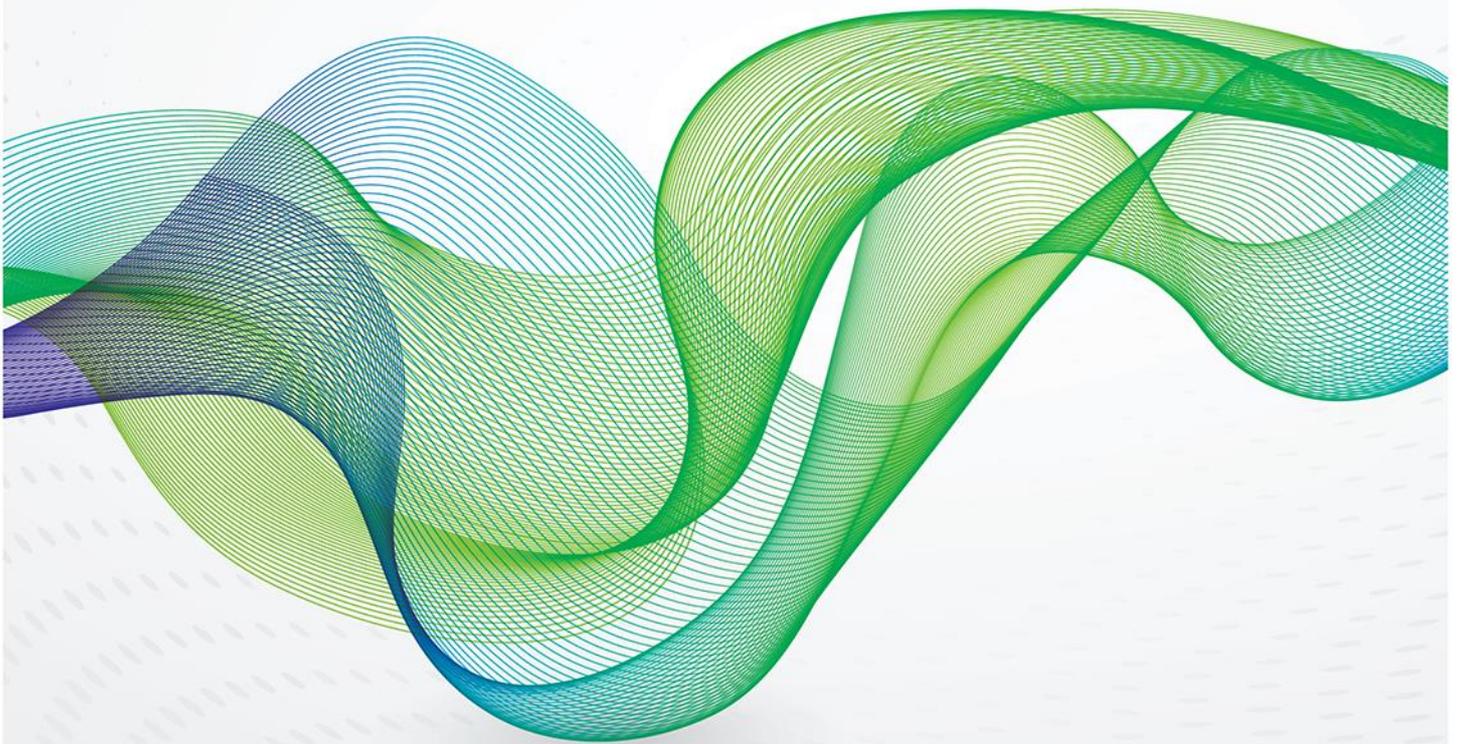




THE OXFORD  
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# Room for cynicism and hope in Russia's deal with OPEC



OXFORD ENERGY COMMENT

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### **The Context from Doha**

2016 has seen OPEC and Russia make a serious effort to convince the world oil market that they can work together. The collapse of the oil price in January to below \$30 per barrel, catalysed by Saudi Arabia's market share strategy, forced a number of producers to attempt to bring OPEC and non-OPEC countries together to address the significant supply and demand imbalance and the record levels of stocks. Although Venezuela was at the forefront of this effort, additional Russian and Qatari support appeared to have convinced the Saudis to agree to a production freeze agreement in February.<sup>1</sup> However, at a subsequent meeting in April to finalise the deal with the rest of OPEC, chaos ensued when the Iranians failed to appear and made it clear that they would not participate in any deal, at which point the Saudis withdrew at the last moment, leaving the gathering in disarray.

Despite its failure, the impact of the Doha debacle has been significant. A further six months of prices below \$50 per barrel has forced producers to re-assess their bargaining positions. Russia has made it clear that it will not be a catalyst for future OPEC deals, and will play a waiting game, offering cooperation when OPEC has got its house in order. In part this reflects the fact that, despite playing the role of the offended party in April, the Russian side had also failed to deliver, having appeared to be the intermediary who could bring Iran and Saudi Arabia together.<sup>2</sup> When the Iranians failed to appear in Doha this did not reflect well on Russia, and demonstrated that it did not have the geopolitical clout to influence relations between conflicted OPEC parties.<sup>3</sup> Equally, though, the Saudi delegation hardly covered itself in glory, pulling out at the very last moment after spending hours with the Russians drafting what they believed to be a final agreement. Relations on both sides were strained and from a Russian perspective, at least, it appeared in the aftermath that there was little trust left in OPEC and its leading producers to pull together, even *in extremis*.

