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Sabrina I Handymax Bulk Carrier, Public Domain



The Week in Review

Saudis and Russia Agree on Oil Output Freeze, Not Cut

In an effort to stabilize the price of oil, the Russians and Saudis have agreed to freeze production levels. However, any type of oil agreement between the World's top two oil producers and exporters is contingent on the cooperation of other large suppliers, notably Iran and Iraq. While the Iranians have tentatively supported cooperation, it remains to be seen how aggressively Iran will seek to regain market share it lost during the sanctions regime. Furthermore, the deal between Saudi Arabia and Russia only caps production levels at the extremely high quantities being produced at the end of January. Analysts remain skeptical that such limited and fractious cooperation will have a significant impact on prices, insisting that production needs to be significantly reduced in Russia, Saudi Arabia, and North America (where production costs are relatively higher), while being capped in Iraq and Iran, if the glut in supply is to be meaningfully addressed. Qatar, Venezuela, and Kuwait have also stated that they are ready to freeze output levels.

[*El Gamal, R., 2016. Iran could decide fate of first global oil deal for 15 years. Reuters, 17 February.*](#)

[*El Gamal, R., Hafezi, P., 2016. Iran Offers No Action in Support of global oil pact. Reuters, 17 February.*](#)

[*Karadeniz, T., Pamuk, H., Toksabay, E., 2016. Turkey seeks allies' support for ground operation as Syria war nears border. Reuters, 16 February.*](#)

[*Bloomberg, 2016. Iran Supports Oil Production Freeze. Bloomberg, 17 February.*](#)

US Crude Stock Reaches Record High

US Crude stocks have surpassed 500 million barrels, reaching the record height of 504 million barrels this past Friday. As a result, Brent futures plummeted and US Crude ended the week at a price of just US\$ 30.45 a barrel. The sheer size of the glut in supply does not augur well for producers desperately trying to stem the tide and, as mentioned already, significant coordination in reductions of output will be needed to bring supply back into equilibrium with demand. This reduction should come from independent producers in the United States and Canada who are operating with very high production costs, as well as by the collusion of large international oil producers.

[*Krishnan, B., 2016. Oil Down 4 Percent as U.S. Glut Overshadows Producer Talks. Reuters, 19 February.*](#)

Rosneft and Pietro-Barbaro to Jointly Enter Global Oil Shipping Markets

Rosneft and Pietro-Barbaro S.P.A. announced they have signed a memorandum of understanding concerning the creation of a joint venture to enter the international shipping industry. The large oil producer/refiner Rosneft and tanker company Pietro-Barbaro envision a "synergistic" alliance as they break into the market of "international shipping of oil and oil products." Pietro-Barbaro's expertise regarding the logistics of hydrocarbon storage and transport will "create additional marketing opportunities for [Rosneft] products in high margin markets", according Igor Sechin, the chairman of Rosneft's board. This joint-venture is seen as a large value-add for both companies.

[*Ship & Bunker, 2016. Rosneft, Pietro Barbaro to Jointly Enter Global Oil Shipping Markets. Ship & Bunker, 15 February.*](#)



Norway's Central Bank Chief Warns Against Profligate Spending of Oil Funds

For the first time since the initial investment in its national sovereign wealth fund in 1996, the Norwegian government will be withdrawing from its massive reserves, to the tune of almost US\$ 10bln. Western Europe's largest oil producer has seen its economy come to a near halt-0.1% growth over the second half of 2015-as oil prices have plummeted and related industries such as shipping have been adversely affected by a volatile market and generally weaker demand. As Oeystein Olsen, Norway's Central Bank Chief, stated at his annual address, "The Norwegian economy has enjoyed an exceptionally long summer, [now] winter is coming." Mr. Olsen is warning the government against creating a dependence on the wealth fund for generating growth, stressing the need for short-term influxes to boost employment and stimulate demand, as opposed to Gulf style petrodollar sponsored state support. In his address he advocated for measures that are "temporary" and "easy to reverse", as Norway re-positions itself to economic realities that have come more quickly than expected. Significantly, Mr. Olsen believes Norway's Central Bank has more latitude than others, and will be cutting rates in the coming months in order to re-energize beleaguered export based industries. Even still, despite calls for prudence, in contrast to sovereign wealth funds in the gulf and across Central Asia, Norway believes she will recoup the cash withdrawn through interest payments and dividends that amount to circa Nkr 200 bln annually. The key is that significantly depleted funds will slow the process of economic transition, something Mr. Olsen desperately wants to avoid.

[*Mohsin, S., 2016. Norwegian Oil Chief Warns on Oil Wealth as Coffers Raided. Bloomberg, 18 February.*](#)

Questions Loom as Oil Chiefs Set to Gather in Houston

The official agenda for the upcoming IHS Ceraweek is long and fraught with uncertainty. "Energy Transition: Strategies for a New World", the overall theme of the conference, is meant to delineate an environmental agenda in response to the Paris talks, while also focusing on emerging industry structures and corresponding developments in competitive strategies and regulatory mechanisms as new technologies continue to revolutionize hydrocarbon production and transport. Of course, the economics and geo-politics surrounding the response to low prices will predominate, as oil men, analysts, investors, and government bureaucrats will all gather to hear His Excellency Ali bin Ibrahim Al-Naimi, the Saudi Oil Minister, give a special address. The rest of the week will be comprised of key note speakers and back room deals as the industries leaders try to sift through the wreckage wrought by the deluge of non-conventional production, Iraqi expansion, and Iran's looming re-entry. Extreme volatility continues to cloud the near future, with many large U.S. shale companies on the verge of default and projected levels of OPEC production reduced to little more than educated guesses. The Nigerian economy is in dire need of support, while that of Venezuela has tumbled into an inflation-ridden abyss. Many of the men, and women, gathering in Houston have been confronted with an existential crisis meaning concerns surrounding short-term survival will trump those associated with long term sustainability.

[*Murtaugh, D., 2016. The Stressed Out Oil Industry Faces an Existential Crisis. Bloomberg, 18 February.*](#)



"LNG Tanker" Eric Kilby, Flickr, Licensed under CC BY-SA 2.0



Russian Energy Minister Says Oil Output Freeze Deal will be Done by March 1

Energy Minister Novak states that the energy talks in Doha have been productive and while it has been difficult get all the pertinent players to the table, that any of the countries have taken a productive stance toward a production agreement. While not all parties have come to an agreement, Novak states that the companies who openly support a deal are responsible for 75% of global production. He believes that this alone is enough to be effective in addressing the price glut which has been plaguing oil-producing countries for the last 20 months. While Iran's Deputy Oil Minister Rokneddin Javadi states that they wish to increase output by 700,000 barrels per day, other believe that even without Iran agreeing to decrease or freeze production, the plan will have a positive impact for oil-producing countries.

[CNBC, 2016. Russian Energy Minister Says Oil Output Freeze Deal will be Done by March 1. CNBC, 21 February.](#)



Bulk Vessel and Wind Turbines off of Copenhagen

Venezuela's Decline Fueled by Plunging Oil Prices

In what has become a long list of suffering oil-producing nations, Venezuela has been hit especially hard. Economic crisis caused by the glut of oil prices has pushed residents to their limits in making ends meet. The country can barely afford the dollars necessary for the importation of foodstuffs and manufactured goods. Poor economic planning in the South American state bet the future of the country on high oil prices and allowed almost all its other industries to be run into the ground. Venezuela has also gained the dubious title of the world's murder capital, with a staggering 90 murders per 100,000 people. Many attribute this to the ever-worsening economic situation in the country.

[Davies, W., 2016. Venezuela's Decline Fueled by Plunging Oil. BBC, 20 February](#)

Even the Saudis Cannot Defy Market Forces Forever

In an admission of the limits of their power, the Kingdom has sat down to agree on a production reduction with other oil producing companies. The freeze at January's production levels will help the glutted market, but in order to make serious change, another agreement may need to be made between oil producers to reduce production, with Saudi Arabia taking the majority of cutbacks. Some claim that the failure of Saudi production to eliminate the American shale industry, in concert with slowing growth in global oil demand, will usher in a new era in which the power of Saudi Arabia and other oil-producing countries will be checked by market forces.

[Butler, N., 2016. Even the Saudis Cannot Defy Market Forces Forever. Financial Times, 21 February.](#)



Russia Interested in Turkey-Israel Gas Relations

Sergei Lavrov and Israeli foreign ministry's director-general Dore Gold, discussed the future of gas relations between Israel and Turkey. Both Israel and Russia have poor relations with the Turkey, and in addition to military matters, both the countries were concerned about the others policy regarding natural gas. Turkey is likely to be the largest buyer of gas from Israel's Liviathan field and remains a major customer for Russian gas despite sanctions in other areas following the downing of a Russian jet.

[Zalel, Y., 2016. Russia Interested in Turkey-Israel Gas Relations. Natural Gas Europe, 19 February.](#)

Iran, Oman Hold Talks to Forge Closer Energy Ties: Shana

In a continuation of the search for investment opportunities following the lifting of sanctions, Iran and Oman have partnered on a deal to deliver Iranian gas via sea pipeline to Omani LNG export terminals. The project is expected to run quickly now that sanctions have been removed, but pricing disputes and U.S. pressure on Oman to find a different supplier are both causing delays.

[Wilkin, S., 2016. Iran, Oman Hold Talks to Forge Closer Energy Ties: Shana. Reuters, 21 February.](#)



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