

The OPEC+ summit: an increase in Russian oil exports at the expense of other producers

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The OPEC+ summit: an increase in Russian oil exports at the expense of other producers. The OPEC+ summit was held on 4 June in Vienna, where the cartel decided to cut oil production in 2024 to a level of nearly 40.5 million barrels per day (bbl/d). This means a decrease of approximately 1.4 million bbl/d compared to the formal quota set for 2023. The organisation did not change the declared production volume this year and maintained the previously agreed cuts as voluntary reductions. Saudi Arabia announced a one-time cut in oil production by 1 million bbl/d in July but reserved the option of extending the reduction for further months.

Formally, Russian production has not been reduced further; the quota set for 2024 is 9.8 million bbl/d (the announcement of voluntary cuts by 0.5 million bbl/d starting from this year has not been taken into account). However, the determined volume for the Russian Federation may be revised after the data is verified by independent specialists. Russia has not published statistics on oil and gas production since April.

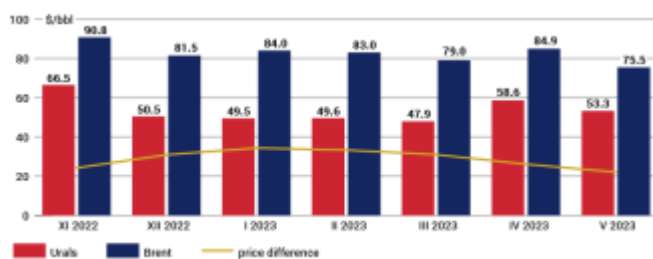
Commentary

- The fact that OPEC+ will continue its production reduction policy in 2024 and that Saudi Arabia has made the voluntary cut confirms that the cartel intends to prevent further oil price falls resulting from market fears of a global recession. In doing so, Saudi Arabia wants to intensify the competition for available volumes against the backdrop of the supply deficit expected in the second half of this year, which would result in a satisfactory increase in rates. According to the International Monetary Fund, Saudi Arabia will be unable to balance this year's budget, if oil prices remain below \$80 per barrel (the current price is around \$76 per barrel of Brent crude).
- The OPEC+ decision means that the Russian Federation will not have to make further production cuts in 2024 and will have the chance to maintain the current level of its exports and may even expand them. Moscow may take advantage of the deepening deficit on the global market while increasing sales to Asian customers who are looking for cheap oil. According to S&P Global data, the Russians produced about 9.6 million bbl/d in April this year. This proves that the Russian Federation has failed to meet its production reduction commitments: the real reduction is about 200,000 bbl/d, while the country had declared it would cut production by 500,000 bbl/d. Moreover, the fact that it has disregarded this goal is also indirectly confirmed by the reports from the

International Energy Agency (IEA) documenting an increase in Russian exports. According to the IEA, foreign sales of crude oil and petroleum products originating from the Russian Federation in April 2023 returned to the levels before the invasion of Ukraine, reaching 8.3 million bbl/d (in 2022, Russians exported an average of around 7.7 million bbl/d).

- The media reports so far indicate that Moscow's policy of making only partial cuts and its decision not to reveal the data on Russian production have brought about a conflict between the Russian government and other oil producers. They are accusing the Russians of taking over market share at the expense of those countries that are genuinely cutting production within OPEC+. For this reason, OPEC+ representatives announced a further verification of Russian data in consultation with independent organisations. So far, this has not led to a revision of the quota allocated to Russia.
- The policy adopted so far by OPEC+, and in particular by Saudi Arabia (which has been making efforts to increase oil prices) is also beneficial for the potential price of Russian oil. The EU embargo on oil from the Russian Federation, the price cap mechanism and global oversupply led to a reduction in the market value of Russian Urals oil in December last year and to a low price level being maintained in the first quarter of this year. However, the April declaration concerning voluntary production cuts by some OPEC+ countries has led to a significant increase in the average rate for Russian oil and to a decrease in the difference between the prices of Russian Urals oil and Western Brent crude (see chart). It is worth noting that the increase in the average Urals price has not led to a major increase in Russian budget revenues (see '[Russia: funding the war eases the consequences of sanctions](#)'). This suggests that the flow of money generated by the sale of oil to Russia is obstructed. For example, India pays for oil in rupees, and Russians are unable to exchange these funds into roubles.

Chart. Average price of Russian Urals and Western Brent crude between November 2022 and May 2023



Source: authors' own estimates based on data from the Ministry of Finance of the Russian Federation.