



Call for proposals

The role of government support in development of Yamal LNG and Prirazlomnoe projects in Russia

I. The GSI's research on government support

The International Institute for Sustainable Development (IISD)¹ launched the Global Subsidies Initiative (GSI)² in 2005. The GSI is dedicated to research and awareness building on government subsidies³ and their impacts on sustainable development. In cooperation with a growing international network of research and outreach partners, the GSI seeks to lay bare just what good or harm government subsidies are doing and to encourage public debate and awareness of the options that are available for reform of unsustainable policies.

The GSI has focused on subsidies to both consumers and producers of fossil fuels, biofuel subsidies, and, to a lesser extent, subsidies to renewables, nuclear energy and irrigation. The focus on energy is fundamental due to its central role in economic development, environmental change and social welfare. Good management of energy resources will be critical in achieving sustainable development; however, in many cases, government intervention in the sector could be encouraging over-use of resources and inefficiency.

The GSI has developed its own methodology of investigating subsidies based on the three-step approach: "Identify-Measure-Evaluate". The "Identify" and "Measure" steps are largely in line with the WTO definition of subsidies under the Agreement on Subsidies and Countervailing Measures and the OECD approach to inventorying fossil fuel subsidies⁴.

The GSI has applied its methodology of identifying, measuring and evaluating fossil fuel producer subsidies in the report series "Fossil Fuels – At What Cost?" The four country case studies in the series looked at national-level subsidies for upstream oil and gas activities in Indonesia and Norway, those in Canada at the federal level and at the level of provinces in Alberta, Saskatchewan and Newfoundland & Labrador as well as in Russia at the federal level only⁵. Cross-country comparisons of the identified subsidy values are not envisaged at present as each

¹ www.iisd.org

² www.iisd.org/gsi

³ Hereinafter the terms 'subsidies' and 'government support' are used as synonyms.

⁴ <http://www.oecd.org/site/tadffss/>

⁵ The reports "Fossil Fuels – At What Cost?" are available on GSI's website: <http://www.iisd.org/gsi/fossil-fuel-subsidies/fossil-fuels-what-cost>

country has its own unique taxation regime, and there is no international benchmark which could be easily applied to make comparisons. The country case studies were selected based on the consideration that transparency over subsidy values would stimulate relevant policy discussions in these jurisdictions, which all have significant upstream industries; there is no reason to believe that the selected countries are performing better or worse in terms of subsidizing upstream oil and gas activities than other producers of hydrocarbons.

II. Rationale and objectives of the report on the role of government support to development of Yamal LNG and Prirazlomnoe projects in Russia

The objectives of the study are:

- To demonstrate how government support to Yamal LNG and Prirazlomnoe projects in Russia changed the economics (net cash flow) of these two projects and stimulated companies to invest in these upstream developments
- To prepare an inventory of the most significant social⁶ costs and benefits associated with each of these projects

The case study on government support to development of Yamal LNG and Prirazlomnoe projects in Russia is designed to build on the GSI report series ‘Fossil Fuels – At What Cost?’, particularly the Russia report, and is undertaken in tandem to a similar study on Meadowbanks gold mine in Nunavut, Canada.

Businesses will not invest in exploration and development of new hydrocarbon fields until risk-adjusted return on their investment become equal or higher than the financial cost of capital. As many conventional oil and gas fields are depleted, governments are often faced with the option of sharing risks with the private sector exploring and developing higher-cost fields, often offshore or in the Arctic.

In the case of both the Yamal LNG and Prirazlomnoe projects, both the risks and financial cost of capital have been high. In terms of risks for oil and gas projects in general, there is uncertainty about future world prices for oil as well as possible oversupply of certain commodities (particularly LNG). In the Arctic, there is particular uncertainty about recoverability of reserves and high environmental risks associated with oil spill in extremely fragile environments⁷. In terms of the financial cost of capital, the reporting for Yamal LNG project NOVATEK applies the discount rate of 11.9%⁸.

⁶ In accordance with the prevailing tradition in economics literature the term ‘social’ with respect to costs and benefits naturally includes environmental costs and benefits.