Since then, however, significant efforts have been made to patch up relations between Saudi Arabia and Russia. A significant catalyst was the meeting of President Putin and Deputy Crown Prince Mohammed bin Salman on the sidelines of the G20 meeting in China in September 2016, which initiated a process of greater cooperation.<sup>4</sup> The immediate result was that the countries' energy ministers (Alexander Novak and Khalid A. Al-Falih) issued a joint statement confirming that they would cooperate in oil markets and could limit output in future.<sup>5</sup> This in turn led to a number of further meetings taking place at ministerial level, and established a platform for lower level bureaucrats to get together to discuss technical cooperation.<sup>6</sup> Furthermore, the Saudis have clearly understood the most important message from Russia, that it will not offer any further cooperation unless it is convinced that OPEC has a solid foundation for an agreement and has demonstrated compliance. Equally, one suspects that the Saudis have made it clear that they are aware that Russia's own record of meeting agreed production targets is hardly exemplary, and as such both sides have entered the recent discussions (since September 2016) with a more realistic assessment of their ability to agree and actually implement any deal.

### **An assessment of Russia's commitment to cut output**

In spite of the positive developments since Doha, and in particular the improvement in relations with Saudi Arabia, Russia's promise to cut production by 300,000 b/d in support of OPEC was nevertheless a surprise, as until the last minute a production freeze had appeared to be the limit of any potential commitment. Indeed, as recently as November 24<sup>th</sup> Russian Energy Minister Alexander Novak had said that he was in discussion about stabilisation of output with other non-OPEC countries, without mentioning a production cut.<sup>7</sup> As a result, the more proactive stance taken with OPEC only a week later can be interpreted as positive support for OPEC action, perhaps driven by Russia's need to see a higher oil price in order to balance its budget in 2017. Some commentators have even

<sup>1</sup> Wall Street Journal, 16 Feb 2016, "Saudi Arabia, Russia, Qatar, Venezuela agree to freeze oil output"

<sup>2</sup> Forbes, 11 April 2016, "Russia's bullish bet on oil freeze"

<sup>3</sup> Financial Times, 17 April 2016, "Oil price tumbles on Doha deal stalemate"

<sup>4</sup> Reuters, 4 Sept 2016, "Saudi-Russia cooperation will help oil market – deputy crown prince"

<sup>5</sup> Reuters, 5 Sept 2016, "Saudi-Russian joint statement on oil market cooperation"

<sup>6</sup> For example: Interfax, 18 Oct 2016, "Novak to visit Saudi Arabia Oct 22-23, discuss investment for fuel, energy sector"

<sup>7</sup> Interfax, 24 Nov 2016, "Russia holding talks on oil production freeze with non-OPEC countries, no talks with US – Novak"

argued that President Putin himself insisted on the deal, stating that “Putin wants the deal. Full stop. Russian companies will have to cut production.”<sup>8</sup>

From an economic and political perspective, it is easy to see why Putin might be so assertive. The Russian federal budget is currently running a deficit of approximately 3.5% of GDP, and with an oil price forecast (in the budget estimates) of \$40 per barrel for the next year this is only expected to decline to 2.4% in 2017, even after significant spending cuts in real terms. Ahead of a presidential election year in 2018, political reality suggests that rigorous implementation of cost reductions in areas such as pensions and public sector pay may prove rather difficult, though, with promised cuts in defence also problematic given the circumstances in Ukraine and Syria. As a result, there is a significant threat that, at a low oil price, the federal budget deficit could be as high in 2017 as it has been in 2016.

At this level the Reserve Fund, which was built up in times of high oil prices and is now being used to alleviate the budget deficit, could realistically run out by the end of 2017. It currently contains around \$40 billion, which is equivalent to a budget deficit of around 3.5-4% of GDP. As a result, there would be little head-room for any unforeseen events ahead of the election period, leaving Putin in a potentially vulnerable position. While there is very little doubt that he will be re-elected in March 2018, he would surely prefer to achieve it from a position of strength and with his popularity high, rather than with an economy that remains stagnant and a federal budget that is struggling to pay important bills. In this context, a \$10 per barrel move in the oil price could provide a very important buffer, as it would add around 1.8 trillion roubles to budget revenues (c. \$27.5 billion at current exchange rates) and would effectively reduce the budget deficit by two thirds. This provides a clear incentive for Russia to support OPEC in its efforts to stabilise the oil market and keep the price at or above \$50 per barrel.

