works of economists on the general problems of exploration, production and export of energy resources, government regulation of foreign mineral raw materials trade, managing large investment projects of exploration and production of hydrocarbons. During research the following methods were applied: economics and statistics, comparative analysis, investment analysis.

Models of Multinational Corporation focus attention on use by firms of monopolistically advantages, internalizations of market transactions expenses, factors of location and other factors of integration. In Chandler's (Chandler, 1962) and Hymer's (Hymer, 1976) models was shown that growth of the company is carried out at the expense of internal expansion of scales of activity, merges and absorption, vertical integration and a diversification, development within the country and then – in other countries. Due to the purpose on maximizing profit of Multinational Corporation apply both protective, and the pro-active measures directed on ensuring of control over the markets, increase of "the market power" and being substantially the anti-competitive. Possibility of monopolization of the market generates monopolistically competitive advantages (Pitelis, 2007), and also advantages of possession. Formation of such competitive advantages proves preference of direct foreign investments (DFI) in comparison with market measures as DFI provides the maximum extent of control. Internalization of monopolistically advantages is capable to lead to restriction of the competition which can not be favorable for society, and is capable to bring benefits of Multinational Corporation.

Considering these circumstances, and also strategic value of a power complex in economy development, the new not monopolized system of deliveries of energy resources in system Russia – EU is necessary.

### 3. The results

Russia's influence on the state of the global oil and natural gas market has increased significantly in recent decades. This was promoted by recession of industrial production in the country caused by the reform of the economy and the transition to a market economy, which has led to a sharp fall in domestic demand for almost all types of raw materials. Russia takes an active part in forming the world economic space by integrating into the world economy and belongs to the group of the leading exporters of energy resources. Large Russian national energy companies already claim to world leadership in the global economic process. Their progress on the global market contributes to the growth of business efficiency and competitiveness of the country.

Russia is the largest supplier of energy resources to foreign countries among the former Soviet republics (Table 1 and Figure 1). According to the objectives of the external energy policy, in the next few years international activities of Russia in the energy sector will be implemented in the following areas:

- export of energy resources;
- elaboration and development of energy resources in the territories of other states;
- fixing of the presence in domestic energy markets of foreign countries, joint ownership of distribution network of energy resources and energy infrastructure facilities in these countries;
- involvement of foreign investment in manufacturing, transportation and transformation of energy utilities in Russia;
- the organization of parallel operation with neighboring electric power generating associations;
- transit of energy resources;
- international scientific-technical and legal cooperation.

Table 1. Natural Gas Trading in 2011 (billion cubic meters)

Country	Import		Export	
	Pipeline	LNG	Pipeline	LNG
France	32.3	14.6	2.2	–
Germany	84.0	–	11.7	–
Italy	60.8	8.7	0.1	–
Netherlands	13.6	0.8	50.4	–
Norway	–	–	92.8	4.0
Spain	12.5	24.2	0.5	0.7
Turkey	35.6	6.2	0.7	–
United Kingdom	28.1	25.3	16.3	–
Other Europe	101.8	10.9	6.2	0.6
Russia	30.1	–	207.0	14.4
Ukraine	40.5	–	–	–
Other Former Soviet Union	30.4	–	62.5	–
Total World	694.6	330.8	694.6	330.8

