

THE OIL AND GAS SECTOR IN Q1 2013

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In 2012 and the 1st quarter of 2013, the situation on the global oil market was characterized by prevalence of high global prices on oil. In March, the deal on purchasing of TNK-BP Company by Rosneft, a state-owned oil company was completed. As a result, Rosneft has become one of the largest oil companies in the world, while the share of state-owned companies in the Russian oil sector has considerably increased. A negative impact on the Russian gas sector has been made by a change in the situation on the European gas market, namely, growth in gas supply from other gas-producing countries and a lower level of “spot” prices on gas as compared to the Gasprom’s long-term contract prices. That situation resulted both in a decrease in the Russian gas export and the need to reduce gas selling prices on the international market.

In 2012 and the 1st quarter of 2013, the situation on the global oil market was characterized by prevalence of high oil prices. In 2012, the average Brent oil price amounted to \$112.0 a barrel, while in the 1st quarter of 2013, to \$112.6 a barrel (Table 1). The main factor behind high oil prices was growing demand in oil justified by global economic growth, primarily, in China, India and other Asian countries, rather restrained OPEC’s policy as regards raising of oil production by its member-states, low growth in oil production beyond OPEC, as well as geopolitical risks. Despite the fact that OPEC countries exceeded to some extent the official quota of 30m barrel a day, the global oil market remained well balanced as a whole, while the average level of oil production by OPEC in 2012 and the 1st quarter of 2013 was below that of 2008.

Prices on Russian natural gas on the European market remained at a high level, too. At the same time, changes in the situation on the European gas market, namely, growth in supply of the natural gas on the part of other gas-producing countries (particularly, due to a considerable increase in condensed natural gas supplies) and lower spot prices on gas as compared to the Gasproms’ long-term contract prices had a downturn effect on Russian natural gas prices.

Table 1

GLOBAL PRICES ON OIL AND NATURAL GAS IN THE 2005-2013 PERIOD, USD/A BARREL

	2005	2006	2007	2008	2009	2010	2011
Brent oil prices, The UK, USD/a barrel	54.4	65.2	72.5	97.7	61.9	79.6	111.0
Urals oil price, Russia, USD/a barrel	50.8	61.2	69.4	94.5	61.0	78.3	109.1
Prices on the natural gas on the European market, USD/thousand cubic m	212.9	295.7	293.1	473.0	318.8	296.0	381.5

Ending of Table 1

	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2012	2013 Q1
Brent oil price, The UK	118.5	108.9	110.0	110.4	112.0	112.6
Urals oil price, Russia	116.9	106.5	109.0	108.8	110.3	110.8
Price on Russian natural gas on the European market, USD/thousand cubic m	444,7	452,4	409,9	418,2	431,3	409,5*

* The average price in January-February 2013.

Source: IMF, OECD/IEA.

In 2012, in a situation of high global oil prices oil production in Russia amounted to 518.0m tons which is the maximum level since 1990. Commissioning in the past few years of a few new large oil deposits in Eastern Siberia and the North of the European part of Russia and changes in taxation aimed at reduction of the tax burden on the oil sector, motivation of extensive development of the exploited deposits and development of new regions of oil production had a favorable effect on

the dynamics of oil production. It is to be noted that reduction in the growth rates of oil production which was observed can be mainly explained by objective worsening of oil production conditions. A large part of the exploited oil deposits entered the stage of declining production, while new deposits in most cases are characterized by worse mining-and-geological and geographical parameters and development of such deposits requires higher capital, operating and transport costs.

In January-February 2013, production of oil decreased by 0.7% as compared to the respective period of 2012 (*Table 2*). The above reduction is evidence of the fact that at present the Russian oil-producing industry is working at its maximum production capacity.

Table 2

 PRODUCTION OF OIL, OIL PRODUCTS AND NATURAL GAS IN THE 2005–2013 PERIOD
 AS % OF THE PREVIOUS YEAR

	2005	2006	2007	2008	2009	2010	2011	2012	2013 Jan-Feb*
Oil, including, gas condensate	102.2	102.1	102.1	99.3	101.2	102.1	100.8	101.3	99.3
Initial oil refinery	106.2	105.7	103.8	103.2	99.6	105.5	103.3	104.9	99.2
Automobile gasoline	104.8	107.4	102.1	101.8	100.5	100.5	102.0	104.3	103.3
Diesel fuel	108.5	107.0	103.4	104.1	97.7	104.2	100.3	98.7	103.6
Residual oil	105.8	104.5	105.2	101.9	100.8	108.5	104.6	101.6	99.4
Natural gas	100.5	102.4	99.2	101.7	87.9	111.4	102.9	97.7	99.1

* % as of January-February 2012.

Source: The Federal State Statistics Service and the Ministry of Energy of the Russian Federation.

