Does energy renteerism have a future after the price shocks?

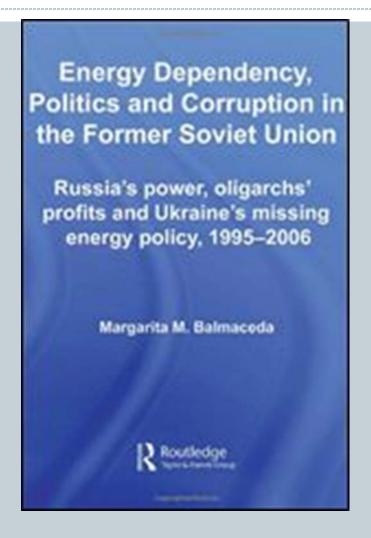
MARGARITA M. BALMACEDA PROFESSOR OF DIPLOMACY AND INTERNATIONAL RELATIONS

SETON HALL UNIVERSITY AND ASSOCIATE
HARVARD UKRAINIAN RESEARCH INSTITUTE

KYIV, UKRAINE
JUNE 23, 2016

Energy Dependency, Politics and Corruption in the Former Soviet Union: Russia's Power, Oligarch's Profits and Ukraine's Missing Energy Policy, 1995-2006 (Routledge, 2008).

CQ: In the context of post-Soviet legacies and powerful external actors, What domestic political factors support/hinder the development of coherent, proactive policies in key policy areas?



Motivation

3)

- "No dog, no flies?"
- Close the pipe and close up shop

4

 Classic period of "rents of energy dependency"

for Belarus: 2000-2014

for Ukraine: 1994-2006

5

 <u>Ukraine's</u> Classic period of "rents of energy dependency" 1994-2006

Key precondtions:

- Single contracts covering supplies, transit prices nd volumes (in gas)
- 2) Large price differential between various markets (RU, UA (inc role of barter) sub-markets within UA)

Potential Energy Rent Pools, External

- Price differential betweendomestic and market prices
- Hidden subsidies through tax and customs preferences
- Potential arbitrage gains to be made from price differentials between import, domestic, and export prices for energy
- Transit revenue
- Payments for use of gas storage facilities
- Customs and value-added revenue from oil refining and re-export schemes due to preferential tax and duties regimes
- Profits from advantageous barter arrangements

Potential Energy Rent Pools, Internal

- * Markups imposed on consumers in monopolized markets
- Stealing from the state through provision of unnecessary services that could be provided by state companies themselves
- Profits made by intermediary companies
- Profits from advantageous IOU (zaliki) arrangements

After classical period, new renteerism opportunities

- 1) Domestic gas /oil production and issue of prices
- related to investment issue

- 2) Procurement issues
- 3) Use of state companies for private interests
- 4) Electricity production
- 5) Price issue continues through coal issues

NEW/OIL RENT-SEEKING OPPORTUNIES (cont.)

 NEW/OLD OPPPRTUNITY#6: corruption through Value-added chains ланцюги доданої вартості

Some parts of Machine-Building closely related to the added value chain of key energy sectors, esp. that of coal

Example of Ukraine:

coal → coke → steel → key M-B products (wheels, transport goods)

CONFLICT, CONSTESED SOVEREIGNITY AND RENTSEEKING

- NEW/OLD OPPPRTUNITY#7
- 1) the unique boundary/border as a chance to *create* artificial barriers to entry ans a cash-cow for several actors
- 2) **Impact on energy supply** (coal in UA, generation capacities in MD)
- 3) **Blackmail and corruption opportunities** related to Gazprom's gas supplies to Transnistria, DNR/LNR