Source: BP Statistical Review of World Energy. June 2012

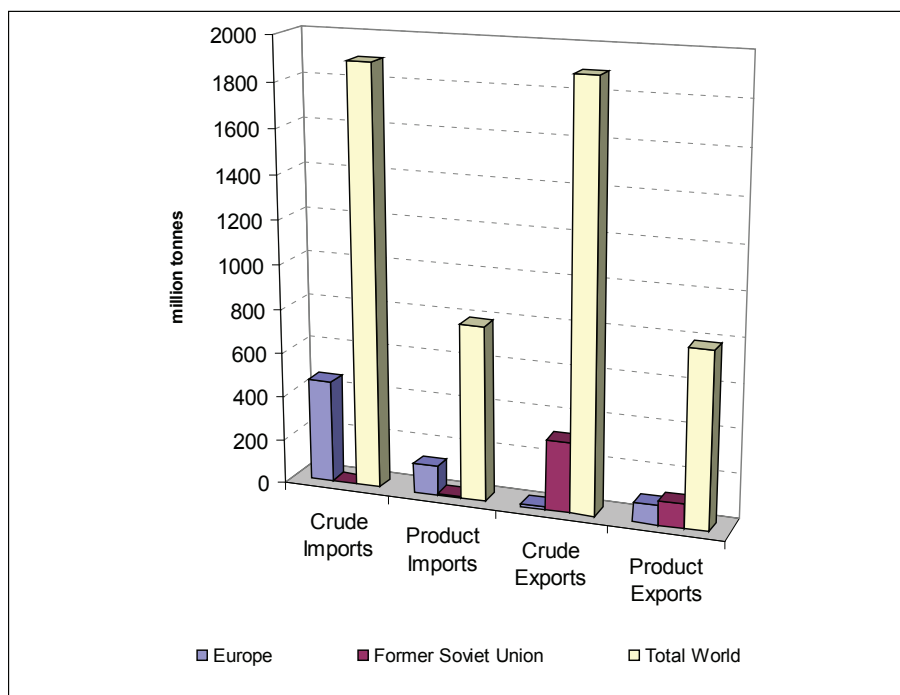


Figure 1. Trade in oil and oil products in 2011

Source: BP Statistical Review of World Energy. June 2012

Under changing conditions between the Russian Federation and the countries of Western Europe it is necessary to build a new non-monopolized system of energy supply, more technologically sophisticated and reliable, environmentally safe and less resource-consuming. New challenges for international economic cooperation appear.

EU interested in the following:

1. Long-term import of energy resources from Russia, in opposite of import from the Middle East and, in part, from Norway.

2. Placement of investments in the “upstream” segment, Russian transport system in order to ensure security of supply and reduce costs.
3. Maintain a favorable environment and a stable social situation in the European space.

Long-term economic interests of Russia not fully coincide with the interests of the EU. These interests are:

1. Accelerated development of exploration and production of hydrocarbons in the new fields of the European North of Russia, including the continental shelf, to ensure sustainable economic growth.
2. Increase in production and economic efficiency and environmental safety of exploration and mining production by using advanced European technologies.
3. Increase the share of added value in international production chain “exploration-production-transportation-processing-distribution”.
4. Maximum involvement of energy resources of Russian related companies in the production and export.

Mineral resources base of Russian hydrocarbons is characterized by insufficient geological study and exploration. All fields that are currently exploited had been explored thirty or forty years ago. Inefficient reforming of exploration segment of the Russian mineral complex led to its underfunding, and in the end, too slow renewing of recoverable reserves (Figure 2).

