The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Deep Historical Distrust Stymies Russia, OPEC Oil Price Diplomacy

By Howard Amos

November 26, 2014



Organization of the Petroleum Exporting Countries (OPEC) Secretary-General Abdullah al-Badri addresses the media during the presentation of OPEC's World Oil Outlook in Vienna.

Amid falling oil prices, a plunging ruble and a gathering financial crisis, then-Deputy Prime Minister Igor Sechin caught the world's attention in September 2008 as he led an unprecedentedly high-profile Russian delegation to the Organization of Petroleum Exporting Countries in Austria to rally international support for output cuts.

In the last few days, history appeared to be repeating itself.

The officials dispatched to Vienna earlier this week were the most heavyweight group to represent Russia at OPEC since the financial crisis. Sechin, the most powerful figure in Russia's energy industry and now the head of Russia's state-owned oil giant Rosneft, arrived Tuesday to hold talks with some of the key players in the cartel, including Saudi Arabia.

While one of the world's biggest energy exporters, Russia has never been a member of OPEC.

As in 2008, talks appeared to have yielded little and it is unlikely that Moscow will shoulder any of the pain of production cuts needed to lift prices from their current four-year lows.

The relationship between Russia and OPEC, which accounts for about 40 percent of global output, has traditionally been antagonistic, with Moscow's desire to have a greater say in setting oil prices threatening Riyadh's dominance within the cartel.

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Fine at $60

Initial reports in Russian media indicating Moscow was willing to cut production by about 300,000 barrels of oil a day were apparently repudiated by Sechin after a meeting with representatives from Mexico, Saudi Arabia and Venezuela.

"The current price of oil is not critical for us. We can postpone the realization of some capital-intensive projects," Sechin told the Tuesday gathering, according to a statement from Rosneft.

Russia wouldn't need to cut production even if the price of oil fell to $60 a barrel, Sechin said after the meeting, the Bloomberg news agency reported.

Russian Pain

The falling oil price, which approached $77 a barrel Wednesday, has piled pressure on Russia's budget, which relies on oil and gas sales for about half its revenue. While a plunging currency has gone some way toward limiting losses, the government is facing a series of difficult spending decisions.

Russia could lose between $90 billion and $100 billion annually from the 30 percent fall in the price of crude since the summer, Russian Finance Minister Anton Siluanov said Monday.

A lower oil price is also hitting the Russian oil industry, which is reeling from Western sanctions on Moscow imposed for its role in the Ukraine crisis.

Cheap oil makes expensive projects to exploit tight oil reserves and offshore hydrocarbon fields in the Arctic unprofitable — hindering Russia's efforts to offset declining production at west Siberian fields.

Power to Cut?

Experts have cast doubt over both Russia's willingness and its technical ability to cut production even if it wanted to act alongside OPEC members.

A sizable proportion of Russia's oil is pumped by private sector companies, which would be difficult to force to comply with output curbs, while the extreme cold of Russia's winters means that it is a technically demanding task to switch wells in Siberia on and off within a short time frame.

"Russia cannot cut production in the shorter term as it needs the cash," said Timothy Ash, head of emerging market research at Standard Bank, in a research note Tuesday. "Also, this idea that Russia is instead going to cut long-term production by curbing investment is not that credible either."

'Political Element'

Oil price declines this year have been fueled by an oversupplied market and fears about economic growth, but Russian officials have also hinted at a more sinister explanation with suggestions that the United States might have used its leverage in the Middle East to force prices down.

Amid a standoff over Ukraine, relations between Washington and Moscow have deteriorated this year a to a level of mistrust not seen since the Cold War.

"The political element in the oil price is always present," President Vladimir Putin said in an interview given to Chinese media during a visit to Beijing earlier this month.

History of Suspicion

Despite a history of troubled U.S.-Russian ties, Moscow has never succeeded in entering into close cooperation with OPEC.

The official relationship between Russia — and before that, the Soviet Union — and OPEC has been bumpy since the cartel was formed in 1960.

Members of OPEC have repeatedly criticized Russia for refusing to act to hold up prices and accused Moscow of failing to keep output cut commitments when they have been made.

In 2001, OPEC launched a price war against Russia and in 2009, just months after rumors had been swirling about a possible official bid from Moscow to join OPEC, officials from the cartel publicly criticized Russia for failing to help shore up prices.

Some reports suggest that Russia actually boosted production in 2009, taking advantage of higher prices and reduced output from OPEC member states obliged to keep to their quotas.

One of the main barriers to a more cozy relationship with OPEC is traditional suspicion between Moscow and Riyadh, long considered a close U.S. ally in the region.

Suspicions have been exacerbated in recent years by Russia's support for the Syrian government of President Bashar Assad. Saudi Arabia has been a key sponsor of the rebels battling Damascus in an ongoing civil war.

"I would not rule out Russia joining OPEC," said Fyodor Lukyanov, editor-in-chief of the Russia in Global Affairs journal and a government adviser on foreign policy.

"But traditionally the Russian position is that they don't want to get tangled up in obligations."

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Original url:
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