HOW LONG WILL LOW OIL PRICES LAST?

Alexey GROMOV,
PhD, Principal Director on Energy Studies
Institute for Energy and Finance
a_gromov@fief.ru

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**About Institute for Energy and Finance**

**Who we are**

- Independent center for economic analysis, established at the end of 2004 by Gazprombank and Gazprom export
- Our experts have rich experience of performing a large number of works at the intersection of Economics, Energy and Finance.

**Our Expertise**

- Macroeconomic and industry analysis
- The modelling of scenarios of world energy development and energy of the Russian Federation (gas, oil, petrochemical industry)
- The analysis of the global oil and gas market

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**President of IEF:**

Vladimir FEIGIN

One of the authors of the **Energy strategy of Russia up to 2030**, the **Roadmap of Energy Cooperation between Russia and the EU until 2050** and the Project of the **Russian Oil Strategy up to 2035** (under final consideration by the Russian Government). Has long experience of managing a large international consulting projects in the energy sector.

Adviser of Rosneft CEO

[www.fief.ru](http://www.fief.ru)
Motto
To design, maintain and promote the Modeling Framework for Generating Strategic Scenarios

Goal
To broaden the vision of experts and policymakers in analyzing scenarios of achieving certain targets
To help reveal invisible or non-trivial outcomes

Purpose
Analysis of the consequences of certain energy policy targets

We try to develop the Integrated Energy Perspective Modelling Environment
Today the Oil Markets are in a Zone of an Unpredictable Turbulence

Volatile oil prices in 2015

- World oil prices experienced two dramatic waves of falling during 2014-2015
- In the mid-February 2016th the world oil prices are locked in a narrow range (around $30-35/bbl Brent)
- The current unpredictable turbulence of the Oil market is enhanced by speculative activity of global financial players

World oil supply and demand

- Global liquids production continues to exceed consumption.
- The imbalance remains a high level during 2015, despite the low price level and the acceleration of growth in demand.
Key Drivers for Development of the Oil Markets in the Short Term (2016-2017)

- Acceleration in demand growth for liquids at low oil prices
- Dynamics of liquids stocks in OECD countries and China
- Dynamics of drilling activity and LTO production in the United States
- Production in key OPEC countries (Saudi Arabia, Iraq and Iran) and the further organization's policy of quotas
- Activity of financial actors
EIA estimates that global oil consumption grew by 1.4 mb/d in 2015.

EIA expects +1.2 mb/d in 2016 and +1.5 mb/d in 2017.

The largest increase in consumption in 2015 was observed in Europe and India. In China consumption growth is not accelerated.

EIA estimates that global oil inventories increased by 1.8 mb/d in 2015, marking the second consecutive year of strong inventory builds.

OECD Commercial Liquids Stocks at a record 3 billion barrels.
• Today, OPEC crude production significantly exceeds call on OPEC and its official quota 30 mb/d.
• On January 16, economic sanctions on Iran were lifted, officially allowing Iran to increase its crude oil production and export levels.
• US oil production growth in 2015 was slowed down twice (+0.7 mb/d) in comparison with 2014
• U.S. crude oil production is projected to decrease from an average of 9.4 million b/d in 2015 to 8.7 million b/d in 2016 and to 8.5 million b/d in 2017
In the Short Term Oil Market will try to find a New Balance between Supply and Demand

But the oil price will be maintained at a low level

Source: Presentation of I.SECHIN, Rosneft CEO (International Petroleum Week, London 2016)
Key Drivers for Development of the Oil Markets in the Medium Term (up to 2020)

Strong oil demand growth

- Strong demand growth has been seen since 2010 and 100 million barrels per day could arrive by 2020

According to Goldman Sachs estimates, about $1 trillion planned investment into new upstream projects curtailed as unprofitable at oil prices below $70/bbl

Source: IEF

Significant and sustained reduction in drilling and investment in upstream projects

Source: Bloomberg, IHS, Baker Hughes
Key Drivers for Development of the Oil Markets in the Long Term (up to 2035)

Technologies in SUPPLY: production cost reduction
- Deepwater oil
- Hard-to-recover resources
- Other High-tech oil

Technologies in DEMAND: changes in oil products consumption
- Conventional Engine Efficiency
- Alternative Fuels (gas fuel, biofuels)
- Electric vehicles

Rosneft oil price forecast (till 2030)

Source: Presentation of I.SECHIN, Rosneft CEO (International Petroleum Week, London 2016)
Russia has a Huge Potential to maintain its Key Role in the World Oil Balance up to 2035

However, further dynamics of oil production in Russia depends on the tax environment more than oil prices.

Key factors for sustainability of the Russian Oil Industry

- Low cost of production from oil fields in operation
- Tax benefits for oil production for greenfield and depleted fields
- The effect of large-scale capital investments 2011-2014
- Rouble's devaluation

Low Scenario - Inertia scenario under continued unfavourable external conditions
High Scenario contemplates full implementation of the existing license agreements subject to relatively favorable external conditions, including transition to new forms of taxation (NFR (taxation of financial result) /Excess-Profits Tax) for new and depleted fields

“Industry potential” Scenario shows the production potential of the Russian oil industry if market requires the additional deliveries of petroleum

Source: Presentation of I.SECHIN, Rosneft CEO (International Petroleum Week, London 2016)