

Oil and Gas Exports in Russia and the Transition to Technological Development

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The future use of revenue derived from oil and gas exports is hotly debated among Russians today. Notwithstanding the multitude of opinions on how to resolve the debate, one thing is clear: decisions on fuel exports will have a profound impact on Russia's economy and its ability to develop technologically.

Some argue that a high level of exports is needed to fund economic and technological development, while others fear that Russia's role as raw-materials provider to industrially developed nations will become permanent and will hinder the country's advancement. Others, some working in Russia's military-industrial complex, fear the country is being drawn into a vicious circle: raw materials (especially oil and gas) are being exported in exchange for the equipment needed to extract them. Efforts should be concentrated instead, they believe, on developing domestic manufacturing. Opposed to the curtailment of oil and gas exports, industry proponents contend exports are vital for the stabilization of Russia's economy. Oil and gas revenues, they argue, will help to create an environment favorable for Russia's transition to a market economy and technological development.

Wealthier than other sectors of the economy, the oil and gas complex in Russia has a special status. For one, it is the government's main source of tax revenue. In 1999, Russian oil and gas exports produced about \$30 billion in hard currency received by the state — about 40 percent of the federal income. This trend will likely continue, particularly if world prices increase.

Also in 1999, Russia exported about 132 million tons of oil and 194 billion cubic meters of gas. In the coming decade, nearly everyone agrees, it is necessary to maintain, if not increase, the current level of oil and gas exports. Most concur that there are significant unused resources in power saving as well as the opportunity to increase fuel production. In addition, world oil prices grew from about \$10 per barrel to \$28 per barrel. As a result, oil company earnings grew proportionally — about three times more in 1999 than in previous years.

With growing world oil prices, companies are currently receiving export “super profits.” Particularly during this time of economic transition, it is necessary to use at least some of this revenue to benefit society as a whole. Oil and gas, after all, is national property. There are countless ways this money could be used for the structural transformation of the economy and transition to technological development — one has only to think of safety nets for the ill and unemployed as well as for economic and technological development.

Toward this end, it is essential to apply export duties on the companies from the sale of fuel for the benefit of the state. In the beginning of March export duties were set at a level of 20 euro per ton. It is simultaneously useful to adjust export duties to fluctuate according to the dynamics of world prices. As per barrel prices increase, duties placed on the so-called super profits should be adjusted to favor of state; as prices fall, they should be lowered to make the oil and gas industry more competitive.

It should be noted that in the absence of a developed competitive environment and market institutions, the participation of the state is necessary for further development of the complex itself. To maintain a balance between corporate and national interests, it is necessary for those so charged to increase effective state regulation of economic processes. This can be done using duties, taxes, state purchases and other tools of regulation.

If not regulated, the oil and gas companies, backed by the vast economic forces inherent in the industries, could capture an ever increasing share of wealth at the expense of the public sector. The result of such massive income

redistribution would further strengthen this sector and negatively impact revival of manufacturing, investment, and other high-tech, research-based industries. In short, it could stymie the transition to technological development and economic growth.

It is fair to say that the oil and gas sector will benefit from a growing demand for high-technology products from other manufacturing industries, particularly if oil and gas industry executives decide to relocate production plants northward to the Arctic. Advanced technologies facilitate production, especially in areas of severe weather conditions. Conversion of parts of the military-industrial complex, where basic high-technology industrial potential is concentrated, could actually drive an increase in high-technology production. Guaranteeing the efficiency of investments involved in the creation of hightechnology equipment is crucial.

Oil and gas revenue should be used to build the domestic manufacturing base. Without such a base, Russia will find it difficult to expand the economy with its own resources and could risk becoming a “colonial economy” where corporate managers exchange non-renewable natural resources for the intellectual labor of developed nations. However, special interest groups may well determine how the country proceeds. If the national interests of Russia dominate instead of the momentary interests of oil and gas magnates, exports of oil and gas could become an important factor in the transition to technological development.

However, the intensified struggle to redistribute oil and gas complex incomes back to the respective industries can be traced to the creation in the State Duma of a group of deputies called “Energy of Russia,” with members closely connected to oil and gas interests. Victor Chernomyrdin, former premier of the Russian government, heads the group. There is a danger this group will represent the oil and gas complex at the expense of the nation. Should this be the case, the group will probably become a lobbying group with its own agenda to preserve the current situation. One industrial sector would then remain disproportionately wealthy, and Russia would remain a country seriously dependent on oil and gas exports. This imbalance can only be viewed as unfortunate.

The transition to technological development in Russia depends on a fair and equitable plan to distribute national and corporate wealth. A policy that places national priorities ahead of oil and gas industry interests will lead Russia to economic and technological development, which in time will benefit many more people than if the government takes a hands-off approach, allowing the industry to cater to special interests.

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