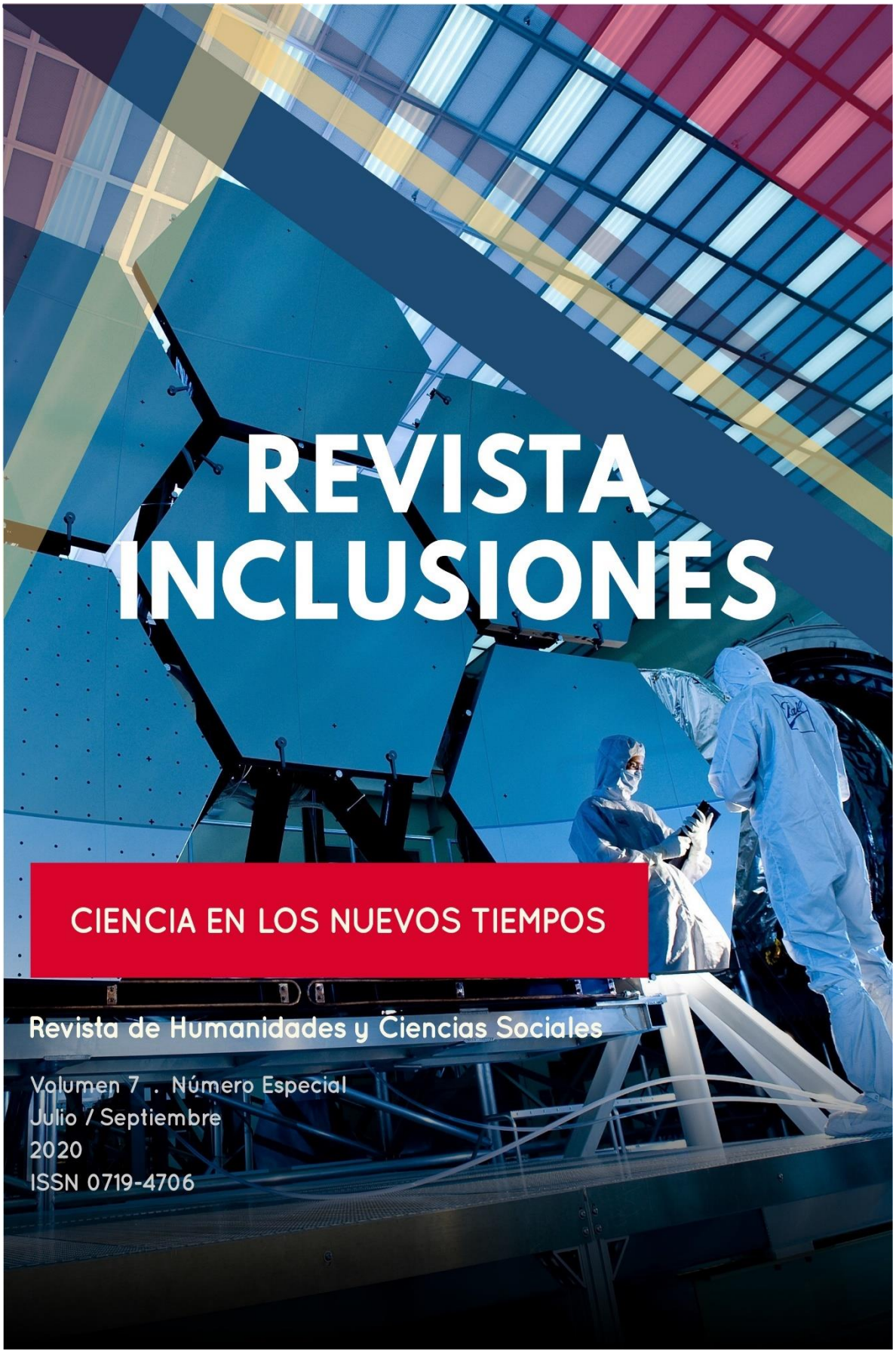

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RUSSIA'S OIL SECTOR: ON THE EVE OF CHANGE

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Abstract

The oil sector's contribution to the GDP of Russia – one of the world's largest suppliers of hydrocarbons – is substantial. Based on an analysis of the trends in Russia's oil sector observed from January to March of 2020, this paper aims to concretize a set of factors in the sector's development taking account of the current situation in the global oil market. The authors employ the comparative method to identify similarities and differences in the dynamics of the following sectoral indicators: oil output, refining output, petroleum product output, oil exports from Russia to the near and not-so-near abroad, and oil shipments to the domestic market. Based on the research reported in this paper, the key external factors in the development of the oil sector are Russia's compliance with OPEC+ agreements, financial and technological sanctions from the EU and the US, and the impact of the COVID-19 pandemic on the world economy. The authors have identified a set of priority areas for the development of Russia's oil sector linked to enhancing the state's energy policy in the direction of augmenting its strategic orientation.

