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OPEC + What’s Next?

A recent OPEC+ meeting has concluded successfully: the alliance’s members extended the deal to limit production asset performance to October 2024. Then the organization member countries will go on to ramping up their production. At this very stage strong disagreements may arise, leading to a complete breakdown of the cartel, warn western experts. Igor Yushkov, lead analyst of the National Energy Security Fund, spoke to BM. Moscow Foresight on how objective these forecasts are.

Is it correct to say that the existence of the alliance has approached its natural finale?

At first glance, one could agree with this opinion. Initially OPEC+ was established with the purpose of limiting both production of the key global commodity market players and reducing excessive export crude oil volumes, which led to lower exchange prices for the “black gold”. Each participant of the new alliance, formed in 2016, committed to proportional production capacity cuts: leading producer states, such as Saudi Arabia and Russia, agreed to larger concessions: the two leaders of the organizations reduced their volumes by up to 300 bbl per day; outsiders of the international trust, for instance, Sudan and Brunei, got their “entry ticket” to the alliance much cheaper – for 20-30 thousand bbl daily reductions of production volumes.

It made everybody happy then. Crude oil prices surged ...

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Without doubt, early in 2016 the barrel price dropped to $27, and in December of the same year it rose to $46. It is obvious that this low value yet could not be compared to the previous quotes, reaching up to $214, but there was no argument whatsoever against the positive shifts from the deal for an extended circle of oil-producing partners. This is why the agreement's conditions were extended till the end of 2018. It did not take long to see the result. The average barrel price over the year amounted to about $70, and at the very peak of the price – in October – the prices went over $85.



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Has Russia's participation in OPEC+ paid off?

Our country has never regretted joining the alliance. If in 2016 the oil revenues of the Russian state fell by about 18%, then as soon as in 2017 the amount of relevant receipts, according to the Federal Customs Service, rose by 27% – to $38,5 million. Without dispute, the total exports of Russian liquid hydrocarbons went down (by 0,8%), but the amounts, received from foreign buyers due to stabilized prices, balanced physical supply volumes at the global market.

What happened next over the period of 2018-2023?

The initial parameters of the OPEC+ deal, established at the November 2016 meeting in Vienna, had been adjusted many times, but the basics of the agreement to limit production remained unchanged. Average Brent quotes ranged within $65-71, which was quite comfortable for Russia, which balanced its budget at the price of $40 per barrel.

Certain issues arose in 2019-2020, when the world was hit by the coronavirus pandemic, which led to a contraction of industrial production, and consequently, to lower consumption of energy resources. Even back then industry players expected that OPEC+ had only months to go. Leading alliance members, primarily Saudi Arabia, announced upcoming expansion of "black oil" supply to international buyers. Riyadh decided to keep its exports revenues with quantity, not quality. However, at the extraordinary meeting, convened in April 2020, all 23 delegates of the organization unanimously voted to continue with the policy of oil production limits and approved a schedule for oil output reduction. The effect from the extraordinary resolution of the alliance took quite some time – the price of June futures crashed to $20, but by the middle of the summer quotes rebounded to $60 per barrel.

Then economic activity took off, causing corresponding mood changes within OPEC+?

And they had every reason for it. The international trade activities had restored its blood flow – already by 2021 the global economy growth reached up to 4,7%. On the one hand, this figure cannot be considered a complete success, because the gain did not cover the losses of the previous year and a half. On the other hand, financial position changes enabled hydrocarbon exporters to get faster production dynamics on track. Alliance members kept loosening their production limits for about a year. At first this shift did not hinder the quotes and the price of Brent rose to $120 per barrel again, but then the prices once again slumped, and in October 2022 the OPEC+ countries agreed upon the largest production cut over two years, by 2 million bbl at once.

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Did it help?

It did help, but one cannot say that it was a major result. Since August 2023 and until this day a Brent barrel has been traded in the range of $75-90. There have not been any new lows, but the $100 level still remains an impassable barrier. Let us point out, that over the time OPEC+ has essentially only managed to keep the prices in the designated price range, even despite the additional measures. And over 2023, and in Q1 2024 some representatives of the historic largest oil block had to go for voluntary production volume reductions many a time. Overall, countries of the alliance, including Russia, have cut down their daily production by 2,2 million barrels, but nevertheless, all things considered, by December the average annual price of oil will not exceed the current marks.

In other words, the statements that OPEC+ can no longer exert influence on the global oil market, could be considered true? Could it have been the reason behind the resolution, adopted at the latest meeting of the alliance, to gradually resume increased production starting from this October?

For now, the voluntary production reduction commitment has been extended to September. The official reason for going back to higher production volumes upon expiry of this term are forecasts for accelerated growth of demand for energy resources. This development of the trade balance is supported by the majority of the market players. According to Haitham Al Ghais, the Secretary General of OPEC, this year the purchasing power of crude oil importers will grow by the very same 2,2 million bbl. There will be no further reasons for lower demand going forward. In the opinion of Alexander Novak, vice-prime minister of Russia, a possible hydrocarbons shortage could only be compensated by a transition to higher OPEC+ production.

So, it is yet too early to shout about a crash of the organization, which has one way or another over 8 years operated as a key regulator of price conditions on the global oil market?

It’s hard to give an unambiguous answer. There are many disagreements in OPEC+. Russia and Saudi Arabia agree to keep their current production levels for a few more months, and Venezuela, Iraq and Libya are free from these restrictions. Moreover, as reported by Western media on the eve of the latest meeting of the alliance, the United Arab Emirates will try to stonewall extended production quotes, because they are planning to increase their output without any consultation with their organization partners. Suhail Mohammed Al Mazroui, UAE Energy Minister, debunked this information, but nevertheless confirmed that there was significant external pressure mounting on members of the alliance.

It should be said, that today, according to Goldman Sachs data, OPEC+ members have accumulated about 6,5 million barrels

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in idle production capacity. Starting from October 2024, when the organization will start ramping up its production, each cartel member will try to get their potential reserves back into operation for maximum volumes. Each member will start hogging the covers and a compromise will not come easy. Major non-OPEC+ producers are adding fuel to the fire, particularly, the USA and Canada, which can increase their production based exclusively on their own interests without listening to advice of other crude oil producers. In this case prices will be unpredictable.

One thing is assured: Russia continues playing a most crucial part in the life of the oil alliance, and if our country decides to suspend its membership in the organization, then OPEC+ will surely cease to exist.

Interview by Nikolai Makeyev

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