

Independent oil and gas companies as an important contributor to realizing the hydrocarbon potential of the South of Russia

Over the past few years, Russia has been more and more clearly demonstrating a distinct tendency for concentrating oil and gas production in the hands of vertically integrated majors. However, they are mostly interested in large fields. Zamir Abdullaev, General Director of ZAAB Invest, speaks on urgent problems facing the small and mid-scale oil companies in his interview to the South Energy magazine:

- Mr. Abdullaev, in what regions does your company operate?

LLC ZAAB Invest is a small independent (non-integrated) oil and gas exploration, prospecting and production company. The company owns five license areas in the Krasnodar territory and Stavropol territory, and also in Kalmykia.

- What are the problems preventing the mineral base from developing more dynamically?

- The first thing I would like to point out is creating a common database containing geological information and developing a set of clear and transparent rules for accessing it. As of today, we have a paradoxical situation: federal government bodies oblige the companies to reimburse the state for collecting geological information. At the same time, a common comprehensive database for geological information is not available. Some of the information is stored outside the Geological Fund, namely, is kept by service contractors. However, using this information is deemed illegitimate by the regulatory authorities, hence the large number of various risks facing both the operating company and the service contractor.

Therefore, the business would only benefit from creating a common information database and defining transparent access rules in the first place followed by obliging the subsoil users to purchase the information from the state. Moreover, the amount involved is in the order of tens of thousands rubles, while the tax proceeds from discovered oil and gas field amount to hundreds of millions. The profit is obvious.

Second. Measures need to be taken to eliminate abusing land titles. In the South of Russia, for instance, agricultural lands have real value and have been almost totally allocated, and their owners try to make profit out of the subsoil users. The requested amounts often exceed the potential profit from selling potential agricultural products grown in the allocated land area. In other cases, profiteers purchase the land intended for drilling or infrastructural facilities installation and blow up the prices. It appears that this practice significantly impedes prospecting activities in the South of Russia. In this regard, a state level development of transparent land allocation guidelines and payment calculation procedures would allow attracting more investors to the South of Russia.



- How do you think it will be possible to maintain the balance between the interests of the supervisory bodies and the plans for increasing oil and gas production?

- It's not a secret that each of these bodies has a plan for inspections, fines collection, penalty applications etc. However, unfortunately, such an approach is detrimental to the country's interests due to the conflict between the ministries and departments' interests and the national interests in hydrocarbon reserves increase, production growth and tax money arrival into the budgets of all levels.

- The number of independent oil and gas companies in Russia is steadily going down. The remaining energy companies go through the consolidation process via acquisitions and mergers. Is it good?

- I believe it's a normal process which I would call a «food chain» and which is difficult to stop. However, consolidation through mergers and acquisitions is only one side of the process. There are some limitations, problems and risks hereto, namely:

- company's growth by purchasing existing businesses «relaxes» the management, the focus is shifted from prospecting to speculative purchase of existing businesses, an energy company transforms into a purely financial and investment company, and top specialists are replaced by moneymen;

- mergers and acquisitions result in mass reduction of staff in the acquired companies, and a lot of engineers, geologists, drilling specialists etc. lose their jobs;

- concentration of responsibility for the oil and gas industry development in the hands of the managers of one or several major companies raises the price of error drastically due to the magnitude of these companies.

At the same time, the world's practices demonstrate minor companies' importance for the oil and gas industry development.

- What could be the measures to be taken by federal and regional authorities in this connection?

- Not so much is needed for minor independent companies' development:

- Protection of and respect to the investors and shareholders' property on the state's part;

- Transparent and uniform business rules.

- Tax exceptions for small independent companies till reaching minimum profitability level.

- Equal access to oil and gas infrastructure facilities.

As far as the Krasnodar territory is concerned, open access to the existing infrastructure facilities would eliminate the need for independent companies to build the infrastructure on agricultural lands thus taking these ones out of rotation. This would also contribute to increasing the amount of payments to the budgets of various levels.

I believe, realizing the hydrocarbon potential of the South of Russia as a whole and of the Krasnodar territory in particular cannot be significantly expedited in any way without resolving the aforementioned issues.