⁷ For instance, see Emmerson C. & Lahn, G. Arctic Opening: Opportunity and Risk in the High North. Chatham House, London, 2012 at <http://www.chathamhouse.org/publications/papers/view/182839>

⁸ [http://www.novatek.ru/common/upload/doc/NOVATEK_FS_12m2012_Russian\[1\].pdf](http://www.novatek.ru/common/upload/doc/NOVATEK_FS_12m2012_Russian[1].pdf), p. 33

The Russian government introduced direct support measures and tax incentives for the two projects. In general, governments provide support to oil and gas development projects to pursue different policy objectives such as securing the inflow of budget revenues in the future, supporting or creating jobs, stimulating development of certain industries, industrial processes or innovation, securing sufficient production of goods and services to maintain the country's position on world markets, and attracting foreign direct investment. Supporting development of certain regions is also a common policy objective for the introduction of government subsidies.

A comparison of the value of benefits gained as a result of implementation of projects supported by governments to the value of their social costs raises questions about the effectiveness and efficiency of such policies. In particular, Russia has seen a vivid debate over the successes and failures of the three production sharing agreements, which provided very significant government support to three large scale-projects (Sakhalin 1, Sakhalin 2 and Kharyaga) in the 1990s, with the preferential taxation regimes grandfathered and thus still applicable. The government of Russia subsequently recognized this policy as inefficient and stated that it will abstain from the PSA model in the future⁹. Yet, the scale of support it now provides to the Yamal LNG and Prirazlomnoe projects in the High North is comparable to the magnitude of support under the 'old' PSAs. For some more elements of the discussion on the role of government support in development of the two projects see *Gerasimchuk, I. (2012) Government support to upstream oil and gas activities in Russia*¹⁰ and *Koplow, D. (2012). Russian Yamal Peninsula LNG Project: Tracking subsidies to Arctic destruction*¹¹.

The Yamal LNG and Prirazlomnoe projects may also be associated with significant social costs such as negative environmental impacts in terms of greenhouse gas emissions, potential oil spills and loss of habitats and biodiversity. These costs should be weighed against the expected social benefits of the projects.

III. Assignment

The researcher(s) will use the GSI's methodological framework for identifying subsidies (see Annex) and apply it to the Yamal LNG and Prirazlomnoe projects. The researcher(s) will use publically available information sources, in particular financial reports on the Yamal LNG and Prirazlomnoe projects from NOVATEK, Total and Gazprom, government statistics and materials supporting preparation of federal budgets as well as independent studies and media reports.

Everywhere where possible estimates of projects' parameters used in the study should be the same as either used by the investor companies (NOVATEK, Total and Gazprom), the Russian

⁹ For an overview of the discussion see, for example <http://expert.ru/2012/03/30/gazovyye-dengi/>

¹⁰ <http://www.iisd.org/gsi/fossil-fuel-subsidies/fossil-fuels-what-cost>

¹¹ <http://www.earthtrack.net/blog/russian-yamal-peninsula-lng-project-tracking-subsidies-arctic-destruction>

government or other official sources, with preference given to estimates based on actual financial performance of the projects rather than investor assumptions.

The language of the report is English.

The structure and content of the report will be as follows:

1. Rationale and objectives of the report Based on these TOR	2 pages
2. Methodology description Study scope Approach and data used	3 pages
3. YAMAL LNG	
3.1. Overview of the Yamal LNG project Key characteristics: reserves, ownership and changes in ownership over time, lifetime, export or domestic market orientation, any high-level discussions of the project, a very brief description of social and environmental concerns associated with the project	2 pages text
3.2. Inventory of government support measures for the Yamal LNG project In accordance with table in Annex of the TOR, with particular attention to: <ul style="list-style-type: none"> • Direct government spending on infrastructure • Credit support • Government revenue foregone such as reduced rate of mineral extraction tax and export duty 	2 pages text + Excel spreadsheet
3.3. Basic modelling of net cash flow of the Yamal LNG project with and without identified subsidies under the latest Russian government’s ‘business-as-usual’ oil price forecast¹² The logic is the same as described with respect to NOVATEK’s own modelling: http://www.novatek.ru/common/upload/doc/NOVATEK_FS_12m2012_Russian[1].pdf , p. 33. The analysis should be presented graphically using a figure similar to this:	3 pages + Excel spreadsheet

¹² Available from the Ministry of Economic Development



The analysis should also contain net present value of the project cash flow with and without identified government support measures. Further, the analysis should include a discussion of sensitivities to changes in assumptions about world prices for hydrocarbons, project reserves, project capital costs and discount rate.

