WHO'S IN CHARGE OF GOVERNMENT REVENUE: RUSSIA'S OIL FIRMS OR THE GOVERNMENT?

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On February 16, 2001, Russia's prime minister signed a government resolution which, one month after publication in the official Rossiskaya Gazeta newpaper, will reduce the crude oil export tax from 48 euros ($43.20) per metric ton to 22 euros ($19.80).[1] The new rate should take effect in late March. It was reported in RosBusinessConsulting News Online that this decision was in line with agreements that had been previously reached between the government and Russia's oil companies.[2]

The government estimates that anticipated budget revenue will fall by $139 million a month, or $1.67 billion a year, assuming no change in export volume. This number seems low. Russia currently exports 105 million tons of crude oil a year. The reduction of $23.40 per ton, if exports remain at 105 million tons over the next twelve months, implies a larger loss of $2.4 billion in revenue. This $2.4 billion in surrendered revenue would go a long way towards paying Russia's international debt obligations in 2001, which run about $3.5 billion.

The government indicated, on an official web site, that it might also set new tariffs on oil products and abolish quotas on their exports, which would enable oil producers to export more refined oil products. Current regulations allow producers to export a maximum of 20% of refined output of fuel oil in February.

The government is presumably strapped for money. The lack of funds is the justification it has given for its failure to make international debt payments on schedule in January and February. The government is negotiating with the Duma to reallocate existing funds in the budget in order to pay international creditors, at the same time it appears to have voluntarily rescinded $2.4 billion in future tax payments over the next year from oil producers.

Or has it?

World prices for oil are high by historical standards. There is substantial unused capacity among Russia's oil producers. Some 45,000 oil wells stand idle; oil output declined by half, from 600 million metric tons in 1989 to 300 million metric tons in 1999. Why, then, aren't they pumping and exporting more oil to take advantage of high world prices?

Russian oil producers face different incentives than firms in Western market economies. First, Russian producers are required to supply a certain percentage of their output to domestic customers at low prices; often they are not paid at all. Second, oil exporters are effectively taxed on their exports via the Central Bank's mandatory 75% repatriation and conversion rule. Third, under the current economic system of enterprise network socialism, as we explained in Chapter 1 of *From*

[1] From $5.90 to $2.70 per barrel.

[2] Http://www.rbcnews.com/free/20010215144416.shtm

Predation to Prosperity, oil firms are able to secure tax subsidies for themselves through tax non-remittance and Central Bank credit through the banking system. These subsidies are more valuable to them than trying to earn more after-tax income through greater exports.

The government has responded to this situation by reducing taxes on oil firms. In so doing, it has confirmed that it is the subordinate symbiont in its relationship with them. Oil producers are not willing to increase output if the fruits of more output redound to the government. The government has therefore been compelled to reduce the export tax in order to improve incentives for oil producers.

This analysis suggests that oil producers will increase output and exports in the coming year, which will offset a portion of the anticipated loss in government revenue. Compared with the previous year, the economy has exhibited evidence of a slowdown in growth since December 2000. If the slowdown were to continue, there would likely develop an increase in the payment jam, a rise in arrears (non-payments), and a return to previously higher rates of tax non-remittance.

So long as enterprise network socialism remains intact, the network, in this case the oil firms, will remain in control of the budget and fiscal policy.