RUSSIAN ENERGY SECTOR: CURRENT STATUS & PERSPECTIVES

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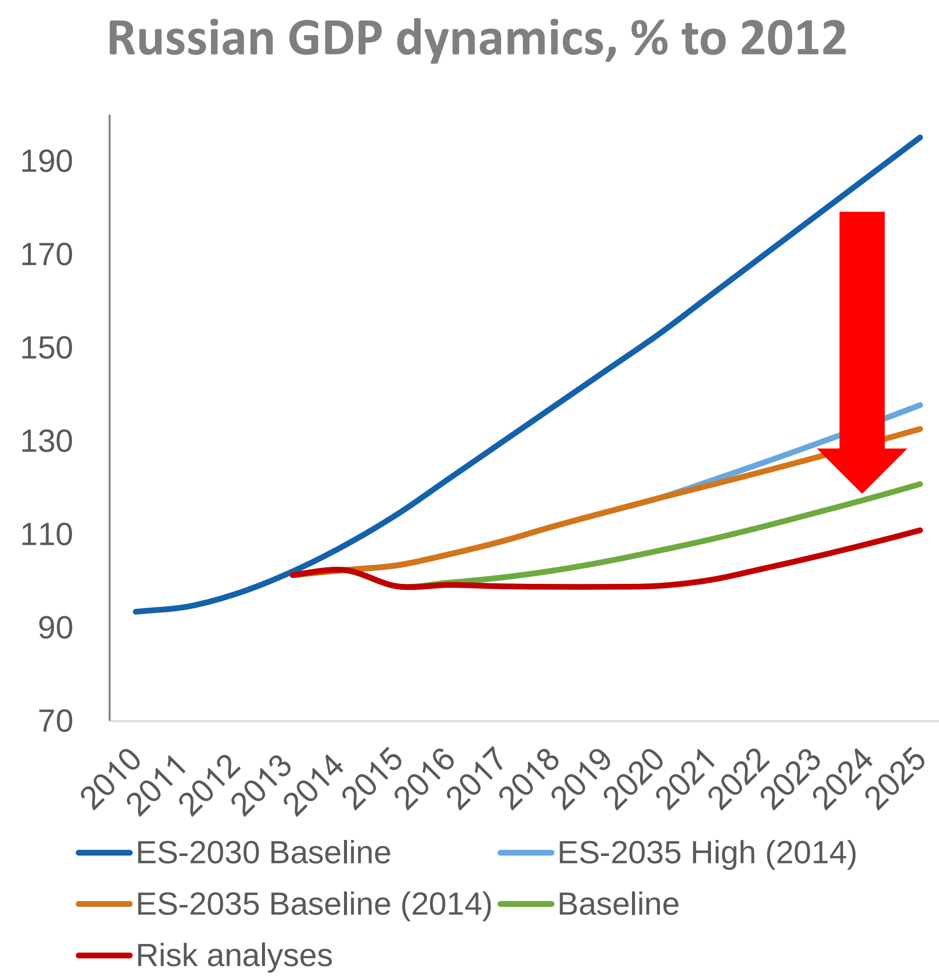
Major new external challenges for the Russian energy sector

- Stagnant oil and gas demand, changing rules in the European energy sector (main market for Russia)
- Main demand growth moves to Asia, where Russian presence is very limited for the next 5-7 years and where huge new infrastructure development is required
- Increasing competition on the global energy markets, entrance of the new hydrocarbon suppliers (shale from the U.S., Iran, Iraq, Brazil, Australia, East Africa, etc.)
- Oil and gas prices declining trend until 2022-2025 and uncertain further dynamics
- Geopolitical threats, introduction of technological and financial sanctions against Russia, which limit its access to the new technologies, equipment and financial markets

