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Russian Energy Minister Sees Rise in Crude Oil Exports in 2015

By The Moscow Times

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Russian Energy Minister Alexander Novak

Russian crude oil exports are expected to rise this year and beyond as volumes are diverted away from domestic refineries which are cutting capacity as part of a modernization drive, Russian Energy Minister Alexander Novak said.

Novak said Russia, one of the world's biggest oil producers, will maintain its crude oil output at over 10 million barrels per day (bpd), despite some expectations of a plunge in production due to lower prices.

He said Russia will continue consultations with the Organization of the Petroleum Exporting Countries (OPEC). Russia will meet OPEC officials in June in Vienna to discuss the impact of shale oil production on global oil markets.

Up to now, Russia has been cutting crude oil exports and instead sending much of its crude production to domestic refineries, a move that offers better margins than selling crude to the market at current low prices.

But crude oil exports are seen rising by up to 3 million tons in 2015 and to 280 million tons per year by 2035 from 224 million tons in 2014, Novak said.

Since 2000, refinery output in Russia has grown by over 45 percent to 294 million tons per year in 2014. That is on a par with the peak reached in the mid-1980s when the Red Army needed fuel for its campaign in Afghanistan.

Under the modernization program, Russia's refineries will switch to produce fewer low-quality products such as fuel oil and more high-quality products such as diesel and gasoline, but in lower volumes.

"The strategy is to cut refining throughput," Novak said. "That's due to an increase in light products output on the back of modernization."

He forecast a decrease in oil product output to 291 million tons in 2015 and further to 280 million tons by 2035.

Consultants EY, which advise the Energy Ministry on taxes, say they expect a rise in Russian diesel production to 33 percent of the domestic oil product basket by 2020, from 26 percent in 2013.

The growth in refinery production and improvements in oil product quality have so far continued, despite Western sanctions over Moscow's role in the Ukraine conflict. According to the Energy Ministry, 19 new units are expected to be commissioned at Russian refineries in 2015 against eight in 2014.

Novak said there was no need for new refineries, while outdated plants would be closed.

"Ineffective (plants) will cease to exist due to competition," he said.

Russian No.2 oil producer LUKoil has announced plans to shut its Ukhta oil refinery.

Novak said Russia planned to export 31 million tons of oil to China this year, up 3 million tons from 2014.

Sustainable Output

LUKoil has predicted that Russian oil production may be down 8 percent by the end of next year as low prices force companies to cut back on drilling in Siberia.

Novak dismissed such a pessimistic scenario, saying crude oil output will stay this year at 525 million to 527 million tons (10.5 million to 10.54 million bpd).

"We don't expect any cuts despite lower prices and some other problems," he said.

Russia still expects to pump at a rate of 505 million to 525 million tons annually through to 2035, Novak said. He said the fall in global oil prices was mitigated by the fact that many oil firms' costs were in rubles, and the currency has been losing value.

Still, he said, Russian oil companies will reduce their investment programs by 10-15 percent, awaiting better times when crude oil prices recover. Globally, over $1 trillion of investments were postponed due to lower oil prices, Novak said.

Novak, a former Finance Ministry official, said an oil price of around $60 per barrel is "OK" for Russian business, taking into account the plunge in the ruble's value. However, $70-$80 would be "more just," the minister said.

He said that by year-end the oil price could pick up to $65-$70, as a result of companies scaling back investment and the consequent fall in supply.

Novak also said a profit-based tax in the Russian oil industry — one of the key stimuli for the shale oil boom in the United States — was not seen before 2022.