#### 2016-2019 Federal Budget Projections

		2016	2017F	2018F	2019F
<b>Spending</b>	<i>Rb trillion</i>	16.4	16.2	16.0	16.0
<b>Revenue</b>		13.4	13.5	14.0	14.8
<b>Deficit</b>	<i>% of GDP</i>	3.7	3.2	2.2	1.2
<b>Primary balance</b>		-3.1	-2.4	-1.3	-0.3

Source: Russia Ministry of Finance

#### History suggests caution when relying on Russia

However, wanting something to happen and achieving it are clearly two very different things, and even when President Putin issues an order it does not necessarily catalyse an immediate result. One example in the oil industry would be his instruction to companies in 2011 to initiate a major upgrading of Russia’s refining system.<sup>9</sup> Although the companies present did respond to his call for significant investment in new refining technology, progress has been much slower than anticipated. The deadline for improvements to be completed by 2015 was missed by most, and the number of requests for a deferred timetable underlines that practical reality can sometimes trump even the most specific political instruction.<sup>10</sup>

Furthermore, the history of Russia’s interactions with OPEC in the post-Soviet era does not provide much grounds for confidence that implementation of any agreement will be achieved. In 1998, for example, the oil price fell following an OPEC decision in 1997 to increase output, the market impact of which was subsequently compounded by a drop in oil demand following the Asian and Russian financial crises.<sup>11</sup> Brent oil fell from a high of \$25 per barrel in early 1997 to below \$10 per barrel in late 1998, prompting OPEC calls for production restraint from OPEC and non-OPEC producers. Russia promised a 7% reduction in output, but in reality exports increased by 400,000 b/d.<sup>12</sup>

<sup>8</sup> NBC News, 1 Dec 2016, “How Putin, Khamanei and a Saudi Prince made the OPEC deal”

<sup>9</sup> [www.government.ru/eng](http://www.government.ru/eng), “Prime Minister Vladimir Putin holds a meeting in Kirishi in Russia’s refining industry and petroleum products market, July 2011”

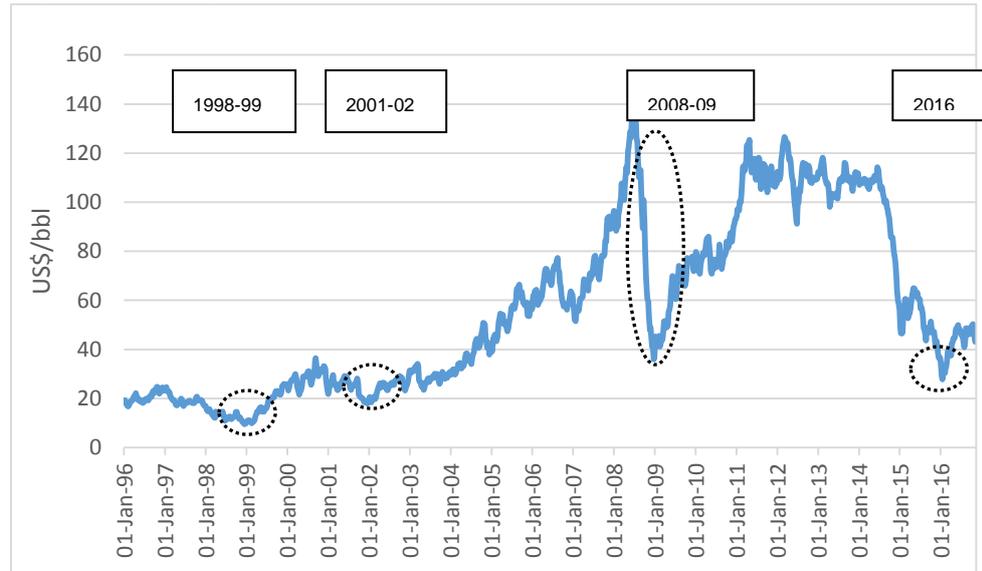
<sup>10</sup> Interfax, 10<sup>th</sup> June 2015, “Oil companies request more time to modernise refining units”

<sup>11</sup> Economist, 4 March 1999, “the next shock?”

<sup>12</sup> Wall Street Journal, 16 Nov 2001, “OPEC warns of \$10-a-barrel price, insists other producers cut output”

By 2001 another crisis had emerged, with prices down from \$36 per barrel following the attack on the World Trade Centre in New York to a low of \$20 per barrel as the global economic downturn continued. OPEC promised an output cut of 1.5 mb/d if non-OPEC countries could find a further 500,000 b/d reduction. Norway, with production of 3.4 mb/d promised a cut of 100,000-200,000 b/d; Russia, with output at the time of 7.1 mb/d promised a 30,000 b/d reduction, then increased its offer to 50,000 b/d but ultimately delivered no reduction at all. Despite the promises of Deputy Prime Minister Viktor Khristenko companies simply by-passed the official Transneft system and just moved oil out of the country via different routes – rail, barge and truck.<sup>13</sup>

**Figure 1: Timing of Russian conversations with OPEC**



Source: Energy Intelligence Group

2008-09 saw the next dramatic oil price plunge, from a high of \$147 per barrel to a low of \$39 per barrel, catalysing more interaction between Russia and OPEC. Importantly, on this occasion it was Igor Sechin, then Deputy Prime Minister with responsibility for energy, who attended three consecutive OPEC meetings as an observer, consistently encouraging production constraint from OPEC but providing no promises of help from Russia. Indeed, he claimed that Russia had cut output and exports during 2009, but the reality was that overseas sales increased by 700,000 b/d, much to the exasperation of OPEC members.<sup>14</sup>