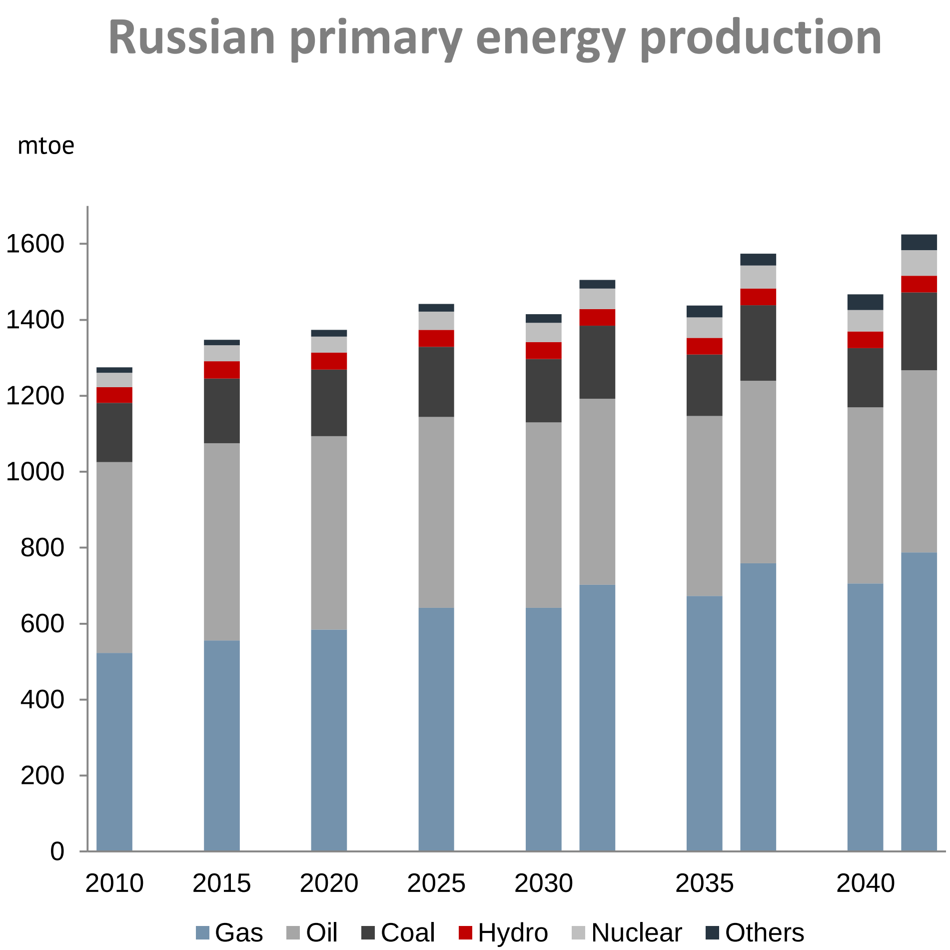
Major new domestic challenges for the Russian energy sector

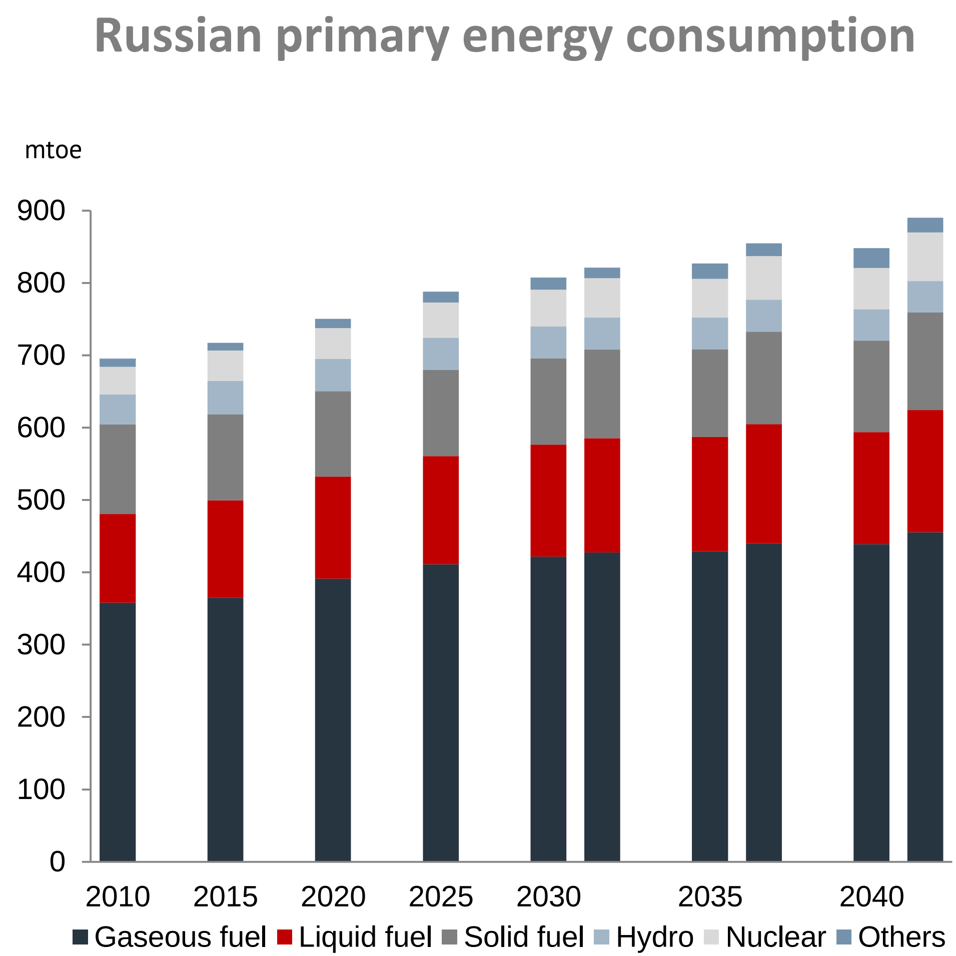
- Stagnation of the Russian economy slows down domestic energy demand. Lower investment availability and frozen energy prices cut investment programmes in the energy sector slowing don its renovation
- Worn-out and obsolete energy infrastructure
- Technological inferiority
- Low investment attractiveness (low domestic prices, unstable regulation, low efficiency of the current institutional framework in the energy sector)