Keywords

Oil sector – Russia's energy policy – OPEC+ – Socio-economic development

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Introduction

Over the last few decades, the strategic priority for Russia's foreign energy policy has been to maintain the leading positions of the Russian fuel-and-energy complex (FEC) in the global economy[1]. Today, Russian energy supplies are playing a key role in maintaining a fuel-and-energy balance in a number of nations in Europe and Asia. This is associated with the following distinct competitive advantages that Russia possesses: its rich natural resources, relatively low costs of extracting hydrocarbons, and close proximity to key consumers and target markets, the availability of unique transportation routes, and the Russian oil sector's powerful technological potential. It is worth noting that the oil sector is also still the leading industry in the Russian economy. Currently, its contribution to the nation's GDP is nearly 13%[2]. Essentially, the oil sector and the FEC have been central to ensuring the conditions for the development of other sectors in the Russian economy, as well as creating the resource base for the achievement of national goals and strategic objectives for the development of the Russian Federation for the period through to 2024[3]. A favorable combination of external factors, with the most significant of these being the level of world oil prices, and the oil sector's strategic orientation toward increased hydrocarbons output led to Russia's crude oil output surging in December of 2019 to a new all-time record high – a daily average of 1.455 million tons, or 10.625 million barrels a day[4].

The current stage in the development of the oil market is characterized by "price swings", which are making the market increasingly volatile and its dynamics poorly predictable. Although the overall situation in the global oil market is directly linked with the phases of the world economic cycle, what remains a matter of debate is which factors determine the prospects for the development of the oil market from a standpoint of supply.

None of the "classic" theories of supply has been capable of providing a satisfactory answer to this challenge. For instance, the theory of a peak in global oil production ("peak oil"), the possibility of which is suggested by the Hubbert curve, illustrates the nature of change in petroleum production over time in a normal distribution format[5]. It leads one to suggest that, in essence, petroleum supply is a function of the resource base – petroleum supply will exhibit a trend toward decline as that base gets used up. However, the "peak" of production has not been reached yet. With the Russian Federation being one of the world's nations with the largest reserves of hydrocarbons, it appears to be hardly advisable to explore the prospects for the development of the oil sector based on the postulates of "peak oil" theory. Likewise, it appears impossible to ground the study of Russia's oil sector in Hotelling's rule[6], as Russia is not a monopolist in the global oil market and, therefore, cannot obtain Hotelling rent, i.e. it cannot set the price based on the cost of replacing oil with an alternate in the importer's market.

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[1] Order of the Government of the Russian Federation N 1715-r "About the Energy strategy of Russia until 2030". November 13, 2009.

[2] Structure of gross value added by branch of economy. 2020. Retrieved from: https://www.gks.ru/accounts

[3] Decree of the President of the Russian Federation "On National Goals and Strategic Tasks for the Development of the Russian Federation for the Period up to 2024." No. 204. May 7, 2018 Retrieved from: http://kremlin.ru/acts/bank/43027

[4] In February, Russia 's oil production amounted to 10,610 million barrels per day. 2020. Retrieved from: https://catalogmineralov.ru/news_v_fevrale_v_rossii_dobyicha_nefti_sostavila_10610.html

[5] M. K. Hubbert, "Energy from Fossil Fuels", Science. Vol: 109 (1949): 103-109.

[6] Harold Hotelling, "The economics of exhaustible resources", Journal of Political Economy. The University of Chicago Press via JSTOR. Vol: 39 num 2 (1931): 137–175.

Under the conditions of today, a key factor that determines the current dynamics of the development of Russia's oil sector, in addition to the phases of the world economic cycle, is financial and technological sanctions imposed by several EU member states and the US[7]. In addition, as evident by the events of March and April of 2020, the volume of oil supply is still largely determined by the behavior of OPEC member states. In a strategic perspective, the oil sectors of Russia and other oil-exporting nations will be under pressure from a factor such as the probable entry of alternative fuel to the global energy marketplace. Based on expert estimates, over the next 30 years the use of alternative fuel will play an essential role in the development of the energy sector of the global economy[8]. It will also be crucial to the development of energy-saving policy. Currently, energy-efficiency programs are being actively implemented in most developed nations and the Russian Federation.

Under the influence of the above subjective and objective factors, ramping up oil production is ceasing to be a guarantor of sustainability in the oil sector. In this climate, of special relevance is the objective of exploring a set of factors that determine the dynamics of supply in the oil sector of Russia, one of the world's leading oil exporters whose actions largely influence the situation and dynamics in the global oil market.

Hypothesis: It is advisable that the factors governing the dynamics in the global oil market be investigated taking account of the findings from analyses of the situation in Russia's oil sector in direct proximity to the bifurcation point, a point of change in trends in the dynamics of the sector's development.

