

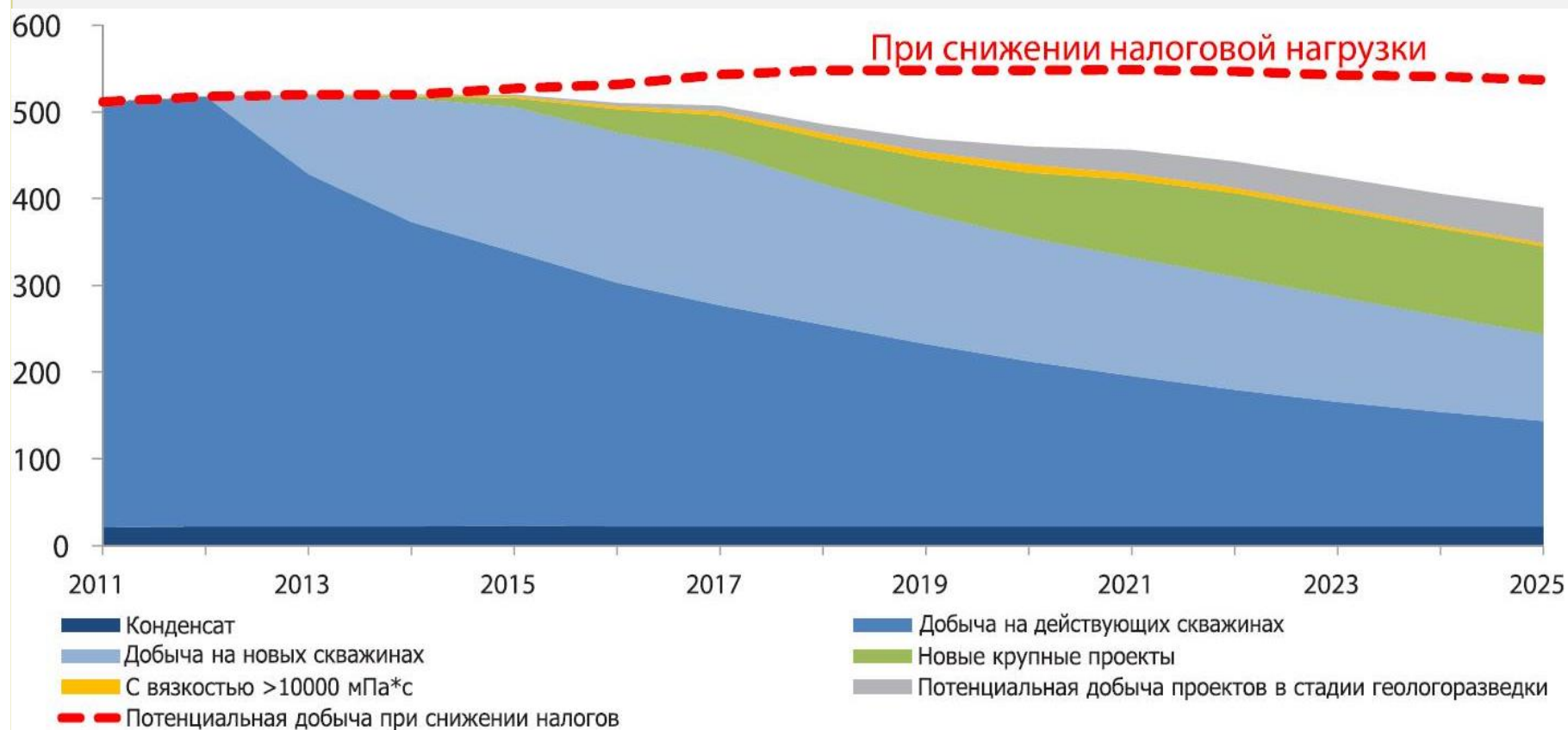
# **Russia's Oil & Gas Strategy: Challenges & Changes**