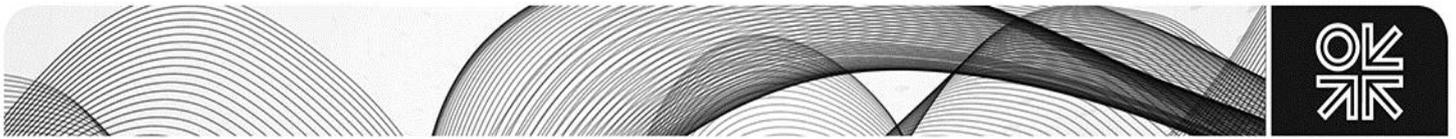
Most recently, the oil price plunged to below \$30 per barrel in early 2016, at which point Venezuela and Russia attempted to encourage an agreement between OPEC and non-OPEC countries to rebalance the oil market. This culminated in a meeting in Doha where Russia was prepared to offer a production freeze if OPEC could co-ordinate its own response. This ultimately failed to happen due to Saudi insistence on Iranian involvement in any deal, which the latter, still recovering output after sanctions, was not prepared to agree. As a result, Russia's willingness to comply with a deal was not tested on that occasion, although it is interesting to note that over the course of 2016 Russian oil output has risen by 400,000 b/d, so it is clear that implementation would have been a difficult issue to address.

***Is the latest deal different and are there greater grounds for optimism?***

Russia would appear to have more reason for confidence in OPEC this time around after reaching an agreement to cut production by 1.2 mb/d. However, with this agreement it would now seem that the pressure is on non-OPEC to fulfill its promise, and given its size this particularly means Russia. After the history of the last two decades, it would certainly appear that the burden of proof is on the Kremlin

<sup>13</sup> Economist, 23 Nov 2001, "OPEC v Russia"

<sup>14</sup> New York Times, 22 Oct 2009, "Russia oil surges after break with OPEC"



and the Russian oil industry to demonstrate that they can, and are willing to, restrain production to the levels agreed.

However, perhaps not surprisingly, this does not seem to be the Russia view of the situation. Firstly, Energy Minister Novak, for all his enthusiasm, has made it clear that Russia will comply if OPEC demonstrates that its own promise has been met, clearly stating that “Russia’s voluntary output restriction is tied to OPEC compliance with the level of 32.5 mb/d.”<sup>15</sup> In itself this statement opens the possibility of a chicken-and-egg situation emerging, as both sides wait for confirmation that the other has complied before acting themselves.

Further concern is also raised by the fact that Russia has committed to gradually reduce output (raising the question “at what pace?”) within the constraints of its technical capabilities.<sup>16</sup> This latter caveat raise the spectre of excuses such as the difficulty of shutting in wells during winter due to the potential impact of freezing temperatures on wells, or the need to fulfill licence obligations which necessitate making certain levels of investment or drilling a certain numbers of wells. Though perhaps even more worrying, at least for those hoping that a deal will work, is that Novak has also argued over the past few weeks that a freeze at current levels of Russian output is equivalent to a production cut, as the country had planned to increase output by 200,000-300,000 b/d during 2017.<sup>17</sup> Saudi Arabia has rejected this assertion as unhelpful, and it was not mentioned by Novak in the immediate aftermath of the Vienna meeting, but it offers the cynics another reason to believe that Russia may not be so keen to comply with its promise.

An alternative issue is that Novak has underlined that the agreement starts on January 1<sup>st</sup> 2017 and will be based on November-December production. Russia has just announced output of 11.2 mb/d for November 2016, close to the record level seen in October, and it is certainly conceivable that every effort could be made to ramp up output again in December to provide a higher base line for any cut. Figure 2 shows monthly production for the past four years, and only one of those has seen a decline in December production (2012). Indeed 2015 saw an increase of almost 90,000 b/d, and given the number of new fields that have recently been brought online in Russia a similar, or higher, increase is not inconceivable this year. Indeed this likelihood has essentially been confirmed by Deputy Energy Minister Kirill Molodtsov, who has suggested that a 0.8% increase in the last month of the year to 11.3 mb/d is probable.<sup>18</sup> As a result, a production cut of 300,000 b/d would simply bring Russia back to 11 mb/d, a level well above the average for 2016 as a whole.

On a more positive, but again somewhat cynical, note the Russian authorities are also no doubt fully aware that the country’s oil output in the first half of each year tends to be flat or declining, with January often being the month with the highest level of output for the first 6 months (indeed this has happened every year since 2012, apart from 2016 when it was February). Indeed Lukoil vice president Leonid Fedun highlighted this phenomenon recently, explaining that seasonal maintenance is the practical explanation.<sup>19</sup> This would suggest that a Russian promise to keep output flat in H1 2016 should not be too hard to keep, as this tends to be the case in any event. The key question will therefore be whether this can be translated into a production cut this time, which for most years would just be an exaggeration of an existing repeated trend.<sup>20</sup>

<sup>15</sup> Interfax, 30 Nov 2016, “Russia to gradually reduce oil output by 300,000 b/d if OPEC honors accords”

<sup>16</sup> Ibid.

