



A spring freeze

Any oil output agreements will be crucial in market recovery, according to the International Energy Agency (IEA).



▲ **Oversupply** Iran has already increased oil output by 187,800 barrels per day (bpd) to 3.13 million bpd after sanctions were lifted, according to OPEC.

ACCORDING TO A GOLDMAN Sachs Report in February 2016, following the decision by OPEC members to not agree to a cut in oil supplies in 2015, oil supply continues to outstrip demand, with oil stockpiles increasing and prices remaining well below their 2014 peak.

In February 2016, five oil producing and exporting countries — namely Saudi Arabia, Russia, Qatar, Kuwait and Venezuela — have agreed to the possibility of freezing output at January 2016 levels and to wait and see for four months how this freeze will

impact world oil prices. The possible deal is notable as including both OPEC and non-OPEC producers but the Saudi regime has emphasised that it is the start of a possible process and not an end agreement.

Russia has indicated that any firm deal will depend upon other producers joining the agreement. Saudi ministers have emphasised that a cut in supplies is not on the table and ostensibly the stated aim is not to increase prices but to “stabilise” them. The agreement is to be monitored by Qatar. Even a preliminary

agreement between Russia and Saudi Arabia is noteworthy given they have been increasingly competing in the other’s rival markets with Saudi Arabia selling crude oil in Eastern Europe and Russia overtaking Saudi Arabia in exports to China.

There is also obvious geopolitical tension between

Ⓢ **MOST ANALYSTS HAVE NOTED THAT A FREEZE WILL NOT SUFFICE AND THE OIL MARKET WILL GET WORSE BEFORE IT GETS BETTER***

the two countries with them backing opposing sides in the Syrian civil war. Furthermore, the Saudis will no doubt have remembered that compliance with previous supply agreements has been patchy at best. In that light the agreement, tentative and limited as it is, is still noteworthy.

The possibility of a wider agreement depends on whether other major oil producers in particular Iran and Iraq follow suit and join in a freeze or some form of supply control. Iran has recently benefitted from the lifting of many sanctions in particular on sale of oil to



▲ **Making a comeback** Iran would continue increasing its oil output, according to the country's officials.

the European Union and has expressly ruled out any such agreement, there is the further issue of growing political differences between the regimes in Tehran and Riyadh and the other Gulf states. One question is whether Iran may be offered and indeed tempted by a carved out agreement such as the 1999 OPEC deal which allowed Iran to supply at a higher output than other suppliers.

For Iraq the unofficial prospects are less certain, with some press reports indicating that informal sources have suggested that Iraq may be amenable to an



▲ **Consensus** The IEA said any output deals will be crucial in market recovery.

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output freeze agreement (or even cuts on some reports) if a wider agreement can be reached between suppliers.

Furthermore, most analysts have noted that a freeze will not suffice and the oil market will get worse before it gets better.

The Wall Street Journal has reported that even if oil producers all agreed to a global production freeze at January levels, the world would still have about 300 million more barrels of oil a year than needed, not including massive existing oil stockpiles.

The International Energy Agency (IEA) has emphasised that any output agreements will be crucial in market recovery. Interestingly, it has also commented that the scale of Iranian exports following the easing of sanctions has been less than some commentators predicted and the signs appear to be that Iran will have a staged or gradual return to pre-sanction export levels.

The IEA concludes that “For prices there may be light at the end of what has been a long, dark tunnel, but we cannot be precisely sure when in 2017 the oil market will achieve the much-desired balance. It is clear that the current direction of travel is the correct one, although with a long way to go.”