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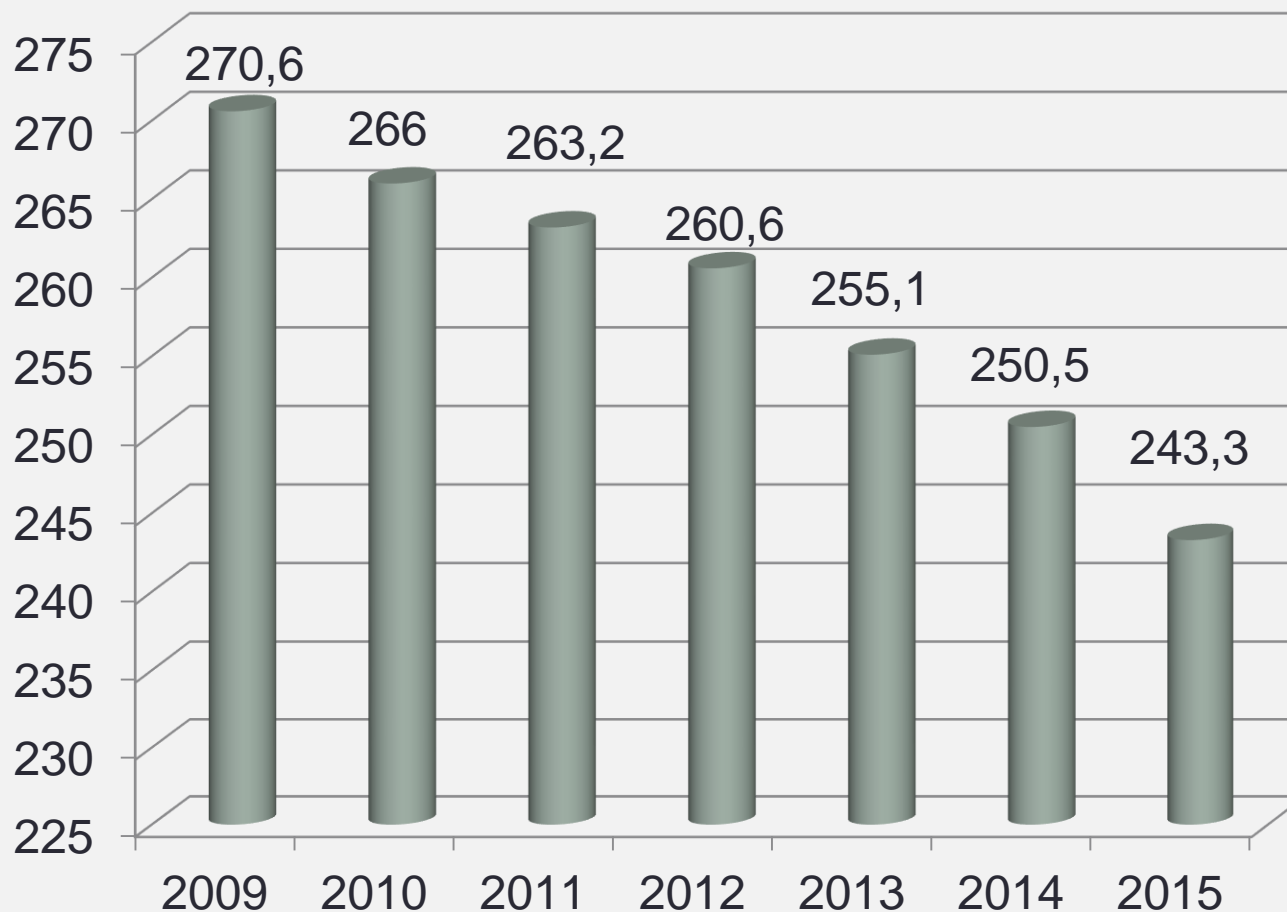
## **Russian oil production is peaking**

- **Size and quality of new discoveries deteriorates**
- **Ongoing projects enter depletion phases**
- **Tight reserves are a challenge for existing technologies**
- **Tax incentives are inadequate; PSAs are banned**
- **Industry is dominated by inefficient state-controlled majors**
- **Foreign operators are discriminated**
- **Western sanctions are in effect**
- **Low oil prices make a lasting effect**

