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Russian Oil Production Among Most Expensive in World

Saudi analysis finds Russian oil production has one of the highest break-even prices in the world.

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The break-even price for Russian oil production is more than $40 a barrel, IHS Markit found in analysis for Saudi Aramco's upcoming IPO. **Yegor Aleyev / TASS**

Russia is one of the most expensive places in the world to produce oil, new analysis produced for Saudi Arabia's state-owned oil giant Saudi Aramco has found.

The cost of producing a single barrel of Brent crude oil came in at around $42 for Russian onshore projects, and $44 for offshore projects, IHS Markit estimated. That was more than twice the $17 per barrel production costs in Saudi Arabia — the cheapest in the world.

Brent crude is currently trading at $62.40 a barrel on the world markets.

The analysis, conducted by IHS Markit and published alongside Saudi Aramco's initial public

offering (IPO) prospectus, found offshore projects in Venezuela had the highest break-even price in the world at $63 a barrel, followed by China at $55-60.

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Russian oil production was more expensive than in Saudi Arabia, Iraq, Kuwait, Iran, Nigeria, the United Arab Emirates, the U.K., the Gulf of Mexico and Norway. Among the other most-expensive places to produce oil were Azerbaijan, Angola, Thailand and India.

Differences in production costs depend not only on the ease of extraction and location of the project, but on the taxes levied by governments in different jurisdictions. Russian statistics agency Rosstat estimates that the cost of extraction without taxes would be around $32 a barrel in Russia, news site RBC reported.

Analysts told RBC that Russia has one of the highest tax burdens on oil companies in the world. However, for more tricky projects, the Russian government offers significant tax relief to companies to encourage production. Most recently, a trillion-ruble tax break was awarded for state-backed Rosneft's Vostok Oil project in the Russian Arctic.

In the IPO prospectus published last week, Saudi Aramco listed exposure to U.S. and EU sanctions against Russia as a risk for the company.

Due to "investment and joint venture opportunities in oil and gas ... projects located in Russia and with Russian counterparties," the company said it was vulnerable to "asset freezes, restrictions on investors trading securities [and] substantial civil or criminal penalties," if Saudi Aramco were to fall under such sanctions "as a result of its transactions with other parties."

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