

# SHOULD A SPANNER BE THROWN INTO THE WORKINGS OF THE RUSSIAN OIL MARKET?

## Material for consideration

The series of publications “Russian Oil Market: In Search of Optimal Operating Conditions”

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## SUMMARY

Despite a consensus among researchers that rate the level of competition in the Russian oil market as low, this argument does not stand up to critical appraisal. Analysis of the facts presented in this work – which according to most experts are “indisputable proof” of the lack of competition – shows that they merely reflect the particular conditions under which the Russian oil industry works. The facts do not in any way demonstrate that the country’s oil market is being monopolised by the major producers. In other words, despite the existence of any number of works devoted to competition in the Russian oil market, questions regarding the level of competition in that market still remain open.

In the absence of any reliable theoretical framework, it is hardly surprising that Russian antitrust legislation relating to the oil market contains some major flaws. This assertion applies not only to the current legislation (i.e. the Federal Law “On the Protection of Competition”), but also to the one now being developed (i.e. the draft Federal Law “On the Market Pricing of Oil and Petroleum Products in the Russian Federation”).

Imperfections in the legislative framework allow the state to intervene in the establishment of prices on the oil market in an economically unreasonably way. The three “waves” of antitrust cases brought against major Russian oil companies, which ended in significant fines for the latter, may serve as prime examples of such interference. The problem here is not whether the oil companies in questions did or did not formally violate antitrust legislation – this issue is ultimately decided in court – but that the legislation itself leaves open the possibility of economically incorrect interpretations of the actions of market participants. This situation creates an atmosphere of unpredictability within the industry and increases oil business investment risk.

Of no less importance is the fact that the main emphasis in regulation of the oil market by antitrust authorities is on price control, and not on measures to develop and promote competition. In actual fact, antitrust policy is now aimed at combating not the causes of any lack of competition – even if it is assumed that such a situation exists – but its consequences, in the form of high prices for petroleum products.

In such a situation, it would be better to: a) conduct the necessary research on the nature of competition in the Russian oil market and formulate persuasive conclusions that would be understood and accepted by both the regulator and the market community; b) on the basis of the results obtained, make the necessary adjustments to the antimonopoly legislation, in order to exclude cases of unpredictable and economically unjustified interference in the functioning mechanism of the Russian oil market; c) shift the emphasis

in antitrust policy from the issue of price setting to problems linked with the development of competition.

The fact that many problems in the oil industry do not find quick and effective solutions prompts some researchers to look for the root of all troubles in the unavoidable flaws inherent in the working mechanism of the Russian oil market itself, which they believe can only be overcome by the widespread introduction to the industry of “state programming” methods. It cannot really be said that the expert community has a negative attitude towards the market as such, but this point of view does have its supporters. Based on unsubstantiated argumentation, they draw far reaching and even dangerous conclusions for the development of the industry.

An example of the futility of market methods for managing the industry, according to “the market’s naysayers”, is the dawdling pace of Russian refinery modernisation, with owners reacting unenthusiastically to the incentives which the state supposedly creates for them. In reality, however, effective market incentives for the development of the oil refining industry have not been formulated during the past few years. On the contrary, in fact: tax regulation of the oil market – including through the levying of duties on both oil and petroleum products – has served as a demotivating factor for modernisation.

Currently, it cannot be said that the oil industry is in any way devoid of state programming. State programming is both present in the form of the government’s “Energy Strategy of Russia for the Period to 2030” and in the industry’s “General Development Plan for the Period to 2020”. However, the role of these important strategic documents in the development of the industry is all too rarely visible, particularly since the objectives set within them – whatever they may be – are not supported by adequate tools for putting them into practice. In the absence of such tools – namely, a system of effective market incentives – the state is forced to resort to rather exotic forms of influence in its relationship with oil companies. An illustrative example of these forms of influence are the so-called “quadripartite” agreements concluded in 2011 by three government departments (FAS – the Federal Antimonopoly Service of Russia, Rostekhnadzor – the Federal Service for Ecological, Technological and Nuclear Supervision, and Rosstandart – the Federal Technical Regulation and Metrology Agency) with the oil companies, in accordance with which the state took on obligations to modernise outmoded refineries.

Instead of attempting to instil society and the authorities with an atavistic distrust of the “hostile environment of the market”, it would be better for the expert community to concentrate on understanding market mechanisms and the possibilities offered by the effective use of market forces in managing the industry for the achievement of socially important objectives



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