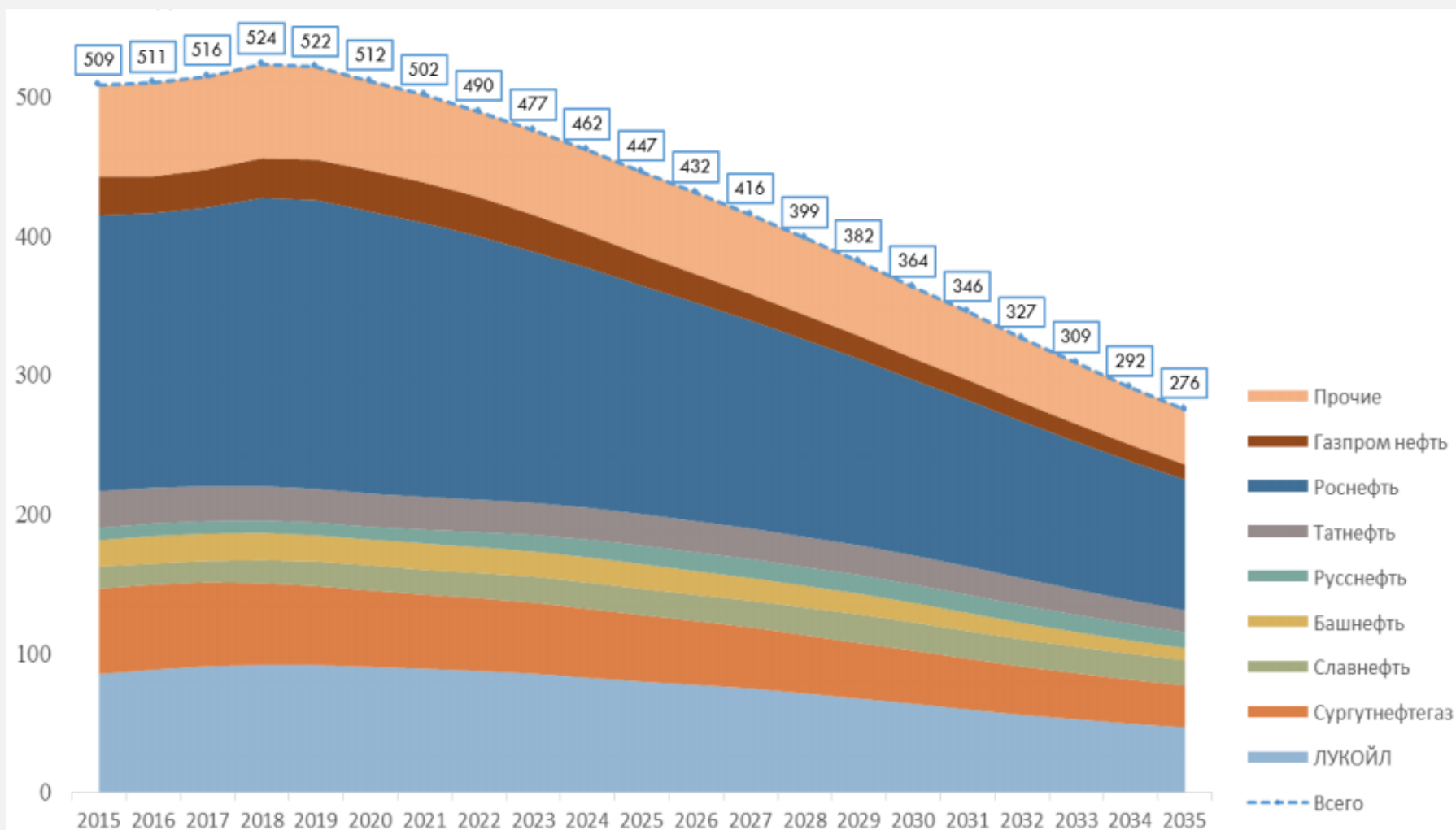
## Government's outlook of Russian oil production, mln tpy



