

Russia, Saudi Arabia and OPEC: International Oil Games

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Abstract: The article considers the main stages of development of relations between oil-producing countries at the present stage. The significance of agreements between Russia, Saudi Arabia and OPEC for oil price stabilization is analyzed. The dependence of Russia on the international oil market on the actions of Saudi Arabia is particularly emphasized. The article focuses on the objective factors of the OPEC++ deal in the context of falling energy prices. According to the results of the study, it can be concluded that there is a need for coordination between oil-producing countries in reducing the supply of oil on the international market.

Key words: *OPEC, oil prices, a new deal, Russia, Saudi Arabia, shale oil*

Main Body

Currently, issues of oil policy are at the top of agenda in international issues. Hydrocarbon resources entered into modern life so firmly and densely that any changes in the market and price fluctuations in the oil market can affect the everyday life of an ordinary person. Taking into consideration the fact that international energy trade has increased dramatically in recent decades, energy diplomacy continues to be a powerful leverage in the international arena.

OPEC, as the main organization regulating the oil situation in the world and being the largest exporter of oil products, is one of the most important strategic partners of Russia. According to the Annual OPEC Bulletin, the total share of OPEC countries in world crude production in 2018 accounted for 41.91mbd (around 40%)¹ and Russian share is approximately 11.44 mbd. Summing up, the total volume of oil production in Russia and OPEC amounted to about a half of world's production.

Thus, the energy cooperation between Russia and OPEC is extremely important for maintaining the stability of the world oil market, preventing sharp

¹ Oil data: upstream // Annual Statistical Bulletin, 2018 – URL: <https://asb.opec.org/index.php/interactive-charts/oil-data-upstream>

jumps in oil prices and building a common policy course for oil-producing countries. The importance of energy cooperation between the Russian Federation and OPEC also stems from the need to coordinate efforts to resolve the crises of the Middle East region and the whole world, in which issues related to energy resources are of particular importance.

Cooperation between Russia and OPEC began in 1998 with the acquisition of observer status by Russia and is carried out today through the consultative mechanism at the level of the Coordinators (Minister of Energy of the Russian Federation - OPEC Secretary General). Besides, at present, there is interaction at the level of high-level experts, seminars, conferences, and since 2015 in the format of multilateral consultations of guardians with their colleagues from other countries.²

Both OPEC and Russia are interested in high oil prices. The 21st century has witnessed several falling oil prices³, and in order to achieve a rise, production reduce is necessary.

In 2011, after the revolution in Libya, oil production in the country decreased from 1.3 million bpd to 400 thousand bpd⁴, which led to a sharp increase in prices. For a while, Saudi Arabia, under pressure from the United States, sought a price reduction - but this policy turned out to be extremely unprofitable for the Saudis, whose state budget was calculated at the rate of \$ 80 per barrel. The next time, the question of rebalancing the oil market arose in 2014 after a decrease in oil demand and an increase in shale oil production in the United States. By 2016, the need for a meeting to coordinate the joint actions of oil-producing states became clear.

In 2016, such a meeting took place in Vienna between OPEC member states and 11 non-member countries, the union with which is called "OPEC+". The countries agreed to reduce production by 1.2 million barrels per day (of which 300

² Взаимодействие России и ОПЕК // Официальный сайт Министерства иностранных дел Российской Федерации – [Электронный ресурс]. – Режим доступа: https://www.mid.ru/rossia-v-gruppe-20-rossia-i-specializirovannye-mezdunarodnye-ekonomiceskie-organizacii-mvf-vto-oesr-fseg-opek-i-dr-/-/asset_publisher/uFvfWVmCb4RI/content/id/2142166

³ in 2001 (-45,8%), in 2006 (-34,5%), in 2008 (-37,2% and -71,9%), in 2011 (-33,58%), in 2014 and in 2020 years – Нефтяной шок. Как и почему падали цены на нефть в XXI веке.// РБК//15.10.2014.//Электронный доступ
-<https://www.rbc.ru/photoreport/15/10/2014/543e53a0cbb20f71659d9494>

⁴ Maswawl lyby: 'iintajalnaft yanhar li'adnaa mustawayatih – URL: <https://arabi21.com/story/>

thousand barrels per day fell to Russia) starting in January 2017⁵.

