

# **Special Topics Session: CRISIS MANAGEMENT FOR SUSTAINABLE DEVELOPMENT**

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# The main issues:

- How to relate to crises?
- Actions concerning crises;
- The evolution of Crisis Management;
- Systematization of approaches to Crisis Management for “local” crisis situation and “full-scale” crisis;
- The implementation of Keynesian approach, Monetary policy, Institutional Economics in Crisis Management in USA, EU, China;
- Russia’s way to overcome crises and maintain sustainability

**People often speak about positive aspects of crisis, but usually it begins and ends with declarations**

**How to turn crisis into positive side?**



# Russia

## The attempts to apply monetary policy:

- injections in the banking sector, but money doesn't reach companies
- direct investments in the real sector (several “strategic” companies and supporting social sphere
- **Special Russian challenges:**
  - the necessity to diversify economy

# WHY?



# **Nowadays oil industry is the main income-producing sector of Russian economy**

- From 2006 oil & gas revenues provide about 40-50% of Russian consolidated budget
- Any changes in this industry may have great multiplying economic effect not only in Russia but all over the world since Russia is one of the world leaders in oil reserves, its production and export

## **Nowadays the following trends in world oil market should be emphasized:**

- export's geography is changing: there is decline of oil & gas deliveries to Europe and growth to region of Asia/Pacific;
- new entrants appear at the international market;
- many countries shift to alternative energy sources and develop energy-saving technologies;

# Modern trends in Russian oil industry development:

- recession in Russian economy reduces investment activity within fuel and energy complex;
- Russia is dependent of equipment's import and foreign loans  $\Rightarrow$  current sectoral sanctions encourage delay of some investment projects' execution;
- nevertheless production and export of oil are growing we understand: a lot of measures should be undertaken to keep the situation

# Serious challenges need an adequate response

- One of the main steps - formation of adequate tax regime to solve problems of oil-dependent Russian economy.
- The new tax regime should:
  - provide completion of budget and performing of social functions by the State,
  - help to meet needs of long-term development of this leading branch of economy.



**The field of our research during  
the last years is:**

**The Effect of Oil Taxation on  
Investment Activity of Companies  
and Economic Sustainability in  
Russia**

# ***The results of tax system modernization during XXI century:***

- Our research shows:  
**the share of the total tax burden in Russian companies' revenue remains high and is much more than the largest of the foreign oil companies.**
- Examples – 2016:
  - the minimum percentage of taxes in the revenue was observed in "LUKOIL" (19% of total revenue). maximum - in "Bashneft" - 60% of total revenue
  - Foreign companies: the maximum share of taxes in revenue was in EXXON - 20%.

# Some comments

- In Russian oil companies a high proportion of taxes in revenue is the consequence of high "industry" taxes (MET, export duties, excise duties).
- In the largest foreign oil companies the share of "industry" taxes in revenue is very small – about 1-2% (except EXXON where it is about 20%).

# Conclusion:

- the tax regulation in Russian oil industry is still based on gross revenues from extraction, refining and export ⇒
  - it allows to administer taxes in relatively effective way and to fill the budget,
  - But:
    - it does not stimulate the development of oil companies' investment potential
    - it does not provide correlation between financial results of companies and taxes.

# Nowadays the strategic tasks of further tax regime reforming are the following:

- establishing of stable and predictable terms of taxation;
- nature rent withdrawal without sacrificing of financial sustainability and investment attractiveness of efficient companies of fuel and energy complex;
- efficient allocation of revenues generated by fuel and energy sector between the State and business (determination of optimal tax burden);
- attraction of investments to hard-to-reach reserves' extraction, exploitation of small, depleted oil and gas fields.

# An important part of tax regime strategic reform in Russia is:

- an introduction of widely used in the world supplementary charges:
  - Excess profits tax (EPT) and Tax on financial result.
  - Advantages:
    - provides tax differentiation depending on concrete oil extraction conditions.
    - stimulates investments to discovery new fields since the tax does not apply until the full payback of capital expenditures.

**This reform can bring together conditions for development of Russian companies, increase the sustainability of Russian economics**

# Decisions in 2016: pilot adoption of Tax on Financial Result should begin in 2018

But:

- in contemporary Russia the shift to EPT has also weaknesses and certain threats.
- Our SWOT-analysis evolved:
  - complexity of establishing new system of cost control and tax administration - in Russia it is difficult to build because of practice of “creative” accounting, transfer pricing;
  - many project, price and currency risks should be assumed by the State, which can lead to decrease of budget incomes.

## In a whole:

- Systematic approach to reformation of oil industry tax regime should consider concrete stages (road map) of such tax move to achieve balance between the society's interests and oil companies.
- Currently, the process of global and internal for Russia shocks in oil industry continues and we continue searching for measures to increase sustainability of Russian economics which is greatly dependant of oil industry



**This is the reason why our research is in progress**



Thank you!