EXCLUSIVE INTERVIEW

WHAT NEXT FOR OPEC+?

H.E. MOHAMMAD SANUSI BARKINDO, SECRETARY GENERAL, OPEC

Moderated by John Defterios, Emerging Markets Editor and Anchor, CNN Business News

John Defterios (JD): *We are almost two years into the Declaration of Cooperation (DOC) signed in Vienna December 2016. How do you ensure there is cohesion within the OPEC and non-OPEC group of producers going forward? We've heard both the Kingdom of Saudi Arabia and the state of Russia suggesting they want a permanent structure for the DOC. How long would it take to set this framework and is it realistic?*

H.E. Mohammad Sanusi Barkindo: When we signed the DOC in Vienna, there were two objectives. To adjust supply to enable a withdrawal in stocks down to five-year averages and to work out a permanent framework for this new cooperation. Our target is that by December when we reconvene in conference in Vienna, we should be able to have a framework to present to both OPEC and non-OPEC. The DOC is here to stay; it has become a permanent feature in the global energy scene. What we are working on now is to make it more permanent under an institutionalized framework.

JD: *Should OPEC expand this remit to also eventually consolidate the Gas Producers Association out of Doha? A DOC that extends to both oil and gas?*

H.E. Mohammad Sanusi Barkindo: Discussions are going on between the Secretariats of OPEC and the gas exporting countries for the need to ultimately bring both oil and gas within this declaration. But I don't think it would be appropriate for us to jump the gun. Hopefully by December we will have this permanent framework and then we can consider moving on.

JD: *We sit here in a region that has about two thirds of global proven oil reserves. If OPEC manages to get the institutional framework done, will that avoid the danger of stranded assets? Are there concerns behind the scenes that perhaps, like in Iraq, the full potential for oil or gas will not be realized if we don't keep a framework for pricing of let's say $70 or $80 a barrel to meet demand and keep the market in balance so that the right level of investment comes in?*

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H.E. Mohammad Sanusi Barkindo: Demand for oil and gas will continue to grow. What is required now and what is missing and of great concern, not only to producers but also to consumers, is the ability to continue to attract the required investment competitively with other sectors and in a predictable fashion. Also, we need to continue to promote the appropriate technologies to make production more efficient. Equally important is the issue of the environmental credentials of oil that have continued to put us on the defensive.

JD: *Is there a consensus today that $70-$80 a barrel is a bandwidth that doesn't destroy demand but at the same time invites investment?*
H.E. Mohammad Sanusi Barkindo: The market continues to evolve. In the 18 months from January 2017 to June this year, the DOC group began to surpass our output cut target of 1.8 million barrels a day, reaching 147% compliance at one point. So, we took a decision that we should strive to come back to 100%. We want to restore market stability, so the question is how do we sustain this going forward in the face of geopolitical and trade tensions in different parts of the world? We are committed to make sure that we deliver current and medium to long-term demand and continue to make oil the choice for the foreseeable future.

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JD: *On the subject of geopolitics, is there a danger for the DOC that the US is putting a wedge between OPEC and non-OPEC producers because of the sanctions on energy with Iran? What sort of challenge does this present to you?*
H.E. Mohammad Sanusi Barkindo: One of the most interesting issues arising from the current dynamics is the realization that the world cannot do without OPEC. Indeed, some of the powers that be are calling on us to ensure that there is no supply crisis, so consumers are not unnecessarily punished.

JD: *The Iranian position is that the US, Saudi Arabia and Russia are taking the oil market hostage with undue influence on OPEC.*
H.E. Mohammad Sanusi Barkindo: OPEC will continue to work with non-OPEC and moreover, Iran is not only a founding member of OPEC, it's a very important member — the third biggest producer within the group. So, we have no choice but to continue to work with all parties, both to confront the current challenges

OPEC: A Brief History

1960s

OPEC forms in Baghdad in 1960 with five oil-producing countries: Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Over the decade, membership increases to 10, joined by Qatar, Indonesia, Libya, the UAE and Algeria. In 1965 OPEC moves headquarters from Geneva to Vienna.

1970s

OPEC rises to international prominence, as member countries take control of their domestic petroleum industries and have a major say in the pricing of crude oil on world markets. Membership grows to 13 by 1975.

1980s

Oil price crashes in 1986 responding to oversupply. OPEC introduces a production ceiling among member countries and a reference basket for pricing. OPEC/non-OPEC dialogue and cooperation is seen as way of maintaining market stability. Concerns about the environment begin to emerge.

and fashion a way forward that will hopefully insulate the DOC and its partners from the exogenous factors that sometimes become increasingly challenging and diversionary.

***JD:** How do you fill the void of 2.5 million barrels of exports from Iran, which are dropping rapidly? There is not a lot of excess production around.*

H.E. Mohammad Sanusi Barkindo: When you have major producers facing supply challenges, it's of concern to them and also to consuming countries. The forces of globalization have broken barriers; the global oil market is more integrated today than it was a decade ago and so whatever happens with it has a ripple effect across the spectrum. We need the support of producers and consuming countries to continue to work together to ensure that this stability that we keep talking about is ensured and sustained. Iran and other producers have a leading role to play in that regard.

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***JD:** But the reality is that US sanctions on Iran mean that the number one consuming nation is going to push up prices and there isn't a lot of spare capacity to fill that void.*

H.E. Mohammad Sanusi Barkindo: We have opened dialogue with the American administration and we have begun to exchange technical information. Working in silos will no longer be beneficial either to US companies or to us in OPEC. I remain optimistic going forward that within the confines of the law, both in the US and elsewhere, we can be innovative in finding ways and means of partnering together in order to insulate ourselves and continue to play our role as suppliers to this increasingly integrated oil market.

