
Under Sign of Cartels

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The global financial crisis prompted Moscow to intensify its participation in energy price formation. Being the major oil and gas producer worldwide, until recently Russia has had no opportunity to set up export prices: the issue was in the competence of western stocks, while Russia sold its resources at the prices set up by speculative traders controlling the international financial flows. Now that the credit market has thinned, leaving few chances for speculations, Moscow begins to play a more adequate role in fuel price formation. Having carrying out some calculations, Russian experts concluded that the lack of liquidity would make the law of supply and demand more influential. And Russia is capable of affecting the demand. The crisis lead to weaker economic activity, decreased oil consumption and caused lower prices.

Such a price dive naturally causes concern in other oil producing countries, that is why both experts and politicians are becoming more persistent about joint efforts aimed at oil and gas markets` regulations. "Sharp energy price fluctuations and unpredictable situation on oil and gas markets make us boost international cooperation. Producers and consumers should consolidate efforts",- Russia's First Deputy Foreign Minister Andrey Denisov said following the talks between Russia, Iran and Qatar in Tehran on October, 21st.

The three countries agreed to sign export contracts on gas, and thus founded a gas trio,Gazprom`s Chief Alexei Miller announced in Tehran after the talks with the officials from Qatar and Iran. It means the formation of a gas OPEC, an organization comprising the leading exporters and producers of gas. Iranian Oil Minister Gholamhossein Nozari confirmed the information.

Before the meeting in Tehran, the Russian authorities persistently denied all the rumors about the gas OPEC. In early October Andrey Denisov said Moscow had no plans to establish a cartel-like organization. Speaking in Algeria in June Gazprom`s Deputy Chief on export Alexander Medvedev said the idea of a "gas OPEC" had no sense. He said the structure of gas market differed dramatically from that of the oil one and added that it was even hard to imagine the combined system of quota production and long-term contracts. "A new cartel is not the right thing. We need active cooperation within the Gas Exporting Countries Forum (GECF).1

The situation appears to be quite complicated because of the differences between the potential members of the "gas OPEC", caused by a gap between the volumes of gas production and exports. The participants of the GECF failed to decide on the leader of the cartel. Russia, Iran and Qatar possess huge gas reserves (their proved reserves of natural gas exceed 100 trillion cubic meters and make up about 59% of the world's reserves), however it will take them much effort to coordinate activities on the gas market. Russia mainly supplies gas through pipe lines, Qatar deals with the liquefied natural gas deliveries while Iran currently has to import gas and negotiates fuel deliveries with Turkmenistan. Yet it is unclear how the three countries will control gas supply and the prices.

Still it is early to talk about the establishment of a real gas cartel. The gas exporting countries have not commented on the scheme of gas price formation.

The lack of a united world gas market makes the process of cooperation even more difficult. However, this "gas trio" has all chances to turn into a quintet as Algeria and Venezuela have announced their active support to the project.

Iran, Russia and Qatar have agreed to form a special committee of representatives. Alexei Miller said among other things the committee will deal with the implementation of joint projects: "They will focus on a wide range of issues, including development, processing and disposal of gas". As a de jure organization, the committee proves that the intentions are serious enough.

Moscow seems to be changing its opinion and now wants Gazprom to play a crucial role in the establishment of the gas structure. The formation of the "gas OPEC" was expected this summer at the forum in Moscow but the event did not take place due to the differences Moscow and Tehran had on the organization's charter. Iran wanted the "gas cartel" to be an exact analog of OPEC, while Russia expected the organization to be just "an international platform to negotiate a universal formula of gas price and to decide on the construction of new gas pipes with all the risks taken into account".

Actually, the announcements made by Gazprom's chief and the ministers of Iran and Qatar mean that amid the global financial crisis and a decrease in energy prices the "gas trio" has serious intentions to implement their project and clear up all the differences by November. On October, 22, the Qatar minister said the technical committee representing members from the three countries would meet in Doha in the next several days. On November, 18th, the sides are scheduled to meet in Moscow.

Apparently, Russia wants to know how a drop in oil prices will affect gas prices, since they are correlated with a 6-9 month interval. The creation of the "gas trio" and the aim to transform the GECF into a permanent organization only prove the guess. "Such incredible oil price fluctuations cannot but affect gas prices", Russian Foreign Minister Sergey Lavrov said.

Although Russian Finance Minister Kudrin says there are no reasons for panic, the oil prices, which have recently dropped below a 70\$ per barrel, may easily affect the budget's revenue. Taking into consideration a 6-9 month interval of oil and gas prices correlation, a sharp decrease in gas prices must be expected in the second quarter of the year 2009-the exact moment for the investors to decide on the "Nord Stream" and "South Stream" projects. We should not rule out that new prices coupled with the weakening European economy might lead to the problems in gas pipe business. The projects meant not for commercial feedback and additional gas volumes (the gas output practically remains intact), but just for bypassing "uncomfortable" territories of Ukraine and Belarus, may not be attractive enough for the creditors.

During the meeting in Tehran Qatar's Energy Minister Abdallah al-Attayah urged Russia to support OPEC's initiative to cut oil output. Actually, there is a divide in the spheres of influence with Russia supporting the OPEC, while countries of the Gulf region and their partners in the cartel back Russia in gas sphere and are ready to establish a cartel-like organization.

Being a major oil producer and exporter, Russia is interested in stable and predictable oil prices, the country's President Dmitry Medvedev said during his meeting with OPEC Secretary General Abdalla Salem el-Badri in Moscow. Energy cooperation with OPEC is one of the key tasks for the Russian energy structures. Amid a decrease in oil production, Russia is ready to cut the output and accept the OPEC's strategy aimed at controlling the supply.

Moscow has faced packed schedule with OPEC officials this week, which means that the sides are close to forming a gas analog to OPEC. This tendency unveils dramatical changes in the world economy and geopolitics, caused by the global financial turmoil. The formation of a "gas OPEC" will open new horizons for the international energy sector. This is the right moment for Russia to begin if not to control but to influence the energy price formation. The recent talks held between the leading oil and gas producers prove that the Kremlin is not going to miss such favorable opportunities.

IGECF, organization of world`s leading gas producers, was established in Tehran in 2001 to foster the concept of a gas cartel. It has no charter and fixed membership structure. However Algeria, Bolivia, Brunei, Venezuela, Egypt, Indonesia, Iran, Qatar, Libya, Malaysia, Nigeria, United Arab Emirates, Oman, Russia, Equatorial Guinea and Trinidad and Tobago can be identified as current members. Norway has status of observer. Turkmenistan participated in the meetings.
