The Gas Exporting Countries Forum – Global or Regional Gas Cartel-in Waiting?

LAURA EL-KATIRI argues that gas markets need not fear any producers' cartel, be it the GECF or others

The GECF was launched at a meeting of energy ministers in Teheran in May 2001, by the governments of Algeria, Brunei, Indonesia, Iran, Malaysia, Oman, Qatar, Russia and Turkmenistan. The organisation describes itself on its website as 'a gathering of the world's leading gas producers aimed at representing and promoting their mutual interests' with the objective of increasing 'the level of coordination and [to] strengthen the collaboration between member countries.'

For the gas market observer, the move may not have been particularly surprising; gas markets themselves had by the early 2000s evolved considerably, not least through the firm growth of trade in LNG. Beginning with modest trade flows in the 1960s, LNG had by the 1990s grown increasingly important, and diluted the traditional, regional trading divide for natural gas, which pipeline trade entailed. The greater the destination flexibility of LNG trade, coupled to evolving contracting practices that involved more options for spot trade and intra-regional arbitrage, meant that gas producers at the beginning of the twenty-first century began to face considerably more choice, but also more uncertainty, than in previous decades.

Consumer-side organisations, such as the IEA which increasingly included natural gas on its agenda, demonstrated the obvious interest of at least some consumer nations to organise their interests; while structural market reforms in buyer countries, such as the liberalisation of the European gas market (notably the second European Gas Directive) at the end of the 1990s confronted natural gas producers with a sudden fait accompli in one of its key markets. Algerian energy minister Chekib Khelil, famously quoted in 2002, may have well summarised the rationale of some of those gas producers forming the GECF, complaining that 'those who have an impact on the market, that is the European institutions, should be aware of our issues. When they passed their legislation, they never consulted us. They never thought of talking to the gas-exporting countries before passing their laws.' The oil market by then already had its own exporters' interest groups, most importantly the Organisation of Petroleum Exporting Countries (OPEC) created in 1960.

Nevertheless, the new gas producers' forum set out initially as a very informal gathering, whose primary instrument was the annual meetings of member states' energy ministers, which generally bore little fruit other than occasional but altogether half-hearted debates around gas pricing mechanisms. An early attempt by Egypt in 2003 to propose a common gas-pricing framework to GECF member states fell entirely on deaf ears. By 2005, the Forum had, in the eyes of some observers, reached the status of an 'evidently troubled organisation' following a catastrophic conference in Trinidad with the attendance of only four energy ministers. With markedly absent Khelil slamming the forum as a 'waste of time' and organiser Trinidad and Tobago lamenting the apparent lack of cooperation and shared interests, the forum cancelled its 2006 meeting and had by then lost almost all of its Pacific members.

The perception of the GECF in the public eye had remarkably turned around by 2007. A successfully organised Ministerial meeting in Doha was overshadowed by controversial statements made in previous months by core members Russia and Iran. In January, Iranian head of state Ayatollah Ali Khamenei had called for the creation of a gas market cartel through the GECF, a 'Gas-OPEC' to control and manage gas export prices. Khamenei's outburst was a week later taken up by Russian president Vladimir Putin, who seemed to add further fuel to the fire at an infamous press conference at which he was quoted saying that the creation of a Gas-OPEC was 'an interesting idea' that he would 'think about'. Both statements triggered a media storm which persisted for another year, in which both media and – shamefully – a number of academics excitedly picked up on every bit of news that could indicate a potential conspiracy of gas producers, such as subsequent, bilateral high level business talks between Algeria, Iran, Qatar and Russia. A business trip by Russian Energy Minister Viktor Khristenko to Algeria in February 2007 to discuss joint projects with Sonatrach subsequently prompted the EU Energy Commissioner to express 'concern' over 'the development of the contacts between Russia and Algeria,' which could 'create a kind of cartel.'

Between Institutional Milestones and Handicaps

Much of the debate surrounding the GECF ebbed away in the following years. With a moderately united message at each Ministerial meeting that the GECF was far from intending to establish a sort of gas market cartel, the organisation instead began to keep a low profile – and to work on internal institution-building processes. The GECF as an organisation still today remains somewhat of an enigma. In 2008, the organisation adopted a Statute, which in very basic terms describes the functioning of matters such as decision-making and membership rights, and drafted out a vague line of interests of its member countries. In 2010, the forum opened a permanent office in Doha, with a permanent secretariat and a Secretary General, Leonid Bokhanovsky. The GECF also opened several, little advertised sub-divisions, such as a research and statistics office, tasked with the supposed development of an own gas market model. The GECF's statute is since September 2010 registered with the UN, providing the Forum with the legal character of an intergovernmental organisation.