Sources: Ministry of Economic Development, ERI RAS

Primary energy production is assumed to grow by ~10-20%, primary consumption – by ~10-15%, with the remaining dominant role of gas

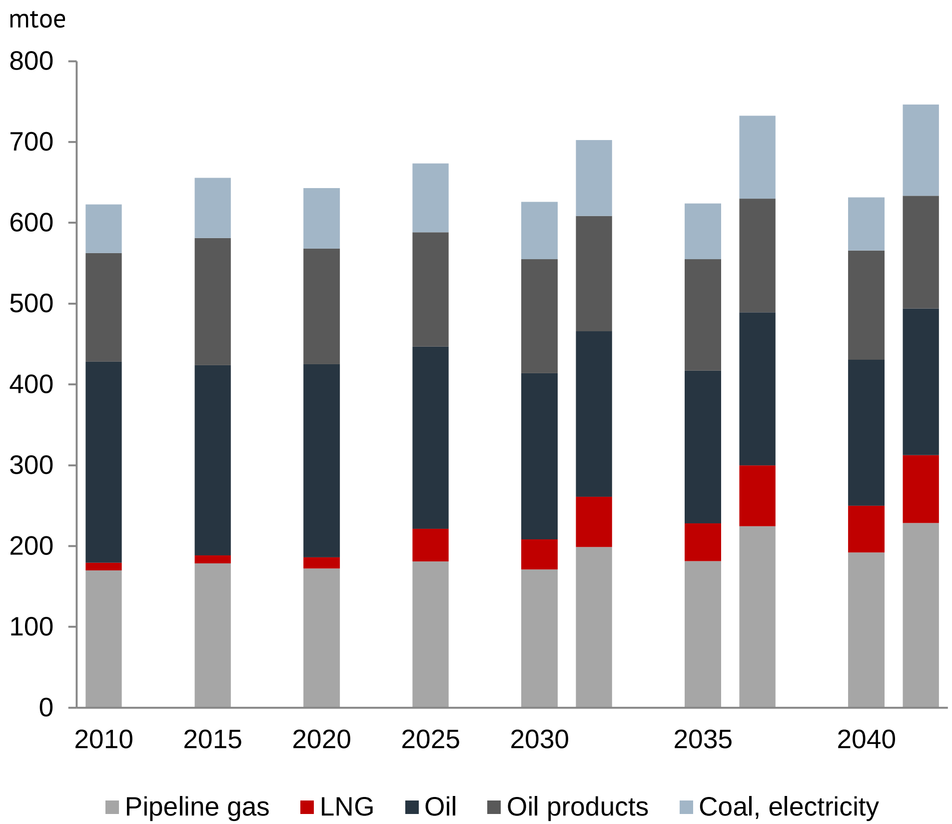




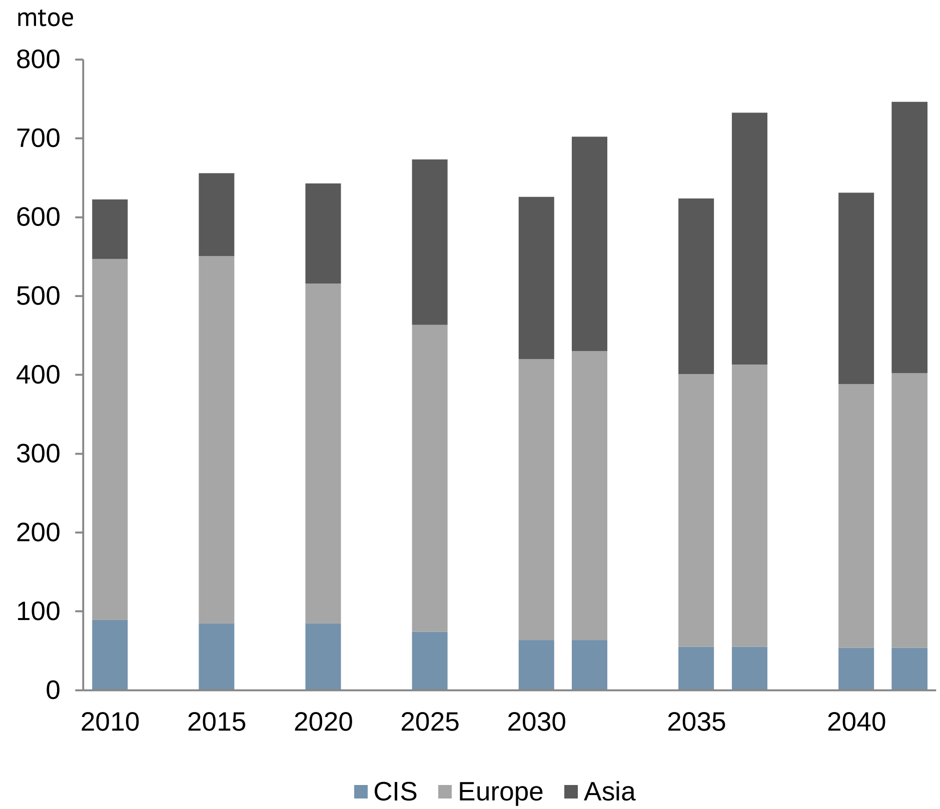
Source: Global and Russian Energy Outlook up to 2040. ERI RAS-AC. 2014.

