21 December 2023 The 446th Forum on Research Work

The 2024 Outlook for Russia

—Oil and gas developments in response to sanctions—

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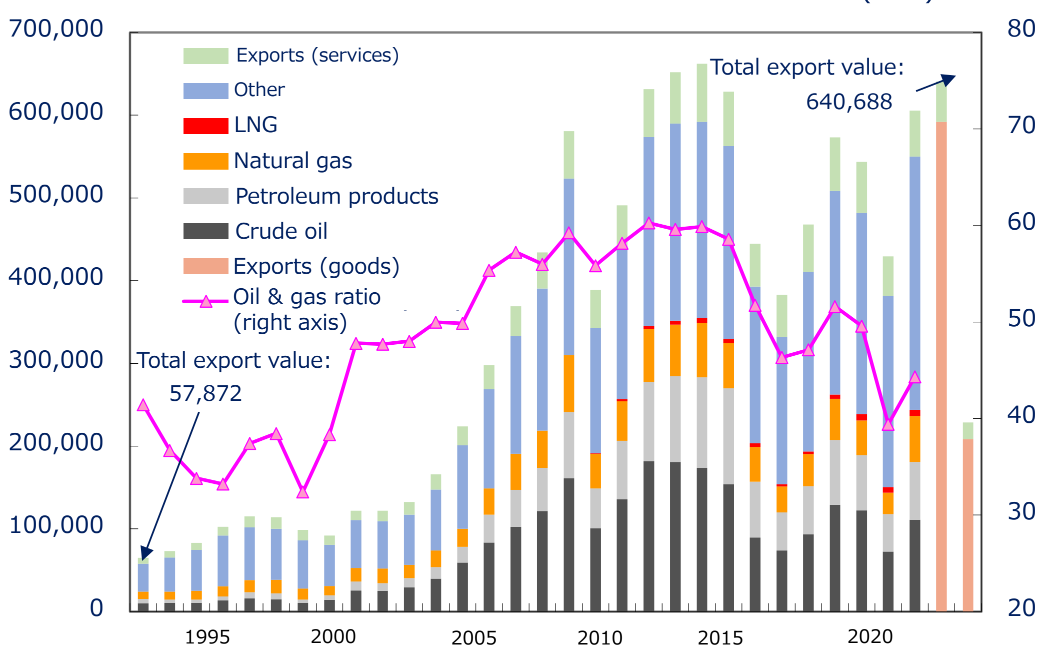
Key points of this report

- ✓ Russian oil export outlook for 2024
  - ✓ Russia's stance: If Brent prices are around $85, the fiscal deficit will remain below 1%, and it is best to maximize profits by maintaining the current level of production, rather than making deeper production cuts.
  - ✓ G7, EU stance: Additional restrictions that could destabilize the demand and supply in the international market or cause a crude oil price surge are undesirable.
  - ✓ It is difficult to say the price caps imposed by the G7 and EU are well functioning as intended.
  - ✓ The above situation regarding Russia is not expected to change significantly in 2024.
- ✓ Russian gas export outlook for 2024
  - ✓ Russian gas exports via the European pipeline have dropped sharply, and this trend will continue in 2024 with exports remaining at a minimum.
  - ✓ EU and Japan stance: Continue decoupling from Russia, but maintain LNG imports
  - ✓ Russia's stance: It is extremely difficult to redirect European pipeline gas to another market in the short-term due to limitations of the delivery infrastructure.

The economic situation of 2023

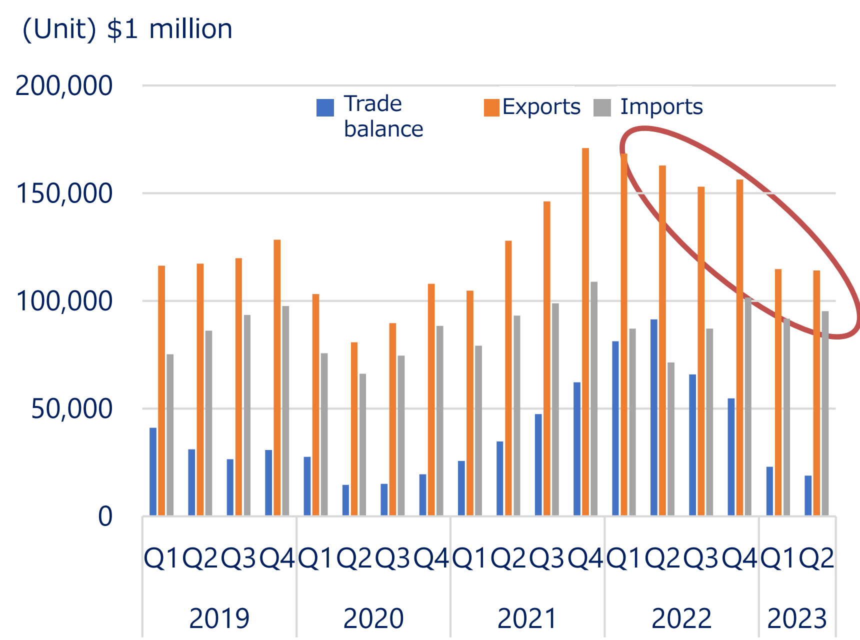
- Total export and Import values have overall remained unchanged after the invasion of Ukraine
- In the first half of 2023, the total value of imports was largely unchanged, and the value of exports fell
- Changes in crude oil prices and the reduction in European gas exports are the primary factors