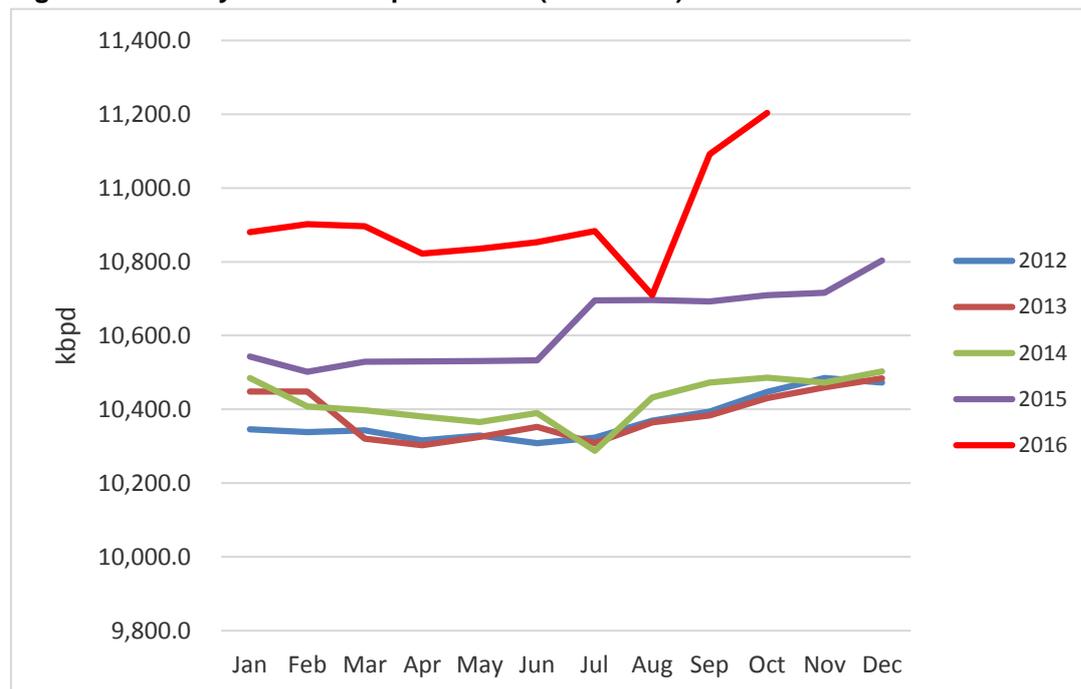
<sup>17</sup> Interfax, 24 Nov 2016, “Oil production freeze at present level means decline in Russia by 200,000-300,000 barrels a day – Novak”

<sup>18</sup> Interfax, 2 Dec 2016, “Russia may post record daily output in December ahead of OPEC production cut”

<sup>19</sup> International Oil Daily, 5 Dec 2016, “Russia won’t cut until Spring: Lukoil”

<sup>20</sup> Production tends to decline as the harsh winters come to an end because transportation of equipment and personnel is harder as the ice melts, lakes re-appear and roads become more difficult to travel on

**Figure 2: Monthly Russian oil production (2012-2016)**



Source: Energy Intelligence Group

Although something of a cheat, this outcome could nevertheless be interpreted as positive for the oil market as, even though the Russian cut would be from a higher level than anticipated it would still mean that production is lower than a number of commentators had been predicting. The trend of well-managed brownfield decline combined with the emergence of new greenfield developments, which we highlighted in April 2015,<sup>21</sup> is now well understood, and expectations for 2017 had been for further increases in output. The devaluation of the rouble, which has reduced costs in US\$ terms, and a sliding scale tax system which has meant that the Russian government has taken most of the pain of a falling oil price, has left Russian oil companies with sufficient free cash flow to continue investment in new fields that had been started before the oil price decline. As a result the Energy Ministry itself had announced that 2017 production was likely to be 548 million tonnes (11.1 mb/d), while other commentators expected even higher figures. For example the International Energy Agency recently announced a figure of 11.48 mb/d,<sup>22</sup> while Goldman Sachs forecast 11.7 mb/d.<sup>23</sup> Compared with these high expectations, output of only 11 mb/d (effectively the Ministry's forecast) would indeed help to rebalance the oil market.

### How could a production cut be implemented?

Energy Minister Novak's comments that Russian production had been expected to increase in 2017, and also that any cut would be implemented proportionally,<sup>24</sup> highlight another problem for Russian implementation, namely that Russian oil companies have different growth trajectories and output plans for 2017. As Figure 3 shows, at present companies such as GazpromNeft and Bashneft are growing quite rapidly (GazpromNeft expects 5-6% growth in 2017), while others such as Rusneft, Slavneft and Lukoil have been declining and Rosneft and Surgutneftegas have been stable. It would therefore seem illogical to ask all companies to cut by the same percentage, when some will naturally decline while others will have to curtail plans aggressively, and individual companies have already expressed contrasting opinions. Lukoil, for example, has stated that a government order will be

<sup>21</sup> Henderson, J. (2015), "Key Determinants for the Future of Russian Oil Production and Exports", WPM 58, Oxford Institute for Energy Studies, Oxford

