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## **DID RUSSIA JUST BROKER A DEAL TO EXEMPT IRAN FROM OIL FREEZE?**

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Salman bin Abdulaziz (right), then deputy prime minister and crown prince of Saudi Arabia, speaks with Vladimir Putin, Russias president, during a plenary session at the Group of 20 (G-20) summit in Brisbane, Australia, on Saturday, Nov. 15, 2014, shortly before Salman was crowned king. Photographer: Rob Griffith/Pool via Bloomberg

Bilateral talks between Russia and Iran on Monday left multilateral negotiations on the proposed production freeze at an impasse. Unable to persuade Tehran to join in capping production, Russia has thrown its weight behind Irans asserted right to restore shut-in production and recover lost market share.

On Wednesday, Russian Energy Minister Alexander Novak held a telephone conference with his Saudi and Qatari counterparts to discuss the meeting in Tehran. Moscow has informed OPEC that reaching a deal would require excluding Iran all together or making special concessions. Having initiated the freeze talks, Moscow has now likely told Riyadh that reaching a final deal would require either excluding Iran all together or making special concessions to bring Iran on board.

As I suggested in my last posting, Russias implied strategy is to broker an individual solution that either grants Iran an exemption or offers a ceiling that accommodates gradual production increases but with reciprocal guarantees that Iran will smooth oil exports.

According to a statement issued by Qatar Minister of Energy and Industry Mohammed bin Saleh al-Sada, the next round of talks will be held in Doha on April 17, with an expected 15 OPEC and non-OPEC producers (accounting for 73% of globally supply) in attendance. Qatar is signaling that, even without Iran's full participation, a deal would still have sufficient support among major producers to restore market confidence. The minister emphasized that the proposed production freeze, which Qatar has labeled the Doha Initiative, had establish a price floor after oil fell to a 12-year low in mid-January.

Given the positive market sentiment surrounding the talks, major supporters are unlikely to backtrack on the proposal. Instead, they will seek to maintain control of the narrative by projecting an image of ongoing constructive dialogue. News of the outcome of the meeting in Tehran on Monday that Iran had balked at capping its production sent oil retreating below the newfound \$40 price floor. In Wednesday's trading however, the market responded positively to reports that major producers would proceed to meet in April.

If Iran continues to hold out, then the prospect of finalizing a deal in mid-April will likely hinge on securing Iraq's participation as well as rest on assumptions that Iranian oil exports increases will be much more gradual than previously anticipated.

However, Iraq's Oil Minister Adel Abdul Mahdi has clearly stated that Iraq is willing to participate in the freeze only if there is complete agreement. This is because Iraq, which is OPEC's second largest producer after Saudi Arabia, has effectively replaced a significant portion of Iran's shut-in crude since sanctions were imposed in 2011. Capping its production while Iran is left unchecked to ramp up production and exports would allow Iran to recapture lost market share in Europe and Asia from Iraq.

Iraq has emerged as the main source of OPEC supply growth, representing 75% of the cartel's production growth in 2015. Iraq was the world's second largest supplier of liquids in 2015 behind the United States, producing an average of 4.0 million barrels per day with nearly 700,000 barrel a day annual gain. Iraqi oil exports are expected to reach 3.6 million barrels per day in 2016.

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Kaynak/Source: