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An Unprecedented Era of International Energy Cooperation

The Russian Federation, other non-OPEC producers, and OPEC, have in recent years spearheaded an era of unparalleled cooperation in the energy sphere. It has been a period of major upheavals, not only in the oil industry, but across the world, which has required great courage and commitment from all participants in the landmark Declaration of Cooperation (DoC) to help achieve balance and sustainable stability in the oil market, in the interests of both producers and consumers.

The background to this can be traced back to the period between 2014 and 2016 when the global oil market experienced one its worst downturns in history. With supply exceeding oil demand growth, bloated inventories saw the OECD commercial stock overhang soar to a then record high of about 403 million barrels (mb) over the five-year average in July 2016. The period triggered significant market volatility with oil prices collapsing; the OPEC Reference Basket price fell by a devastating 80% between June 2014 and January 2016.

This situation brought the oil industry to its knees. Nearly a half of million people lost their jobs, an estimated one trillion dollars in investments were either frozen or deferred, and a record number of companies filed for bankruptcy. Every producer was feeling the consequences, and consumers were expressing concerns too.



The oil industry could not continue along this dark path. Something had to be done to tackle the major stresses that were suffocating the industry, and impacting current and future supplies. It would require leadership, flexibility and diplomacy in bringing people and nations together.

The scale of the crisis required an urgent, coordinated response to help reduce the massive stock overhang and rebalance the oil market. Thus, a frenetic flurry of consultations between OPEC and other oil producers got underway.

In February 2016, talks were initiated in Doha, Qatar between the Russian Federation Saudi Arabia, Venezuela and Qatar. Follow-up discussions were held in Doha again in April 2016 with a larger group of OPEC and non-OPEC nations. While these did not lead to a broad agreement, the critical consultations to rally support and help devise a rescue plan for the industry continued in the months that followed.

This would eventually lead to the historic 170th (Extraordinary) Meeting of the OPEC Conference in Algiers, Algeria, on 28 September 2016. The outcome of the meeting has been dubbed the 'Algiers Accord' with all OPEC Member Countries coming together. Moreover, it also set in process consultations between OPEC and non-OPEC oil producing countries.

The Declaration of Cooperation

The outreach to non-OPEC producers gathered momentum and eventually bore fruit on the 10 December 2016 with the signing of the DoC at the first OPEC and non-OPEC Ministerial Meeting, and voluntary production adjustments, between OPEC Member Countries and 10 non-OPEC producing nations, led by the Russian Federation. This followed OPEC Member



Countries agreeing to production adjustments at the 171st Meeting of the Conference on 30 November.

With production adjustments totaling 1.8 million barrels a day (mb/d), DoC participants took a courageous and proactive stance to help rescue an industry that was caught in a downward spiral, thereby helping restore confidence not only in the oil market, but in the global economy in the following years.

Having good intentions is one thing; operationalizing them is another. Those behind the voluntary production adjustments understood the necessity of developing a mechanism to monitor the implementation of and conformity with the adjustments. To achieve this, an innovative concept was devised, one which has evolved into a 'crown jewel' of OPEC's cooperation with its non-OPEC partners in its own right: the JMMC.

Beyond monitoring the adjustments, the JMMC was also tasked, alongside its support body, the Joint Technical Committee (JTC), and with assistance from the OPEC Secretariat, to be a platform for knowledge exchange. The JMMC and the JTC have evolved into critical components of the work of OPEC and provided an institutional framework for the DoC.

The three years that followed the signing of the DoC were characterized by disciplined implementation of the voluntary production adjustments; regular monitoring of the oil market conditions; and a gradual, albeit bumpy at times, stabilization in the oil market. During this period the OPEC-Russian Federation relationship continued to flourish and reach new milestones, with the Russian Federation and His Excellency Alexander Novak, Minister of Energy, a key contributor as co-Chair of the JMMC. HE Novak's skilled diplomacy and deep industry experience have contributed greatly to our success, and he is widely viewed as the reliable and



dependable bridge between OPEC and non-OPEC –an ‘umbilical cord’ binding the two.