Annual Russian export value by product



Note 1: From 2022 onwards, Russia **stopped disclosing the breakdown of its energy exports**. Exports are categorized as exports (goods) and exports (services).
Note 2: 2023 figures are for the first half of the year
Source: The Bank of Russia

Quarterly trade balance

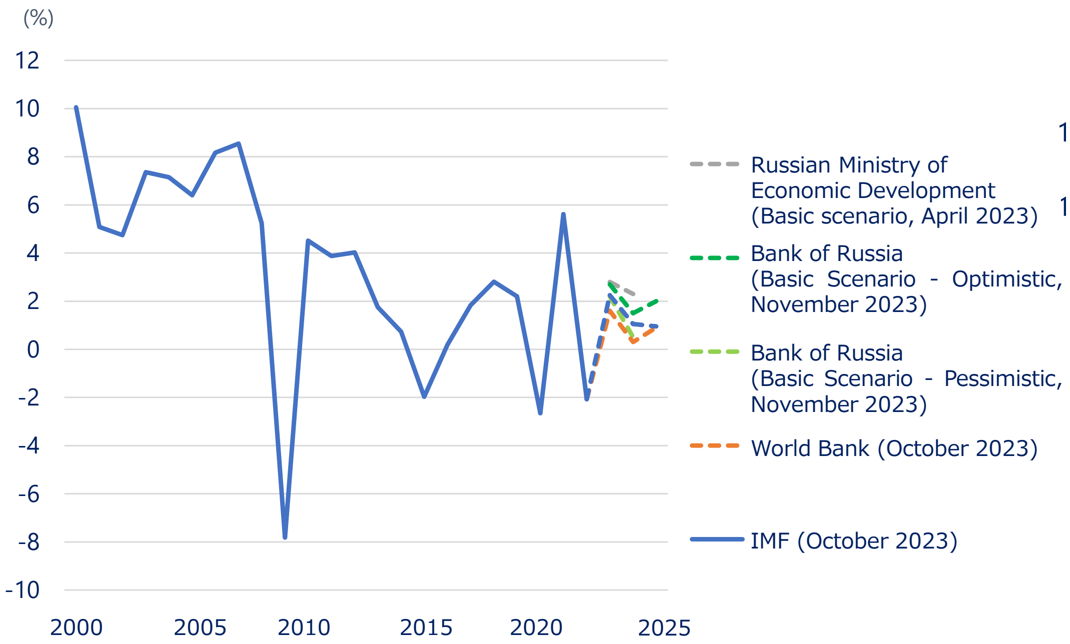


Source: The Bank of Russia

The economic outlook for 2024

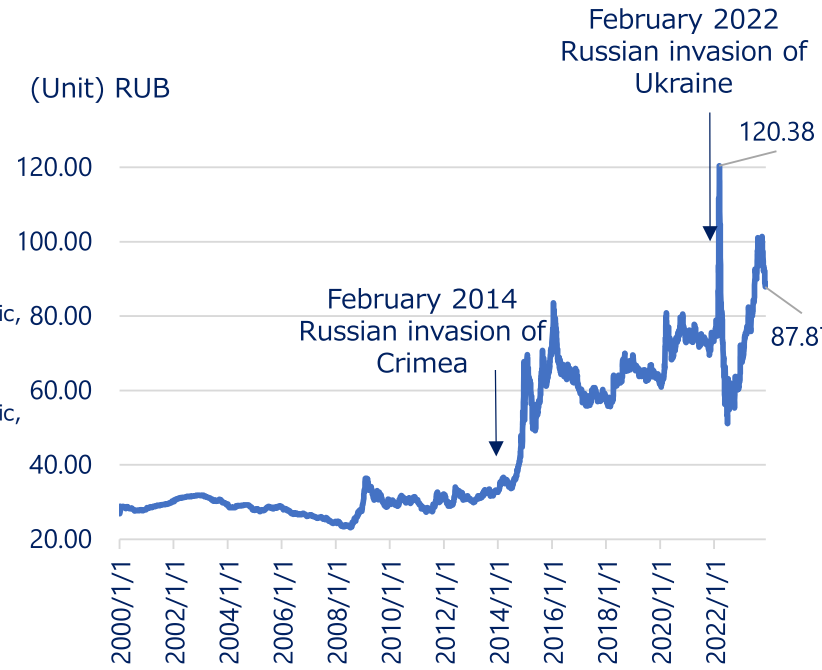
- Russia's GDP is expected to grow by 1.6% to 2.8% in 2024
- The Russian government is predicting an annual growth rate of 1.5% from 2024 to 2026

GDP growth prediction by organization



Source: Bank of Russia, Russian Ministry of Economic Development, World Bank, IMF

Ruble/USD exchange rate

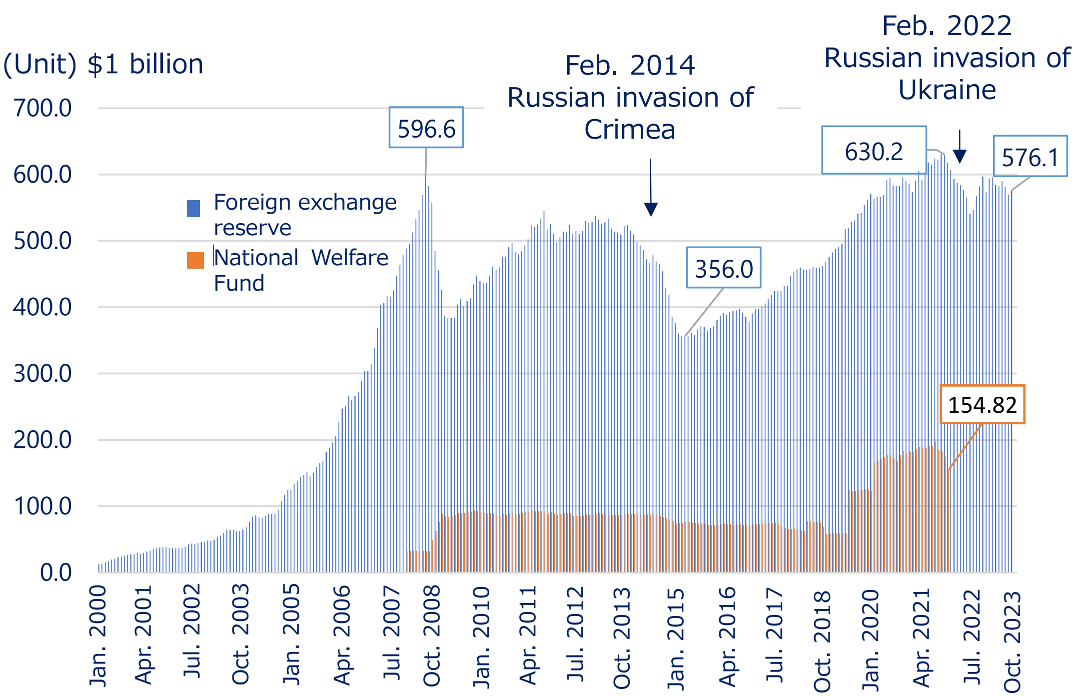


Source: Bank of Russia

The economic situation after the Russian invasion of Ukraine

- Russia has been building up and diversifying its foreign exchange reserves since 2014
- Reserves have been declining since the pre-invasion peak of $643.2 billion
- The G7 and EU have frozen Russian foreign exchange assets
- Approximately 50% of Russia's foreign exchange reserves are believed to be frozen
- "Western countries have frozen $300 billion of our foreign exchange reserves through sanctions." (Finance Minister Siluanov, 2022-3-13, Tass)

Russian foreign exchange reserves and National Welfare Fund



Note: **Data on the National Welfare Fund is not available post March 2022.**
Source: Bank of Russia (foreign exchange reserve)
Russian Ministry of Finance (National Welfare Fund)

Oil production and exports in 2023 and 2024

Cooperation within OPEC+ continues,
but is there an appetite for further production cuts?

