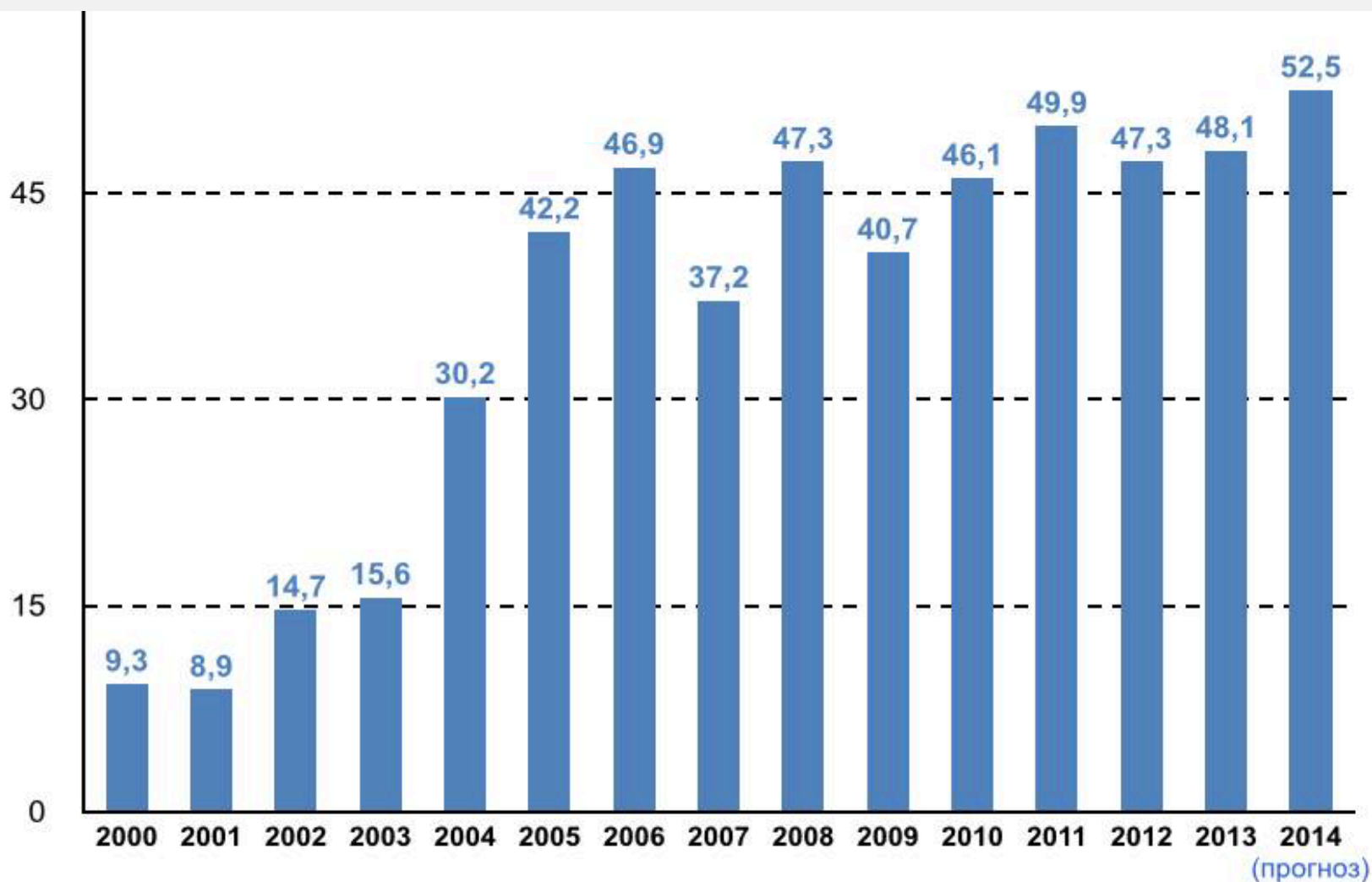


Falling oil prices: Political implications for Russia

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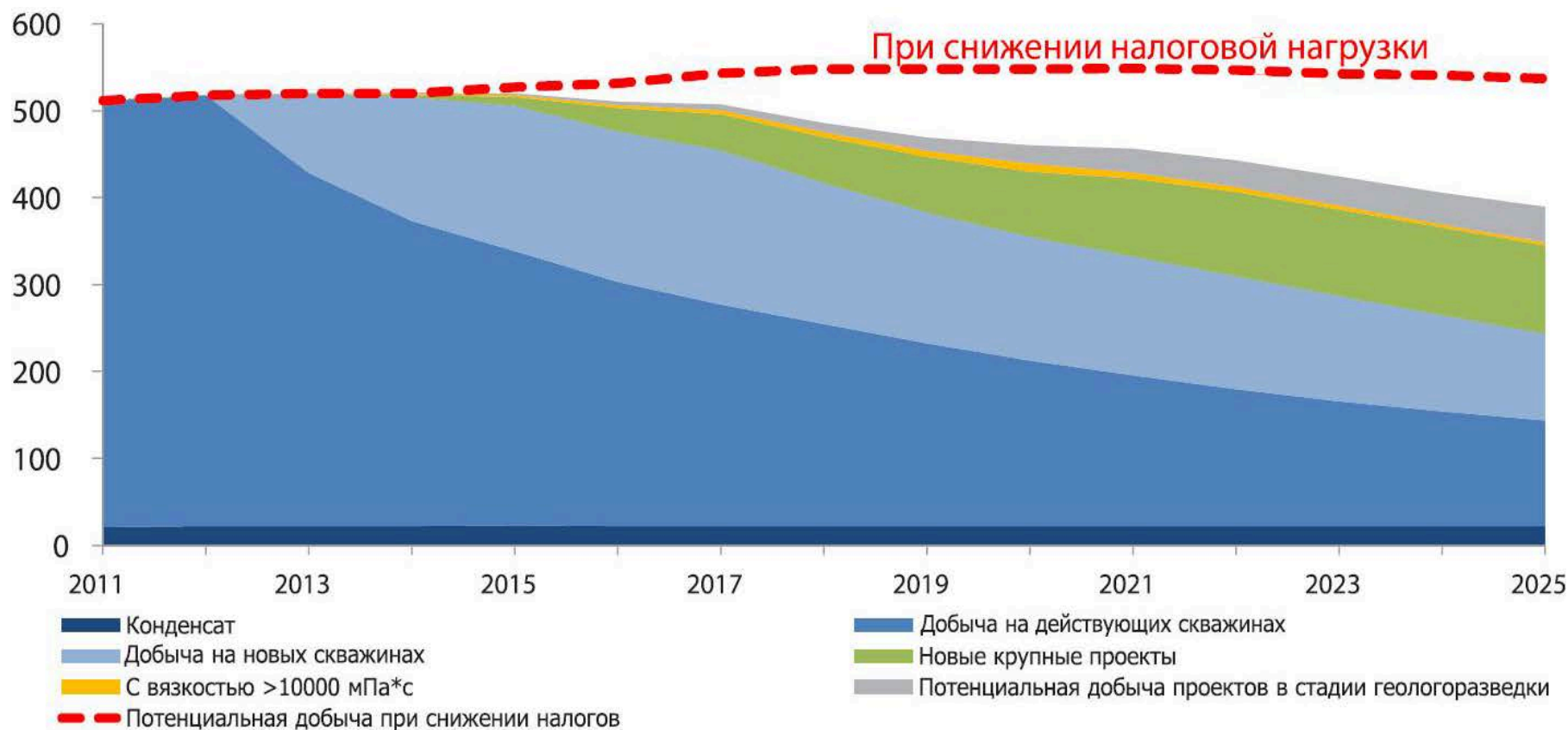
Oil and gas revenues in Russia's federal budget, %



Russian oil production is past peak

- **Size and quality of new discoveries deteriorates**
- **Ongoing projects enter depletion phases**
- **Tight reserves are a challenge for existing technologies**
- **Tax incentives are inadequate; PSAs are banned**
- **Industry is dominated by inefficient state-controlled majors**
- **Foreign operators are discriminated**
- **Western sanctions are in effect**