While many of these institutional achievements are real and – considering the organisation's comparatively young age – understandably gradual, the GECF remains an organisation far from any move towards cartelisation, or from being an effective producer-interest organisation for that matter. Its handicaps are multiple, and overcoming them may well take more

time than many of its members may have. For one thing, the GECF's members remain a volatile, if not unstable bunch whose reserves and production rates differ considerably both in volume and longevity. Of the GECF's eleven founding members, only four have remained member countries until today: Algeria, Iran, Qatar and Russia. While these four countries' weight within the group – owing to the mass of their reserves – is enormous, their interests are anything but aligned. Russia and Algeria, both major pipeline exporters, are direct competitors over their main export market Europe; Iran, barely an exporter at all owing to high domestic demand which has turned the country for many years into a net-importer of natural gas, appears to be undetermined whether to use its gas reserves domestically or for exports; its current lack of sizeable exports also means that Iranian threats of supporting a gas cartel can hardly be backed up by relevant export volumes.

LNG giant Qatar, by contrast, has adopted a perhaps surprisingly quiet stance in the Forum. The country secured the organisation's headquarters for location in Doha, but its apparent silence in and about much of the forum's debate suggests the country's interests are to be found primarily in monitoring other exporters' activities. Smaller members of the GECF such as Trinidad and Egypt are said to be interested in mingling with the 'big' exporters, possibly taking up some of their experience, while participating in anything relevant for their new but comparably smaller LNG export volumes. So far, no OECD countries, such as large-scale producers USA, Canada and Australia, are members of the GECF. Norway since the start, and the Netherlands since 2011, have held observer status, along with Kazakhstan, but have repeatedly declined to become full members. Their intent seems to be to monitor the Forum rather than to influence its actions.

The GECF has consequently suffered from a rather apparent lack of internal clarity over the organisation's realistic short- and long-term objectives. Apart from forming a gas market cartel-like structure, GECF members would have several, potentially fruitful options: to provide a business forum for inter-country dialogue on company cooperation; to become a 'signalling task force' whose role is to guide price levels and/or formulae in short-term markets and long-term contracts, similar to the way OPEC frequently acts as a signaller for crude oil prices; or to function as a producer-based information and data sharing platform, allowing for greater transparency on regional and cross-regional gas markets (a role which would indeed serve the entire gas market). So far, however, none of these roles has been filled, or any attempt made to fill them. Indeed, the evident lack of cooperation in most basic activities such as data sharing underlines the fact that the GECF as an organisation does not speak with a united voice – or barely speaks at all.

The potential undertaking of one day forming a cartel on gas markets, a dubious 'Gas-OPEC' shadowing gas prices in regional markets and cross-regional LNG trade, meanwhile remains constrained by yet another feature. This is the structure of gas markets themselves. The bulk of natural gas continues to be traded under long-term contracts, many under oil-indexation, which decouples prices for contract-gas from price movements in short-term markets. It would be this gas-to-gas link that could enable cartel-minded producers to try to squeeze markets via quota restrictions, provided sufficient support could be rallied by other producers. The cutting of long-term contract supplies by exporters wishing to obtain higher prices for their gas, can be held as nothing but unthinkable for it would be illegal and equivalent to blackmail, rather than quota-regulated supply on the short-term market. The non-existence of liquid spot and forward markets for natural gas in most parts of the world moreover means that linking long-term contract prices to short-term gas prices is an unlikely scenario in the near future. The reality is that gas markets, and the pricing of gas, until today function very differently from oil markets, and do so for a variety of good reasons.

GECF members have gradually come to accept this fact, as seems evident from their unusually united stance in support of long-term, oil-indexed contracts for gas at every single Ministerial meeting since 2009. The reasons for this support may involve an understanding that any undertaking, or threat thereof, towards a cartel-like structure may well render the whole group ridiculous. At the same time, another assumption forces itself on the observer; at a time when oil prices are relatively high, supporting long-term oil-indexation suggests the forum's gas producers are in favour of any contracting practice that maximises revenue. This is not a new or surprising lesson; but it does raise the question of what the forum contributed other than a discussion table to issue already known messages. ■