The case for Russian membership of Opec

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Russia may be willing to work with Opec beyond 2018 to manage oil markets. Unprecedented co-operation has reversed a slump in prices and drained overflowing global inventories. Making their temporary alliance permanent would now bring wider benefits for both sides.

Opec with Russia as a permanent member could regain its swing-producer status, which has been eroded by the rapid growth of US shale. Moscow would also potentially gain from taking a prominent role at the centre of an internationally recognized intergovernmental organization, and by gaining even more strategic influence among the group's Middle East members, which control at least half the world's proven reserves.

However, the foremost benefit of permanent Opec membership would be the added pricing clout Russia brings to the table. The slump in prices triggered in 2014 has forced producers within the 14-member group to tighten their economic belts and radically cut spending. Real GDP growth in the core Arabian Gulf states - which combined account for about two-thirds of Opec capacity - may have fallen to 0.5 per cent last year, from 2.2 per cent in 2016, according to the International Monetary Fund.

Russia's flexible exchange rate and larger industrial economic base has helped to soften the blow somewhat, but the country has still suffered. Although no longer in recession, economic growth is expected by the IMF to remain tepid at around 1.5 per cent over the next five years. Boosting oil prices and ensuring market stability remains financially imperative for all sides.

Their cooperation, which started at the end of 2016, has reversed the price slump. Brent crude has gained 32 per cent to trade at around US$70 per barrel since Opec with the help of Russia and a clutch of smaller producers outside the grouping. Combined cuts of 1.8 million barrels per day - of which Russia contributes about a sixth - have also drained inventories. Global crude stockpiles have dropped by 220 million barrels since the beginning of last year.

However, these price gains have come at the cost of market share. Opec controls about a third of world supply, but capacity is tight and its slice of the world market is under assault from US shale. These pressures could grow if prices around $70 per barrel provoke international oil majors to again sanction expansion projects and new exploration efforts.

Other than Saudi Arabia - which maintains at least 2 million bpd of spare output -most of the group's members bound by quotas have little room to grow production. Adding Russia's total capacity of around 11 million bpd would immediately boost Opec's overall share to around 45 per cent of the world market.

A permanent seat at the Opec table could also support President Vladimir Putin's push to bolster Russia's status as a global power, especially in the Middle East. The Kremlin's growing influence in the region, especially in terms of energy policy, is a rising concern for some Western diplomats, who fear the country's increasingly dominant position in energy supply. Some fear that Russia - which already has a stranglehold on gas supplies into Europe - is gaining too much strategic sway over crude.

To a certain extent Russia is already playing a central role at Opec, without having to pay the fees that come with membership of the Vienna-based body. Energy minister Alexander Novak co-chairs the Joint Opec-Non-Opec Ministerial Monitoring Committee alongside his Saudi counterpart Khalid Al Falih, which held its first meeting of the year in Oman last weekend. The two have increasingly walked in lock step, and their messaging is closely coordinated by advisers. Novak indicated during the meeting that Russia may be willing to cooperate on a longer term basis, which Saudi welcomes.

The kingdom requires prices above $70 to boost the valuation of state-controlled Aramco. The Saudis hope to raise $100 billion to fund economic diversification by selling a 5 per cent stake in the world's largest state-owned producer. Russian pension funds could also invest as part of a growing economic alliance between the two global oil superpowers.

Of course that doesn't require permanent Opec membership. Many senior figures within Russia's powerful independent oil producers would be against the idea, which has been widely dismissed by some experts. Prices climbing towards the $80 level may also tempt policymakers in Russia to ease back on their commitment to cut 300,000 bpd from production as markets rebalance. The likely re-election of Putin as president in March could also diminish the political need to boost prices in the short-term, which co-operating with Opec has achieved.

Nevertheless, Russia's brief alliance with Opec has so far exceeded most expectations. More long-term thinking and permanent membership of the group could change oil markets permanently.

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