

LUKoil Sees Production Decline Looming

By [The Moscow Times](#)

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The oil major is predicting dog days for the industry if steps are not taken. **Sergei Nikolayev**

Without the large-scale application of new technologies, oil production in Russia will begin to decline in 2016-17, according to a report by LUKoil on the main trends in the development of global markets for oil and gas in the period until 2025.

A characteristic of a majority of Russian deposits is the natural drop in production with the depletion of reserves. A large amount of extraction is being done in Western Siberia. "To overcome the natural drop in extraction, it is necessary to launch three to four deposits annually that are comparable to the Vankor deposit," the LUKoil report said, Interfax reported.

Only at the end of last year were licenses distributed for the development of major fields — Lodochnoye in Krasnoyarsk Territory, and Shpilman and Imilor in Khanty-Mansiysk Autonomous District. "Consequently, the opportunity to launch new major deposits in the mid-term perspective will be limited," LUKoil said.

The company plans to put into operation such deposits as Yurubcheno-Tokhomskoye, Russkoye, Vostochno-Messoyakhsoye, Novoportovskoye, Kyumbinskoye and Iminorskoye before 2020. As a result, the growth of annual extraction as a result of developing new major deposits will be roughly 100 million tons by 2025.

A large part of the new deposits will be put into operation after 2015, which increases risks for supporting extraction at a steady level in the foreseeable future.

"Forecast volumes of production from the realization of new projects are unlikely to help offset the natural drop in extraction at oil deposits," the report said. It further states that oil production in Russia could be supported with increasing recovery at existing deposits, the development of tight oil reserves, and the development of Arctic shelf resources. However, for the development of these it is necessary to create favorable conditions. Tertiary methods for increasing recovery come at a high cost, and their application is economically inefficient under the current tax regime.

"That can also be said about developing reserves of so-called non-traditional oil, the extraction of which requires the application of high-cost technologies," LUKoil said. "For the support of steady extraction in the long-term period, additional steps are necessary for reforming the system of taxation for oil-extraction. If they are not taken, a drop in production could be expected with a high likelihood starting in 2016."

During the presentation of the report LUKoil vice president Leonid Fedun said that if current trends held, Russia would experience a shortfall of 130 million tons in 2025. "But it would be absolutely wrong to say the situation is hopeless," Fedun said. "The projected oil recovery index in Russia is 37 percent, but just 20 percent has been achieved, while it is 43 percent in the U.S. Increasing the oil recovery index in Russia to 43 percent would provide for extraction of about 4 billion tons in reserves.

Russian oil-refining needs significant modernization, however, the risks of shortages of gasoline persist, LUKoil experts said. "Measures taken by the government will help to increase the extent of processing by domestic oil refineries. Nevertheless, the balance on the market for automotive gasoline will remain pressured until 2016," the report said.

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