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The OPEC agreement: short-term benefits for Russia

Szymon Kardaś

On 30 November in Vienna, the OPEC countries concluded an agreement on reducing oil production by about 1.2 million b/d (barrels per day), i.e. to a level of 32.5 million b/d, including for members of the cartel. Non-OPEC countries decided to contribute to the agreement: Russia committed itself to reduce its production levels by about 0.3 million b/d, and other oil producers declared they would limit their total production by 0.3 million b/d (the list of these countries is not known). The agreement is to come into force on 1 January 2017 and will be valid for six months.

OPEC is responsible for around 41% of the world's oil production, and includes Saudi Arabia, Iran, Iraq, Kuwait, Venezuela, Nigeria and the UAE, among others. The most important oil producers not belonging to OPEC are the USA, Russia, Canada, China and Mexico.

Commentary

- Both the talks which (at Russia's initiative) have been held for almost a year by exporters of oil on freezing production, as well as the agreement in Vienna, are beneficial for Russia. They have had a positive effect on the market in the form of a price increase, which was Moscow's main aim in the context of its current financial problems. At the beginning of the year the price of oil had fallen below $30 per barrel; after the talks started, in March the level passed $40 per barrel; and at the beginning of December, after the announcement of the agreement to reduce production, the price rose to $54-55 per barrel. According to preliminary estimates by the Russian government, the price increase will increase revenues to the federal budget in 2016 by around 400 billion rubles ($6 billion), which will help reduce the budget deficit by around 13.3%.
- At the same time, indications are that implementing the agreement is actually of secondary importance from Moscow's perspective. This is demonstrated by both the scale of the commitments adopted in Vienna, and also by the doubts already being expressed as to their implementation. First, the reduction in Russian production should be linked to the record levels of production Russia achieved in October this year – 11.2 million b/d. In addition, the current and possible future effects on prices caused by the reduction (by about 1.2 million b/d) in production announced by the OPEC countries can easily be offset by a possible increase next year in production in the US (the current increase in prices may encourage smaller American manufacturers to start or resume production). Secondly, Russia has made taking real action to reduce production conditional on OPEC implementing its commitments; the history of the cartel argues that

previous agreements of this nature have often not been carried out. Thirdly, it is unclear how the Russian government would force its companies to reduce their production levels.

- The results of the long months of discussions on reducing oil production indicate that the prospect of the key producers coming to any lasting and meaningful agreement on this issue is unrealistic. For Russia, this means growing competition for markets with other exporters; as a consequence, no prospects for any further significant rise in oil prices in the coming years; and thus, levels of budgetary receipts from oil exports remaining low (for the first half of this year, proceeds from oil exports amounted to just $32.9 billion; the figures were $81bn and $48.1bn in the same periods in 2014 and 2015 respectively).