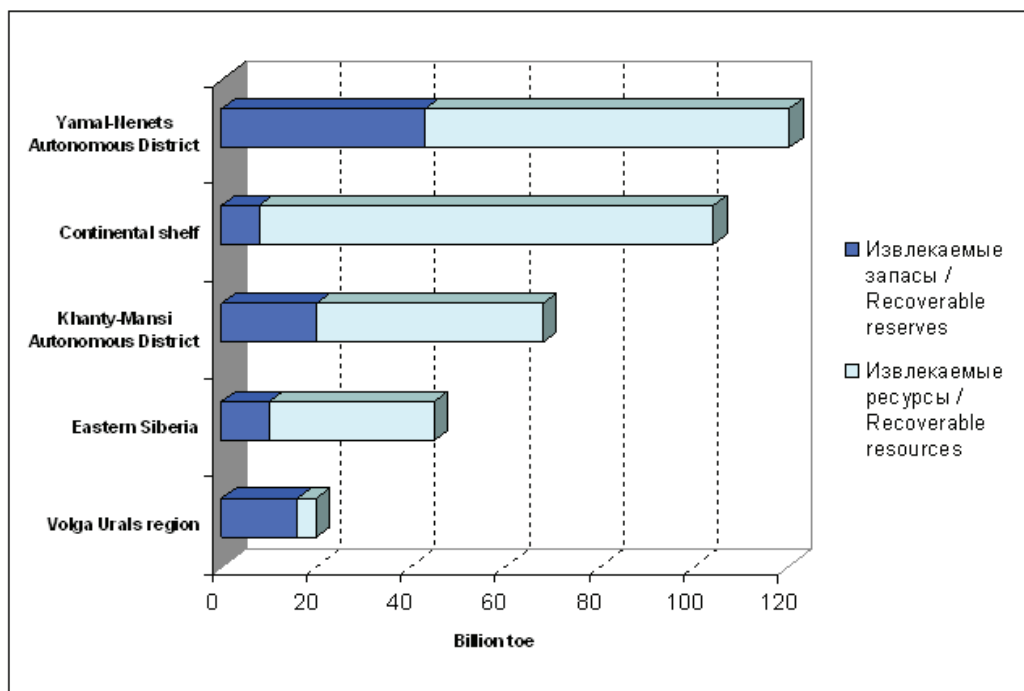


Figure 2. Mineral resources base of the major oil and gas producing regions of Russia

Source: Ministry of Natural Resources and Ecology of Russia

The further development of production and export of hydrocarbons in Russia is closely associated with the integration processes strengthening in the Eurasian space. Special importance attaches to trade and economic relations between Russia and the EU. In our opinion, bringing economic interests, which have been mentioned above, to a specific balance must be accompanied by the search for new forms and mechanisms of cooperation.

As the experience of recent decades show, Germany is working most effectively in this direction in the EU. Project “Nord Stream” is being implemented with the active participation of Germany. This project acquired common European scale (it involved the five largest companies in four European countries) and opened a new phase in the partnership between our countries in the energy track. It will make a significant contribution to European energy security. Our European partners, including Germany, will be able to receive up to 55 billion cubic meters of Russian gas annually without intermediaries. Russian-German strategic partnership has acquired modernizing trend. In 2008, former vice-chancellor of Germany – German Foreign Minister Frank-Walter Steinmeier has initiated development of “Partnership for Modernization” with Russia which then launched at the EU-Russia level. Words of F.-W. Steinmeier are reflected in the Declaration between Russian Economic Development Ministry and the Ministry of Economics and Technology of Germany on the main directions of economic cooperation within the partnership for modernization. Currently, a number of large Russian-German investment projects are implemented (Likhachev, 2012).

The example of effective cooperation is the cooperation of JSC “Gazprom”, Wintershall AG and E.ON Ruhrgas. German companies are investing in the initial stages of the chain “exploration-production-transportation-processing-distribution” in Russia, while “Gazprom” is investing in the final stages of “downstream” in Europe and other projects of the German partners. For example, in 2007 JSC “Gazprom” and BASF AG (part of this concern is the Wintershall AG) made a deal to exchange assets, which lead to increase of the “Gazprom” group’s stake in WINGAS GmbH. BASF AG, in turn, received almost 25 % in JSC “Severneftegazprom”. Group “Gazprom” has also received interest in the share capital of the company Wintershall AG (owner of the rights to explore and production of hydrocarbons under the concession agreements in Libya) in the amount of 49 %.

In October 2009 JSC “Gazprom” and E.ON AG completed a deal of assets exchanging, which led to acquiring by E.ON AG the 25 % of JSC “Severneftegazprom” share capital. In turn, “Gazprom” has received 49 % of JSC “Gerosgaz”, which owns 2.93 % of JSC “Gazprom”. This stake is completely became the property of “Gazprom” (<http://www.gazprom.ru>, <http://www.wintershall.ru>).