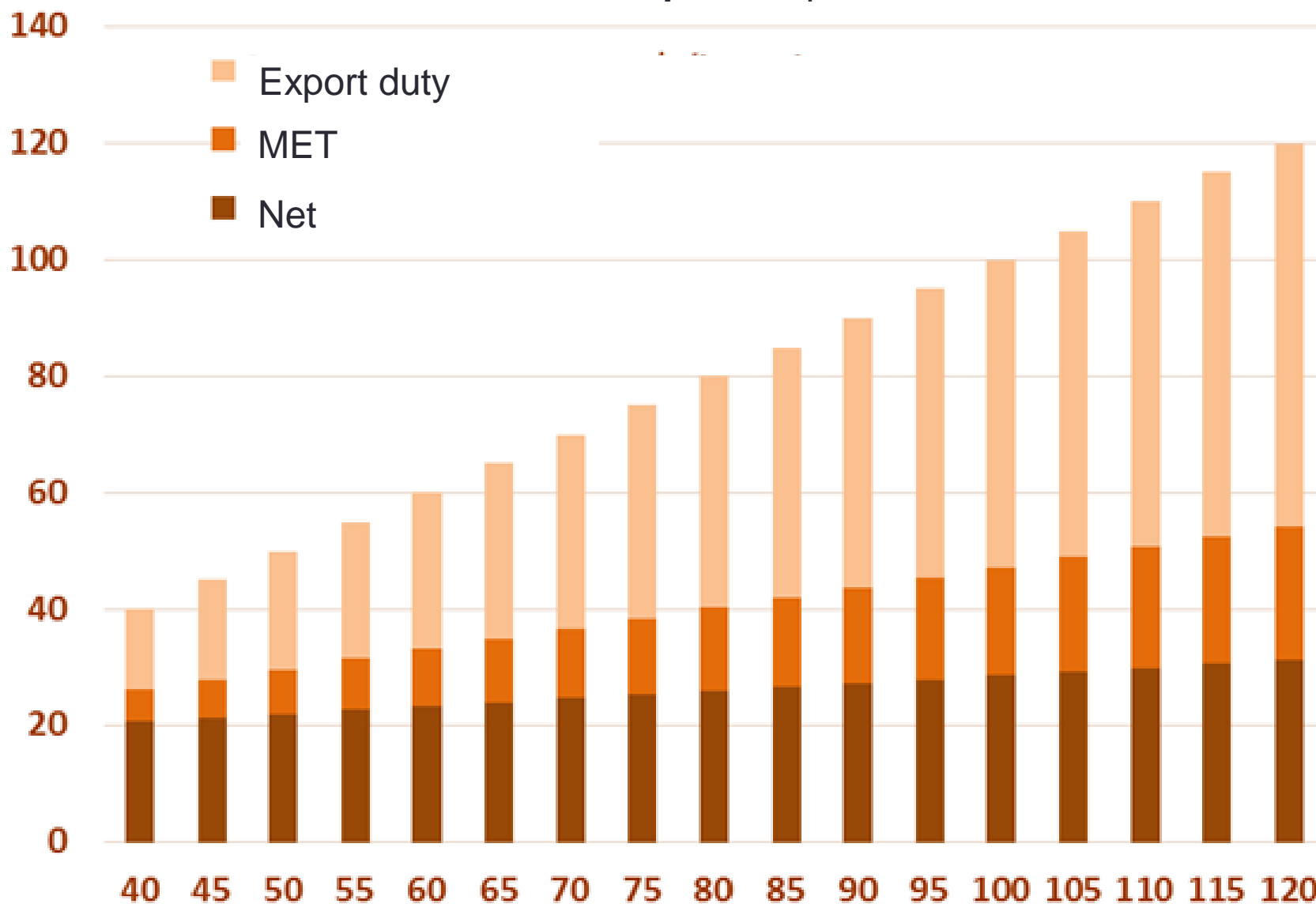
## Oil production in Khanty-Mansi Autonomous District, mln tpy



# Oil companies' outlook of Russian oil production, mln tpy



Taxes in oil price, \$ per bbl



## **Breakeven cost of Russian crude, US\$ per barrel**

(estimated average if sold at \$30 per bbl)

<b>Lifting (opex)</b>	<b>\$7.00</b>
<b>'Amortization' (capex)</b>	<b>\$4.00</b>
<b>Administrative &amp; marketing</b>	<b>\$4.50</b>
<b>Transportation</b>	<b>\$4.50</b>
<b>Main taxes (MET &amp; export duty)</b>	<b>\$12.00</b>
	<b>\$32.00</b>

**Expected profit is not included,  
and the government wants to increase taxes**

# **What oil companies are doing to save funds and stay in the black?**

- **Attacking the government with complaints**
- **Cutting investment programs and current expenses**
- **Cutting credit exposure**
- **Dropping greenfield plans**
- **Focusing on brownfield projects with capex long gone:**
  - **Enhancing recovery from developed plays**
  - **Changing 'optimal' development plans in favor of quick gains**
  - **Provoking faster depletion**



## Russian natural gas: a political weapon?



## **Three powerful factors are making Gazprom change its business strategy:**

- 1. Gas production glut vis-à-vis shrinking markets**
- 2. The Europeans' determination to enforce antitrust environment and resist Gazprom's 'offensive'**
- 3. Low energy prices**