Energy exports: all growth in the East

Russia's net exports by energy resource type

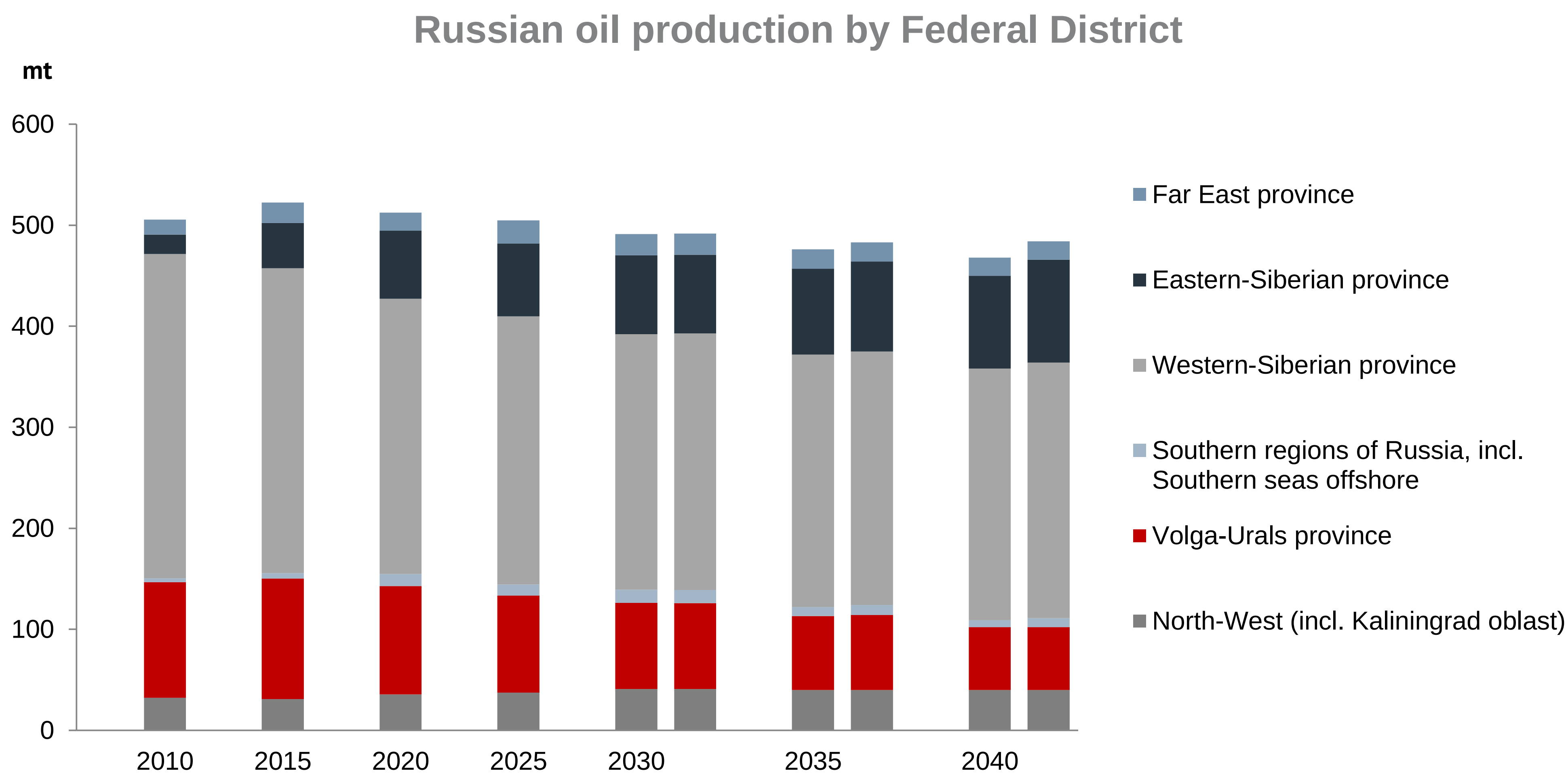