The assets exchanging represents a multidimensional process of technology transfer, allocation optimization and using of profits, laying the foundation for sustainable functioning of the production, transportation, processing and distribution of energy resources is hidden by. But this process requires further development.

Cooperation in exploration and prospecting of hydrocarbon deposits of the European North of Russia, in particular, the Arctic shelf seems promising. Russia’s continental shelf is insufficiently studied.

Development of resources of a shelf, especially Arctic seas, demands attraction of the enormous capital investments, specific technical and a manpower, the decision of set scientific and technical, social and environmental problems. More perfect technologies of investigation, extraction, raw materials transportation are applied, it is more difficult industrial and transport infrastructures, ecological requirements, almost 10 times more a capital intensity of projects are more rigid. Therefore studying of the models applied by the countries, having considerable experience of development of sea deposits of hydrocarbons, represents doubtless theoretical and practical interest. For example, for 40 years of development of oil extracting in Norway originally created by means of the foreign companies, the reliable base of geological prospecting and extraction of hydrocarbons is generated. The multinational corporations invested and continue to invest in deposits of the Norwegian sector of a continental shelf as they have accurate idea about economic policy of the Norwegian state.

To oil recovery and gas on a shelf the Norwegian and foreign companies with any pattern of ownership are supposed. Thus such activity is carried out under rigid administrative and financial control of the state. Granting of new water areas for investigation of hydrocarbons and the statement of large industrial projects carries out parliament of Norway, delivery of permissions to investigation and oil recovery and gas – the oil and power Ministry. Financial interests of the state are provided at the expense of profit on the companies with the state participation, licensings of sites of bowels, taxes and tax collections, direct state economic participation. To exclude oil sale affiliated to the companies at cut prices, the Norwegian legislation establishes practice of standard prices of the oil extracted on a shelf. Standard prices correspond to the prices of the free market and are established after the set period, for example in the end of a month.

Thus, the major features of the Norwegian model in oil and gas branch are (Povarenkina, 2007):

1. The active role of the state, as in sphere of its standard-legal regulation, and directly participating in oil and gas production. It is reached by means of participation in companies Statoil and Norsk Hydro, and also direct financing of works on shelf development. In 1984 the government has gone on division of all state activities into two parts: state ownership and the property in the companies. This step has given the chance to the state to participate independently in oil operations through system of Direct financial interest of the state (State's Direct Financial Interest – SDFI) and has led to that it became the basic investor of development of a continental shelf.
2. Granting to firms of the rights to investigation and mining on the basis of reputation, technological experience and industrial potential of the companies-participants.
3. Presence of concrete forms of participation subsurface users in the decision of problems of social and economic development of the country which concern use of local labor, development of own scientific and technical potential, use in production of production of local suppliers, etc.
4. Rather rigid protectionist conditions. The national industry obtains an essential share in each license, but presence of the foreign capital, as “catalyst” of growth of efficiency, and also direct participation of the foreign companies in licenses for investigation and working out of resources of bowels, the organization of interaction of all firms participating in the license on the basis of Agreements on joint working out (Joint Operating Agreement is thus considered also; Unitization Agreement).

The Norwegian experience of regulation of development of oil and gas resources represents a combination of the limited application of market financial methods to wide use of institutional methods. The considerable part of the Norwegian industry was reoriented on service of requirements of oil and gas sector, developing new higher technologies of investigation of hydrocarbons and their extraction, transportation and processing of oil raw materials, and also on development of branches of information-communication technologies. The most part of the received oil incomes is spent not for current consumption, and accumulates in special Oil fund (Petroleum Fund). The foreign companies, despite rigid requirements of the legislation, show constant interest to working out of oil and gas deposits of Norway. For them the original insurance of investments is that fact that from the middle of 80th The Norwegian government bears on itself the basic financial loading at work on a shelf.

