



Russian Car Sales & Net Oil Exports

Posted by [Sam Foucher](#) on June 9, 2007 - 10:46am

Topic: [Supply/Production](#)

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This a guest post by Jeffrey J. Brown ([westexas](#))

The following story about booming Russian car sales is a perfect example of the “Export Land” Model, where rising domestic consumption in exporting countries can overwhelm increases in oil production, resulting in lower net oil exports.

As I warned in January, 2006 (see my article, “[Net Oil Exports Revisited](#)”), net oil exports by all of the top three net oil exporters (Saudi Arabia, Russia and Norway) fell from 2005 to 2006 (EIA data). Based on the following article, since 2002, foreign car sales in Russia have been increasing at the rate of about 50% per year (doubling about every 1.4 years). I wonder what effect this is having on gasoline consumption in Russia?

Incidentally, my Net Oil Exports article appears to be quite popular on the web. Out of about 1.8 million listings for Net Oil Exports on Google, the article is consistently in the top five, and it is generally #1. (I should point out that I built on work done by Matt Simmons and Kenneth Deffeyes, et al, using "[Khebab's](#)" graphs.)

THE VIEW FROM EUROPE

[Russian car boom catches eye of Japan, Germany](#)

By JOCHEN LEGEWIE

Excerpt:

Oil boom's impact

All in all, the maximum output capacities of plants operated or planned by overseas automakers is approaching 1 million cars per year. Clearly, something is up in mother Russia.

To put matters simply, Russia is experiencing a good old-fashioned oil boom. Its deepening ties with European energy suppliers, along with rising prices of crude oil and other resources, has created a steady stream of revenue. Having gone through a major economic crisis as recently as 1998, the country has made a complete about face and is now prudently stockpiling funds for future rainy days.

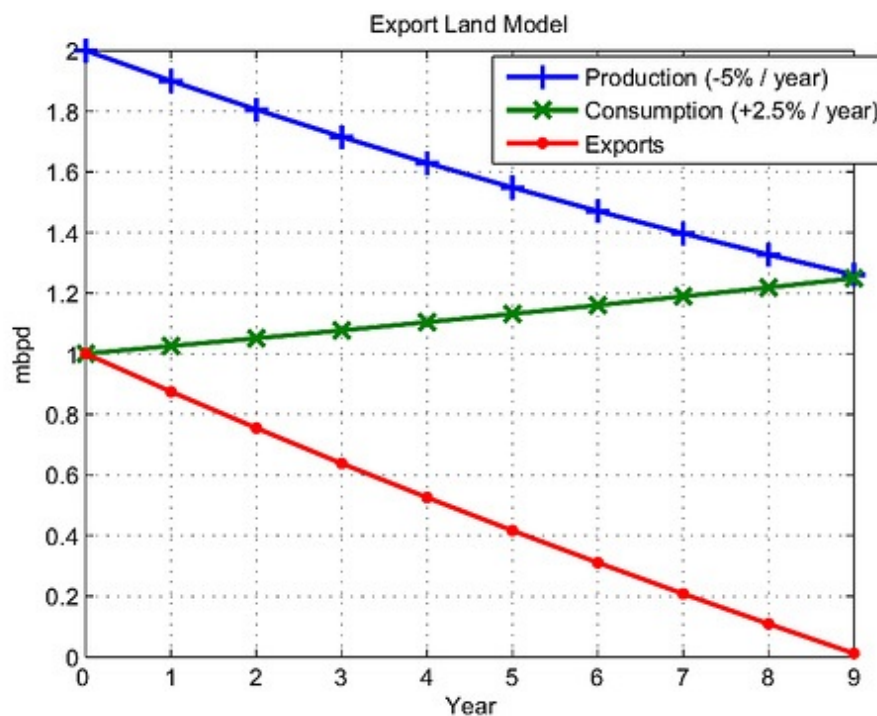
It has also been generous with its citizens. Income tax in Russia is levied at an across-the-board rate of 13 percent, making it the lowest of the major industrialized nations.

Combined with extremely low utility costs, as well as pent-up demand for goods after decades of state rule, and the deepening thirst for cars comes as no surprise.

Furthermore, car ownership in Russia is still at a relatively low level of less than 20 percent. Compare that with Germany, where it's over 50 percent, or Japan, which has 44 percent. And the average age of a car in Russia is approaching 10 years, which means many car owners will soon be looking for a replacement. All of these factors add up to a steeply growing market, especially for foreign makes.

In 2002, only 112,000 foreign cars were sold in Russia. This year, the VDA is forecasting that 1,350,000 foreign vehicles will be sold — a 12-fold increase. Conversely, sales of Russian-produced cars have been on a steady decline, from 857,000 in 2002 to a forecast of 750,000 in 2007.

The following graph shows a hypothetical oil exporting country where a 5% annual decline rate in oil production and a 2.5% annual rate of increase in domestic oil consumption results in a 50% decline in net oil exports in 4.5 years (a decline rate of 16% per year).



As production actually starts declining, many exporting countries will show double digit declines in net exports. For example, from January, 2006 to April, 2007, Mexican oil exports declined 18%, a decline rate of 16% per year, on a month to month basis.

In my opinion, because of the Export Land Model, the ongoing decline in world crude oil production, relative to May, 2005, will look more like a crash from the point of view of importing countries.

Based on our mathematical models (Hubbert Linearization), Russia, at least their mature basins,

is at about the same stage of depletion as the United States, in the vicinity of 85% depleted. This suggests that when Russian oil production turns down again (no later than next year, in my opinion), it will be a very sharp decline, resulting in a probably catastrophic decline in Russian oil exports.



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