Russia`s net energy exports by direction



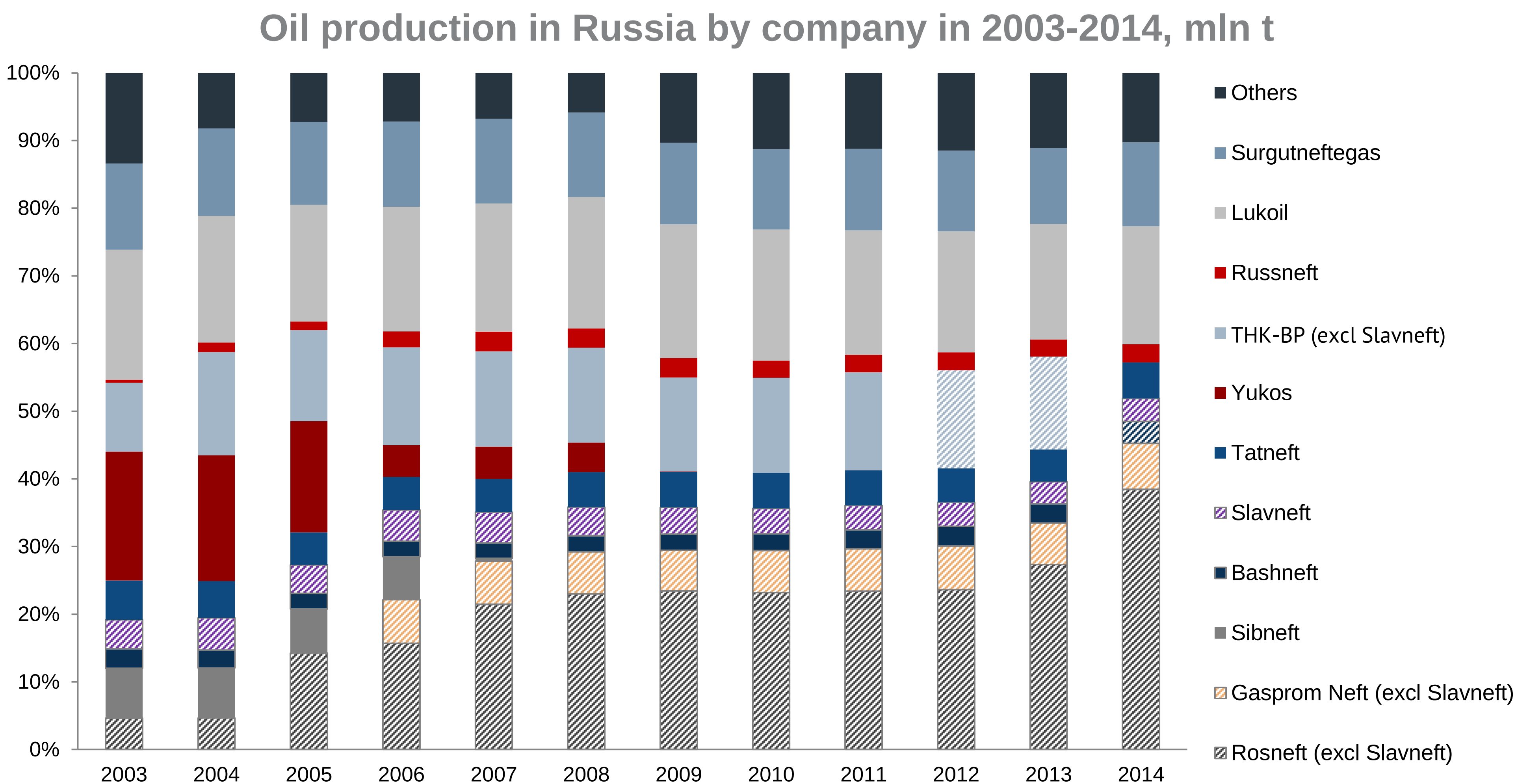
Source: Global and Russian Energy Outlook up to 2040. ERI RAS-AC. 2014.