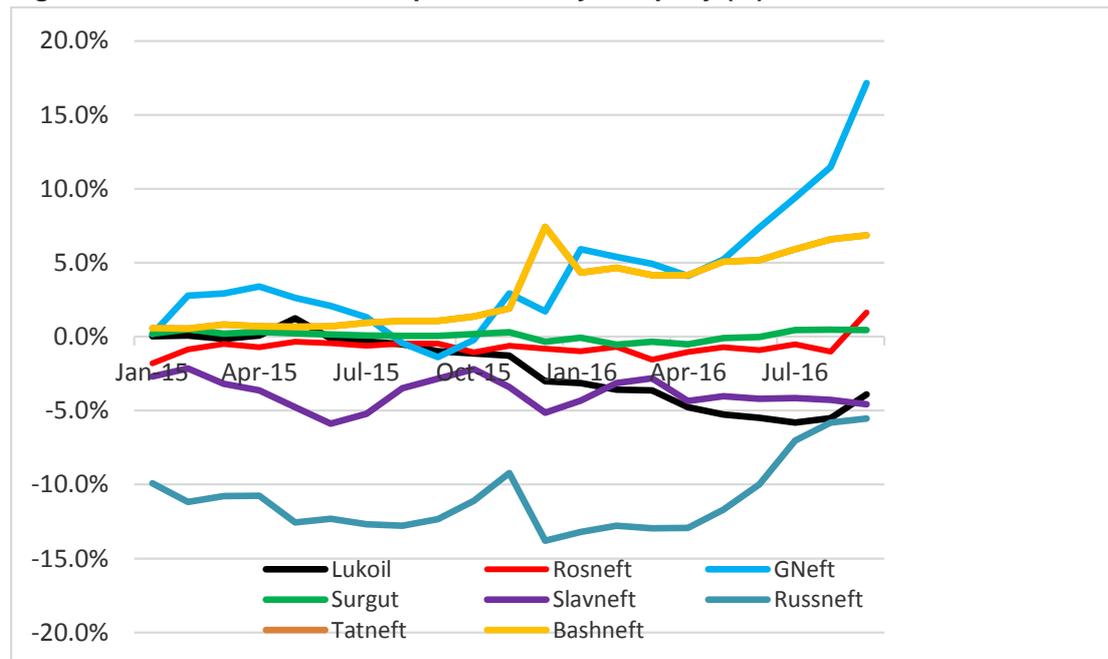
<sup>22</sup> Interfax, 11 Oct 2016, "IEA increases Russian oil production forecast to 11.48mm b/d"

<sup>23</sup> TASS Russian News Agency, 1 Nov 2016, "Goldman Sachs raises forecast for Russia's 2017 oil output"

<sup>24</sup> Interfax, 1<sup>st</sup> Dec 2016, "Novak: all Russian oil companies to proportionally cut production from 11.2 mln barrels a day"

needed before any production controls are implemented (suggesting the potential for bureaucratic delay), and has also suggested that Russian companies will require compensation if oil production is lowered,<sup>25</sup> implying further room for debate ahead of a cut. Indeed the company has suggested that nothing may actually happen before Q2 2017, given the uncertainties to be resolved.<sup>26</sup> Furthermore, GazpromNeft has expressed its opposition to a universal reduction by all companies, and Rosneft has also historically been against the imposition of any major restrictions on oil output.<sup>27</sup> As a result, although all companies may express their overall desire to fulfill President Putin's instruction, the practicalities of sharing the burden may be an obstacle in themselves.

**Figure 3: Growth in Russian oil production by company (%)**



Source: Company reports, Argus Media

Having said this, the general concept of how a cut could be implemented seems relatively simple. It would seem unlikely that new field developments, where there is a strong momentum towards bringing new production online or taking it to peak output, would be halted, but it is perfectly conceivable that drilling and other work on existing older brownfields could be slowed. Furthermore, a number of companies have suggested that the shutting in of marginal wells is an obvious reaction to any demand by the government for a production cut.<sup>28</sup>

It is also clear that there is a very close correlation between the level of drilling on Russian oilfields and the level of production, as shown in Figure 4 below. As a result, a slowing in the level of drilling would have a fairly immediate effect on output, and could be encouraged across the sector. This would of course have economic consequences for the oil service companies, and indeed it is they, rather than the oil companies, who might have a case for compensation from the government. Nevertheless, the route to a reduction in oil output is clear, should it ultimately be enforced, and indeed one way of telling in advance whether Russia is complying with its promise will be to watch the level of monthly drilling activity.

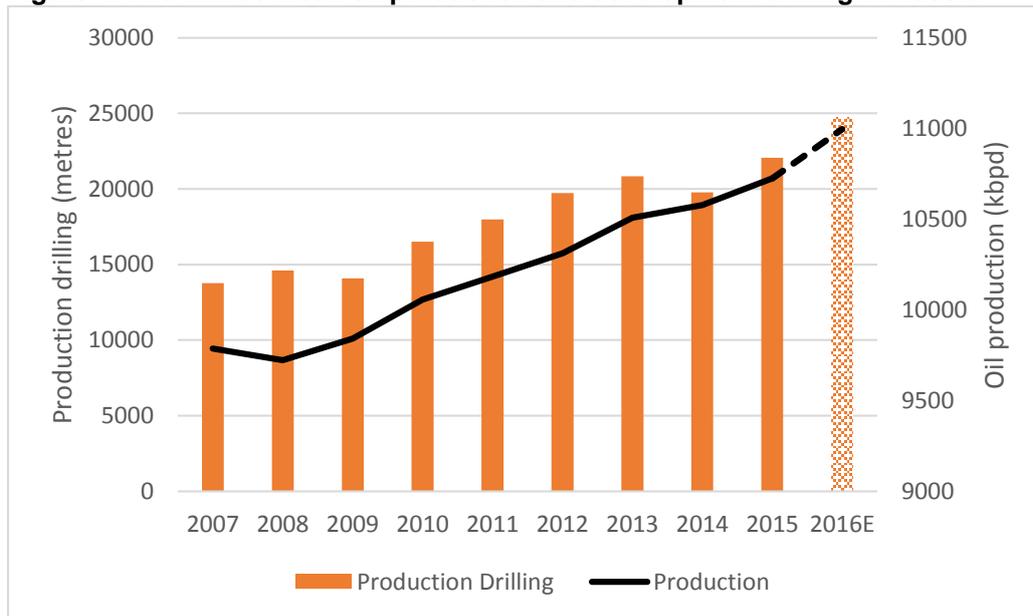
<sup>25</sup> Interfax, 2 Dec 2016, "Russian companies will require compensation if oil production is lowered"

