

# The Real Reason Russia Joined OPEC+

By [Simon Watkins](#) - Jun 23, 2020, 7:00 PM CDT

- **Russia is offering Mohammed bin Salman a slew of beneficial deals in order to lure Saudi Arabia away from the U.S. and into Putin's sphere of influence.**
- **Saudi Arabia is in a very weak position both economically and militarily and has become increasingly reliant on Russia due to the OPEC+ deal.**
- **The next step for Russia will be to reduce the U.S. military footprint in Saudi Arabia and attempt to offer further protection for Riyadh.**

In his relatively brief stint in power, Saudi Crown Prince Mohammed bin Salman (MbS) has managed to [destroy the Saudi economy](#) in record time while also sullyng his own reputation and endangering Saudi Arabia's geopolitical relations with the murder of journalist [Jamal Khashoggi](#). Now, it appears that there is another calamity in the making for MbS. Russia is currently offering him all sorts of benefits in exchange for his consideration of a deal. The deal, though, is pure poison - for him, for his family, and for his country - and it involves Saudi Arabia switching its core alliance from the U.S. to Russia. In exchange, Russia says it will guarantee the future safety of Saudi Arabia, including from Iran-backed threats. A timely reminder of Saudi Arabia's current vulnerability to the continued threat that Iran and its proxies pose it – one of the key threats that the deal with Russia would eliminate, the Kremlin has said – came in the form of the attack on Tuesday 23 June when the Saudi-led military coalition fighting in Yemen intercepted and destroyed eight booby-trapped unmanned aircraft that were targeting civilian objects and civilians in Saudi Arabia. The Saudis also intercepted three ballistic missiles from the Saada governorate towards Riyadh, according to the reports. In theory, the deal being discussed between the Kremlin and the Royal Palace is one that looks like only a marginal extension of the OPEC+ coalition that has been in place between Russia and Saudi since 2017. In practical terms, though, it may well lead to the most important geopolitical power shift since the fall of the U.S.S.R. “The Kremlin had this deal creep in mind from November 2016 when it agreed to support the Saudi-led OPEC [oil] production cuts,” a senior oil and gas industry source who works closely with the oil sectors of Iran and Iraq told *OilPrice.com* last week. This new mutual understanding was clearly signaled when Russia's President, Vladimir Putin, invited Saudi Arabia's King, Salman bin Abdulaziz al-Saud, to Russia in October 2017. “It was the first-ever visit to Moscow made by a sitting Saudi monarch and the largest ever foreign delegation to Moscow,” said the source.

At this meeting, among the US\$3 billion or so specific deals announced at just that time, was an investment by the Saudis of at least US\$150 million into Russia's Eurasia Drilling Company and, on the other side, a US\$1.1 billion agreement for Russian petrochemical company Sibur to build a plant in Saudi Arabia. Russia's Energy Minister, Alexander Novak, also flagged at the time that Russia gas producer Novatek was in talks for Saudi investors to take part in its Arctic LNG-2 project, a follow-up to its US\$27 billion plant in the Yamal peninsula. At the same time, it was agreed that Saudi Arabia's sovereign wealth fund, the Public Investment Fund (PIF), was to establish a US\$1 billion fund alongside Russia's sovereign wealth fund, the Russian Direct Investment Fund (RDIF), which would invest in Russian technology companies.

In the same vein, Russian state-owned hydrocarbons companies Rosneft and Gazprom entered talks with Saudi counterpart Aramco on conducting co-ordinated oil and gas trading operations – bringing in the expertise and contacts of Lukoil's Litasco trading operation when required – and the creation of a joint research and technology center. The upshot for Russia was, firstly, that the Saudis rowed back on their demand that Syria's President Bashar al-Assad be removed from power and, secondly, that Saudi Arabia signed a memorandum of understanding for the purchase from Russia of its S-400 air defense system.

**[Related: China's Oil Industry Is In Crisis](#)** These two latter points can be regarded as the first clear evidence of the Kremlin's core strategy of decisively moving Saudi Arabia away from its long-standing relationship with the U.S. and replacing it with one with Russia (and, by extension, China). As highlighted in my [latest book on the global oil markets](#), this relationship was established in 1945 between the U.S. President, Franklin D. Roosevelt, and the Saudi King at the time, Abdulaziz, in the Great Bitter Lake segment of the Suez Canal. The deal was that the U.S. would receive all of the oil supplies it needed for as long as Saudi Arabia had oil in place, in return for which the U.S. would guarantee the security of the ruling House of Saud. This has been altered slightly to ensure that Saudi Arabia also allows the U.S. shale industry to continue to function and to grow. "Particularly since the end of the first oil price war in 2016 when Saudi's finances had obviously been severely damaged for a long time to come, Moscow has been there to fan the flames of Saudi discontent about having to stick to production cuts that supported the very shale sector that used those production cuts to effectively steal supply contracts that were left unfilled by the Saudis," said the source.