Methods

Of significant help to the authors in achieving the study's objectives has been the comparative method[9]. The use of this method has helped identify some of the more general consistent patterns in the development of Russia's oil sector on the eve of the recent "shocking" drop in oil prices. The study's information basis is grounded in official statistical reporting data, as well as operational data from the Central Dispatching Department of the Fuel-and-Energy Complex. Using comparative analysis[10], the authors performed a series of consecutive operations on grouping and summarizing the statistical data, which helped concretize the more relevant trends in the sector's dynamics in the period from January to February of 2020. For the purposes of comparative analysis, the authors chose as the study's basic parameters the following metrics to characterize the volume of supply in Russia's oil market: total oil output by the oil companies, total oil refining output, and total petroleum product output. Use was also made of data on oil shipments to the foreign and domestic markets. The use of the comparative method helped the authors identify similarities and differences in the dynamics of key sectoral indicators, draw a reasoned conclusion as to the factors governing the dynamics of the development of the oil sector in the period under examination, and draw up a set of proposals on enhancing the state's policy on the development of the Russian oil sector.

[7] E. A. Telegina & G. O. Halova, "Sequences and trade wars as indicators of transformation of the world economy. Opportunities for Russia", World economy and international relations. Vol: 63 num 2 (2019): 13-20.

[8] A.A. Konoplianik, "On competitive markets and anticompetitive behavior on the example of US LNG against Russian pipeline gas in Europe", Energy policy num 6 (2018): 18 - 28.

[9] V. Bondaletov, Comparative method in kn: Russian onomastics: Study manual (Moscow: Enlightenment, 1983).

[10] N. Smelser, Comparative Methods in the Social Sciences (New Jersey: Englewood Cliffs, 1976).

Results

In January of 2020, crude oil output from Russian wells decreased 0.5% compared with the same period the previous year, which was associated with the fulfillment of the requirements of an OPEC+ deal in December of 2019, under which Russia was to reduce oil output starting in January of 2020 by 300,000 barrels a day.

Figure 1 illustrates the volume of oil production by the Russian companies in January of 2020.

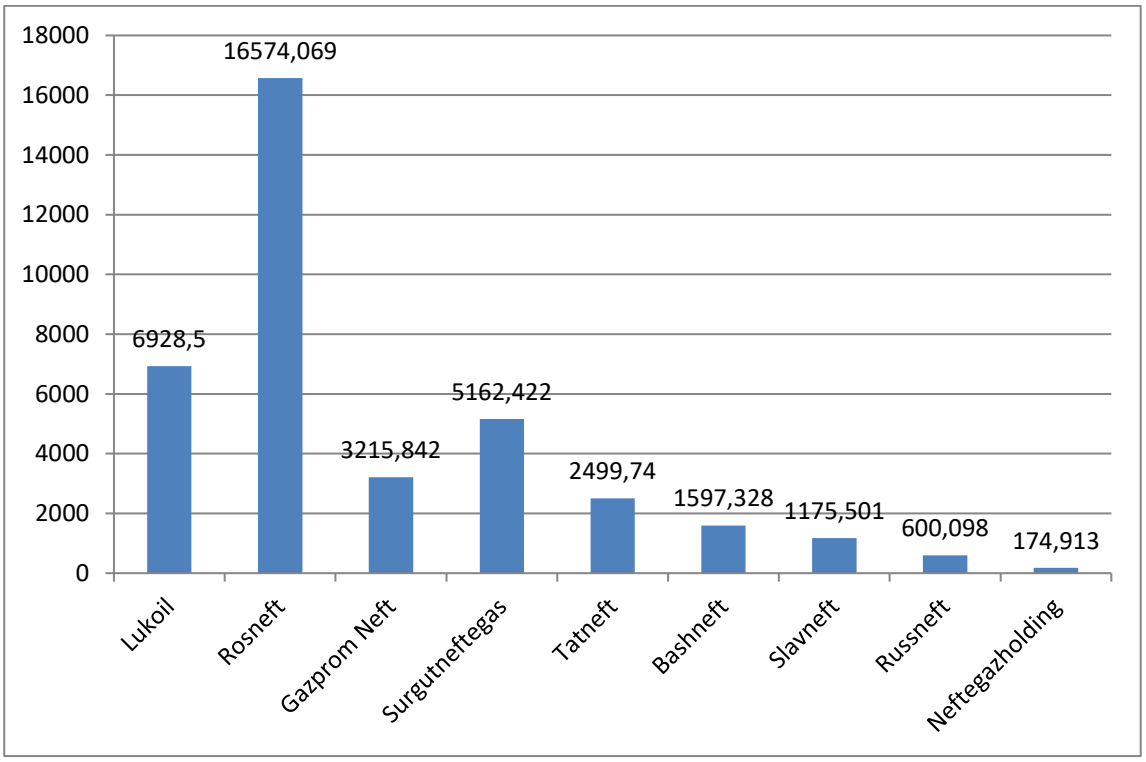

Figure 1
Russia's oil output in January of 2020, with a breakdown into companies

The unchallenged leader in oil production has been Rosneft. In February, the company produced 15.407 million tons of oil. Between January and February of 2020, Rosneft produced a combined 31.981 million tons of oil, which matched the figure for the same period the previous year. The second rank in oil output (as well as refining output) (Figures 1 and 2) went to Lukoil. The company produced 6.482 million tons of oil in February and a combined 13.41 million tons of oil between January and February of 2020, an increase of 0.3%[11].

