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OPEC+ (plus) solidarity is threatened into collapse

1. Production cuts and prices of crude oil in 2020/21



The average monthly price of Brent crude oil in January, 2020 was \$ 64 per barrel¹, and Russia had been continuing to produce approximately 12 million barrels per day (B/D)². Coronavirus disease (COVID-19) pandemic damaged the world economy seriously. Oil demand declined sharply.

While Russia refused to cut production, Saudi Arabia increased production. As a result, oil prices plummeted to nearly one-third of \$ 23 per barrel in April, 2020³. US spot market for WTI crude caused an abnormal situation in which oil prices temporarily became negative.

Taking the serious situation into consideration, OPEC and non-OPEC members, so-called OPEC+ (plus), decided on April 12, 2020 at the OPEC+ Ministerial Meeting (ONOMM) jointly to reduce production⁴. The production would be cut 9.7 million B/D from May to June and 7.7 million B / D from July to December 2020 and was 5.8 million B/D after 2021 until April 2022. The market regained stability. Average monthly Brent price soared to \$40 per barrel in July and \$50 per barrel in December, 2020, respectively.

2. Conflict and compromise between Russia and Saudi Arabia

Due to soaring oil prices, OPEC+ (plus) countries such as Russia strongly insisted to ease production cuts. But Saudi Arabia argued to be cautious because COVID-19 was still prevailing. Russia and Saudi Arabia disputed over the production levels after January 2021.

Many of OPEC+ countries have been suffered from the shortage of revenues. Russia and Kazakhstan, both non-OPEC oil-producing countries, were the most radical ones. They insisted to ease production cuts. Saudi Arabia, in return, forced OPEC member countries to keep the existing scheme. However, other OPEC members except Saudi Arabia want to increase production to makeup the deficit. Several countries didn't adhere to the production quota. They objected against Saudi Arabia. OPEC was jeopardized.

Saudi Arabia can hardly act as a major player in the international arena. Saudi Arabia can only maintain its reputation as long as she is the leader of OPEC. Therefore, Saudi Arabia cannot breach the unity of OPEC and OPEC+. Saudi Arabia managed to avoid the collapse of OPEC+ proposing to held ONOMM meeting and review the progress every month after January, 2021. In December, 2020, ONOMM decided to ease the production from January, 2021 by 500,000 B/D to 7.2 million B/D⁵.

At the 13th ONOMM held on January 5, 2021, the voluntary production levels from January till March were shown by country⁶. The production levels of Saudi Arabia and Russia in January are the same as 9.119 million B/D. Other major countries are as follows; Iraq 3.857 million B/D, UAE 2.626 million B/D, Kuwait 2.329 million B/D, Mexico 1.753 million B/D, Nigeria 1.516 million B/D, Kazakhstan 1.417 million B/D. But February and March production levels shows that only two countries, Russia and Kazakhstan, approved the further mitigation. The production levels of other 10 OPEC countries and the eight non-OPEC countries have not changed. (cf. Iran, Libya and Venezuela are excluded from voluntary production accord.) Only Russia and Kazakhstan enjoyed the preferential treatment. This was the clear evidence of the dispute and compromise between Saudi Arabia and Russia.

It was the great surprise that after the ONOMM meeting, Saudi Arabia's oil minister, Abdulaziz bin Salman, announced that his country would voluntarily cut production by an additional 1 million B/D in February and March⁷. Saudi Arabia's generous decision tightened global oil supply and demand. Price of Brent oil has boosted to \$ 55 per barrel.

3. Future outlook

The current problem is when oil demand will recover. The vaccination of COVID-19 has started and it is expected that the number of infected people will decrease. But the third wave of epidemic spreads around the world and the variant viruses appear one after another. It is difficult to predict when COVID-19 will finally run out. It is also unknown that when and how much demand will come back by Chinese economic recovery.

The world economic recovery has been directly linked to the increase in demand for petroleum. But the energy source is changing rapidly from petroleum to renewable energy. Major oil companies such as BP are going to depart from oil. The future of oil is not always bright.

Looking at OPEC+, it can be said that the honeymoon between Saudi Arabia and Russia is over. In order to avoid the collapse of the market, Saudi Arabia announced a voluntary production cut of 1 million B/D in February and March. But the financial condition of the Kingdom is steadily deteriorating. Saudi Arabia has enough power to keep a significant production cut for a long period.

OPEC+ might be transformed from a producers' cartel that dominates the energy market into an oil-producers' friendship club. The golden age of Saudi Arabia is almost over.

End

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¹ Spot prices for Crude oil and petroleum products by EIA
<https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RBRTE&f=M>

² [Statistics of Ministry of Energy of Russian Federation](#)

³ Same as 1

⁴ OPEC Press Release
https://www.opec.org/opec_web/en/press_room/5891.htm

⁵ OPEC Press Release
https://www.opec.org/opec_web/en/press_room/6257.htm

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https://www.opec.org/opec_web/static_files_project/media/downloads/Voluntary%20Production%20Levels.pdf

⁷ Saudi Arabia to cut oil output 'as gesture of goodwill' to markets

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<https://www.arabnews.com/node/1787766/business-economy>