<sup>26</sup> Interfax, 2 Dec 2016, "Lukoil believes actual reduction in Russian oil production will begin in Q2 2017"

<sup>27</sup> Nefte Compass, 2 Dec 2016, "All Eyes on Russia after OPEC Agrees Production Cut"

<sup>28</sup> Ibid.

**Figure 4: The link between oil production and development drilling in Russia**



Source: Author's analysis, based on Interfax data

Furthermore, it is also interesting to note that Rosneft, despite its apparent opposition to cooperation on output cuts, might actually have an incentive to restrain upstream capex in the short-term. Following its purchase of Bashneft and the imminent purchase of its own shares in a “quasi-privatisation” process, the combined total of which will cost the company over \$19 billion,<sup>29</sup> Rosneft has something of a cash management issue over the next few months, despite the fact that it has received over \$4 billion from Indian companies for equity in East Siberian assets.<sup>30</sup> It has a commitment to buy 49% of Essar for \$3.8 billion, and has a similar level of debt repayment commitments by the end of 2016, as well as \$12.9 billion of debt to repay in 2017.<sup>31</sup> With net debt of \$26 billion at the end of the third quarter of 2016 and free cash flow having fallen by 60% in the first nine months of this year, it would not be surprising if the company might be happy to see its upstream capital expenditure lowered in the first half of 2017.

Indeed, the recent purchase of Bashneft, with its rising output from new fields, could allow Rosneft to ease back on drilling at its existing subsidiaries without leading to overall production decline, meaning that it could demonstrate some effort to comply with production restraint without having too significant an impact on the company. As Rosneft now accounts for well over 40% of Russia's oil output, the company's decisions on supporting any production freeze will be vital, and it would seem that its motivation in H1 2016 could be to restrain capital expenditure, which as described above has a close correlation with output.

### **Production is one thing, exports is another**

From a global perspective, though, the issue of Russian crude oil exports is more important than the level of production. It is this which will impact the global oil market, and indeed the trend in Russian crude oil exports over the past 12-18 months has been even more startling than that for oil output. As can be seen in Figure 5, exports have been growing consistently on a year-on-year basis throughout 2015 and 2016, when there has not been a single month when the level has fallen compared to the same period in the previous year. Indeed the growth in exports since November 2014 has been 18% compared to a 7% growth in oil production.

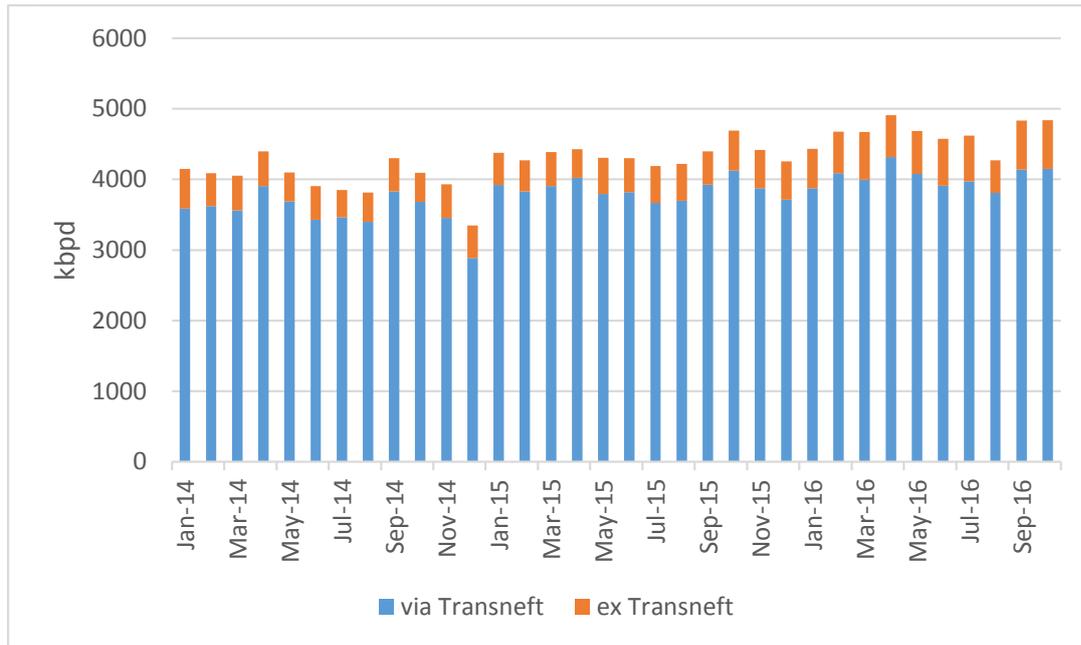
<sup>29</sup> \$5.3 billion for the 50.1% state share of Bashneft, a further \$3 billion to buy out minorities and \$11 billion to purchase 19.5% of its own shares from Rosneftegaz

