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INDEPENDENT NEWS FROM RUSSIA

Russia Shuns OPEC, Plans Increased Oil Production

By The Moscow Times

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Russia, the world's top oil producer, plans to boost output to meet its export commitments to Asia and Europe and sees no scope for coordinating with the Organization of the Petroleum Exporting Countries, or OPEC.

"We do not discuss policy coordination," Energy Minister Alexander Novak said in an interview. "OPEC is, in essence, a cartel."

Speaking on the eve of an OPEC meeting in Vienna, Novak said he saw no need for output restraint after Iran agreed with world powers to curb its nuclear program and in return won a limited softening of international sanctions.

"The balance between demand and supply remains," Novak said, forecasting that world oil prices will fluctuate about $100 per barrel for the foreseeable future.

Novak this week will visit the U.S., which is expected to overtake Russia as the world's largest oil producer next year because of the shale boom.

Thanks to new drilling technologies such as hydraulic fracturing, or fracking, the U.S. production of liquids is estimated to average 11 million barrels per day in 2014, the International Energy Agency said in October.

Russia, which last month set a new post-Soviet record of 10.61 million bpd, is focusing on long-term development and not who holds the top spot in the oil producer rankings.

"We do not talk about whether we should be first or second when we plan our production volumes," said Novak, 42, who worked in the Siberian mining industry and regional administration before joining the government formed in May 2012.

Most of Russia's oil production comes from Soviet-era fields in Western Siberia, where reserve depletion threatens the long-term crude output levels.

To stem output declines, Russia has offered a range of tax breaks to boost investment in new or remote fields, support production from depleted deposits, and create incentives to tap hard-to-recover reserves of tight oil.

The tax breaks are complex but are based on a model designed to generate an internal rate of return of more than 16 percent — enough of an incentive to invest even in Russia, where the oil industry is dominated by a few major players.

"Our basic task is to create conditions conducive to the profitable production of natural resources," Novak said.

The U.S. Energy Information Administration estimates Russian shale oil resources at 75 billion barrels, more than the 58 billion held by the U.S., the leader in shale oil production.

The tax breaks should help Russia keep production at a minimum of 10.1 million to 10.2 million bpd in the coming years and could lead to an increase to 10.8 million to 11.0 million bpd before 2030, Novak said.

He forecast an increase of about 1 percent in oil output this year to 10.4 million bpd.

The Energy Ministry is likely to support a request by the country's third-largest oil producer, Surgutneftegas, to expand the list of hard-to-recover oil deposits for which certain tax breaks are applicable.

Novak forecast that tight oil would eventually add 300,000 to 400,000 bpd to overall output.

He dismissed suggestions that oil exports to Europe would suffer because of commitments taken on by state-controlled oil major Rosneft to treble supplies to China to more than 1 million bpd.

"As far as the western direction is concerned, we think that all our contracts today will be guaranteed by new fields being brought onstream in the Yamal and Taimyr peninsulas," he said.

Novak said Rosneft had given assurances that it could meet all of its commitments with its existing and planned production, and without having to acquire any more production assets.