In February of 2020, oil production in Russia rose in annualized terms for the first time in six months (Table 1).

[11] Rosneft maintained oil production at 32 million tons in January-February. March 2, 2020. Retrieved from: https://www.tinkoff.ru/invest/news/350482/

February of 2020, million tons	44.7
Percentage change from February of 2019, %	+3.3
January/February of 2020, million tons	92.6
Percentage change from January of 2019, %	+1.3

Table 1
Russia's Oil Output in February of 2020[12]

In February, the nation's daily average oil and gas condensate production decreased 0.2% relative to January of 2020, to 11.30 million barrels a day, as a consequence of Russia fulfilling the requirements of the above OPEC+ deal.

The nation's oil production cuts continued into March. In annualized terms, in March Russia's daily average oil production decreased 0.1%.

Thus, the decline in oil production in the period from January to March of 2020 was associated with the fulfillment of the OPEC+ requirement. This requirement has been in place since 2017. Its terms and conditions have changed more than once, and its effect has been extended[13].

For example, in the first quarter of 2020 the OPEC+ alliance reduced production by 1.7 million barrels a day from the level of October of 2018, with 300,000 barrels of this quantity accounted for by Russia. However, March of 2020 was the last month that the production cut agreement between OPEC and its allies, known as OPEC+, would formally be in effect.

Consequently, on the eve of the "price shock", Russian supply of oil in the world oil market was determined by, above all, institutional factors, namely a strategic orientation toward maintaining the positions of the Russian FEC in the global energy system.

The dynamics of production determine total oil-stock refining output at the refineries, which in January of 2020 dropped 0.5% – to 25.006 million tons[14].

Figure 2 illustrates the oil companies' shares of Russia's total refining output in January of 2020. The largest share was with Rosneft – 26.68%.

[12] "Measuring sustainable development in TEC", Energy Bulletin, num 82 (2020). Retrieved from: https://ac.gov.ru/uploads/2-Publications/energo_march_20.pdf

[13] Oil production in Russia decreased by 0.1% in March. Russia Today. 2020. Retrieved from: https://1prime.ru/energy/20200402/831185715.html

[14] Oil production in Russia fell by 1% in January. Retrieved from: https://udm-info.ru/news/economy/03-02-2020/ob-emy-dobychi-nefti-v-rossii-v-yanvare-upali-na-1

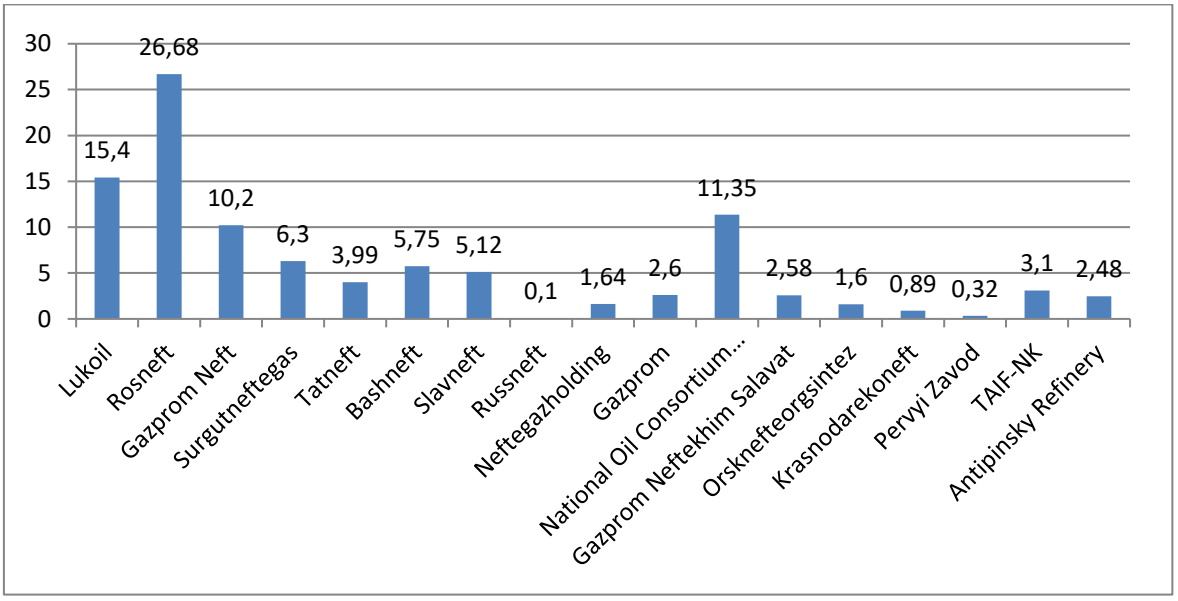

Figure 2
The oil companies' shares of Russia's total refining output in January of 2020, %.
Based on data from[11].