He has also helped forge a stronger and more robust platform for the annual OPEC-Russia High-level Energy Dialogue, which goes from strength-to-strength. The origins of this initiative date back to December 2005 and the inaugural edition of the current series of High-level OPEC-Russia Energy Dialogues began in September 2012 at the OPEC Secretariat in Vienna. Since then, this annual event has risen in stature to become a vital and valuable forum for the exchange of oil and energy outlooks, and we have also seen collaboration on the G20 platform, established joint studies and workshops and evolved an internship programme.

The staunch support and the leadership at the very highest levels of government in the Russian Federation has been vital to the success of the DoC. The President of the Russian Federation, His Excellency Vladimir Putin, has been a leading advocate of this endeavour. This includes his positive intervention at the 22nd World Petroleum Congress in Istanbul in October 2016, in support of joint market stabilizing efforts, and most recently his personal intervention in discussions at the highest levels in April 2020 to help deliver the historic OPEC and non-OPEC Ministerial decisions to address the severe oil market imbalance as a result of the COVID-19 pandemic. His continued pledges of support of all participating countries for their ongoing commitment and contributions to sustainable stability in the global oil market are vital.

Russia’s leadership not only supported the DoC from the outset, but they saw the need, as did OPEC, for the creation of a permanent, long-term framework for cooperation that would extend beyond the limits and scope of the Declaration. This led to the signing of the Charter of Cooperation at



the 6th OPEC and non-OPEC Ministerial Meeting on the 2 July 2019. The Charter is a permanent, open and transparent platform for dialogue among participating countries with the goal of promoting oil market stability and cooperation on energy technology and other areas.

This innovative and inclusive CoC framework will also look to enable the long-term use of oil as a key element in the ever-shifting global energy mix while also boosting energy efficiency across the value chain and helping improve the environmental credentials of oil.

The DoC's transparency, accessibility and continuity from the very beginning – it is open to all producers – has been a key part of its success. It has also received backing from other producers, as well as from consumers. The common efforts of OPEC and its non-OPEC partners helped forge a lasting bond of trust and mutual respect. It helped cast a new blueprint for how to optimize our efforts in an industry that has become increasingly complex and volatile. This was clear for all to see in the first half of 2020.

2020: An Unprecedented Challenge

When the year 2020 began no-one could have predicted the unprecedented upheaval that would beset the world. From March onwards, the COVID-19 pandemic very quickly pervaded almost every aspect of our daily lives, with widespread lockdowns, businesses shuttered in, economies in distress and most people confined to travel in their local area.

Every economic sector was impacted by this fast moving, but silent invader. This was clearly evident in global oil. Every producer was impacted; no-one had immunity. Demand was dropping fast, with April



seeing daily drops of more than 20 mb/d. The situation required decisive action from the DoC.

This came in the form of support from the very highest levels of government, including President Putin, and in two Extraordinary Meetings on April 9 and 12 that saw new voluntary production adjustments: 9.7 mb/d, in May and June 2020, which was extended to July 2020 at ministerial meetings on June 6; 7.7 mb/d from 1 July 2020 (later shifted to 1 August 2020) to 31 December 2020; and 5.8 mb/d from 1 January 2021 to 30 April 2022.

These are the largest and longest in the history of OPEC, OPEC+ and the oil industry, with the focus on rebalancing and stabilizing the market, in the interests of both producers and consumers. This unparalleled commitment, and the unity and courage for the common cause of oil market stability from OPEC, and non-OPEC participants in the DoC was widely welcomed.

While the scale of the production adjustments was massive, and focused not only on the immediate short-term, but a longer-term recovery path too, the market was still digesting the unparalleled demand decline and this resulted in another historic happening on April 20, with the WTI futures price (May 2020) crashing by more than \$50/b. It led to WTI future prices moving into previously uncharted, negative territory. It meant traders were essentially paying other market participants to take oil off their hands.