The largest volumes of oil are produced by Rosneft, LUKOIL, TNK-BP, Surgutneftegaz and Gazprom. In 2012, the above five companies accounted for 73.8% of the total production of oil in this country. Mid-sized oil companies – Tatneft, Slavneft, Bashneft and RussNeft – accounted for 14.3% of the total production of oil. Operators of production sharing agreements produced 2.7% of Russian oil. The share of other producers which included over 100 small oil-producing companies amounted to 8.5% (*Table 3*).

In March 2013, a deal was finalized on purchase by Rosneft, a state-owned oil company of TNK-BP, an oil company whose owners are AAR, a Russian consortium, and BP, a British company. The above deal was the largest in the Russian oil and gas sector. As a result of the deal, along with cash funds the BP company received 18.5% of equities in Rosneft, while the BP's share in the Rosneft's equity capital rose to 19.75%.

Table 3

THE STRUCTURE OF OIL PRODUCTION IN THE 2008–2012 PERIOD

	Production of oil in 2008, million tons	Share in the total production, %	Production of oil in 2010, million tons	Share in the total production, %	Production of oil in 2011, million tons	Share in the total production, %	Production of oil in 2012, million tons	Share in the total production, %
Russia, Total	488.5	100.0	505.1	100.0	511.4	100.0	518.0	100.0
Rosneft	113.8	23.3	112.4	22.3	114.5	22.4	117.5	22.7
LUKOIL	90.2	18.5	90.1	17.8	85.3	16.7	84.6	16.3
TNK-BP	68.8	14.1	71.7	14.2	72.6	14.2	72.5	14.0
Surgutneftegas	61.7	12.6	59.5	11.8	60.8	11.9	61.4	11.9
Gasprom + Gasprom Neft	43.4	8.9	43.3	8.6	44.8	8.8	46.1	8.9
including: Gasprom	12.7	2.6	13.5	2.7	14.5	2.8	14.5	2.8
Gasprom Neft	30.7	6.3	29.8	5.9	30.3	5.9	31.6	6.1
Tatneft	26.1	5.3	26.1	5.2	26.2	5.1	26.3	5.1
Slavneft	19.6	4.0	18.4	3.6	18.2	3.6	17.9	3.5

Table 3, cont'd

	Production of oil in 2008, million tons	Share in the total production, %	Production of oil in 2010, million tons	Share in the total production, %	Production of oil in 2011, million tons	Share in the total production, %	Production of oil in 2012, million tons	Share in the total production, %
Bashneft	11.7	2.4	14.1	2.8	15.1	3.0	15.4	3.0
Rusneft	14.2	2.9	13.0	2.6	13.6	2.7	13.9	2.7
NOVATEK	2.7	0.6	3.8	0.8	4.1	0.8	4.2	0.8
Operators of production sharing agreements	12.0	2.5	14.4	2.9	15.1	3.0	14.1	2.7
Other producers	24.1	4.9	38.2	7.6	41.1	8.0	44.1	8.5

Source: The Ministry of Energy of the Russian Federation and the author's calculations.

As a result of take-over of TNK-BP which – together with its share in Slavneft – accounted for 15.7% of the Russian oil production, Rosneft has managed to consolidate significantly its positions in the Russian oil sector and become one of the world's largest oil companies. According to the data of 2012, the company's production of oil (with taking into account Rosneft's shares in other companies' production) will amount to over 200m tons a year or 38.7% of the Russian oil production.

As a result, the state sector has considerably expanded. With a take-over of TNK-BP by Rosneft, the share of state-owned companies in the Russian oil production rose to 48.1% (Table 4). It is worth mentioning that in 2003 – that is, prior to take-over by Rosneft and Gasprom of assets of private oil companies (YUKOS and Sibneft) and Gasprom's participation in the Sakhalin-2 project – the share of state-owned companies in the Russian oil production amounted to the mere 7.3%.

Table 4

THE SHARE OF OIL COMPANIES IN PRODUCTION OF OIL IN RUSSIA WITH TAKING INTO ACCOUNT THE TAKE-OVER BY ROSNEFT OF TNK-BP COMPANY *

	Production of oil, Million tons	Share in the total production of oil, %
Rosneft, including TNK-BP	190.0	36.7
The share of Rosneft and TNK-BP in production of other companies (Slavneft and Sakhalin-1)	10.4	2.0
Rosneft, including TNK-BP and the share of Rosneft and TNK-BP in production of other companies	200.4	38.7
Gasprom, including Gasprom Neft	46.1	8.9
The share of Gasprom in production of other companies (Sakhalin-2)	2.8	0.5
Gasprom, including Gasprom Neft and the share of Gasprom in production of other companies	48.9	9.4
State-owned companies, total	249.3	48.1

* On the basis of the 2012 data.

Source: The Ministry of Energy of the Russian Federation and the author's calculations.