In February of 2020, the nation's refining output rose 5.5% compared with the same period the previous year (Table 2). This was associated with the effect of a number of factors – most importantly, an increase in raw materials (oil) output (Table 1).

February of 2020, million tons	23.6
Percentage change from February of 2019, %	+5.5
January/February of 2020, million tons	48.1
Percentage change from January of 2019, %	+2.4

Table 2
Russia's Refining Output in February of 2020[13]

Increases in oil output and refining output have become a driver for the increased production of gasoline and diesel fuel (Table 3). Ramped-up domestic refining output is seen by the authors as a major source of economic growth in Russia. This may require reorienting the FEC to deep refining of energy resources – with a view to turning these resources into products with higher value-added. In addition, this measure should help boost the efficiency of Russia's overall energy policy.

Gasoline	
February of 2020, million tons	3.3
Percentage change from February of 2019, %	+4.9
January/February of 2020, million tons	6.7
Percentage change from January of 2019, %	+2.8
Diesel	
February of 2020, million tons	6.7
Percentage change from February of 2019, %	+7.1
January/February of 2020, million tons	13.7
Percentage change from January of 2019, %	+4.6
Mazut	

February of 2020, million tons	3.8
Percentage change from February of 2019, %	+2.5
January/February of 2020, million tons	7.7
Percentage change from January of 2019, %	-2.9

Table 3
Russia's Petroleum Product Output in February of 2020[13].

In the first quarter of 2020, Russian oil production rose 0.7% in annualized terms – to 140.352 million tons[15], with Russian refineries ramping up primary oil refining output by 3.5% – to 73.98 million tons[16]. Russia's Minister of Energy has said that the companies are preparing for oil production cuts – a decline of around 19% in May relative to the level of February of 2020. In conjunction with the OPEC+ restrictions, in 2020 Russian oil production will drop 10% relative to the 2019 level (560.2 million tons)[17].

Petroleum product shipments to Russia's domestic market are currently distinguished by spatial non-uniformity. The way in this area is led by the Central Federal District (27.3%) and the Volga Federal District (20.55%), which is associated with the fact that these micro-regions have oil refineries and are characterized by a high concentration of industry in them (Figure 3).

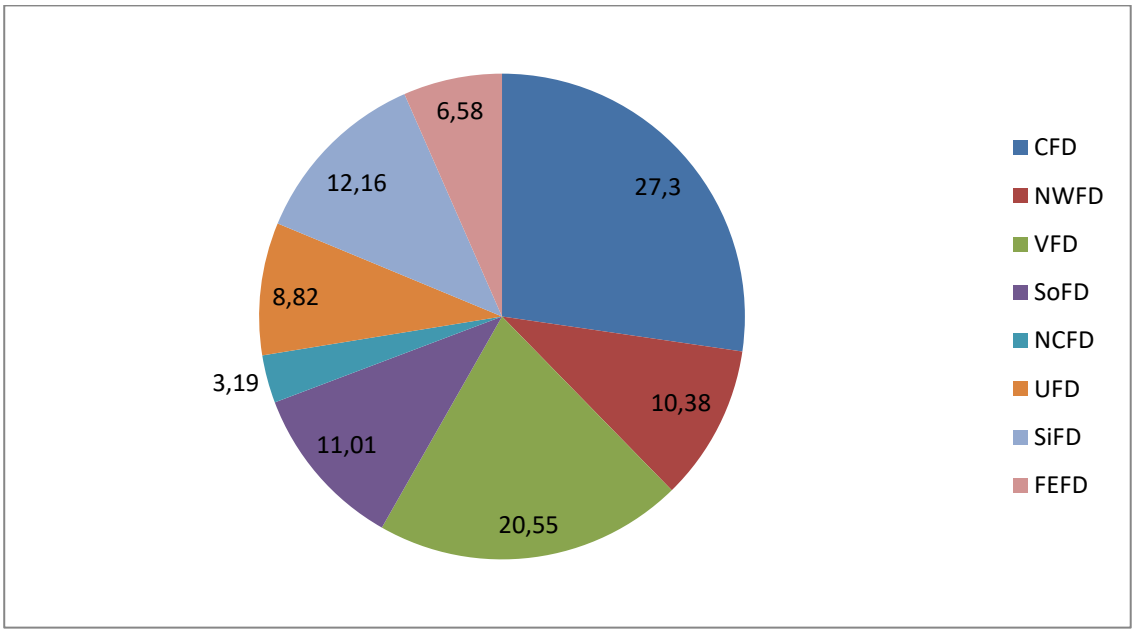

Figure 3
Petroleum product shipments to Russia's domestic market (automotive gasoline), %.
Based on data from[11].

