

What's Really Going On With The OPEC Freeze? – Interview With Robin Mills

By [Alan Mammoser](#) - Sep 07, 2016, 5:00 PM CDT



Ahead of the OPEC meeting in Algeria, Oilprice.com sat down with Robin Mills, an expert on Middle East energy strategy and economics, to get a clearer view of the forces at play in this key event.

Oil Price: Hello Robin, thanks for taking the time to talk to us. To begin with, it seems sensible to discuss the price of oil. It started at below \$30 this year, now it is trading in the \$45-50 range. Is there a chance for a strong rebound to \$60-70 range and stabilizing there in 2017? Do you see an equilibrium price in that range next year?

Robin Mills: There's always a chance of that, but that's not my most likely case. I think there will be some rebound in oil, but I don't expect a very strong rebound. It's because there's such an overhang of inventory which will take a long time to work off, even during 2017. There's still a lot of supply out there. You've got some people telling you the market is in deficit now, but I'm not convinced by that. At any point, if it does come into deficit there's still a lot of supply out there, U.S. supply in particular. Those factors together, and that demand is not particularly exciting, should keep a lid on prices.

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You know, the market is volatile and overcorrects one side or the other. But I think these factors are going to dampen things down.

OP: So you don't see prices stabilizing above \$60 during 2017?

RM: I think mid-50s to low 60s, that's what I'm looking at. In terms of going above \$70, unless the market tightens really quickly or there's a real surge of demand I don't see it happening. There may be some spikes but I don't expect prices above \$70 on a sustained basis next year or even in the coming years.

OP: Is the entrance of Iran more strongly into the supply picture effecting a downward pressure on the price of oil?

RM: Definitely, yeah. It's been a factor in weak prices this year. You've had Iran putting more than a million barrels per day back on the market. As I said when the nuclear deal was announced, the Iranians would come back quicker than many analysts were expecting, and this would meet most of incremental demand during this year. And therefore this year would continue to be quite a weak one for prices. Most of that surge is now there, it's now in the market. We can expect a slightly higher oil output from Iran for now but not too much more. Either way, it has had a huge impact on oil prices this year.

OP: If the current trend holds, Iran should achieve a production of 4 million barrels per day by the end of September. Has it reached that level yet?

RM: Not yet. And I'm doubtful they'll get to that level. Right now they're at about 3.6 mmbpd, they've got another 100,000-200,000 to come. And although Iran is likely to bring some condensate supply online in the short term, it remains highly unlikely we'll see a meaningful increase of extra crude supply in the short term. Now, they are working on new developments which may lead to increased capacity, but on the other hand they're also seeing declines in certain fields, so I think until they start seeing a lot of new investment coming in, we'll see their pre-sanctions production coming back but that's largely it for now.

OP: Anticipating the possibility of OPEC action: Is Iran as unlikely as Saudi Arabia to support a production cut?

RM: I certainly don't expect the Iranians to cut production. The whole point has been that they want to stage a comeback in global crude markets, and regain the market share they lost during sanctions period, and only once they've done that, one could expect them to collaborate with OPEC.

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There could be talks about freezing production at a certain level. That's been the talk this year of course... but given the distance between the main OPEC members, a definite freeze would already be quite an achievement, but at least it's possible toward the end of this year once Iranian production has stabilized. But a potential output cut would be a whole new debate.

OP: Putting things in perspective: When Iran reaches a production of 4 million barrels per day, is there a possibility they would agree to a freeze in production, or will they want to restore production to 1970's levels where they produced some 6 million barrels per day.

RM: It might make sense to them to agree to a near-term freeze. Because as I've been arguing they're not going to

squeeze out much more in the near term. They haven't done much in terms of new field development. So that's going to be it for now. Iran might actually see the benefits of a short-term freeze, which in theory would constrain the other OPEC members.

Of course everyone is willing to freeze once they can't increase production anymore, which makes it a bit meaningless. A freeze however depends on the time scale, because in the next 3-5 years the Iranians do want to increase production significantly. So we're not talking about a long-term freeze here, it's probably going to be a short-term one, giving prices an opportunity while inventories get drained.

OP: So the Iranians might have some interest in a freeze later this year. Do the Saudis have any interest in a freeze?

RM: The Saudis were willing to freeze in Doha earlier this year. They changed their position at the last moment, because their position was that Iran had to be a part of any freeze. That was a last minute change that caused the whole thing to collapse. That will continue to be their position.

OP: Now the Saudis are producing more than they were in April.

RM: Yes they are, everybody's gone up. So the Saudis would be prepared to contemplate a freeze on that basis if it included Iran. Now you've got to get the other non-OPEC countries back in again particularly Russia who is kind of skeptical because they saw the failure of the previous attempt.

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But the freeze becomes a bit meaningless because everybody's close to their maximum now, at least in the short term.

OP: If OPEC + Russia were able to agree on a short-term freeze for 1-2 years, would that put a floor on the price of oil?

RM: A 1-2 year freeze would be quite big news, assuming they could stick to it. Iran is currently talking about signing contracts with IOCs in the next few months. Iraq has plans to increase production next year. Those are the two major ones, but Kuwait and the UAE also want to increase production. And the Saudis have got spare capacity which they might want to deploy at some point as well. So a 1-2 year freeze if everyone adhered to it would be quite significant.

I'm thinking a freeze would be a much shorter-term thing, maybe six months until the next big meeting in 2017. I think the logic for a short-term freeze would be, if the market is already recovering, don't do anything to upset it, let the market rebound and let some inventory get drained out.

And a freeze is a first step. A second step is getting back to some kind of quota system. But that's really tricky. If there's any move in that direction, it's going to be a long and difficult negotiation.

OP: If they were able to achieve a freeze, at what levels would OPEC production be frozen?

RM: About 34 million bpd, if they freeze at current levels.

Interview continued in Part 2