Sustaining oil production is a challenge



Source: Global and Russian Energy Outlook up to 2040. ERI RAS-AC. 2014.

Oil sector is becoming more and more concentrated under the state control



Source: ERI RAS.

Oil exports to Asia are replacing European supplies

Source: Global and Russian Energy Outlook up to 2040. ERI RAS-AC. 2014.

Increasing pressure in the domestic gas market

Bovanenkovo +70-80 bcm by 2020

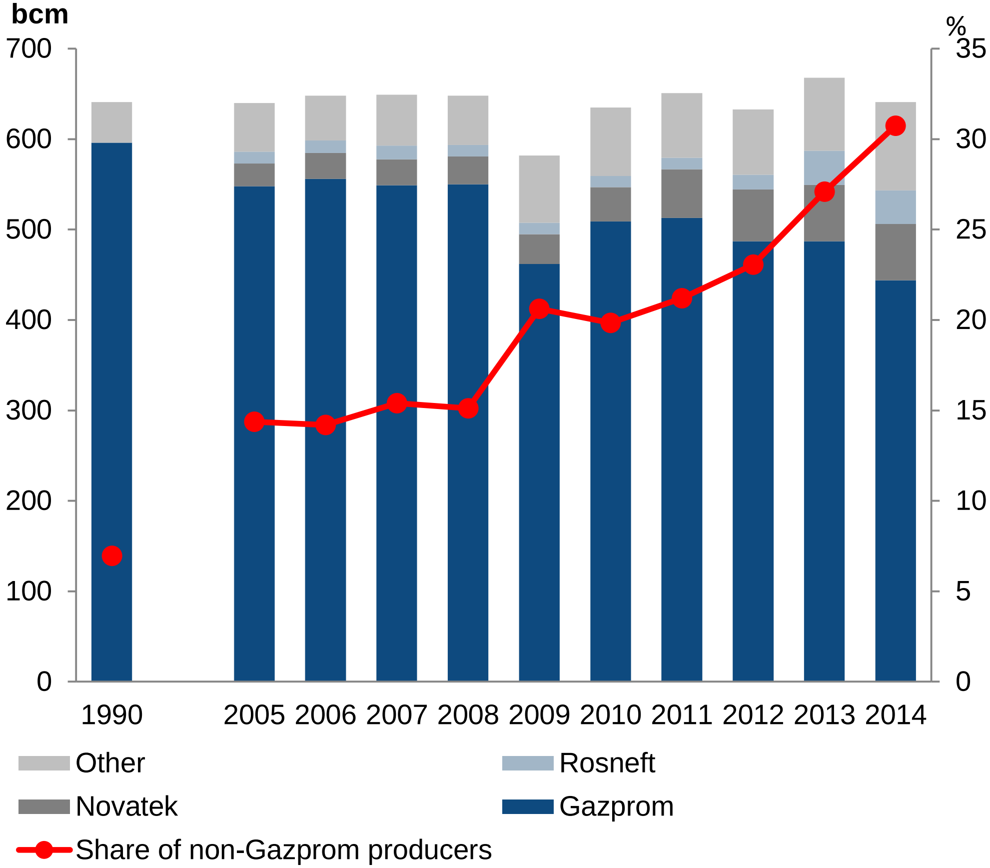
Novatek production +60 bcm by 2020

Rosneft production +40 bcm by 2020

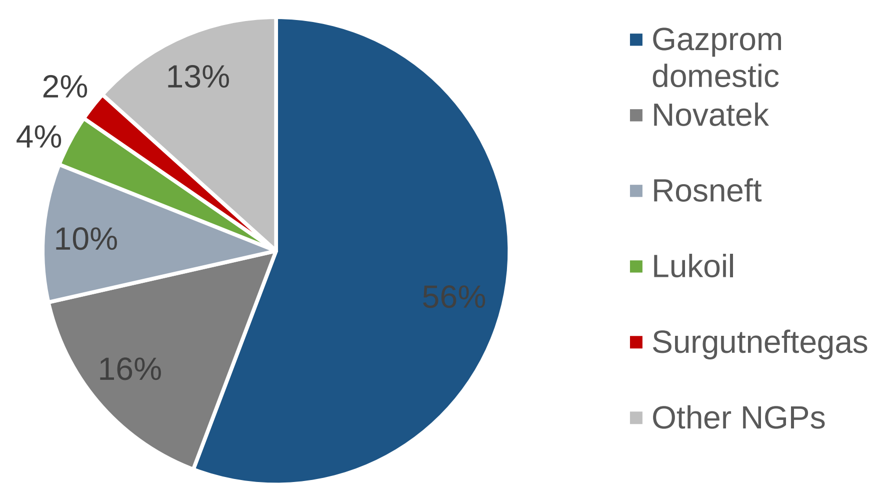
APG production growth by VIOCs +15 bcm by 2020

