Russia and OPEC Draw Closer on Oil, Joining Other Producers to Manage Market

Crown Prince Mohammed bin Salman and President Vladimir V. Putin on Saturday at the Group of 20 summit, where they discussed Saudi-Russian cooperation on oil policy.Credit...Pool photo by Yuri Kadobnov

By Stanley Reed

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VIENNA — Russia is finding that its future as a producer of oil is increasingly dependent on OPEC's, and vice versa.

On Tuesday, the Organization of the Petroleum Exporting Countries, Russia and other oil-producing nations signed what they described as an open-ended "charter of cooperation" for managing the global oil market.

The agreement, about which OPEC offered few details, requires ratification by the participating governments. It grew out of an effort, led by Saudi Arabia and Russia, to formalize two and a half years of coordinating oil output to bolster prices amid a surge in production, notably from shale drilling in the United States. The price of Brent crude fell 4 percent on Tuesday, to $62.46 a barrel.

The deal, known as the Vienna alliance by oil analysts, brought together 24 countries that together produce about 47 million barrels of oil a day, or almost half the world's output.

Although market participants are skeptical about Russia's commitment to production agreements, analysts said an open-ended arrangement with OPEC could give Moscow added leverage over a commodity that has great economic and political importance in both Russia and the United States.

Russia, which had an average output of 11.5 million barrels a day in 2018, is one of the world's three largest oil producers. That, in some respects, makes it a natural partner for OPEC. But Russia has been reluctant to work with other oil giants, and it took a combination of a crash in oil prices in 2014 and President Vladimir V. Putin's nose for opportunity for the country to go along with production cuts in 2016.

The arrangement announced on Tuesday gives Moscow "another theater of geopolitical influence in which to exert itself, and one that is particularly important to the United States," said Jason Bordoff, the founding director at Columbia University's Center on Global Energy Policy.

He and other analysts said Russia's increasingly close alliance with OPEC, and with Saudi Arabia specifically, could change the geopolitical dynamics of the oil markets while raising eyebrows in the United States.

"The U.S. has enjoyed a dialogue with most of the key OPEC countries," said Mr. Bordoff, who served as an energy adviser in the Obama administration. "Now you are bringing in, in a leadership role to the agreement, one of America's foremost adversaries."

Russia's role in the alliance may be limited by the structure of the country's oil industry, analysts said. Russian oil companies, notably Rosneft, the largest producer, are publicly traded companies that bristle at being told to reduce production.

The cuts that Russia has agreed to — 230,000 barrels a day — are small compared with how much oil it produces. Saudi Arabia has agreed to reduce its output by 320,000 barrels a day, but it is actually producing around one million barrels a day less than it was in late 2017.

"Their contributions have been pretty paltry," said Joseph McMonigle, senior analyst at the market research firm Hedgeye, referring to Russia's cutbacks. Mr. McMonigle, a senior Energy Department official in President George W. Bush's administration, said Saudi Arabia considered it important for market perceptions that Russia be not just part of the alliance but seen as having a leadership role.

In return for his country's relatively small contributions, Mr. Putin does appear to have heightened his influence over the oil markets. For instance, he effectively pre-empted the OPEC meeting in Vienna this week by announcing last weekend at the Group of 20 meeting in Osaka, Japan, that the current production cuts, which were set to expire at the end of June, would be extended.

By cooperating with the Saudis, analysts said, Mr. Putin may also be hoping to keep Riyadh from repeating the debacle of 2014, when it simply stopped trying to manage the markets. The resulting crash in prices meant a steep drop-off in revenue for Russia and other oil producers.

Mr. Putin also appears to have gained the confidence of Saudi Arabia’s chief policymaker, Crown Prince Mohammed bin Salman. The Saudi and Russian leaders met in Osaka in part to discuss cooperating further on oil matters, the Saudi oil minister, Khalid al-Falih, told journalists on Monday.

Analysts said that while extensive intervention in the market might make sense amid the uncertainty arising from the trade war between China and the United States, among other economic factors, it cannot work forever. OPEC has been cutting its output almost steadily since the end of 2016. The main result has been a gradual loss of its market share to shale oil operators in the United States and others outside OPEC, including Russia.

“It becomes futile if you are just lifting up prices and there is no end in sight,” said Ayham Kamel, a Middle East analyst at the research firm Eurasia Group.