Russia-only plan

1) Crude oil production cuts

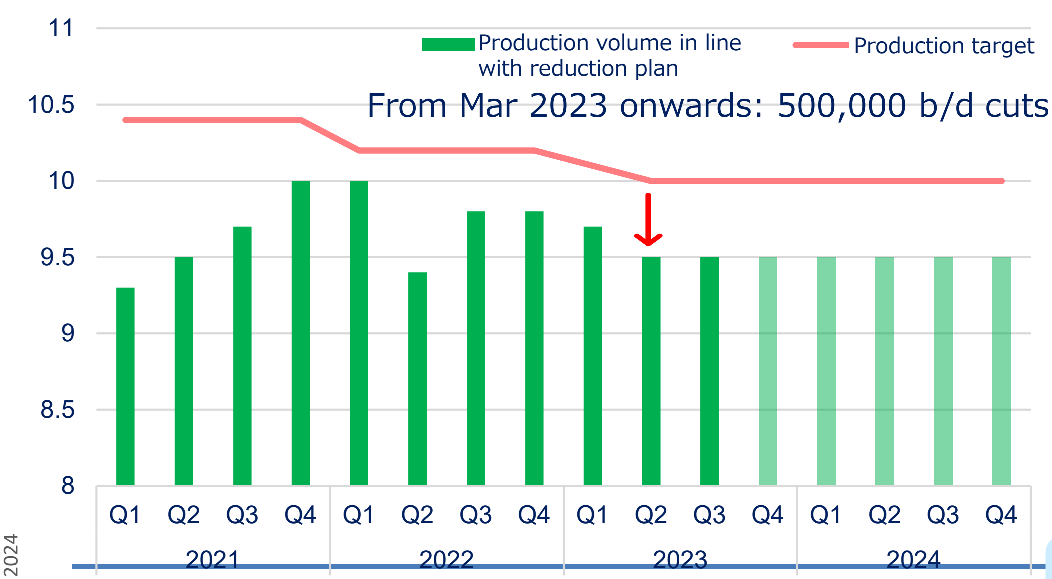
- Mar. 2023: 500,000 b/d cut
  (planned through the end of 2024)

2) Supply (export) cuts

- Aug 2023: 500,000 b/d oil cut
- Sep-Dec 2023: 300,000 b/d oil cut
- Jan-Mar 2024: 300,000 b/d crude oil cut
  200,000 b/d petroleum product cut

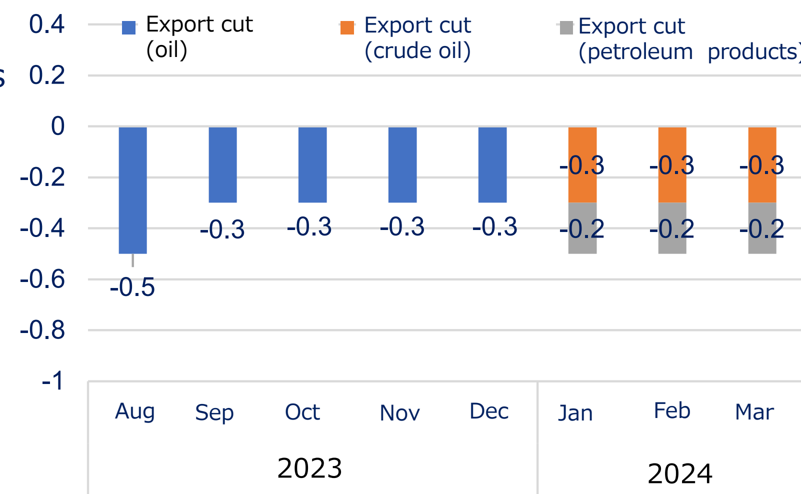
Russia's crude oil production plan (planned cuts)

Unit: 1 million b/d



Russia's supply (export) reduction plan

Unit: 1 million b/d



Source: Produced from IEA, various news reports

The market has already accounted for supply cuts

The situation in the Russian oil market after the Russian invasion of Ukraine

G7

G7, EU led embargo on Russian crude oil and petroleum products

Expand sales by providing discounts to countries not participating in embargo to avoid overall export decline

Forfeit key European markets and expand exports to countries not participating in price cap coalition

G7

G7, EU led price cap on Russian crude oil and petroleum products

Significant rise in market prices and weak ruble support ruble-denominated export income

- Russia's stance: If Brent prices are around $85, the fiscal deficit will remain below 1%, and it is best to maximize profits by maintaining the current level of production, rather than making deeper production cuts
- G7, EU stance: Additional sanctions that could destabilize the demand and supply in the international market or cause a crude oil price surge are undesirable
- It is difficult to say the price caps coalition imposed by the G7 and EU are well functioning as intended

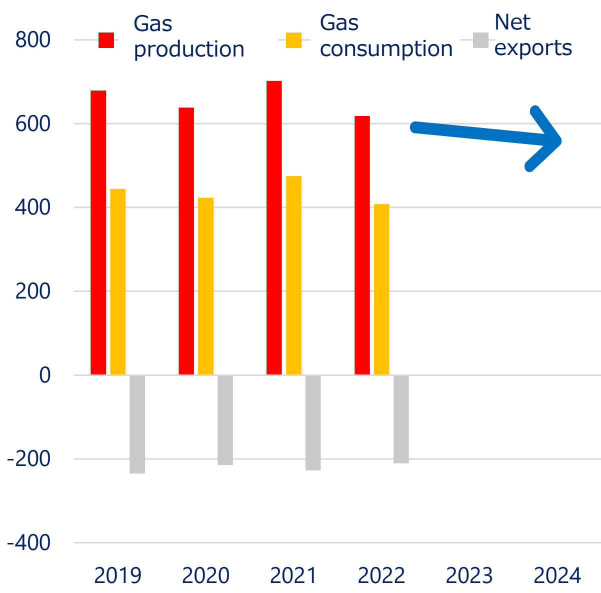
→**The above situations regarding Russia are not expected to change significantly in 2024.**

Gas production and exports in 2023 and 2024

- Gas production and exports saw year-on-year declines in 2023 (export cuts to European pipeline gas are a major factor)
- Minimal exports expected via the European pipeline in 2024

