

Russia-Saudi Oil Alliance Under Pressure as Moscow Rejects Production Cuts

Russia rejected a new round of oil production cuts in response to the coronavirus outbreak, leaving the future of Moscow-Riyadh oil cooperation in doubt.

By [AFP](#)

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Analysts suggested the OPEC+ format could be over as Russia rejected calls for a huge round of production cuts. [Kremlin.ru](#)

OPEC and its allies failed to reach a deal on oil production cuts on Friday, after Moscow refused to tighten supply to counter the effects of the coronavirus outbreak.

The day before, OPEC ministers had [recommended](#) reducing output by 1.5 million barrels per day in face of the global slowdown caused by the epidemic and the resulting fall in demand for oil.

But the decision hinged on agreement from the so-called OPEC+ grouping — Russia foremost among them.

And on Friday, Russian Energy Minister Alexander Novak said that the talks between OPEC and his OPEC+ grouping had failed to bring about a deal.

"Regarding cuts in production, given today's decision, from April 1, no one — neither OPEC countries nor OPEC+ countries — are obliged to lower production," he told reporters after the meeting.

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OPEC's Secretary General Mohammed Barkindo said the meeting had been adjourned, although consultations would continue.

"At the end of the day, it was the general, painful decision of the joint conference to adjourn the meeting," he told reporters.

"We have some few knotty issues, but the norm is here to have everybody on board, unanimity."

Prior to the meeting's official start, ministers from the bloc's kingpin Saudi Arabia, the world's number three oil producer, and Russia, the number two, had huddled for hours of bilateral discussions.

But as news of a "no deal" began to seep out, oil prices plunged more than seven percent, with Brent North Sea crude tumbling to \$46.14 per barrel and WTI to \$42.26.

OPEC+ dead?

Earlier, Oanda analyst Edward Moya had suggested that a failure to reach an agreement could spell the end of OPEC+.

"No-deal OPEC+ means the three-year experiment is over. OPEC+ is dead. The Saudis are all-in on stabilizing oil prices and they may need to do something extraordinary," he said.

According to the plan drawn up by OPEC, allies in the so-called OPEC+ grouping would have taken on 500,000 barrels of the cuts.

OPEC wanted the proposed cuts to run until the end of 2020.

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Producers had already had to contend with abundant supplies weighing on prices, but in recent weeks the spread of the coronavirus across the world has sent prices plunging.

The 23 producers, who gathered at the Vienna-based headquarters of the Organization of Petroleum Exporting Countries (OPEC), have since early 2017 tried to support prices through cuts on production, initially of the order of 1.2 million barrels per day.

In December, they announced a further 500,000 barrel cut with Saudi Arabia adding a "voluntary" contribution of 400,000 barrels.

Crashing into the abyss

Analyst Stephen Brennock at energy consultancy PVM Associates had suggested that a no-deal could send oil prices "crashing into the abyss."

Russian officials had been [quoted](#) in recent days as being much cooler on the idea of big production cuts, saying that current price levels are satisfactory for Moscow and its budget planning.

The big players in Russia's oil industry fear that an aggressive policy of output cuts will only lead to lost revenue and ceding market share to competitors, particularly the United States with its booming shale oil sector.

Moreover, the Kpler energy analysis company points out that Russia has increasingly been acting as "internal competitor" in the relatively new OPEC+ format.

"In recent years, not only Russia has pledged fewer production cuts than Saudi Arabia... its compliance with the deal has also been minimal," the company noted.

As well as grappling with the economic fallout from the coronavirus epidemic, delegations have been affected in a much more practical way at this meeting amidst more than 50 confirmed cases of the virus in Austria.

Delegates have had their temperature tested on the way into the building and been advised to avoid handshakes.

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