

RUSSIA POISED TO LEAD AN EVOLVING CARTEL OF GAS-EXPORTING COUNTRIES

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by Vladimir Socor

Convening in Doha, Qatar on April 9, the Gas-Exporting Countries' Forum (GECF) has taken a first step toward creating an exporters' cartel at the intergovernmental level. However, the Western gas-exporting countries -- Canada, Norway, and the Netherlands -- oppose this initiative, as does Azerbaijan; while Qatar's ultimate position seems uncertain (it had to show even-handedness as host and chair of this meeting). The Central Asian gas-exporting countries may be corralled against their interests into an anti-Western cartel via Russia, unless the West gives Kazakhstan, Turkmenistan, and Uzbekistan another choice.

In deliberations behind closed doors, GECF decided unanimously to set up a High-Level Group that would develop a common methodology on the formation of gas export prices and conduct research on consumer markets. The High-Level Group, consisting of deputy ministers or departmental directors, shall discuss relevant proposals from member governments in six meetings during the remainder of 2007, then present its results for possible decisions at GECF's meeting next year.

Russia stands at the forefront of this initiative by dint of its disproportionate strength, compared to other GECF countries, in terms of gas reserves, field technology, export potential, control of key export routes, and presence on lucrative markets. The April 9 Forum has accepted Russia's offer to host the next GECF in Moscow in 2008. Moreover, Russia is offering to serve as coordinator of the High-Level Group, lead the market research studies on price formation, and defray a large share of the Group's expenses (apparently by covering the shares of impoverished anti-Western member countries of GECF).

Some of the more radical or impatient governments -- such as Venezuela, Bolivia, and Iran -- called for immediately creating a cartel during the Doha meeting and proceeding with the price formation and marketing studies as the next step. A more sophisticated Russia, however, supported the sequence of steps that was eventually adopted at the Forum.

Russia fielded a powerful delegation led by Industry and Energy Minister Viktor Khristenko, Gazprom's president Alexei Miller, and vice-president Alexander Medvedev at the Doha meeting. These officials -- as well as Valery Yazev in Moscow, chairman of the Duma's Energy and Transport Committee and president of the Russian Gas Society -- hinted sometimes broadly, sometimes obscurely, at Russia's expectations regarding a cartel-type organization of gas exporters. Those expectations do not presuppose the formation of a full-fledged cartel, but can be pursued through a cartel-type group or cartel-type arrangements in selective areas.

Russian expectations seem to focus on:

agreeing on common methods of price formation;
allocating specific markets in consumer countries or regions to specific exporting countries, by understandings among the latter;
avoiding competition among gas-exporting countries within the group on given markets or new ones (an intention that would clash with the European Union's competition policies);
ensuring "market reliability" (that is, a long-term lock on a market);
reaching strategic understandings within the group on export volumes and schedules of delivery in various directions;
agreeing in advance within the group on new pipeline projects (this would enable a cartel-type group to sustain its own arrangements about market allocation to specific exporters);
"joint" exploration and development of gas fields in member countries (implying continuation and acceleration of Russian takeovers of gas reserves in under-developed countries and marketing the product under Russian control);
coordinate start-ups and production schedules at newly commissioned gas fields in member countries;
and plan jointly for development of gas liquefaction plants.

Given that most gas exposub-regional or national markets (as long as liquefaction remains limited), any cartel-type group can consist of only two or three gas-exporting countries operating effectively in such a market. For example, Russia's Gazprom considers the possibility of "sharing" certain European markets with Algeria's state company Sonatrach. Conversely -- but also as part of a cartel-type arrangement -- Gazprom can agree to stay out of another exporter's market niche in a European country if that exporter desists from competing with Gazprom in a nearby European country. In another example of a regional cartel in formation, the South American Gas Organization was recently formed by Argentina, Bolivia, and Venezuela. Ultimately, an overall cartel that would evolve out of GECF could function as an umbrella organization for regional cartel-type groupings or arrangements.

GECF's meeting next year in Moscow might create a standing body, such as an executive agency or a secretariat. That would indicate continuing progress toward organizing a cartel. The Doha meeting seems to confirm Yazev's forecast in the run-up to the event: "Russia may take up an integrating role in the creation of the gas cartel" (RIA-Novosti, April 3).

(Interfax, RIA-Novosti, Kommersant, April 3-9; see EDM, March 29, 30)