

Russia and the global oil market

Russia is a major producer

Russia is the world's largest or second largest producer of oil, depending on which statistical method is used. In 2009, Russian crude oil production totalled some 10 million barrels a day, roughly corresponding to output in Saudi Arabia. These two largest world producers each accounted for approximately 13% of global crude oil production.

Over the period 1999–2009, Russian oil production grew by nearly 5% per annum, representing half the total growth in global output (Chart 45). By 2005, however, the rate of growth was already beginning to fade, and in the last few years crude oil production in Russia has grown by only around 1% per annum.

In contrast to the early post-millennium years, the Russian oil sector now has no free capacity that could be brought rapidly into production. All forecasts for the next few decades project only very slow growth in Russian oil production, at a maximum of 1–2% per annum.¹ This is due to the drying up of large oil fields currently in use and a lack of new investment.

Oil exports depend on domestic demand

In recent years, Russian oil exports have totalled some 5 million barrels a day. Fluctu-

ations in exports depend on the cyclical situation in the domestic economy. A year ago, in the wake of a fall in domestic oil demand, oil exports rose temporarily to more than 7 million barrels a day. With the OPEC countries simultaneously cutting production, Russia for a while occupied the position of the world's largest oil exporter.

With Russian GDP growth expected to remain fairly brisk, at an estimated 4% per annum, domestic demand for oil will remain high. In practice, for the volume of exports to remain at current levels, domestic usage of oil would have to become considerably more efficient. Owing to the extremely low current level of efficiency, there is huge potential for improvement, so the objective is not impossible. In practice, it is actually essential for Russia to improve its energy efficiency. With a view to exports, the problem remains that research into alternative energy sources and innovations based on these is still in its infancy.

Slowly growing oil production and domestic demand growth, fuelled by overall economic growth, mean that, despite improved energy efficiency, Russian oil exports will be unable to grow significantly from their current levels. In the future, growth in global oil supply is expected to come

from the Middle East, and possibly from new oil producers such as Brazil.

Demand growing in Asia, but Europe remains Russia's main export market

In the advanced economies, oil is almost solely used for the manufacture of traffic fuels, and consumption is not expected to grow much in OECD countries. In future decades, oil consumption will be dominated by the emerging economies. Consumption is growing particularly in China, India and the Middle East, with increasing use of motor vehicles. According to an International Energy Association (IEA) forecast from 2009, by 2030 oil consumption in the Asia and Pacific region will be more than 50% higher than in Europe and the CIS Region. In 2000, oil consumption in these regions was still on the same level, but the ongoing shift will move the focal point of energy markets from the Atlantic to the Pacific.

Doubts have been expressed about Russia's ability to adjust to this change. For example, slightly more than half of Saudi Arabian oil exports go to Asia, with Europe accounting for only a few per cent. The same applies to other Middle Eastern oil producers. In contrast, Russian oil exports are almost solely directed to Europe,

¹ The same applies to other key energy commodities.

where demand is dwindling. At the end of last year, a new oil harbour, Kozmino, was opened in the Russian Far East in order to transport Siberian oil for the first time to markets in the Pacific region. In early 2010, close to 6% of Russian oil exports have passed through the new harbour. A new pipeline known as the Eastern Siberia – Pacific Ocean (ESPO) pipeline is being built to the harbour to transport oil from Eastern Siberian fields to Asian markets. The projected capacity of the ESPO pipeline is a million barrels a day by 2016. Asian markets could then account for as much as approximately a quarter of Russia’s oil exports.

Given, even at best, the very slow growth of export markets and particularly the present poor transportation connections to growing markets, Russia’s role on the global oil market is unlikely to become more pronounced.

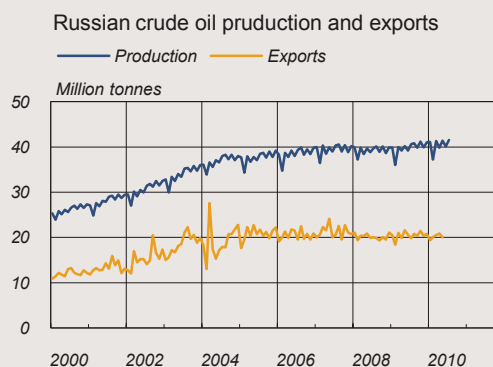
Russia nevertheless remains the world’s largest non-OPEC oil exporter and will continue to be so. It is unlikely that Russia

will coordinate its energy exports in the future with OPEC or any other external party. As was demonstrated in 2009, Russia is also not a swing producer that could adjust its production at only limited cost. Neither the collapse in the world market price of oil towards the end of 2008 nor the rises in price at the beginning of 2009 were reflected in any way in Russian oil output. Both

production and export capacity are already fully utilised.

The IEA (2009) estimates that world crude oil production will grow from the present 83 million barrels a day to 103 million barrels by 2030. Without very substantial new investment, Russia’s share of global crude oil production will decline in future to under 10%. Russia’s relative importance as an oil exporter will also be less than at present.

Chart 45.



Source: Rosstat.