<p>3.4. Description of the Yamal LNG project’s social benefits, with quantification of benefits in monetary terms where possible</p> <ul style="list-style-type: none"> • Jobs (of which locally based) • Contracts for Russian suppliers (of which local) • Corporate investments into social infrastructure • Expected tax revenues (federal, regional and local) 	3 pages
<p>3.5. Description of the Yamal LNG project’s social costs, with quantification of costs in monetary terms where possible</p> <ul style="list-style-type: none"> • Direct government investment (federal, regional and local) • Environmental costs, including GHG emissions and air pollution from gas flaring and fuel use, biodiversity loss, ground and water pollution as well as risk of oil spills 	3 pages
<p>3.6. Comparison of the obtained social benefits and costs values with the value of project-specific government support, and against the background of the market value of the project under transaction with Total. According to Koplow (2012), ‘a 20.5% stake in the project for \$425 million implies a total project value of only \$2.1 billion. This is less than one-quarter [of] the cost to the Russian government of building the ice breaker fleet, and less than one-tenth [of] the total capital investment this article says will be associated with the Yamal development’.</p>	1 page



4. PRIRAZLOMNOE	
<p>4.1. Overview of the Prirazlomnoe project</p> <p>Key characteristics: reserves, ownership and changes in ownership over time, lifetime, export or domestic market orientation, any high-level discussions of the project, a very brief description of social and environmental concerns associated with the project</p>	2 pages text
<p>4.2. Inventory of government support measures for the Prirazlomnoe project</p> <p>In accordance with table in Annex of the TOR, with particular attention to:</p> <ul style="list-style-type: none"> • Direct government spending on infrastructure • Credit support • Government revenue foregone such as reduced rate of mineral extraction tax and export duty 	2 pages text + Excel spreadsheet
<p>4.3. Basic modelling of net cash flow of the Yamal LNG project with and without identified subsidies under the Russian government’s ‘business-as-usual’ price forecast</p> <p>The logic is the same as described with respect to NOVATEK’s modelling: http://www.novatek.ru/common/upload/doc/NOVATEK_FS_12m2012_Russian[1].pdf , p. 33. In the meantime, additional review of sources should be undertaken to understand what assumptions Sevmorneftegaz and then Gazprom used to model economics of the project.</p> <p>The analysis should be presented graphically using a figure similar to this:</p>	3 pages + Excel spreadsheet
<p>The analysis should also contain net present value of the project cash flow with and without identified government support measures. Further, the analysis should include a discussion of sensitivities to changes in assumptions about world prices for hydrocarbons, project reserves, project capital costs and discount rate.</p>	



4.4. Description of the Prirazlomnoe project’s social benefits, with quantification of benefits in monetary terms where possible <ul style="list-style-type: none">• Jobs (of which locally based)• Contracts for Russian suppliers (of which local)• Corporate investments into social infrastructure• Expected tax revenues (federal, regional and local)	3 pages
4.5. Description of the Prirazlomnoe project’s social costs, with quantification of costs in monetary terms where possible <ul style="list-style-type: none">• Direct government investment (federal, regional and local)• Environmental costs, including GHG emissions and air pollution from gas flaring and fuel use, biodiversity loss, ground and water pollution as well as risk of oil spills	3 pages
4.6. Comparison of the obtained social benefits and costs values with the value of project-specific government support, as well as with the market value of the project.	2 pages
5. CONCLUSIONS	2 pages
6. REFERENCE LIST	
7. TECHNICAL ANNEX (IF APPLICABLE)	

The study should be prepared in the English language.

Following submission of the draft, researcher(s) should be prepared to integrate substantive comments from the GSI team and external peer-reviewers.

IV. Destination and audience

The research report will contribute to the GSI’s research streams on subsidies in the Arctic and subsidies to energy producers. The study will be prepared in tandem with a similarly scoped study on support provided by Nunavut province to Meadowbanks gold mine in Canada. The study will provide valuable input to GSI’s ongoing work to build a global picture of the role of subsidies in extractive industry projects.

The GSI anticipates presenting the study at a dedicated event in Moscow in partnership with WWF Russia. Arrangements around presentation of the study and its possible translation into the Russian language are subject to a separate agreement.

The report will be published on-line, and will be disseminated to a wide network of stakeholders through a variety of IISD channels.

