

## **TOWARD A RUSSIA-LED CARTEL FOR GAS ?**

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Proposals for the upcoming Gas-Exporting Countries' Forum to consider the possibility of forming a cartel have in recent weeks been aired by the presidents of Russia, Iran, and Algeria, as well as the Emir of Qatar, from among the major exporting countries; and also by Venezuela (now a small but up-and-coming producer and exporter of gas), Trinidad and Tobago (a significant exporter of liquefied gas) and several others from among lesser potential members of such a cartel. Moreover, Venezuela has urged gas-rich Bolivia and Argentina to join a South American gas exporters' cartel. Algeria's Sonatrach is the second-largest exporter of gas (after Russia's Gazprom) to the European Union and leading supplier of liquefied natural gas (LNG) to the EU.

Meanwhile on the bilateral level, Gazprom and other state-controlled Russian companies have in recent months signed agreements on gas exploration, field development, and marketing with countries on three continents. All these activities tend to undermine the position of European and North American gas-importing countries, in effect raiding these countries' traditional and/or prospective sources of supply.

Central Asian countries are hardly ever mentioned in Russian commentaries on the proposed gas cartel. Those commentaries are themselves scant and cautious (Kommersant, March 19). Moscow mentions primarily North African and Middle Eastern countries with which it could form such a cartel. Apparently, Russia itself intends to market some Central Asian gas to Europe as "Russian" gas; as well as using some Central Asian gas within Russia. Thus, Moscow would not willingly allow Central Asian countries into the gas exporters' cartel, but would rather maximize Russia's strength within the cartel by controlling the gas exports from Central Asia. Moreover, in its role as importer of Central Asian gas, Russia wants to deal with those countries bilaterally, rather than having to face a cartel.

Putin's 2002 proposal for a "gas exporters' alliance" of Russia, Turkmenistan, Kazakhstan, and Uzbekistan had been predicated on Russia's transit monopoly through the Central Asia-Center [Russia] Pipeline, also known officially as the Single Export Channel -- the only major gas outlet from Central Asia. The proposed "alliance" would in effect amalgamate Central Asian countries' gas reserves with those of Russia, into a single pool for marketing under Russia's physical and commercial control. Turkmenistan, with an export potential of nearly 100 billion cubic meters annually, probably attainable with relatively modest investments and from incompletely explored reserves, is key to any such Russian plan.

By the same token, Turkmenistan is key to diversifying Europe's gas supplies, reducing dependence on Russia and/or a Russia-influenced cartel, through the proposed trans-Caspian-South Caucasus-Turkey-Europe gas pipeline. Kazakhstan, with an anticipated export potential of nearly 40 billion cubic meters annually -- much of it as associated gas

– by the end of this decade, could become a significant contributing factor to the U.S.-backed, Europe-bound pipeline, rather than a Russia-led “alliance” or cartel. Uzbekistan, with an output of nearly 60 billion cubic meters annually at present, less than half of it available for export to Russia and/or Europe, could be connected via Turkmenistan or Kazakhstan to the proposed trans-Caspian pipeline to Europe.

Iran and Russia seem to be the pace setters in this initiative in the run-up to the Gas-Exporting Countries’ Forum (GECF) meeting, scheduled for April 9 in Doha. On January 29 in Tehran, Ayatollah Ali Khamenei publicly proposed the formation of a gas-export cartel to the visiting Igor Ivanov, Secretary of Russia’s Security Council. Iranian President Mahmoud Ahmadinejad has also signaled support for this idea. Iran pursues the specific interest oare ranked potentially among the richest worldwide, but are undeveloped because of international and U.S. sanctions. Russia regards Iran as a potential competitor, whose eventual gas exports should be directed toward Asia, consigning the European markets to Gazprom and its lesser partners such as Algeria’s Sonatrach.

On February 1, during his annual press conference, Russian President Vladimir Putin stated that that a gas cartel or alliance would be an “interesting idea” (Kremlinru, February 1, 2). Putin repeated that same phrase shortly afterward, during his visit to Qatar. Even if an outright cartel is not formed, gas exporters should at least “coordinate” their policies, Putin stated in Qatar, apparently alluding to dividing up gas markets and transport routes among exporting countries.

Should the GECF take steps toward creating a cartel at its Doha meeting, the move would undoubtedly be spinned as a part of evolving arrangements for global energy security, setting mutually beneficial rules for producer and consumer countries, and guaranteeing the interests of EU citizens through reliable long-term contracts. An actual move toward a cartel might even be accompanied by tranquillizing statements that forming a cartel is premature (Alexander Temerko, “Gas OPEC for the Future?” presentation at the Institute of Economic Affairs [London], March 21).

An expert group commissioned by NATO anticipated in its November 2006 report that Russia would seek to form a gas cartel for pressuring Europe, “using energy policy to achieve political objectives.” Although NATO has not officially endorsed that report, the analysis therein seems to be borne out by events, even if the Doha meeting does not immediately result in a full-fledged cartel, but only lays the foundation for one.