The Vienna agreement allowed to restore the price situation and the balance of supply and demand in the market. The agreement was extended until December 2019⁶, when countries again agreed to reduce by the Vienna Agreement another 500 thousand barrels per day.

The last three years on the oil market were essentially determined by two factors. First, the spike in shale oil production in the United States, which has transformed the country from a major oil importer to an increasingly important exporter. Second, it was a situational alliance between Saudi Arabia and Russia, which tried to contain the influence of oil shale on the energy market. This phase has changed due to recent events, and as a result relations in the oil market have entered the next phase⁷.

A new stage in relations on the international oil market began on May 1, 2020. The countries, which concluded a new deal OPEC++, switched to the reduction of oil production. It is expected that the total decline will take place in three stages: the first stage - May-June 2020 (decrease in production by 9.7 million barrels), the second stage - from July to the end of December (decrease by 7.7 million barrels) and the third stage - from the beginning of 2021 to May 2022 (decrease by 5.8 million barrels)⁸.

The deal was concluded against the backdrop of a price war between Russia and Saudi Arabia and a sharp decline in oil products consumption amidst the pandemic. Without the conclusion of a new deal and the preservation of existing production volumes at mid-March, oil prices would have continued to fall, thus adversely affecting the ruble quotations⁹.

⁵ Qafzat li'asearalnaft baedaitifaq'uwbikmae alduwalalmuntijat kharijaha – URL: <https://www.bbc.com/arabic/business-38284987>

⁶ Alsewdyt wa rwsya... tarikh min alhurubalnaftia – URL: <https://www.alaraby.co.uk/economy/2020/>

⁷ NYT// How a Saudi-Russian Standoff Sent Oil Markets Into a Frenzy//03.09.2020 – URL: <https://www.nytimes.com/2020/03/09/business/energy-environment/oil-opec-saudi-russia.html>

⁸ РГ// Новое соглашение ОПЕК+ о сокращении добычи нефти вступило в силу// 01.05.2020 – Электронный доступ: <https://rg.ru/2020/05/01/novoe-soglashenie-opek-o-sokrashchenii-dobychi-nefti-vstupilo-v-silu.html>

⁹ Lombard Odier// L'Arabie saoudite et la Russie font un pari sur les marchés du pétrole// 27.03.2020 – URL: <https://www.lombardodier.com/fr/contents/corporate-news/investment-insights/2020/march/saudi-arabia-and-russia-take-a-g.html>

For Saudi Arabia, the deal was also necessary because of the high dependence of budget revenues on oil sales. In spite of the relatively lower cost of oil production in Saudi Arabia, the budget deficit was increasing as the prices went down¹⁰. Saudi Arabia's management also takes into account the sad experience of 2014, as a result of which the decline in oil prices in 2014 led to a slowdown in economic growth in Saudi Arabia. Average annual growth rate of the country's GDP in 2014-2018 was 2.2%, with the country's gross output decreasing by 0.7% in 2017. This was primarily due to the reduction in oil production, which was carried out in the country under the OPEC+ agreement¹¹.

However, the risk of a possible decline in production, while a number of oil-producing countries (primarily Mexico, which is ready to switch to dumping techniques) did not intend to reduce production, could lead to a decline in Saudi Arabia's market share and further social and economic difficulties due to the decline in revenues in the long run.

Russia was hostage to such a position, because Saudi Arabia, despite the general economic difficulties, kept the room for maneuver on the oil market, while for Russia it was necessary to switch over to production reduction not only because of ruble quotations decrease, but also because of actually economically unprofitable oil production at such price.

¹⁰ Les économies du golfe et la transition énergétique. Vers une ère post-pétrolière? Hugo Le Picard Institut français des relations internationales // «Politique étrangère». - 2020/1 Printemps.- pages 19 à 31.

¹¹ ОПЕК и ОПЕК+: балансировка мирового рынка нефти // Энергетический бюллетень, выпуск № 75, август 2019 г. – [Электронный ресурс]. – Режим доступа: <http://ac.gov.ru/files/publication/a/23695.pdf>.

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