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Article

Russia: Proposed tax hike for mining, chemical and fertilizer companies

The proposed USD 7.5bn tax by president Putin's advisor implies additional risks for Russian corporates that will put pressure on credit profiles and ratings. Although the letter was distributed unofficially, we think the probability of its implementation is very high

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Russian president Vladimir Putin's aide, Andrey Belousov has proposed a USD 7.5bn tax hike for Russian mining, chemical and fertilizer companies as [Bloomberg reported on 9 August](#), quoting a letter from the economist addressed to the president.

According to the letter, the president should order the government to raise further revenues for the budget from the mining and chemicals sectors as they are paying lower taxes than the oil and gas sector. Additional tax revenues could bring RUB500bn (US\$7.5bn) to the budget annually.

Belousov argues that natural resources companies received a significant gain from the positive pricing environment, as a result of which their effective tax rate was 7.0% while the oil & gas sector pays on average 28% of its revenues to the budget in the form of MET, value-added tax, export duties and other taxes. Belousov calculates the additional budget revenues by equalising the EBITDA margin of natural resources companies to the average EBITDA margin for the oil & gas sector at 22.0%.

A Russian telegram channel (i.e. The Bell) unveiled the leaked letter written by Mr Belousov last night. The following corporates are listed for additional taxes: EVRAZ (RUB5.49bn), NLMK (RUB20.89bn), Norilsk Nickel (RUB114.2bn), Severstal (RUB43.31bn), MMK (RUB17.3bn), Metalloinvest (38.51bn), SUEK (RUB12.06bn), Mechel (RUB11.49bn), ALROSA (RUB67.28bn), Polyus (RUB58.19bn), SIBUR (RUB65.23bn), PhosAgro (RUB10.58bn), Uralkali (RUB40.78bn), ACRON (RUB8.34bn).

[Read the updated Bloomberg article here](#)

A few key highlights

- We are not certain that the list of the companies is final and won't be changed. A couple of names don't appear in the list, and we don't believe this means these name will avoid the special taxes.
- According to the leaked document, Putin has "approved" Belousov's letter.
- A Russian telegram channel 'Fun & Profit' (which is made by a journalist from Vedomosti) reported an unconfirmed rumour that Belousov's letter was inspired by Mr Sechin (Rosneft's CEO) who has lobbied for a decrease in the fiscal burden of the oil & gas sector. For us, it's no secret that Mr Sechin has always compared Rosneft to

Gazprom by the total amount of taxes paid to the budget. So, this rumour might not be unreasonable. As a result, we see the probability of issuing of new government order is quite high.

- The tax burden increase on chemical and fertilizer companies has been proposed in the past but was postponed because of difficulties in implementing taxation across industrial sectors with many players, each with differing efficiency and at a different investment stage and profitability.
- Belousov's approach breaks the fundamental market-oriented approach of the Russian state and is seen to be unfair especially to those corporates that have conducted large investment programmes and increased the efficiency of the business to maximise value for its shareholders.
- Action, if it comes into effect, would be credit negative for the companies that remain in the intensive investment stage (i.e., SIBUR). For companies paying large dividends, such as Norilsk Nickel, ALROSA, Severstal and NLMK (with its new dividend policy), it would impact the amount of dividends paid out.
- Action will not help the current poor investment climate in Russia, also hit by proposed sanctions from the US. Regulation risks will add pressure to the ratings of Russian corporates as it will increase the cost of borrowing for them.

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