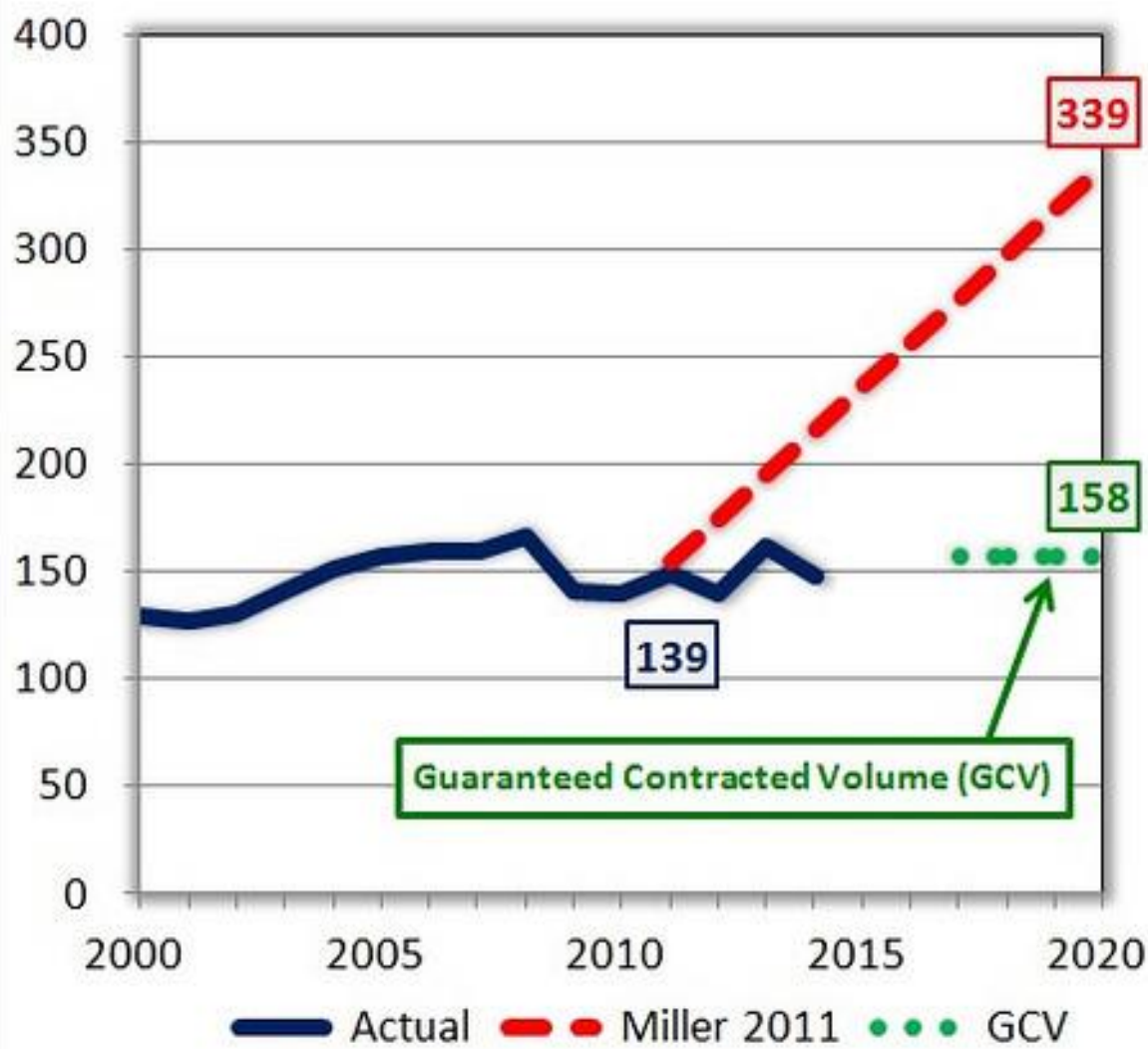
**Gazprom's producing potential totaled 617 bcm, but the company sold only 444 bcm in 2014:**

- **126.2 bcm beyond ex-USSR**
- **48.0 bcm in former USSR**
- **217.2 bcm domestically**
- **52.6 bcm of resold non-Russian gas**

**The volume of 'unwanted' Russian gas:  
officially 173 bcm, but actually  
**over 225 bcm****

**Gazprom is pulling the brakes on new upstream projects and desperately seeking new markets**

### Russian Gas Exports to Europe, bcma



<http://archive.premier.gov.ru/events/news/16384/>

## **Gazprom may be facing a price war soon**

**The company's 'worst case stress' scenario was for  
\$169 per 1,000 cu m**

**Now it expects the price in Europe to average  
\$166 in 2017-2018**

**How long can Gazprom go on at lower prices?**

- **Excessive production potential**
  - **Developed infrastructure**
  - **Government assistance**

**No real plans to dismantle Gazprom are on the agenda**

# Thank you

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