Russia Freezes Gasoline Prices

by Rachel Douglas

Russian Industry and Energy Ministry spokesman Stanislav Naumov announced Sept. 19 that LUKoil, Sibneft, Rosneft, TNK-BP, Tatneft, and Surgutneftegaz, the country's largest oil companies, have agreed to freeze prices on gasoline at least until the end of this year. Heads of the companies met on the matter that day with Minister of Industry and Energy Victor Khristenko, after a Sept. 9 resolution in favor of a price freeze for agricultural enterprises passed the State Duma unanimously, and Presidential Representative for the Far East Federal District Konstantin Pulikovsky warned that gasoline and fuel-oil prices were making it impossible to prepare for Winter in that area.

For one of the few times in the past decade and a half of submission to rapacious "market forces," Russia's government pushed through the price freeze to head off new emergencies in in the physical economy.

Duma First Deputy Speaker Lyubov Sliska of the majority Unified Russia bloc, had warned that the current harvest and upcoming Winter crop planting were endangered by the recent gasoline price surge. Vagit Alekperov, head of LUKoil, told the press the move would stabilize prices and "make them independent of world prices," but Sliska and others worried aloud that the freeze is at too high a level to solve the economic problems involved.

In parallel with attempts to shield domestic oil users from inflated world oil prices, the Russian government is considering tax changes to try to bring more of Russia's own oil production onto the domestic market. Under consideration at the Ministry of Economic Development and Trade, the Kommersant-daily reported Sept. 12, are a reduction in the tax on fossil-fuels extraction or institution of a lower tax rate for lower-quality oil extraction (to boost output), and lowering the excise tax on high-quality oil (supposedly to encourage more investment in refineries in Russia).

Boost Oil Output

On Sept. 20, Industry and Energy Minister Khristenko sought President Vladimir Putin's approval for "tax exemptions" for oil companies that explore new fields. In a televised cabinet meeting, Khristenko said that Russian crude output is growing at twice the rate at which new reserves are being confirmed. After several years of double-digit growth in output from West Siberian fields, accomplished by using advanced technologies to extract oil from previously only partly exploited deposits, Russian oil production is expected to grow only 2-3% this year. Yuganskneftegaz, the main Yukos Oil production unit that was taken over by the state-owned Rosneft company, is experiencing zero growth.

Presidential Press Service

After consultation with the Russian Minister of Industry and Energy, the country's largest oil companies agreed to freeze gasoline prices until the end of this year. Russian President Putin has also approved tax exemptions for oil companies that explore new fields. Here, Putin (left) with German Chancellor Gerhard Schröder, in Moscow in April.

Putin Meets Oil Execs in U.S.A.

During his visit to the United States, where he addressed the United Nations General Assembly and, on Sept. 16, met with President George Bush, Putin also met in New York with top executives from multinational oil companies. Conoco/Phillips, ExxonMobil, and Chevron were represented at a group meeting with Putin, followed by one-on-one discussions, behind closed doors, between the Russian President and some of the executives. Gazprom CEO Alexei Miller was in Putin's delegation.

Russian press pointed to development of the Shtokmanovskoye offshore natural-gas deposit in the Barents Sea, as one agenda item. Conoco/Phillips is reportedly seeking to buy a 20% stake in LUKoil. Putin spoke publicly about the "huge potential" for Russian oil and natural-gas sales to the United States, which currently buys only 2% of Russian output.