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RUSSIA-SAUDI RELATIONS STILL ON ICE

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Only weeks ahead of the upcoming OPEC meeting scheduled for June 2, Russias top oilman delivered what could be interpreted as OPECs eulogy. In an interview with Reuters published on May 10, Igor Sechin, who leads Rosneft as chairman of the board, said that OPEC has practically stopped existing as a unified organization. The even more pessimistic, if not fatalistic, sentiment that OPEC is dead was heard at the OPEC governors meeting on May 5.

According to Sechin, the global oil market is currently driven by several factors such as finance, technology, regulation and U.S. shale production which exclude[s] the possibility for any cartels to dictate their will to the market. This echoes Sechins remarks last October that the U.S. has all the factors influencing the development of a competitive oil market and that the medium-term prospects for the world oil market will be determined by the market in the US. Sechin reminded his interlocutor that he (and Rosneft) was skeptical about the proposed production freeze from the beginning and still do not see the possibility of collective OPEC action.

This blunt assessment is shared by Saudi Arabias OPEC governor, Mohammed al-Madi who has argued that OPEC and non-OPEC producers need to come to grips with recent market developments and recognize that the market has undergone structural change to become more competitive rather than monopolistic. The governors comments suggest that coordinated market intervention is increasingly unlikely, particularly when considering that the major producers are engaged in unrestrained battle for global market share with the expectation that supply and demand will balance between the end of 2016 and the first half of 2017.

One certainty is that there is unlikely to be any further mixed messages between the Saudi oil minister and Deputy Crown Prince Mohammed bin Salman (MsB) of the kind that that set up the Doha talks for failure in April. On May 7, Saudi Arabia implemented a sweeping cabinet reshuffle that saw Minister of Petroleum and Mineral Resources Ali al-Naimi replaced by Khaled Al-Falih, CEO of Saudi Aramco. This changing of the guard is part of an ambitious structural shake-up of Saudi political economy known as Saudi Vision 2030. and championed by MsB. It was MsBs intervention that scuttled talks in Doha with the ultimatum that Saudi Arabia would not agree to freeze production unless Iran also agreed to cap production.

As I argued in my previous report, Russia has been intentionally sidelined by Saudi Arabia from closely coordinating in future OPEC decision-making in the aftermath of the Doha failure. Russian Energy Minister Alexander Novak has not received a written invitation to attend the June meeting. Although Novak plans to continue contacts with Saudi Arabia and OPEC, there are no immediate plans to meet or speak with the new Saudi oil minister. According to Novak, no further talks on freezing production are planned since the market has stabilized.

The breakdown (or showdown) at Doha between Saudi Arabia and Russia over Iran was a major setback that will have a long lasting chilling effect on future energy cooperation. Despite Riyadhs insistence that its oil policy is entirely market driven, the outcome in Doha was driven by geopolitical and geoeconomic considerations vis-a-vis Iran and not by technocratic disagreements over how to address global market conditions. Direct ministerial level consultations between Moscow and Riyadh on the global oil market are unlikely to resume in the immediate future. And, if and when they do talk, it will unlikely resemble the close level of coordination seen during the production freeze over the last several months.

Meanwhile, Iran continues to ramp up production and exports faster than anticipated as it races to regain lost market share. In April, Irans oil production hit 3.56 million barrels a day (mb/d) with exports reaching 2.0 mb/d □□□ highest since 2011. On May 6, Mohsen Qamsari, the director for the international affairs of the National Iranian Oil Company (NIOC), stated that Irans production had reached a level sufficient for joining in a production freeze (4.2 mb/d based on inflated OPEC statistics). This message was unequivocally corrected by Iranian Oil Minister Bijan Zangeneh on May 9, who defiantly stated that Iran was not prepared to freeze until its production reached 4.0 mb/d. Expect a no-holds-barred fight for market share driven by relentless geopolitical rivalry between Saudi Arabia and Iran (and Russia) that leaves the rest of OPEC (non-OPEC producers) on the sidelines as spectators.

Kaynak/Source: