



## Russian production is worth a closer look

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The world oil supply is becoming a topic-de-jour for authors, both in books and movies. This encourages a trend toward sensationalism, since it is this that will generate the headlines, the free publicity, attention and the greater financial return. Unfortunately while fiction usually has a happy ending, with those that project the future in the oil patch it is the gloom and doom that is more often the focus. Unfortunately, since this can lead to some extremism in prophecy it also makes them easier to dismiss as a result. In this regard, the relatively short attention span of today's press and public hardly helps.

I am waiting to watch the Fox movie [Oil Storm](#) tonight. The theme deals with hurricanes and terrorist attacks as they impact the oil supply. Both of these are transient and thus, at the end of the movie I suspect (sight unseen) the hero/heroines will have solved the problem and the world will go back to an adequate supply. And as a result people will be lulled back into complacency. But the issue is not transient. There will be hurricanes, they cost a short term reduction of 500,000 bbl last year, and this year the season will likely be worse. And there are terrorists. Iraq's oil production is at least 1 mbd short of what it could be because of them. But the real oil supply problem is not that easily resolved and will have a greater impact, in a future not that far, far away.

In the Hirsch report (covered at the [ASPO meeting](#) in Lisbon and reviewed here on May [1](#), [2](#) & [3](#) they pointed out that we needed 20 years lead time to solve the problem without a crisis. We don't have anywhere close.

In the last entry I mentioned why we have a problem with Saudi Arabian ability to produce more oil in the short term. In my sandwich shop analogy, it was because they do not have enough shop assistants (oil drilling rigs and related infrastructure) to quickly expand production. However in getting to them I skipped over Russia. But since Russia contributes significantly to the world supply they need a closer look, which brings more worry.

[Bloomberg](#) lists the several firms that make up Russian production

Output Exports Export change

(Mbd/day) % Change

RUSSIA 9.33 4.61 +9.0%

Lukoil 1.76 0.73 +17.2%

TNK-BP\* 1.75 0.84 +2.2%

Rosneft 1.45 0.70 +9.8%

Surgut 1.27 0.49 -9.5%

Sibneft\* 0.91 0.44 +29.1%

Tatneft 0.52 0.37 +36.6%

Yukos 0.48 0.00 n.a.

Gazprom 0.26 0.014 +35.7%

Bashneft 0.24 0.12 +49.1%

Russneft -0.22% . 0.12% . -16.7%

Of these Yukos is the one in greatest trouble at the moment, with an expected production drop of 20% but the overall situation is not nearly as optimistic as it appeared even a year ago. The problem beginning to emerge is described rather thoroughly by [Leslie Dienes](#) at KU, from which the following is drawn.

If I could briefly return to the sandwich shop analogy, it was somewhat the same as occurs when a new company takes over an old shop. They bring in new technology (bread slicers that get more slices per loaf), they find the old reserves of fillings and ingredients that were stored for a rainy day and sell those, and they spruce up the place, and for a while they do a greater business. And to an extent that is what happened in Russia. By bringing in Western investment they were able to enhance the recovery from existing wells, and get some oil out that was not being produced from existing fields. But in just the same way as, after a time, with increased business, the shop owner has to go out and buy more supplies in greater volume, so the Russian oil industry has to go out and find new wells and reserves.

And here is the current problem, like the United States, Russia has been producing oil for a long time. Most of the fields have been found and many have been in production for a long time, with more than a million wells already drilled. Yes, with the new investment, these fields could be more productive, and have been, but with limited funds not enough (only apparently about 2%) has been put aside for exploration and development of new fields

"In the three years from 1999 through 2002, Russian oilmen brought on line 110 new fields (most of them small), which in their first year on line produced a total of only 1.3 million tons (Beskhmel'nityn , 2002 and 2003). More meaningfully, the increment from fields and horizons brought into service in the five years prior to the end of 2000 reached 16.1 million tons and may be double that today (Fomin, p. 45). It seems, therefore, that most of the increase and the bulk of the yearly output from 1999 through the end of 2004 have originated from deposits and strata in exploitation at the end of the Soviet era. This claim is confirmed by a number of sources. Russian companies have teamed up with Western service firms, such as Schlumberger, Halliburton, Parker Drilling, and Pride International, to apply new technologies, such as well perforation and well stimulation in restoring idle wells and maintaining production there."

So with ageing fields that have now had production accelerated, so that they run out faster, and insufficient new fields being found, the hoped for help from Russia may well have been over-anticipated, and even the current hope for sustained production at current levels may be optimistic.

Now where is that popcorn . . . . . ?

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