During the last decade IGPs are expanding their market share, providing already for more than 30% of Russian gas production

Russian gas production structure in 1990-2014, bcm

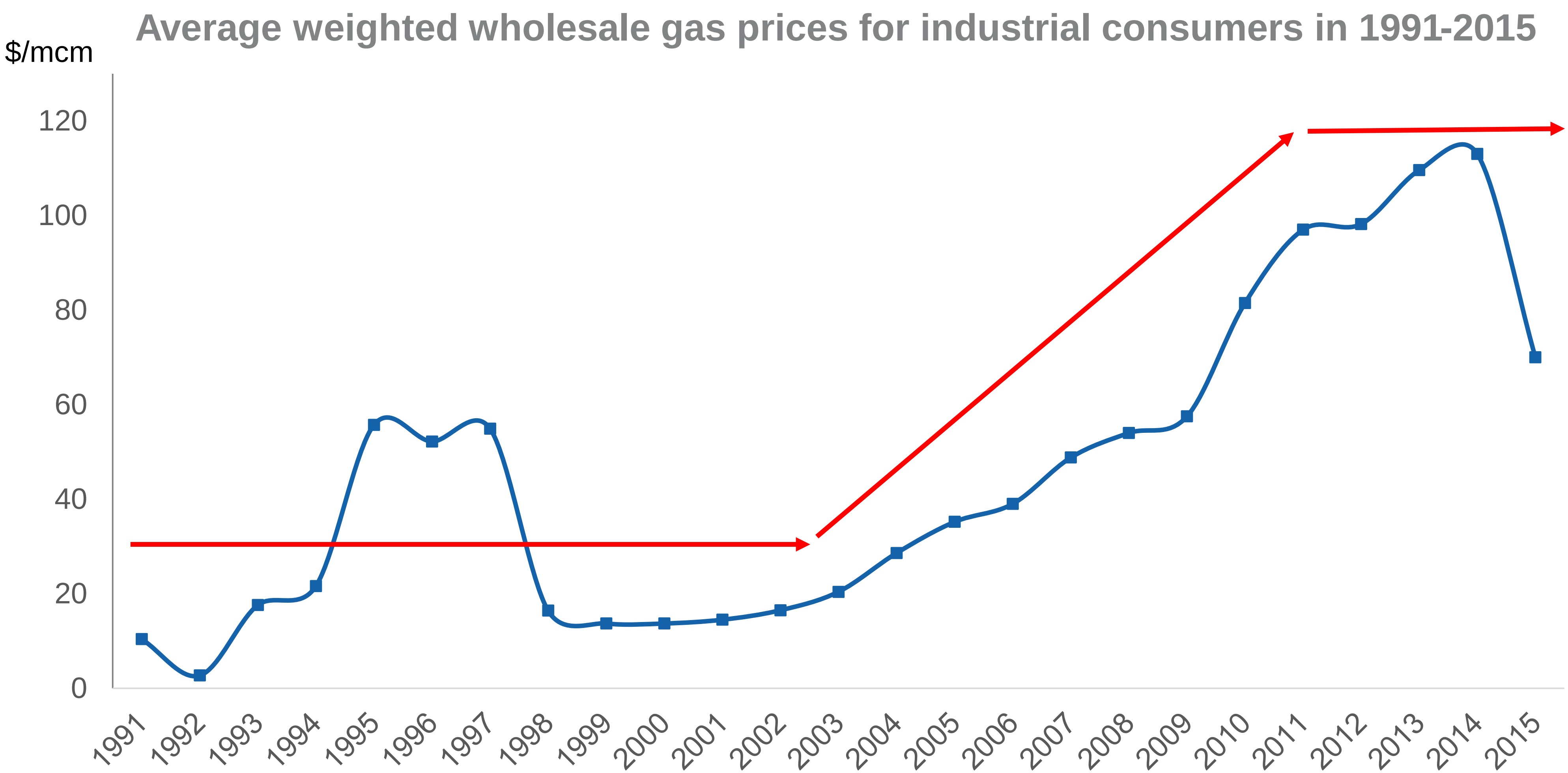


Russian domestic gas sales by company in 2013, bcm



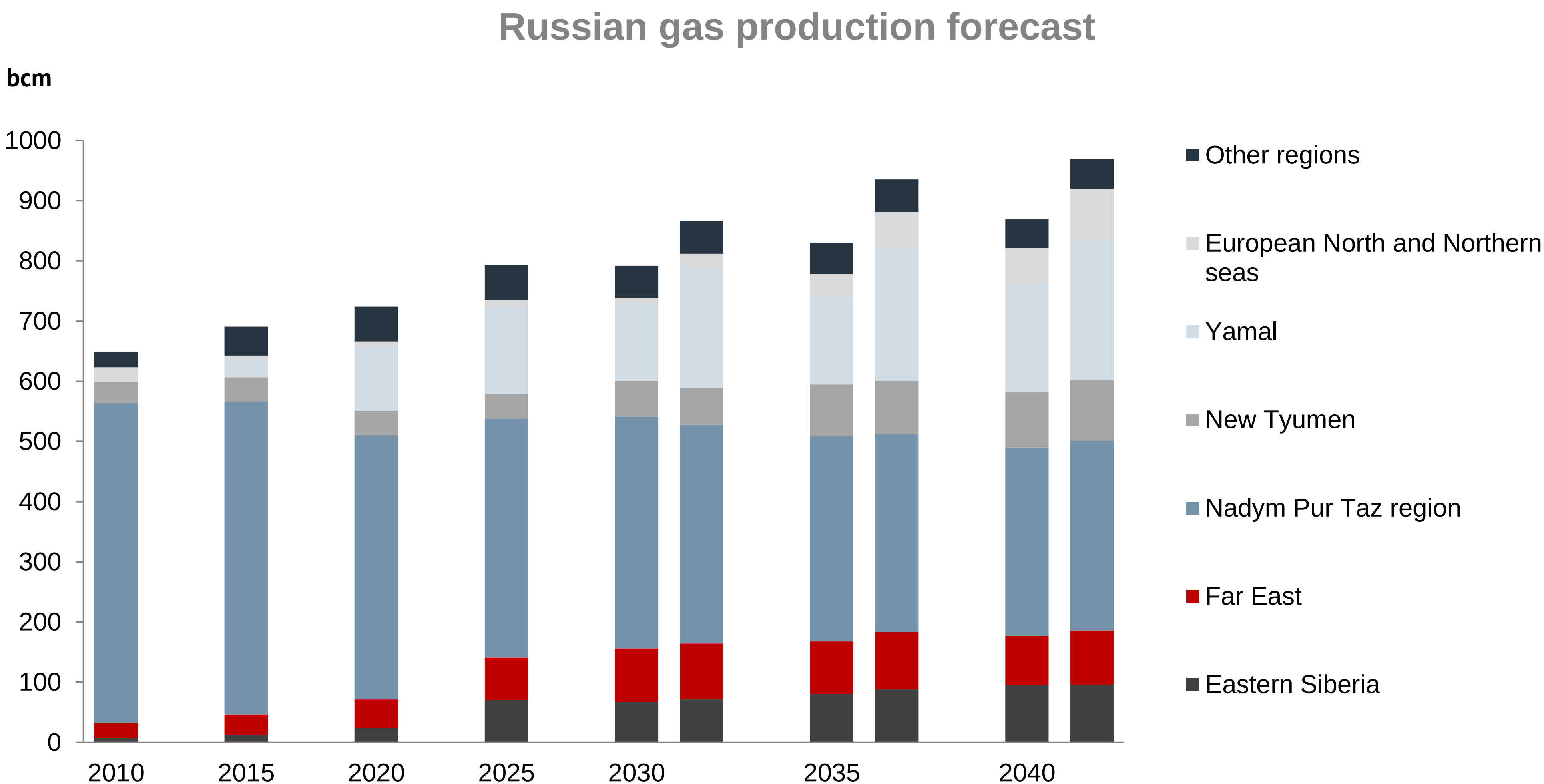
Sources: Rosstat, Interfax, companies data, ERI RAS

Gas prices were frozen in 1991-2002, then they were growing by 15-25% pa to reach netback parity and now they are frozen again, making export an extremely attractive alternative for the IGPs



Sources: ERI RAS, Gazprom, Rosstat

Russian gas production is demand-constrained, only part of the production potential will be utilized, assuming growth of production by ~25-40%



Source: Global and Russian Energy Outlook up to 2040. ERI RAS-AC. 2014.

The main increase in Russian gas exports will be to Asia

Source: ERI RAS

Conclusions

- More competitive external environment and domestic challenges are creating less favorable conditions for the Russian energy sector.
- Oil production in Russia can be maintained for a period of time, but it demands serious reform of taxation and industrial structure.
- Russian gas industry still has a huge potential for production and export growth.
- Asia is obviously becoming the main Russia`s energy trade partner.

Contacts

Energy Research Institute of the Russian Academy of Sciences

"Global and Russian Energy Outlook up to 2040"

http://www.eriras.ru/files/Global_and_Russian_energy_outlook_up_to_2040.pdf

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