In Norway the state is the owner of such largest corporations as “Statoil” and “Norsk Gidro”. The state oil company “Statoil” takes dominant positions in oil industry on a continental shelf of Norway, in petrochemical and oil refining branches, and also in the sphere of realization and oil export. “Statoil” conducts active work and on a field of the international cooperation. So, on May 7, 2012 “Statoil” concluded the agreement with Russian “Rosneft” about expanded prospecting activity on the Norwegian and Russian shelf (Naryshkin, 2012). According to the agreement “Statoil” and “Rosneft” will create joint venture where a third (33.3 %) will belong to “Statoil”. The parties will carry out joint investigation on a site in the Russian sector of the central part of the Barents Sea and on sites in the Sea of Okhotsk. Similar processes of joint development of a subsoil and technological cooperation carry a bilateral orientation. So, in August, 2011. The ministry of oil and power industry of Norway made the decision on qualification of JSC “Lukoil” for works on the Norwegian continental shelf as the operator. It will allow the company to make further concrete decisions on participation in projects on geological exploration and production of hydrocarbons on a shelf of Norway (Naryshkin, 2012).

On the Russian continental shelf use of the Norwegian experience probably for what the competition of projects of the various oil companies, management of incomes of the state and the companies by means of the taxation, the decision of problems of investment in branch is necessary.

It is obviously that exploration funding issues, and, above all, at the early stages are extremely important. In 2010–2011 the government allocates 30–35 million dollars per year from the federal budget to the regional stage of offshore exploration work around the Russia's continental shelf. Therefore, the new tools are needed to attract private investment in this sector.

Geological investment certificate can be one of the tools. Investment company, which attracts funds for exploration from investors, emits a special security paper – Geological investment certificate. Mining companies that can obtain the licenses in future should be considered as priority investors. Mining company or service companies – strategic partners of Russian oil and gas operators – should be international participants.

The calculation of the annual cost of a certificate:

$$GIS_n = I \times (1 + i)^n$$

$GIS_n$  – cost of geological investment certificate;

$I$  – investment costs;

$i$  – the refinancing rate of the Bank of Russia;

$n$  – number of years.

The investing company, including foreign one, should have the following possibilities:

- Priority for participation in the prospecting, exploration and production in areas where regional geological studies were conducted (for foreign companies within the consortium).
- Exemption from mineral extraction tax (MET) or other federal taxes on the value of the certificate in the  $n$ -th year during development of field discovered on the shelf (the certificate is redeemed).
- Exemption from MET or other federal taxes on the value of the certificate in the  $n$ -th year in development of onshore fields (the certificate is redeemed).
- Sale of certificate in the market.

The development of cooperation at the stage of exploration in the international production chain “exploration-production-transportation-processing-distribution” certainly enhance the stability of Russian energy resources supplies to the EU and will benefit all participating countries. This thesis is confirmed by the chairman of Wintershall AG Rainer Seele: “Europe must increase its presence at the source of resources because energy security begins there” (<http://www.wintershall.ru>).

## Conclusions

1. Russia continues to play an important role of exporter of mineral resources and, above all, energy resources to the EU. It is an interest for all parties.
2. International cooperation in the EU energy supply sphere should not be limited by mineral resources exports. It is advisable to involve Russian companies in financing and management of “downstream” segment in European countries, and, by contrast, involve Western European companies in financing and management of “upstream” segment in Russia.
3. Cooperation in sphere of geological studying and investigation of hydrocarbonic deposits of the European North of Russia, especially, the Arctic shelf is represented perspective.
4. Use of the Norwegian experience of regulation of subsurface use in the conditions of the Russian continental shelf possibly for what the competition of projects of the various oil companies, management of the income of the state and the companies by means of the taxation, the solution of problems of investment in branch is necessary.
5. Geological investment certificate can be one of the tools of exploration funding. Mining companies that can obtain the licenses in future should be considered as priority investors.