Between January and February of 2020, Russia reduced its oil exports by 0.6% – to $18.033 billion. The nation's oil exports in the period covered totaled in physical terms

[15] Oil production in Russia increased by 0.7% to 140.352 million tons in January-March. 2020. Retrieved from: https://www.vesti.ru/doc.html? id=3253442
[16] Oil refining in I quarter in the Russian Federation increased by more than 3%. Neft Kapital [Oil Capital]. April 3, 2020 Retrieved from: https://oilcapital.ru/news/downstream/03-04-2020/bolee-chem-na-3-uvelichilas-pererabotka-nefti-v-rf-v-i-kvartale-2020
[17] Russia will reduce oil production by 10% within OPEC in 2020. April 29, 2020. Retrieved from: https://ren.tv/news/ekonomika/692632-rossiia-sokratit-dobychu-nefti-v-2020-godu-na-10-v-ramkakh-opek

40.697 million tons, which is 3% less than in the same period the previous year. Russia's oil export cuts may be viewed as a symptom of the sector approaching the bifurcation point, as oil production in Russia and around the world tends to respond to a growing demand by exhibiting a steady growth in a pre-crisis period. This growth is then replaced, almost overnight, by a decline, as was the case in the first quarter of 2020.

February of 2020, million tons	20.9
Percentage change from February of 2019, %	+1.2
January/February of 2020, million tons	42.6
Percentage change from January of 2019, %	-0.3

Table 4
Russia's Oil Exports in February of 2020[13]

As has become a tradition, the basis of Russian exports in the period between January and February of 2020 was made up of fuel-and-energy products. The relative share of these products in the product structure of Russia's exports in the above period was 63.4% (67.0% in the period between January and February of 2019). Based on the traditional structure of the nation's exports, a key domestic factor for the development of Russia's oil sector is the state's policy with regard to oil-extracting and oil-refining companies. The share of these products in the product structure of Russia's exports to the not-so-near abroad was 68.7% (70.7% in the period between January and February of 2019), and to the Commonwealth of Independent States – 23.4% (37.6%). Compared with the 2019 January/February period, the total value of the nation's fuel-and-energy products dropped 17.5%, and their total volume – 5.9%. In terms of the nation's exports of products from the fuel-and-energy complex, there was a drop of 10.1% in the total volume of shipments of oil and petroleum products, including kerosene – a drop of 29.8%, electrical power – 26.7%, natural gas – 24.6%, and crude oil – 4.2%. At the same time, there were increases in the total volume of exports of the following products: liquefied gas (a rise of 49.8%) and automotive gasoline (28.4%)[18].

Based on data from the Federal Customs Service, in January of 2020 Russia's exports of oil to the near abroad dropped 52% relative to December of 2019 (with the decline in oil exports to Belarus associated with differences on the terms and conditions for shipments). There was a drop of 14% in Russia's oil exports to Asia Pacific and a 14% rise in its oil exports to Europe. The largest share of Russia's cuts in oil exports to Asia Pacific has been accounted for by the cuts in oil exports to China (-36%). This has had to do with a sharp decline in industrial production in China due to the COVID-19 pandemic. In the 2020 January/February period, China's industrial production declined 13.5% in annualized terms, the worst figure in the last 30 years[19]. With that said, amid dropping oil prices China has been increasing its reserves of oil, which should help mitigate the negative effect for suppliers of oil to this country.

Russia's exports of petroleum products dropped in January of 2020 relative to January of 2019 across all areas: to Europe – by 16%, to the near abroad – by 19%, and to

[18] FCS of Russia: import-export of essential goods for January-February 2020. April 7, 2020. Retrieved from: http://vch.ru/event/view.html?alias=fts_rossii_import-eksport_vaghneischih_tovarov_za_yanvar-fevral_2020_goda

[19] Russian oil exports to China in January 2020 sat at 30%. We wait for restoration? 2020. Retrieved from: https://neftegaz.ru/news/Trading/536808-eksport-rossiyskoy-nefti-v-kitay-v-yanvare-2020-g-prosel-na-30-zhdem-vosstanovleniya/

Asia Pacific – by 10%[20]. The negative dynamics persisted into the 2020 February/March period. In March, the volume of Russia's oil shipped to overseas customers dropped 6.2% – to 21.44 million tons[21]. The decline in oil exports from Russia was associated with the following external economic factor – an adverse situation with prices in the global oil market in February of 2020[22].

The nation's exports of petroleum products dropped 10.1% in the January/February period – to 22.576 million tons (9.2% in monetary terms – to $10.37 billion). Its revenue from petroleum product exports dropped 9.1% in the January/February period – to $10.37 billion[23].