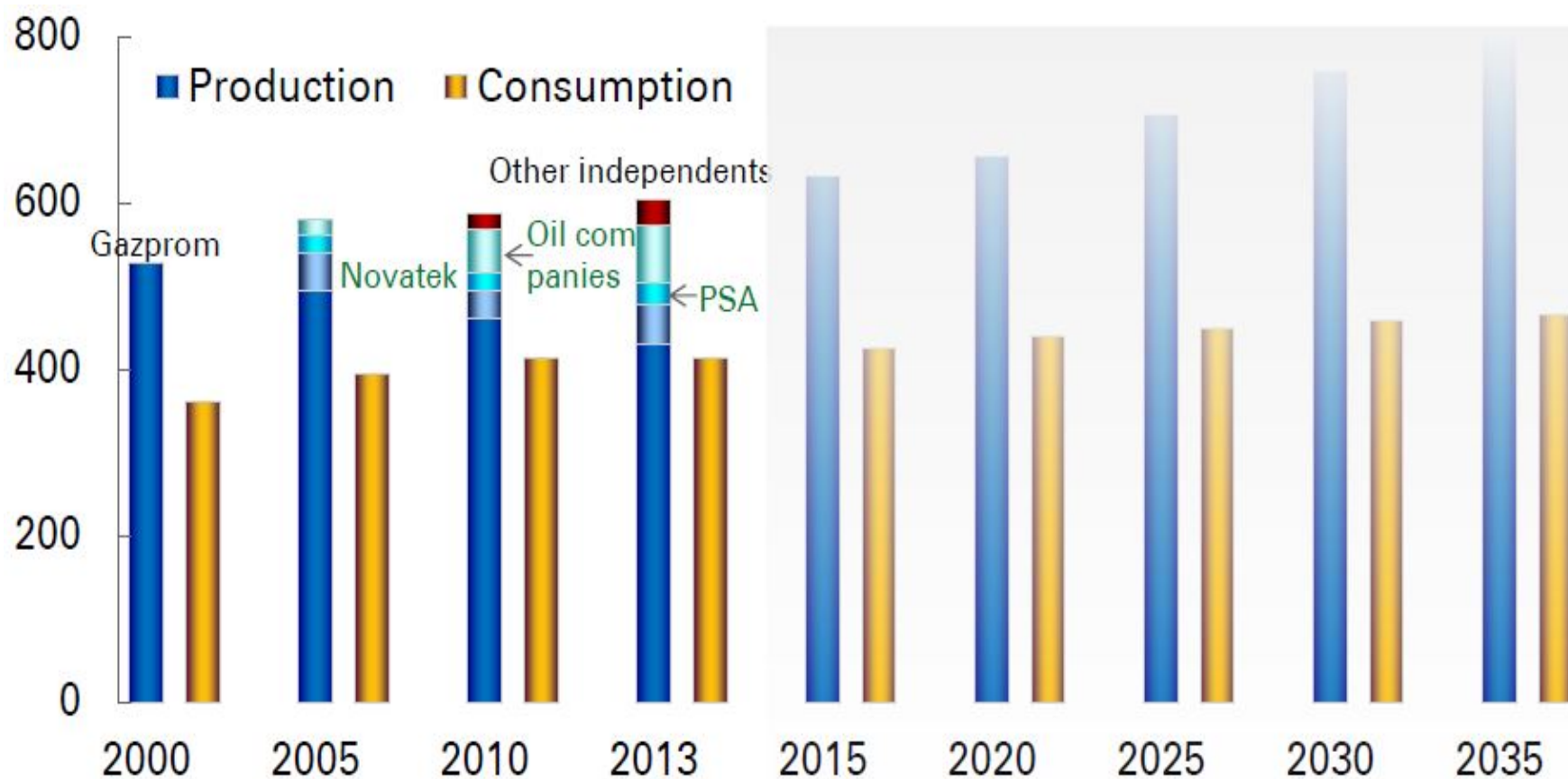
Oil production decline is predicted at 15-20% by 2020



Gas production growth is also an issue

- **Ongoing projects suffer from depletion and low pressure**
- **Production and transportation costs grow**
- **Domestic consumption is in stagnation**
- **The US shale revolution makes an impact**
- **Russian LNG is hardly competitive**
- **Demand for Russian gas in Europe is not growing**
- **China's gas market can do without Russian supply**

Natural gas balance estimate in Russia, Bcm



Source: BP Energy Outlook 2035

Conclusions:

- **Russia's oil and gas production faces challenges and is expected to decrease significantly.**
- **Russia's economy has weak prospects for growth and seems to be shrinking.**
- **It is going to affect Russia's global role and domestic situation.**
- **What strategy the government may choose to steer the nation to a brighter future?**



Possible scenarios for Russia

- **Integration into the Western civilization politically and economically; opening to international capital, technologies, democratic principles, liberal market, private business, transparency, etc.**
- **Cold war attitude on the verge of a real war; invasion of neighbors' land; a totalitarian regime; mobilization economy; political oppression, etc.**

What's going on?

- **Creeping de-privatization, which means nepotism, corruption, inefficiency, waste of public wealth. A crony capitalism.**
- **Xenophobia under patriotic banners instead of international cooperation and integration.**
- **Attempts to subjugate former Soviet republics politically and economically (mostly futile).**
- **Manual control ('vertical of power').**
- **Cold war rhetoric. Boosting military and law-enforcement budgets.**
- **Teaching other nations what they must do to accommodate Russia's plans.**

**The outcome may be disastrous.
The big question is:
What is the West going to do vis-à-vis this
Russian attitude?**



Thank you

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