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The 2024 Outlook for Russia
—Oil and gas developments in response to sanctions—
<Summary>

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<u>The current state of oil production and exports, and the outlook for 2024</u>

1. Russia, a member of OPEC+, began voluntary production cuts in March 2023 (reducing crude oil production by 500,000 b/d, scheduled to continue until December 2024). Furthermore, Russia is implementing voluntary export cuts different from a conventional OPEC+ production cut. It reduced oil exports by 500,000 b/d in August 2023, 300,000 b/d from September to December 2023, and is reducing crude oil exports by 300,000 b/d and petroleum products by 200,000 b/d from January to March 2024. Rather than making additional voluntary crude oil production cuts, Russia is promoting a cooperative stance with OPEC+ both domestically and internationally by extending its export cuts.
2. While the G7 and EU have applied sanctions against Russia's crude oil and petroleum products and price caps on Russia's crude oil and petroleum product exports to cut off its source of war funding, Russia has responded by offering discounts for its oil sales and diversifying its export partners. While Russia has forfeited its primary European market, it has expanded sales to countries not participating in the Russian oil sanctions such as India and China and avoided an overall decrease in its export volume. Despite Russia's increasing discount sales, the market price itself rose significantly in 2022, and the market price of crude oil remained at approximately $80 thereafter, meaning that Russia has not experienced a significant drop in income. The weak ruble is furthermore supporting Russia's ruble-based income. It is difficult to say the G7 and EU led price cap system itself is functioning as intended.
3. Russia has taken the stance that if Brent prices are around $85, the fiscal deficit will remain below 1% in 2024. Under these circumstances, Russia will probably seek to maximize profits by maintaining the current level of production, rather than making deeper voluntary production cuts. On the other hand, for the G7 and EU additional restrictions could destabilize the demand and supply in the international market or

cause a crude oil price surge, which are both undesirable. Due to these factors, the above situation regarding Russia is not expected to change significantly in 2024.

The current state of gas production and exports, and the outlook for 2024

4. From 2022 onwards, Russian gas exports via the European pipeline have dropped sharply, and if the EU's Russia-decoupling strategy continues this trend will continue in 2024 with exports remaining at a minimum.
5. The U.S. and EU have prohibited the provisioning of LNG technology and services to Russia as part of their economic sanctions, and Russia has strengthened investments in its domestic LNG technology and ship development. As Russia focuses on commercializing its Arctic LNG business, the U.S. announced additional sanctions against Russia's Arctic LNG businesses and companies in November 2023 to cut off its source of future income.
6. While the EU and Japan will continue decoupling from Russia in 2024, they will maintain LNG imports from the perspective of preserving energy security. For Russia, it is extremely difficult to redirect European pipeline gas to other markets in the short-term due to limitations of the delivery infrastructure.

Focus going forward

7. Oil: Maturation and depletion are progressing in Russia's key West Siberian oil field. To compensate for natural decline and maintain crude oil production, new development is essential in the Arctic region, tight oil, and deep-water drilling, and East Siberia. Western sanctions prohibit the provision of financing, technology, and services related to upstream development of the Arctic region, tight oil, and deep-water drilling making it difficult to develop and increase crude oil production in the medium to long term.
8. Gas: Russia is making efforts to develop domestic LNG technology and transportation ships. Questions remain about whether the technology and services of Russia and cooperating countries can maintain the related equipment and facilities sufficiently.
9. U.S. government outlook: It is possible additional sanctions and actions will be taken targeting Russia's future energy production, export capabilities, and sanction evasions to cut off funding for the war in Ukraine. With the presidential election in 2024, however, the current administration will likely carefully consider actions that could disrupt the international energy market and thereby cause major damage to the U.S. economy and consumers.

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