Russian Oil Production Expected to Grow, but at a Very Slow Pace

Stratas Advisors

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Despite diversification efforts, the oil and gas industry continues to play a key role in the Russian economy. Oil, gas and minerals account for more than two-thirds of Russia’s exports. The tax structure is a major tool that shapes the Russian oil sector. In the past, high export taxes for crude oil were designed to force domestic processing and the export of higher-value finished products.

Contrary to widespread belief and in line with Stratas Advisors’ projections for the past seven years, Russian oil production continues to grow and surpass post-Soviet era records. In 2014, Russian crude oil and condensate production averaged 10.58 million b/d, which was 1.1% above 2013 levels and 2.1% above 2012 levels (this does not include NGLs).

In 2009, the government set a zero export duty rate for oil produced at 13 fields in East Siberia, including Vankorskoye, Yurubcheno-Tokhomskoye and Talakanskoye. In 2010, the list was extended by nine oil fields. These steps are the government’s main efforts toward stimulating oil production in East Siberia and offsetting the production decline in maturing fields in West Siberia. New tax breaks were enacted on Sept. 1, 2013, to include hard-to-recover tight (shale) oil. The preferential rates are currently applied to fields with large reserves and depletion of no more than 5%. An updated fiscal incentive package to promote production at offshore fields was enacted on Jan. 1, 2014.

In the second half of the studied period, Russian crude oil production might experience a boost when development begins for vast offshore reserves in Russia’s Arctic and Black seas. Beyond 2025, the offshore potential of the Barents, Kara, East Siberian, Chukchi and Black seas is expected to be evaluated, leading to a possibility of additional production by the end of the studied period. However, production there will be very difficult from financial and technological perspectives. Also, the production would be located in environmentally sensitive regions, which might hinder some or all development in certain areas. At the same time, the sanctions are strongly affecting this development, as can be seen by ExxonMobil suspending cooperation with Rosneft on the project in Arctic region, where commercial production is now unlikely to happen in the studied period.
In this analysis, Russian oil production is projected to grow at a very slow pace through 2025. Although the rapid rate of Russian production capacity expansion seen in the early 2000s will not continue, slow growth can be achieved as significant new resource volumes are developed. Between now and 2025, a fairly stable production level is expected to be observed. Unless significant investments are made to prolong the life of maturing fields, new additions will not be enough to offset a steeper decline after 2025. These investments are now also being threatened by the sanctions imposed on Russia by the US and European Union countries.

In the next few years, several existing major oil fields (primarily in West Siberia) will contribute significantly to Russia’s supply and others will offset decreasing production elsewhere. These fields (Pribskoye, Tevlin-Russinkoye, Tyanskoye, Sugmutskoye, Sporyshevskoye and West Salym), which have come online in the past decade, are adding between 1.2 million b/d and 1.5 million b/d to the Russian supply. However, new field developments are expected to produce almost all of Russia’s annual oil growth in the next five years and will likely produce more than half of the country’s oil in 2020. West Siberia’s share of Russian production is thus expected to decline in later years in favor of East Siberia.

Reported data indicate that new additions to production capacity in East Siberia and the Far East are, for the time being, offsetting the decline of production from maturing fields in the West. The largest addition in recent years was the launch of Rosneft’s massive Vankor deposit in the Arctic in July 2009 and its continuing production increases. The plateau of 25 million tons (0.5 million b/d) is planned to be reached by 2019.