Saudi, Russia press on with oil cut deal at G20 talks, US offers help

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The G20 energy ministers held a video conference on Friday, hosted by Saudi Arabia. (Twitter/@g20org)

Dubai, London/Moscow: Top oil nations pushed to finalise a deal on sweeping oil cuts at G20 talks on Friday to lift prices slammed by the coronavirus crisis with Russia and Saudi Arabia taking the lionâ€™s share and the United States showing unusual willingness to help out.

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But efforts to conclude the OPEC+ deal hit the buffers when Mexico insisted it would only cut its output by a quarter of the amount demanded by OPEC+, although Mexicoâ€™s president said Washington had offered to make extra cuts on his behalf.

President Donald Trump, who had threatened Saudi Arabia with oil tariffs if it didnâ€™t fix the oversupply problem, said the United States would help Mexico by picking up â€œsome of the slackâ€•, although he said Washington expected to be reimbursed. He did not say how this would work.

Oil markets were closed on Friday when the G20 energy ministers held a video conference, hosted by Saudi Arabia.

But prices failed to rally after Thursdayâ€™s talks on cuts, because even an unprecedented cut of 15% in global supplies would still leave a huge overhang when demand has plunged 30%.

Measures to curb the spread of the coronavirus have destroyed demand for fuel and driven down oil prices, straining budgets of oil producers and hammering the U.S. shale industry which is more vulnerable to low prices due to its higher costs.â€•We call on all nations to use every means at their disposal to help reduce the surplus,â€• U.S. Energy Secretary Dan Brouillette told the G20 talks.

The OPEC+ pact, which was conditional on Mexico signing up, would see 10 million barrels per day (bpd) of oil removed.

Russian energy minister Alexander Novak and OPEC+ sources have called for an additional 5 million bpd to be withdrawn by the United States and others.

Norway and Canada, both outside OPEC+, have suggested they could cut if the deal was implemented.

Russia said Canada could cut up to 1 million bpd, however, Canadaâ€™s Natural Resources Minister Seamus Oâ€™Regan said ministers at the G20 talks agreed on the need for oil price stability but did not discuss â€œnumbersâ€• for production cuts.

Brouillette said U.S. oil output could fall by between 2 million and 3 million bpd by the end of 2020. Although not a formal cut, it represents a bigger drop over a shorter period of time than U.S. officials previously indicated.

Kremlin spokesman Dmitry Peskov said action involving others was â€œunavoidableâ€•, even though he acknowledged U.S. law barred American producers from joining any price cartel.

Trump and Russian President Vladimir Putin held talks on Friday that included discussing the energy market.

â€˜HINGING ON MEXICOâ€™

Mexican President Andres Manuel Lopez Obrador said Trump agreed to help by cutting more U.S. output after Mexico offered OPEC+ a cut of just 100,000 bpd, not the 400,000 bpd demanded.

Lopez Obrador said Trump had â€œvery generously said to me that they were going to help us with the additional 250,000 (bpd) to what they are going to contribute.â€•Mexico, which has long been in a standoff with Washington over Trumpâ€™s plan to build a wall between the two countries, cares less about low oil prices and more about volume because of its hedging programme, which protects it against price falls.

The head of the International Energy Agency, Fatih Birol, said importing countries could offer some support to the market by making extra purchases of crude for strategic reserves.

Brouillette also said the United States would help demand by opening its strategic reserve to store as much oil as possible.

But there is only so much importers can buy when the worldâ€™s storage capacity on land and at sea is rapidly filling up.

The crisis in the oil market has pushed Russia and Saudi Arabia to patch up differences after their acrimonious OPEC+ meeting in March where a dispute over how best to tackle falling prices led them to scrap their existing pact on production restraint that had helped balance the market for three years.

The new OPEC+ deal envisaged all members reducing output by 23%, with Saudi Arabia and Russia each cutting 2.5 million bpd and Iraq cutting over 1 million bpd in May and June.

Riyadh and Moscow agreed that their cuts would both be calculated from an October 2018 baseline of 11 million bpd, even though Saudi supplies surged to 12.3 million bpd this April.

Under the plans, OPEC+ would ease cuts to 8 million bpd from July to December and relax them further to 6 million bpd between January 2021 and April 2022, OPEC+ documents showed.UBS said the cuts were still not enough. â€œWe still see Brent falling to $20 per barrel or lower in the second quarter of 2020,â€• it said.

- Reuters