## References

- BP *Statistical Review of World Energy*. (2012). Website: [http://www.bp.com/assets/bp\\_internet/globalbp/globalbp\\_uk\\_english/reports\\_and\\_publications/statistical\\_energy\\_review\\_2011/STAGING/local\\_assets/pdf/statistical\\_review\\_of\\_world\\_energy\\_full\\_report\\_2012.pdf](http://www.bp.com/assets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2011/STAGING/local_assets/pdf/statistical_review_of_world_energy_full_report_2012.pdf) [25.09.2012]
- Chandler, A. D. (1962). *Strategy and Structure*. MIT Press: Cambridge, MA.
- Hyer, S. H. (1976). *The International Operations of National Firms: A Study of Foreign Direct Investment*. MIT Press: Cambridge, MA.
- Likhachev, A. E. (2012). That we are united. *Economy and life*, the appendix "Russia – Germany", June.
- Naryshkin, A. A. (2012). Experience of functioning of neo-Conservative model of economy in modern conditions on an example of Norway. *Problems of modern economy*, No. 43.
- Pitelis, H. N. (2007). Multinational company. *Russian magazine of management*, Vol. 5, No. 4.
- Povarenkina, T. V. (2007). Norwegian model of management of oil resources. *Oilgasindustry*, No. 6 (34). Website: <http://www.oilgasindustry.ru>
- Website: [www.mnr.gov.ru](http://www.mnr.gov.ru) [20.09.2012]
- Website: <http://www.gazprom.ru> [20.09.2012]
- Website: <http://www.wintershall.ru> [20.09.2012]

## RUSIJOS IŠTEKLIŲ EKSPORTAS IR EKONOMINIŲ INTERESŲ BALANSAS

IGOR SERGEEV, TATIANA PONOMARENKO

Naudingųjų iškasenų nacionalinis universitetas „Gavyba“ (Rusijos Federacija)

### Santrauka

Stabilaus išteklių, ypač energetinių, srauto užtikrinimas vis dar yra viena pagrindinių ES problemų, kurią teks spręsti ateinančių dešimtmetį. Rusijai svarbu plėsti naftos ir dujų eksportą į Vakarų Europą, konkuruojant su kitomis eksportuojančiomis šalimis, ypač Vidurio Rytai. Ši tema aptariama ES „Trečio energetinio paketo“ nuostatose, kurių pagrindiniai elementai – energetinių išteklių gamybos ir tiekimo atskyrimas bei energijos perdavimo tinklo valdymas.

Naujiems iššūkiams priimti reikia ir naujų metodų bei naujų ekonominio bendradarbiavimo formų. Ypač svarbu šioje srityje suformuoti naują tarptautinio ekonominio bendradarbiavimo kryptį, kuri įvertintų nacionalinius ir ekonominius interesus ilgalaikėje perspektyvoje. Ekonominė sąveika tarp energetinių Rusijos bendrovių ir Europos turi atitikti du kriterijus: ekonominio efektyvumo ir nacionalinio ekonominio saugumo.

Šio tyrimo tikslas – transnacionalinių kompanijų, užsiimančių angliavandenilinių išteklių paieška, gavyba, transportavimu ir perdirbimu, veikla.

Uždaviniai: išanalizuoti multinacionalinių korporacijų formas ir konkurencinį pranašumą; atskleisti bendradarbiavimo formas tiekiant energetinius išteklius; išanalizuoti norvegišką energetinių išteklių modelį; nustatyti naujus investavimo ir žvalgyimo darbų būdus bei priemones. Tyrimo metodai: ekonominiai-statistiniai; analitiniai, investicijų analizė.

PAGRINDINIAI ŽODŽIAI: *ekonominiai interesai, eksportas, dujos, geologinių investicijų sertifikatas, nafta.*

JEL KLASIFIKACIJA: F15, F21, F 23, F 36, F42.