In February of 2020, oil continued to drop in price – but not at the rate that it did in January (Table 6). The price of North Sea Brent crude oil dropped in February an additional 7.5% – to $50.05 a barrel. The price of West Texas (WTI) crude oil dropped even more than that – by 9.2%, to $45.35 a barrel. However, all records were beaten by the drop in oil prices recorded in early March. In the first week of March, WTI was down 4.6%, while Brent plunged 13.5%. And that is not factoring in the outcomes of the "Black Monday of 2020" (March 9, 2020), when Brent crude traded below $32 a barrel, and WTI – below $28 a barrel[24].

Indicators	January of 2020	February of 2020	**March of 2020**	March of 2019
Producer prices for:				
automotive gasoline	25,109	25,939	**26,179**	21,872
oil	20,960	20,350	**18,214**	22,804
Price ratio, times	1.2	1.3	**1.4**	1.0

Table 5
The Ratio between Producer Prices for Automotive Gasoline and Oil as at the Year's End, rubles per ton[25]

The main reason behind the drop in oil prices in March was the termination of the OPEC+ deal, with OPEC and Russia failing to reach a compromise over extending oil production cuts past the first quarter of 2020. The unbalancing of the global oil market in March of 2020 resulted in oil prices dropping even below the recessionary levels of 2009 and 2015. In March, oil was down to fresh lows since 2002/03. This was associated with the exacerbation of the COVID-19 pandemic and the tearing up of the OPEC+ deal, with the participants' focus switching to a struggle for a share of the market. In March, average retail prices for motor fuel around Russia remained at February's level (Figure 6)[21].

[20] Measuring sustainable development in TEC. Energy Bulletin. Num 82 (2020). Retrieved from: https://ac.gov.ru/uploads/2-Publications/energo_march_20.pdf

[21] Russia in January-March reduced oil exports by 2.5%, to 64 million tons - Central Office of TEC. April 2, 2020 Retrieved from: https://www.finanz.ru/novosti/aktsii/rossiya-v-yanvare-marte-sokratila-eksport-nefti-na-2-5percent-do-64-mln-t-cdu-tek-1029057633

[22] The central bank explained the decline in Russian exports. March 11, 2020. Retrieved from: https://regnum.ru/news/economy/2881261.html

[23] Russia cut oil exports to $18.033 billion in January-February 2020. 2020. Retrieved from: http://angi.ru/news/

[24] N. Milchakova, Oil and gas in February 2020. Neft Kapital. April 12, 2020. Retrieved from: https://oilcapital.ru/article/general/12-03-2020/neft-i-gaz-v-fevrale-2020-goda

[25] About the dynamics of prices for automobile gasoline and oil products resources in March 2020. 2020. Retrieved from: https://www.gks.ru/bgd/free/b04_03/IssWWW.exe/Stg/d05/77.htm

Discussion

The forecast provided in the report 'Trends in the Development of the Russian Economy in the Current Climate of the COVID-19 Pandemic and Possible Anti-Crisis Measures'[26] is based on a scenario of price war in the oil market – which, however, has been dropped thanks to the signing of a multilateral OPEC+ agreement on oil production cuts. The difference in projected oil prices for 2020 based on the "price war" and "resumption of the cooperation on production cuts" scenarios is not big – $34 and $39 a barrel. Virtually the entire projected slump in the second quarter is determined by the quarantine measures factor[27].

On April 12, 2020, OPEC+ agreed to cut output by 9.7 million barrels a day for two months, May and June, by 7.7 million barrels a day until the end of 2020, and by 5.8 million barrels until the end of April of 2022. Output will be reduced from each member country's October 2018 baseline, with the exception of Saudi Arabia and Russia – these two nations will have an 11 million-barrels-a-day reference level, from which production, as agreed, will be cut 23%, 18%, and 14%, respectively[28]. Thus, Russia's total oil production will be governed by the OPEC+ agreement. Just like in the first quarter of 2020, it will be based on the fulfillment of the OPEC requirements adopted in December of 2019.

In the view of some top energy officials in Russia and the US, the worldwide oil surfeit not only is not facilitating economic growth but is also creating risks of shortages of "black gold" subsequent to the remediation of the effects of the COVID-19 pandemic, when the economy will start recovering[29].

There currently are three different possible variants for the future development of the situation in the global oil market. The first variant, whose probability has increased significantly after the contact between the US and Russia, suggests that oil-producing nations will be able to reach common ground for joint initiatives in the area of stabilizing the situation in the oil market. The negotiations have yet to be joined by Saudi Arabia[30].

The second variant envisions political support for the largest oil exporters, including via a softening of the sanctions regime. Lastly, the third variant envisages that things will remain as before. It may be expected that the oil-producing nations will undertake no action before June of 2020, i.e. the next OPEC+ meeting, as they will be waiting to see how the COVID-19 situation develops and what the pandemic's impact on the global economy is going to be[30].