It was a visceral moment for the market. To put the abrupt nature of the price slide into some context – WTI broke below \$1/b less than a half hour before the settlement, but in those final 30 minutes it dropped another \$38. The crash sent shockwaves through the US market, and globally too.



April 2020 was one of the most challenging months in the oil industry's history, with some calling it 'Black April'. However, by mid-May there were some tentative signs that the market was stabilizing. Oil demand had started to bounce back as countries took steps to ease the lockdowns, the OPEC+ production adjustments that began on May 1 and production shut-ins elsewhere were already impacting the supply-demand balance. There was now no talk of inventories reaching tank tops and market sentiment was seeing some glimmers of hope.

In the months since, the DoC production adjustments have helped the market right the ship and steer a course out of the stormy waters, although it is evident that more work stills to be done, which is why the DoC is now holding monthly JMMCs to monitor conformity to the adjustments and the state of the market. All participating countries are focused on the objective of rebalancing oil market fundamentals, further drawing down stocks and helping return a sustainable stability to the market.

The Benefits of the DoC and CoC

In an ever more interdependent and global market, the challenges which this industry faces are inherently complex. No single stakeholder possesses all of the answers or, indeed, knows all of the questions. It is only through working together, with flexibility, commitment and pragmatism, that we can hope to surmount the obstacles we face. This has been proven since the beginning of the DoC at the end of 2016, and is now becoming apparent in the CoC.

It is important to remember that the DoC literally rescued the oil industry from its 2014-2016 downturn in 2017-2019, and in 2020, it has enabled the industry to reset itself, and navigate a path to recovery. The



DoC has fundamentally changed the energy landscape. Bringing together so many sovereign producing nations is unparalleled in the history of the oil industry. The enhanced relations between participating countries now constitute a fundamental and essential feature of the 'new world of energy.'

The transparency and accessibility of the DoC and CoC platforms – they are open to all producers – has been vital to its success. It has evolved into a broader continuity partnership that can work for everyone, across all timeframes, to help deliver the sustainable market stability we all desire.

The importance of the DoC has also received backing from other producers, as well as from consumers. This was clearly evident at the G20 Extraordinary Energy Ministers Meeting on April 10 that sandwiched the two historic OPEC and non-OPEC Ministerial Meetings on April 9 and 12. With both producers and consumers participating, the statement from the G20 meeting emphasized a commitment to work together “in the spirit of solidarity”. It also recognized the commitment of the producers in the DoC group to stabilize energy markets and acknowledged the importance of international cooperation in ensuring the resilience of energy systems.

It has had a positive impact on the global economy, and in 2017-2019 trade worldwide increased, helped by the stimulus provided through the DoC. In this period it also provided a platform that enabled industry investment to gradually pick up. Additionally, the financial markets, in general, and the financial oil market, in particular, have welcomed the forward guidance provided by the DoC. It has given them a sense of understanding and security.

For OPEC, and this transcends to all DoC participants, has caused a significant change in industry-wide and public perceptions of OPEC and the benefits of cooperation that the Organization has always espoused. OPEC



and the DoC have ably demonstrated its credentials as a bodies committed to international cooperation, working with an array of producers, honouring commitments and promoting mutual respect among all nations.

The impact of the historic cooperation, with the Russian Federation playing a leading role, has exceeded even the most optimistic of predictions. It underscores what can be accomplished through a constructive, continuous and fully committed approach to helping achieve a sustainable oil market stability.

The next critical phase in the whole process is to sustain the accomplishments that have been made, through both the DoC and CoC, and continuing to be based on the core principles of equity, fairness and transparency. In the years ahead, robust and expanded cooperation will be the most effective way forward to counter volatility and shocks, as witnessed so clearly in 2020, and achieve common goals, for the benefit of producers, consumers and global economy.

