

As Oil Prices Rally, Familiar Russia-Saudi Tensions Set to Rise

The OPEC+ oil cartel is set for a fresh showdown over its postpandemic strategy to balance prices and production.

By AFP

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Russia temporarily abandoned its pact to cut oil production at the start of the pandemic, sending global markets into a tailspin. **Noufal Ibrahim / EPA / TASS**

As members of the oil cartel OPEC and its allies meet this week to discuss adjusting output, analysts expect old tensions between oil producer giants to flare up again.

Russia and Saudi Arabia, respectively the world's second and third largest producers of oil after the United States, had often been at loggerheads in the past, but when crude oil prices plunged due to the pandemic, they rallied to radically <u>cut production</u> levels and underpin prices.

Now that prices have rebounded to pre-pandemic levels, at around \$65 a barrel, the two

heavyweights and their partners will discuss how to move forward — and how much crude to release back onto the global market.

"The priorities are well known: Russia wants to return to normal production as quickly as possible while Saudi Arabia wants to benefit from high prices a little longer," Bjarne Schieldrop, chief analyst at commodities research group Seb, said ahead of a ministerial level meeting Thursday at which quotas are expected to be adjusted.

Loosening cuts

While global demand for crude is recovering, OPEC has ensured that its production cuts create an "artificial shortage" that supports prices, according to Stephen Innes, chief global market strategist at broker group Axi.

Following two days of tough negotiations at 2021's first summit in early January, the 23 members of the OPEC and OPEC+ groupings agreed to <u>slowly increase</u> oil supply to the world market.

For March, members have already agreed to withhold 7.05 million barrels per day (bpd), less than the 7.125 million bpd they cut in February.

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With vaccination campaigns underway and demand in China, the world's largest oil importer, back at pre-pandemic levels, exactly how much oil OPEC+ will allow to be traded for April will be at the heart of Thursday's ministerial-level debate.

Though the virus still poses a threat, it is likely "that the rise in oil prices will lead to a more rapid loosening of cuts," than previously anticipated, analysts at Capital Economics say.

The quota of cuts expected to be observed by each country will be closely scrutinised by market watchers — as will any divergence between the main producers.

OPEC kingpin Saudi Arabia has in recent times been willing to take on extra production cuts to facilitate agreement.

Riyadh recently decided to reduce output by one million barrels per day, while Russia and Kazakhstan have slightly increased their crude production.

Contentious quotas

OPEC+ members have disagreed frequently in the past, with quotas expected to once again become a particularly contentious point of discussion this week.

Iran, Venezuela and Libya have been exempt from OPEC's quotas, while others, including Iraq and Nigeria, have flouted the OPEC+ agreement, producing above quota for months.

OPEC members are also monitoring any signs that U.S. President Joe Biden might lift sanctions on Iran, which would allow Tehran to re-enter the global market and dramatically

increase supply.

On Wednesday, a day before the ministerial meeting sets new quotas, the club's monthly meeting will assess current market conditions and threats in a videoconference.

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