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Oil Exports Poised to Soar 10%, Closing In on Saudi Arabia

By Anatoly Medetsky

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Crude oil exports may increase as much as 10 percent, almost catching up with Saudi Arabia's, after customs duties change later this year, a deputy energy minister said Friday.

Prime Minister Vladimir Putin last week finally ordered the government to close a loophole that allows oil companies to circumvent the steep export duty on crude by subjecting it to the slightest possible refining. Customs officers levied a much smaller duty on the resulting fuels, while foreign customers still treat the products as a surrogate for crude.

Now that the duty on barely refined crude will go up as of next month — and the duty on crude proper will go down — oil producers will reroute 20 million to 25 million metric tons of crude a year from refineries straight to export, said Deputy Energy Minister Sergei Kudryashov.

"The development of oil refining has taken the wrong course in this country over the last five years," he said at a news conference.

"As a result of the change, crude exports may expand to as much as 265 million tons next year from the amount that the Economic Development Ministry recently forecast.

Saudi Arabia's state-owned oil company exported 275 million tons last year, and the number is expected to decline over the next few years.

In terms of oil output, Russia has already overtaken the kingdom, dethroning the country as the world's top producer of the commodity.

Under the decree that Putin signed last week, the export duty on heavy products such as fuel oil will rise 19 percent to 66 percent of the duty on crude. It will further increase to match the crude export duty as of 2015.

Simultaneously, the government is expected to reduce the export duty on crude to 60 percent of its cost from the current 65 percent. Federal budget revenues will overall remain unchanged, Deputy Prime Minister Igor Sechin said late last month.

Oil producers have bet a lot on refined products of the type that the new government measure will affect.

LUKoil, the country's second-largest oil producer, exported 11 million tons of these refined products in the first half of this year, compared with 17 million tons of crude exports in the same period.

Revenue from shipping refined products abroad soared 37 percent, while that for crude climbed 14 percent, the company reported.

Kudryashov also said the government could slash the prohibitive export duty on gasoline after October. The duty could fall to 66 percent from 90 percent of the levy on exported crude.

Commenting on the natural gas industry, he said output was on track to rise at least 2.2 percent to 665 billion cubic meters as private producers like Novatek boost production.

Russia is close to granting extraction tax breaks for heavy oil deposits as compensation for refiners that face a higher burden from an increase in export duties, Energy Minister Sergei Shmatko said Friday, Bloomberg reported.

The country will not grant incentives specifically to companies, Shmatko told reporters in the Tajik capital, Dushanbe.

Russia plans to unify export duties on light fuels such as diesel and raise them on heavy products such as fuel oil, taxing them both at 66 percent of the crude oil levy starting from Oct. 1. That measure had been held up this year because of complaints that it was punitive from companies including Bashneft, controlled by billionaire Vladimir Yevtushenkov's AFK Sistema, and Tatneft.

"We'll define characteristics for the extracted oil, such as high viscosity," Shmatko said. "Tatneft and Bashneft can benefit within the framework of such incentives."

The ministry plans to work out the measure in the near future, Shmatko said. ''In general, we've agreed on the issue.''