By the time that the visit to Moscow of MbS in 2019 came around, Russia was in an even stronger position for three key reasons. Firstly, Saudi Arabia's [finances were deteriorating](#) markedly, given its then-US\$84 per barrel of Brent budget breakeven price was still higher than the spot oil price. Moreover, any attempt to move the oil

price up to levels that would benefit the Saudi economy had been effectively cut-off by U.S. President Donald Trump's Tweet that: "He [Saudi King Salman] would not last in power for two weeks without the backing of the U.S. military." Secondly, Saudi's security vulnerability had been exposed by the rocket attacks in September by the Iran-backed Houthis on two of the Kingdom's key oil facilities – the massive Abqaiq oil processing facility and the Khurais oil field – which caused the temporary suspension of 5.7 million bpd (well over half of Saudi Arabia's actual crude oil production capacity). "It was obvious to everyone that such [attacks could take place at will](#) from that point, despite the presence of the enormously expensive U.S. military and anti-missile defence systems," said the source. And thirdly, simply to keep oil prices at a reasonable level (although still less than half of what the Saudis' required to balance its budget), the Saudis absolutely needed the help of Russia for the extension of the OPEC+ output cut agreement.

So, in the October 2019 meetings, led by MbS and Putin, a slew of further deals were announced. The RDIF, for example, Saudi Aramco, and Saudi's PIF agreed to jointly acquire a 30.76 percent stake in Russian oilfield services company, Novomet, from Rosnano, marking the first joint investment by the three entities through the energy investment platform that they set up in 2017. Aramco added that it had also signed agreements for equipment and chemical supplies with Angara Service, Chelpipe, Galen, Integra, NKT, Technovek, TMK and Intratool. The RDIF and Russian private equity group ESN agreed with Saudi petchems giant, SABIC, that they would jointly invest in the design, construction and operation of a methanol plant in Russia's Far East Amur region. The RDIF and the PIF were also considering a US\$300 million investment in NefteTransService, one of the largest Russian operators of railway rolling stock. Added to all of this was the creation of a Russia-Saudi Economic Committee that would identify and develop economic and trade ties as well as investments between Russia and Saudi Arabia across all sectors, co-chaired by RDIF chief executive officer, Kirill Dmitriev.

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Having laid all of this groundwork, Russia then allowed Saudi Arabia to further destroy its finances and [damage its crucial economic and security relationship](#) with the U.S. by fighting a second oil price war on its own. "Whether or not this was a deliberate strategy it is difficult to ascertain but let's put it like this: Russia doesn't leave anything to chance and the outcome of the latest oil price war could not have been better for Russia if it had planned it," the source told OilPrice.com. "It certainly appears, though, that Russia is looking to move this relationship with Saudi into the next phase now," he added. "The key to this for Russia, is to persuade the Saudis to reduce the presence of the U.S. military in its country, both personnel and equipment, including the air defense systems, and to replace them

with Russian personnel and equipment, and this is not as difficult as many may think,” he underlined.

For a start, Trump has already threatened to withdraw the U.S. military from Saudi, both [in a Tweet and in a phone call with MbS](#), bringing the whole defense situation to the top of the minds of the senior Saudis. “Russia has highlighted to the Saudis that it is due to spend nearly US\$500 billion on U.S. defense purchases in the next five years but that last time around – with just the Houthis – none of this was any use,” the source told OilPrice.com last week. “On the other hand, the Russian air defense system – currently the S-400 but soon to be the S500 for general roll-out – is regarded by many as the most effective in the world,” he said. In fact, provision for precisely this switchover was made in the 2017 visit to Moscow by King Salman. According to various sources, the state-owned Saudi Arabian Military Industries also signed a memorandum of understanding with Russian state-owned arms exporter Rosoboronexport to buy the S-400 air defense system, plus the Kornet-EM anti-tank guided missile system, and the TOS-1A multiple rocket launcher and thermobaric weapons system, among other major arms purchases. Crucially for Russia, the agreement not only covered the supply of all of these weapons systems to Saudi Arabia and the transfer of necessary adjunct technology but also the manufacturing of these systems in Saudi Arabia, overseen by relevant Russian engineering and technical personnel and Russian security forces to ensure the safety of the people, the plants, and the products, at key sites on the ground in Saudi.

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