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[26] Trends in the development of the Russian economy in the context of the coronavirus pandemic and possible anti-crisis measures. 2020. Retrieved from: http://inveb.ru/ru/products/product-02/247-tendentsii-razvitiya-rossijskoj-ekonomiki-v-usloviyakh-pandemii-koronavirusa-i-vozmozhnye-antikrizisnye-mery

[27] VEB experts assessed the impact of the virus on Russia 's economy. April 12, 2020. Retrieved from: https://www.rbc.ru/economics/12/04/2020/5e919e0a9a7947391241d05b

[28] V planakh Putina net telefonnykh razgovorov po sdelke OPEK+.[Peskov: Putin's plans no telephone conversations on the OPEC + deal]. RIA Novosti. April 27, 2020. Retrieved from: https://ria.ru/20200427/1570623035.html

[29] S. Tikhonov, The future of the oil market is in the hands of Russia, the United States, and Saudi Arabia. Rossiiskaya Gazeta. April 1, 2020. Retrieved from: https://rg.ru/amp/2020/04/01/budushchee-neftianogo-rynka-okazalos-v-rukah-rossii-ssha-i-saudovskoj-aravii.html

[30] A. Kudrin, The US does not necessarily have to cut oil production. Rossiiskaya Gazeta. April 2, 2020. Retrieved from: https://ac.gov.ru/comments/comment/26510

However "polarized" the above scenarios might be, they appear to indirectly substantiate the authors' conclusion that the key factors governing the volumes of oil production and supply from Russia's oil sector that seem likely to remain in place for the observable future are the following external factors: (1) falling demand for energy, associated with the stagnation of the global economy amid the COVID-19 pandemic; (2) pressure from US shale oil; (3) difficulty maintaining an institutional, financial, and political balance among key entities within the global oil market, including the state-owned Saudi Aramco, private companies in the US, varied companies in Russia, as well as the governments of OPEC+ member states. The authors are convinced that in a strategic perspective the volume of Russian oil supply in the global oil market will increasingly depend on the following institutional factor – strategic priorities for the development of the Russian FEC in the global energy system.

This conclusion is confirmed by the comparison of the state of oil Russia with the oil industry of one of its neighbors and trading partners - the Republic of Kazakhstan. The evolution of oil and oil products prices in the first quarter of 2020 showed how vulnerable the economies of countries with rich natural resource potential were in anticipation of an environmental crisis, far from representing the magnitude of the threat posed by COVID-19. Thus, the volume of oil production in Kazakhstan in January - March 2020 amounted to 23.6 million tons, having increased by 2.6% to the same indicator last year, which, according to leading economists, was due to the approval by the Government of the Republic of Kazakhstan of a package of measures to support business for the period of emergency [31]. However, since April 1, 2020 in the major networks of filling stations there has been a decline in retail prices for gasoline and diesel fuel, as a result of the impact of the pandemic, which caused a general economic recession, which affected almost all countries of the world commonwealth.

Conclusion

Global oil markets are currently at an unbridled level of uncertainty related to the rebalancing of the oil market, with the changing nature of relations in world trade as a whole. Since Russia is the largest exporter of oil, the trends in its oil industry are mainly due to external factors, such as the change in OPEC quotas; Economic and political conditions in oil-producing countries; military conflicts; The stagnation of the world economy caused by the COVID-19 pandemic is leading: government policy in the oil sector and strategic priorities of the Russian TEC in the global energy system.

The article, based on the analysis of statistical data characterizing the production, refining and production of petroleum products in Russia in January-March 2020, identified the following factors determining the trends in the development of the oil industry: Russia 's implementation of OPEC agreements, financial and technological sanctions announced by a number of EU and US countries, the impact of the crown virus on the economy of the country.

In modern conditions, in our opinion, the priorities in the development of the Russian oil industry are:

- Modernization of oil refining companies, including through the introduction of digital technologies, improvement of efficiency and management of equipment reliability;

- Expansion of oil production in promising regions, which include Western Siberia and Uralo-Volga region, where stabilization of production is carried out due to new drilling and geological and technical measures at existing fields;

- Systemic diversification of infrastructure of all modes of transportation providing oil transportation.

Implementation of the above sectoral priorities requires improvement of the state energy policy in terms of development of the oil industry, the main directions of which may be the following:

- Creation of a favourable economic environment for the operation of the oil industry, promotion of competition in those sectors where competition potential exists;

- Development of strategic management mechanisms at the state level through the development and timely updating of the system of strategic documents defining priorities for the development of the Russian oil industry;

- Increasing the "flexibility" of public energy policy programmes and activities, developing mechanisms to adapt to changing external and internal conditions of energy sector development;

- Improving the management of State property in the oil industry;

- The focus of the oil industry on the efficient use of natural energy resources for the purpose of sustainable growth of the Russian economy and ensuring a high quality of life for the population of the country.

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