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Gas Exporting Countries Forum:
A Discussion Club or Beginning of a Cartel?

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In the coming decade, the institutionalization of gas exporters' cooperation is not going to produce any effective cartel capable of influencing prices through supply control. Due to the existing market-related and political barriers, a simple repetition of OPEC mechanisms on the gas market will not work. But coordination of producers' activity may lead in the future to an informal division of markets. The European Union can counter such developments, detrimental to its member states, by completing the formation of a single market for gas.

Evolution. Members of the Gas Exporting Countries Forum (GECF), established back in 2001, have over the past months accelerated their drive towards formalizing collaboration, adopting the Forum's charter last December and resolving to establish a permanent secretariat at Doha, Qatar. The membership of the Forum comprises: Algeria, Bolivia, Brunei, Equatorial Guinea, Egypt, Indonesia, Iran, Libya, Malaysia, Nigeria, Qatar, Russia, Trinidad and Tobago, the United Arab Emirates and Venezuela. Kazakhstan, the Netherlands and Norway enjoy observer status.

Gas exporters set up the GECF faced with a buyers' market for oil and gas, as marked by oversupply and low prices. With a steep increase in commodity prices over 2003–2007 came a realignment of power in favor of exporters, and at a time of favorable trends they did not wish to have their hands tied with joint agreements. The present tightening of cooperation was prodded by the outbreak in 2008 of a financial crisis that brought the demand for commodities and their prices down. This evolution demonstrates the strong linkage between the intensity of cooperation and market determinants, which either encourage coordination or incite competition.

The Forum meetings and bilateral energy deals between gas monopolists from Russia, Algeria or Qatar have provoked discussions about resulting threats to consumers, especially in Europe. It was alleged that that the Forum was the beginning of a gas cartel (along OPEC lines) capable of cutting output to manipulate prices and indirectly using this potential for political gains. These misgivings have been augmented by lack of transparency at the GECF, which has yet to make public its charter, and whose goals can only be deduced from contradictory and opaque statements by member states' representatives. The fact that the Forum members control over 80% of global gas reserves and close to 50% of global exports is no doubt a cause for concern—but a simple transposition of OPEC mechanisms onto the gas market is out of the question over the next 10–15 years.

Market Barriers. The market for gas differs considerably from the oil market. First, the former's price elasticity of demand is much greater. Often used in developed countries for electricity generation, gas has many competing substitutes (fuel oil, coal, nuclear power, renewables), and therefore increased risks involved in gas supply and prices would very likely shift interest towards other energy sources.

Second, the international gas market is based on long-term contracts and dedicated transport infrastructure, which means there is no global market, but only regional markets (USA–Canada, Europe–Russia–North Africa, an LNG-dominated market involving Middle Eastern and South-East Asian producers and Far Eastern consumers). It may be that over the next 20–30 years the liquefied gas market will assume the features of a flexible global market, with a high share of short-term transactions, but for now it is rather rigid and encumbered with long-term contracts. Under the circumstances, any hypothetical attempts by the major exporters to curb the natural gas output would require contract revocation or termination and, consequently, huge financial and political losses.

And third, no Forum member, even the largest producer and exporter, i.e. Russia, has a sufficient production- and export-capacity surplus to be used in response to market developments, whereas in OPEC such a role—to stabilize the market and discipline other members—is played by Saudi Arabia.

Political Barriers. Forum members themselves remain divided over the role that it should play. Iran and Venezuela, the only non-exporters among members, openly advocate a cartel, while Russia and Algeria speak only about coordination of some activities. The caution demonstrated by the largest gas exporters is dictated by the realization that the cartel formula would be ineffective. Members need the GECF for different purposes. They have different reserves, output/export levels and target markets, which translates into different interests. Some ship LNG to Far Eastern markets only, others export LNG to countries in the Euro-Atlantic area, and others still pump gas via pipelines to Europe only. As of now, Iran and Venezuela are only would-be exporters. Some members are guided by profit maximization; others, such as Russia, simultaneously pursue political and strategic objectives. A hypothetical cartel would be susceptible to internal strife: one can hardly imagine Russia or Qatar willing to subordinate their own gas-related interests to common arrangements. For example, at a time of the EU's increased interest in LNG shipments from Qatar, with a view to easing dependence on Russia, it would be wrong to expect the Arab exporter to restrain its ambitions for the sake of Gazprom's interests.

Russia's Policy. While not expected to change its cautious stance on the GECF, Russia will support its development in the hope of using the organization as a political umbrella for bi- and trilateral projects. One example here is Gazprom's deal of early 2008 with the Algerian company Sonatrach, and the agreement with Iran and Qatar of November 2008 to form a "gas troika," seen as a driving force behind the organization and also an informal body, convening several times a year to discuss opportunities for joint projects in infrastructure, mining and transport. For Russia, unable to develop quickly its fields in the Yamal peninsula and the Barents Sea, the North African engagement offers access to cheaper fields and to South European markets, in addition to countering potential competition. For Algeria and Libya, Gazprom is an attractive partner, with opportunities for technology and capital transfers that would lessen dependence on Western companies and eliminate these companies' competitive advantage.

Conclusion. Tightening cooperation among gas exporters has been prodded by their growing apprehensions about both the short-term security of commodity sales, due to diminishing demand in Europe, and the long-term effects of the EU's market liberalization and of its emphasis on scaling down the role of fossil fuels in the fight against climate change. For the time being, the largest exporters (Russia, Algeria) want to keep the present market structure, based on long-term contracts, which actually renders a price cartel unviable. Besides, in the likely event of a return of high prices, exporters will have more reasons to compete than to closely coordinate their activities. The coming decade will witness a clash between GECF members' divergent interests. The prospect of collective control of gas shipments for political gains, along the lines of the OPEC's oil embargo of the 1970s, is very unlikely, given the operation's potentially high political and economic costs, especially for those exporters whose markets are not diversified. Neither is it in the interest of gas producers to trigger developments that would discourage gas consumption. The goal will be to keep a cartel scare at a just-right moderate level, permitting its political use without provoking consolidation and joint response on the part of consumers.

Closer coordination among gas exporters does not necessarily have to result in a cartel. Rather, it may lead to other forms of collaboration with implications for the EU's energy security, such as attempts to informally divide markets in Europe to prevent competition between members. From the EU perspective, the best remedy for such initiatives would be the completion of a single market for gas.