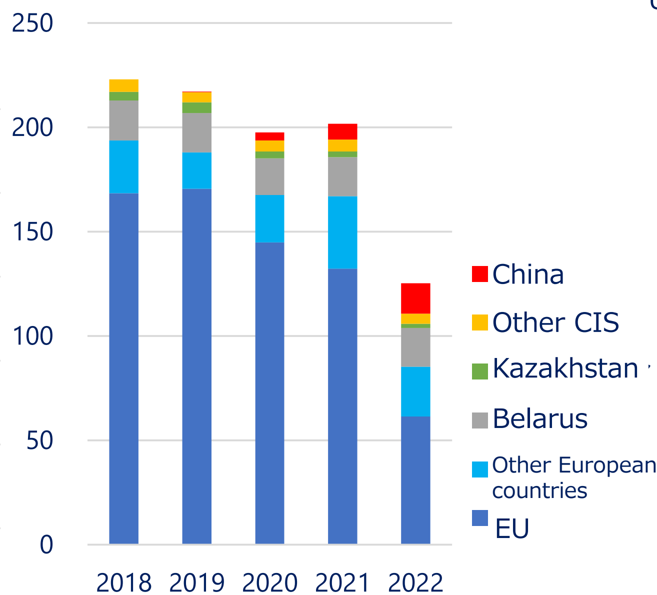
Russian gas supply & demand

Unit: Tcm



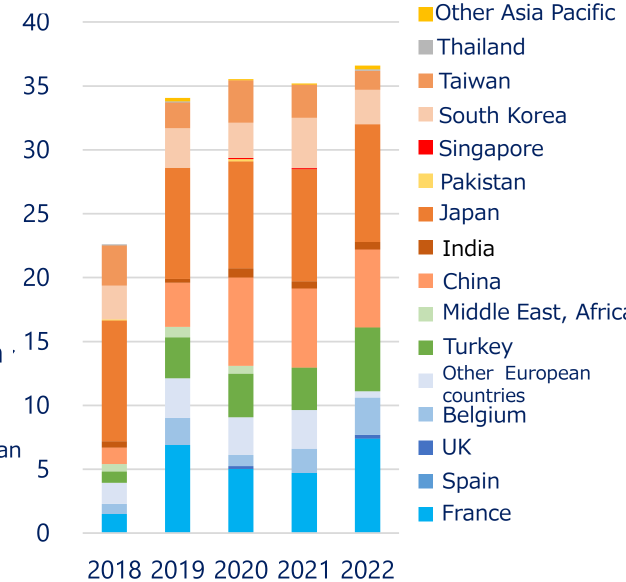
Russian pipeline gas exports by country

Unit: Bcm



Russian LNG exports by country

Unit: Bcm

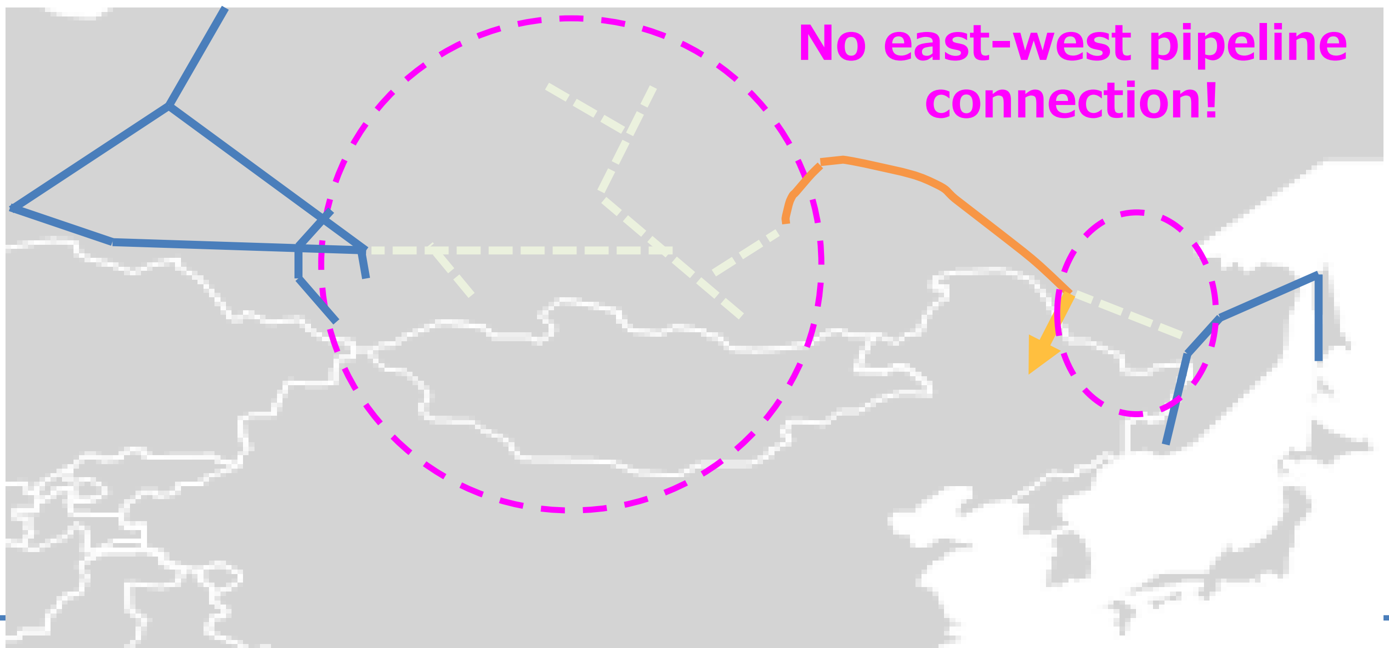


Source: Energy Institute, Energy Institute Statistical Review of World Energy

European pipeline exports are difficult to redirect

- West Siberian gas, the primary source for the European market
  - Has no connection (pipeline) to the Asian market
  - Has limited LNG export potential
- East Siberian gas, located close to the Asian market
  - Has harsh environmental conditions, poor social infrastructure, and high costs -> securing of demand required to justify development and production
  - Difficult to expand into the Chinese market (price competition with other suppliers, price negotiations with China)

Russia's eastern gas pipeline



Source: Produced by the IEEJ based on various news reports

The situation in the Russian gas market after the Russian invasion of Ukraine

EU incrementally reduces Russian pipeline gas imports

Reduce/discontinue European pipeline gas supply

Forfeit primary European market, realize pipeline export limitations (difficult to change destination)

U.S., EU stop providing LNG technology and services

Government invests in domestic LNG technology and ship production, focusing on commercializing Arctic LNG business

U.S. applies additional sanctions on Arctic LNG businesses

- Russia's natural gas exports to Europe dropped sharply
  → **Minimal exports expected to continue in 2024**
- EU, Japan: Continue decoupling from Russia, but maintain LNG imports
- Russia: It is extremely difficult to redirect European pipeline gas to another market in the short-term due to limitations of the delivery infrastructure

Focus going forward

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 Russia in the medium to long term.

Gas

- Efforts are underway 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.

Focus going forward

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 the Ukraine
- With the presidential election in 2024, 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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