***JD:** The US Energy Secretary, Rick Perry, was suggesting to Russia and Saudi Arabia to fill this void that's being created by Iran right now. Doesn't that blow through the very specific targets you have under the OPEC and non-OPEC agreement?*

H.E. Mohammad Sanusi Barkindo: I have not heard of one participant in the DOC walking away once our mission is accomplished. These geopolitical factors are beyond us in OPEC. What we try to do is to minimize the impact on our operations and focus on how we tackle the oil markets going forward.

***JD:** Collectively though, the objective is to meet demand and keep stability in the market, and*

1990s

A more integrated oil market leads to a solid recovery against a backdrop of a post-Soviet world, globalization and emerging technology adoption. OPEC/non-OPEC relations advance. UN-sponsored climate change negotiations gather momentum.

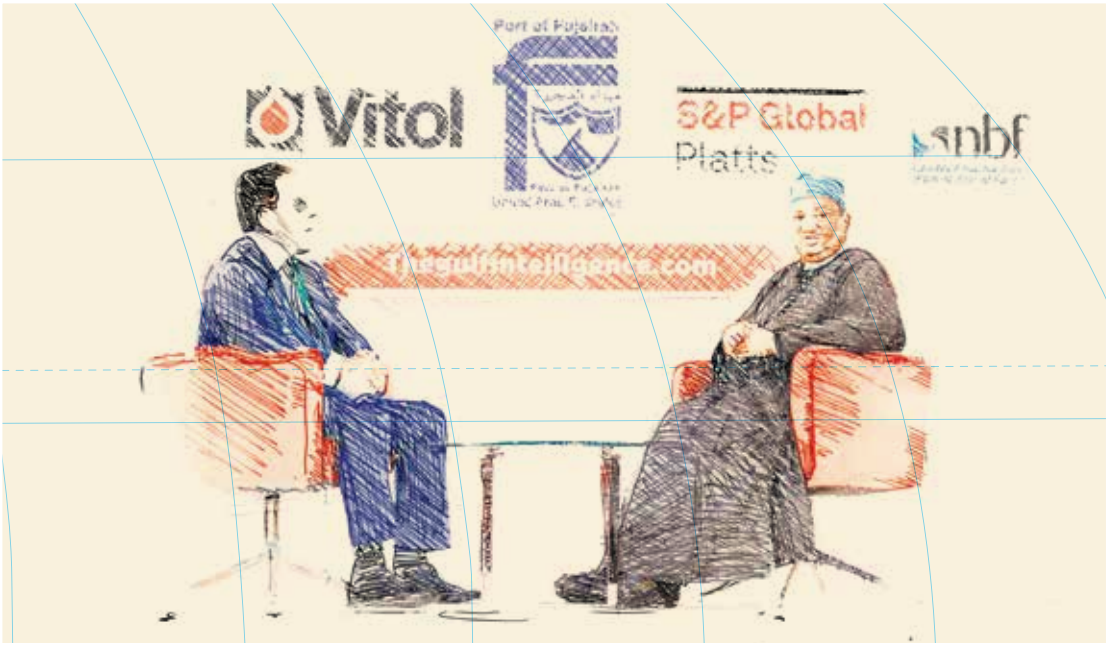
2000s

Oil prices soar to record levels before collapsing in the 2008 global financial turmoil and economic recession. OPEC becomes prominent in supporting the oil sector, as part of global efforts to address the economic crisis.

2010-present

Prices remain stable between 2011 and 2014, before oversupply cause them to fall. Trade patterns shift as demand grows in Asia. A focus on the environment continues to develop through a UN-led climate change agreement. OPEC/non-OPEC cooperation increases.

Source: www.opec.org



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less about specific targets within the OPEC, non-OPEC sphere, is it not?

H.E. Mohammad Sanusi Barkindo: No one single group or group of countries, including the biggest producers, can undertake this responsibility efficiently and effectively. Consultations may be taking place bilaterally between countries, but at the end of the day it is the OPEC conference and the conference of the OPEC and non-OPEC producing countries in the DOC that will take decisions regarding supply and other fundamentals. Hence, our desire to institutionalize a permanent framework by December.

JD: *With Iran's exports already dropping, how do you fulfill the mandate for OPEC and non-OPEC producers ahead of sanctions?*

H.E. Mohammad Sanusi Barkindo: We meet almost every month at the technical level to monitor the evolution of the market, including considering the exogenous factors that impact supply and demand. And almost every two months, the joint ministerial monitoring committee meets, which Iran also participates in, to ensure that we are ahead of the curve on supply. We believe that working together will enable us to minimize the impact of factors beyond our control, even if we do not eliminate them.

JD: *With oil prices above $80 a barrel and a new round of trade tariffs on China, do you worry that prices will rise further due to the Iranian sanctions and so that then destroys demand? There is a real danger.*

H.E. Mohammad Sanusi Barkindo: Our mandate is to restore and sustain stability. Trade is a major quantum in the overall global economic equation. Whatever effects the free flow of trade will ultimately impact on growth and hence the revisions that we are beginning to see, not only on demand, but also on GDP. But we remain hopeful that the leading trading powers of the world will be able to find common ground to see that growth continues in a very healthy manner that will not destroy demand. ■

**Edited transcript*