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Russia to Cut Oil Production, Sending Prices Higher

Moscow plans to cut output by 500,000 barrels a day next month, taking a rare move on oil policy outside of its alliance with OPEC

An oil refinery in the city of Omsk, Russia.
PHOTO: ALEXEY MALGAVKO/REUTERS

By Georgi Kantchev Follow
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Russia said it plans to cut its oil production by around 500,000 barrels a day, or about 5%, next month, sending crude prices higher in a move that Moscow said was in response to Western sanctions.

Russia throttled back and then halted most exports of natural gas to Europe in response to sanctions imposed on Moscow after it invaded Ukraine. It has threatened to use its vast production of all sorts of commodities, including oil, to punch back against those economic restrictions.

But Friday's move was the first in which Moscow has telegraphed a specific oil-markets response to the Western measures, raising the specter that it was now brandishing oil as a weapon in the economic war playing out between Russia and the West. Some analysts, though, said the move reflected Russia's challenges in selling its oil amid the Western sanctions.

The European Union and the Group of Seven imposed a raft of measures on Russia in recent months aiming to curtail its oil revenue, a key source of cash for its budget. Those moves include an EU ban on most imports of crude oil and a global price cap of $60 a barrel for Russian crude. The mechanism requires Western shippers and insurers to ensure the price cap is respected.

An additional EU ban on Russian refined products and a G-7 price cap on those products came into force Sunday.

The Kremlin has said that it won't comply with the price cap. Until now, though, Russia has kept oil output stable. Moscow, for years, has also carefully coordinated its oil-production policy with the Organization of the Petroleum Exporting Countries, the group of big, mostly Middle Eastern producers that have long throttled output to support global prices.

The Kremlin on Friday said it had consulted with some members of the OPEC+ alliance, which includes a group of Russia-led producers. Russian Deputy Prime Minister Alexander Novak, however, said that Moscow hadn't consulted with anyone, calling the cut "voluntary."

"Today, we are fully selling the entire volume of oil produced, however, as previously stated, we will not sell oil to those who directly or indirectly adhere to the principles of the 'price ceiling,'" Mr. Novak said, quoted by state newswire TASS. "In this regard, Russia will voluntarily reduce production by 500,000 barrels a day in March. This will help restore market relations."

Global oil prices rose after Mr. Novak's statement, with the international benchmark Brent rising 2.5% to $86.65 a barrel early Friday. President Vladimir Putin in December banned the sale of Russia's oil and petroleum products to countries that put a cap on their sales price, though the oil market had taken that move in its stride as Russian oil kept flowing.

Russian oil production so far has defied forecasts of a precipitous decline amid Western sanctions. Moscow has been able to divert exports to customers in Asia, chiefly China and India.

In January, Russian oil production stood at 10.9 million barrels a day, just slightly under the 11 million barrels a day recorded in February 2022, according to Viktor Katona, lead crude analyst at Kpler, a commodities-data firm. Mr. Katona said the production cut could be a sign that Russia is facing challenges in selling its oil and refined products.

"Considering that Russia was running on max capacity all the way up until now, this is finally the effect of sanctions kicking in and bringing Russian production to a new optimal level," he said. "Russian refining needs to adapt to there being no European staple demand."

Mr. Katona said that another consideration for Moscow is that it has relatively little storage space domestically, which means that it has few options to find a home for the oil it overproduces.

So far, the biggest hit from the Western sanctions has been on price. With the European market—previously the biggest buyer for Russian energy—now effectively closed, Moscow has been able to sell most of its flagship Urals crude at around $50 a barrel, a steep discount to Brent, which has traded above $80 a barrel. As a result, energy revenue dropped by 46% in January, pushing the budget into a deficit of around $25 billion.

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