<sup>30</sup> Yermakov, V. (2016), “securing the future: the implications of India's expanding role in the Russian oil sector”, Oxford Energy Forum No 107, p.12

<sup>31</sup> Rosneft, 11 Nov 2016, “Rosneft Oil Company IFRS Results Q3 2016 presentation,” slide 24

In addition, exports obviously generate foreign currency, and given the devaluation of the rouble this is even more valuable in 2016 than it was in the previous two oil crises, when the Russian authorities tried to maintain the value of the domestic currency. Furthermore, restricting exports is difficult, because although the Russian government controls the main pipeline operator, Transneft, and can therefore impose a quota system if required, this is not the only way of exporting oil from Russia. The orange bars in Figure 5 show crude oil that leaves the country by alternative routes (rail, barge, privately-owned terminals) which has recently totalled over 600,000 b/d. When previous attempts to restrict exports have been imposed by the Russian government, oil companies have shown remarkable agility in by-passing the state-owned system and maximising the non-Transneft options.

**Figure 5: Russian crude oil exports, thousand b/d**



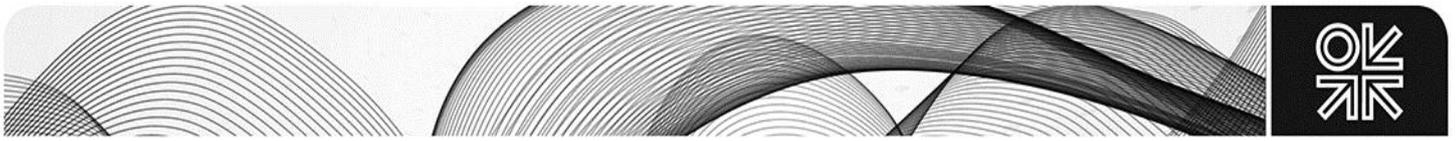
Source: Argus Media

As a result, it will be important not only to monitor oil production levels over the next few months but also oil exports, as although there should be some correlation between the two it is by no means one-to-one. Indeed, given the economic recession in Russia (which has reduced energy demand) and the tax changes in the Russian oil sector (which have disadvantaged the refining sector and reduced throughput), it is arguably possible that even if production is reduced the Russian oil sector may be able to maintain current levels of crude exports.

### Conclusions

Although relations between Russia and Saudi Arabia have improved since the debacle in Doha in April 2016, it is clear that both sides will be watching each other carefully over the next few months (assuming that a final OPEC-Non-OPEC pact can be reached on December 10<sup>th</sup>). The fact that both have made their own implementation of a production cut dependent on the performance of the other suggests that trust has not been fully restored. Indeed, both sides have reason to be cautious. OPEC's record of compliance with quotas is weak, and Russia also has a poor record of fulfilling any promises to cooperate with OPEC.

In this light, comments from Energy Minister Novak over the past week leave plenty of grounds for cynicism as well as optimism. Room for interpretation seems to have been left deliberately vague in a number of areas, and one is minded to suspect that the Russian side is hopeful that bullish talk will keep the oil price above \$50 per barrel for at least two-to-three months, by which point a full cut may not be necessary if it becomes clear that the oil market will start to rebalance in 2017. For all the chaos surrounding the Doha meeting the potential for an agreement, and the thought that OPEC and non-OPEC countries were cooperating, did cause a rebound from below \$30 to above \$40 per barrel



and it would not be inconceivable that the Russian delegation is hoping for a similar “potential cooperation premium” to keep the price above \$50 per barrel if an actual agreement is reached in December 2016, irrespective of real implementation.

Having said this, some form of Russian output restraint is conceivable. It may be the case that Russia is expecting a flattening of output in the first half of 2017 in any case, having pushed very hard to maximise output by the end of 2016. It is even possible that, despite the difficulty of sharing a production cut among the various Russian oil companies, drilling could be slowed and older fields could be allowed to decline slightly more rapidly for a period of time, even as new field developments continue to progress. This could produce a result approximating to a production cut in some form. Furthermore, given Rosneft’s financial constraints after a recent spending spree, it may also be the case that the owner of more than 40% of Russia’s oil production may be keen to ease its upstream spending in the short-term, especially in the hope of a potential oil price increase.

However, the speed of any decline must be uncertain, and furthermore it must be likely that debates over “technical issues”, the meaning of the phrase “gradual decline”, the need for a “government order” and the allocation of “proportional cuts” will drag the process out well into the first quarter of 2017, and perhaps even to the second quarter if Lukoil is to be believed. In addition, OPEC countries and oil market observers would be well advised to keep a close eye on the level of Russia’s crude exports, as well as production, during the first half of 2017, as there is no guarantee that the two will move in tandem.

Nevertheless, one final note of optimism would be that even if a Russian output cut or freeze only results in production of 11 mb/d for the first half of 2017, this could still provide a result that is below market expectations for the year as a whole and thus could be supportive of the oil price. Indeed, this outcome may be exactly what Russia is aiming for. Enough to suggest that oil market rebalancing is a realistic hope in 2017, but not so much as to undermine the progress of the Russian oil sector in establishing levels of average annual production at a post-Soviet high.