V. Deliverables and indicative timeline



9 December 2013	Deadline for submitting project proposals
10 – 23 December 2013 2014	Selection process and contract negotiations
27 December 2013	Start date
7 February 2014	Submission of the first draft of sections 1,2 and 3.1-3.3
28 February 2014	Submission of the first draft of sections 3.4 – 3.6
21 March 2014	Submission of the first draft of sections 4.1-4.3
12 April 2014	Submission of the first full draft
21 April 2014	Draft sent to peer-reviewers for comments
16 May 2014	Deadline for peer-reviewers to submit comments
1 June 2014	Peer-reviewers' comments integrated into the draft. Submission of the final draft
15 June 2014	Publication of the study in English

VI. Resources

The study budget is CAD 15,000 gross. Payment of taxes is responsibly of the consultant(s). 50% of the payment will follow upon submission of sections 1–3 of the report, the other 50% will be paid after submission of sections 4–7 and full integration of peer-reviewers' comments into the final draft.

VII. Requirements for submissions in response to this call for proposals

Interested researcher(s) are invited to submit their proposals in response to this call. This call for proposals is publicly distributed by IISD through professional networks and forums in order to determine the best suited consultants on a competitive basis. Submissions will be considered both from organizations and individuals.

Proposals should be in English and include:

- A cover letter integrating the following elements:
 - Explanation of the match between the expertise and interests of the researcher(s) and the study on the role of government subsidies in development of Yamal LNG and Prirazlomnoe projects



- A brief overview of literature and sources the consultant(s) will base their research on
- An explanation of the net cash flow model that the consultant(s) will employ
- Full CV(s) of the researcher(s) who will be working on the study
- An example of a quantitative research paper prepared by the researcher(s), preferably one published in English
- An example of a research paper on the topic closest to the subject matter of this call, preferably one published in English
- Any comments on the assignment and methodology that should be integral part of the contract to ensure successful implementation of the project

VIII. Contact details for proposal submission

Submissions in response to this call should be sent by email. In the subject line please indicate 'Yamal LNG and Prirazlomnoe call for proposals'. The contact person for this project is:

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Websites: <http://www.iisd.org/gsi> <http://www.iisd.org>



Annex: The GSI Typology of subsidies

Direct and indirect transfer of funds and liabilities	Direct spending	Earmarks and agency appropriations and contracts: Special disbursements targeted at the specific groups of recipients (social groups or businesses) on preferential terms compared to the benchmark
		Research and development support: Funding for research and development programs
	Ownership of enterprises by government if on terms and conditions more favourable than in case of private ownership	Ownership of enterprises that would not be viable without government support
	Credit support	Government loans and loan guarantees at below-market rates
	Insurance and indemnification	Government insurance/indemnification: market or below-market risk management/risk shifting services
		Statutory caps on commercial liability: can confer substantial subsidies if set well below plausible damage scenarios
	Occupational health & accidents	Assumption of occupational health and accident liabilities
	Environmental costs	Responsibility for closure and post-closure risks: facility decommissioning and clean-up; long-term monitoring; remediation of contaminated sites; natural resource restoration; litigation
		Waste management: avoidance of fees payable to deal with waste.
		Environmental damages: avoidance of liability and remediation to make the environment whole.
Government revenue foregone	Tax breaks	Tax expenditures: Tax expenditures are foregone tax revenues, due to special exemptions, deductions, rate reductions, rebates, credits and deferrals that reduce the amount of tax that would otherwise be payable.



Provision of goods or services below market value	Government-owned oil and gas, coal, mineral resources, etc., the use of which is normally subject to royalty payments	Royalty relief or reductions in other taxes due on extraction/harvesting: reduced, delayed or eliminated royalties are common at both national and sub-national levels. Royalties targeted based on type of energy, type of formation, geography or location of reserve (e.g., deep water oil & gas reserves).
	Government-owned natural resources or land	Access to government-owned natural resources land: at no charge or for below fair market rate
	Government-owned infrastructure	Use of government-provided infrastructure: at no charge or below fair market rate
	Government procurement	Government purchase of goods or services for above market rates
	Government-provided goods or services	Government-provided goods or services at below market rates
Income or price support	Market price support and regulation	Border protection or restrictions: controls on imports or exports leading to unfair advantages.
		Regulatory loopholes: any legal loopholes, either in the wording of the statute or in its enforcement, that transfers significant market advantage and financial return to particular market participants
		Regulated prices set at below-market rates: for consumers (including where there is no financial contribution by government)
		Regulated prices set at above-market rates: including government regulations or import barriers