

THE GAS EXPORTING COUNTRIES FORUM: IS IT A 'GAS-OPEC'?

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Abstract

A cartel is a collusion which always results in harm to consumers. When enterprises collude they always either fix prices or allocate markets or do like activities. Cartels have always been considered to be anti-competitive; whether it operates at domestic level or international level. Gas Exporting Countries Forum (GECF) being the Intergovernmental Organization of Natural Gas exporters of the world is often considered being harming the interests of gas consumers by allocating the markets and raising the prices of Natural Gas; a same activity as done by Organization for Petroleum Exporting Countries (OPEC) another Intergovernmental Organization in the field of oil. That is why a comparison is more likely in both of the organizations. In order to refer GECF as a cartel sometimes it is called 'Gas-OPEC' by some scholars. This paper tries to analysis that whether GECF is also going on the same track of OPEC, is it really became an international cartel.

Key Words: Cartel, Competition, Natural Gas

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Introduction

“Natural gas is a clean and environmentally-friendly source of energy and will remain a major factor in the world energy supply equation and a driving force for world economic growth.”

- Suhail Al Mazrouei, the UAE Minister of Energy [1]

Cartelization is considered to be the worst of competition law abuses.[2] A cartel is said to exist when two or more enterprises enter into an explicit or implicit agreement to fix prices, to limit production and supply, to allocate market share or sales quotas, or to engage in collusive bidding or bid-rigging in one or more markets.[3] An international cartel is said to exist, when not all of the enterprises in a cartel are based in the same country or when the cartel affects markets of more than one country.[4] The agreement can be at the level of Governments, where countries, who have a common resource in high demand, decide to agree on common marketing strategies, and a good example is the Organization for Petroleum Exporting Countries (OPEC).[5]

OPEC is a permanent intergovernmental organization. It was aimed to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry.[6] OPEC is always considered to be an international cartel.[7]

OPEC is an organization which is only concerned with one fuel that is oil. Similarly as OPEC is concerned with oil; the leading Gas producing Countries of the world constituted an intergovernmental organization called The Gas Exporting Countries Forum (GECF).

The Gas Exporting Countries Forum (GECF) is a gathering of the world's leading gas producers and was set up as international governmental organization with the objective to increase the level of coordination and strengthen the collaboration among Member countries.[8]

Because of the similarities of aims objectives and nature of both these intergovernmental organizations sometimes the critics call the Gas Exporting Countries Forum as '*Gas OPEC*'.

In 2001, GECF was founded in Tehran, as an international body representing the interests of gas-producing nations. Ever since, there have been regular speculations about whether GECF would turn into a gas cartel like OPEC, i.e., a so-called gas-OPEC.[9]

History of Gas Exporting Countries Forum (GECF)

The origin of the GECF can be traced to the First Meeting of Ministers held in Tehran, Islamic Republic of Iran, on May 19-20, 2001. The First Ministerial Meeting was convened by the Minister of Petroleum of Iran and was attended by the Governments of Algeria, Brunei, Indonesia, Iran, Malaysia, Oman, Qatar, Russian Federation, Turkmenistan, Norway (Observer). During the First Meeting it was agreed that the aims of the Forum will be to foster the concept of mutuality of interest by favoring dialogue among producers, between producers and consumers, and between Governments and energy related industries; to provide a platform for research and exchange of views and to promote a stable and transparent energy market.[10]

The Second Ministerial Meeting in Algiers emphasized the importance of dialogue and co-operations between producers and consumers to ensure the development of the gas industry, to meet the requirements of the world market under the best possible conditions without prejudice to the interest of any of the parties.[11] The fifteen Countries which met in Doha for the Third Ministerial Meeting in 2003 agreed to create a liaison office as a focal point of gathering of data and for the supervision of the GECF projects; this event was also an opportunity to follow up the study of new gas utilizations, stress and relevance to develop a world supply and demand gas model and evaluate gas pricing.[12]

During the period of 2004-2006 the forum advanced steadily towards the goal of developing a more integrated discussion platform, the Fourth Ministerial Meeting in Cairo, Egypt and the Fifth Ministerial Meeting in Port-of-Spain, Trinidad and Tobago created the Executive Bureau (which would transform later to the Executive Board) and consolidated the Liaison Office. In Cairo the Ministers highlighted the importance of fair prices for natural Gas and the need of joint investment and research between Member Countries as means to enhance cooperation, as well as the necessity to exchange information and data. The 2005 Meeting in Trinidad and Tobago was an occasion to agree on the general framework, the objectives and the structure of GECF (Ministerial Meetings, Executive Bureau, Expert Meetings and Liaison Office). Additionally the ministers also decided to start developing the world supply and demand gas model. Ministerial Meetings were not held in 2006 but the Executive Bureau met in Qatar to continue working on the relevant subjects of the GECF.[13]

During the years 2007 and 2008 the definite establishment of the GECF institutional base took place. In this regard during the Sixth Ministerial Meeting held in 2007 in Doha, Qatar the achievements of the previous meetings were reviewed and it was recommended to develop a Statue for the Forum to expand the Liaison Office so that it could become the Secretariat of the organization and to draft its internal regulations. For this purpose the ministers created the high

Level Committee which held meetings in Qatar, Egypt, Iran, Venezuela and Russia throughout 2007-2008.[14]

As a result of the work of the high Level Committee, the Ministers held on December 23, 2008 in Moscow, Russian federation, one of their most important meetings, alongside with their first Meeting in Iran. The Seventh Ministerial Meeting established the Gas Exporting Countries Forum as an international Governmental Organization with the approval and signing of the Agreement on the functioning of the Gas Exporting Countries Forum and the statute of the GECF, the documents that constitute the legal basis for the Forum, thus transforming it in to a full frame international organization.[15]

The recent years (2009-2011) have witnessed the progress of the Forum in the consolidation of its internal structure and the further discussion of the key aspects of the gas industry. During the Eighth Ministerial Meeting in Qatar the budget for the organization for 2009 was approved and provisional authorities were appointed.[16]

The signing of the GECF Host Country Agreement between the State of Qatar and the GECF, the inclusion of the Netherlands as an Observer Member, the appointment as per the Statute of the authorities for 2010 (President and Alternate President of the Ministerial Meetings; Algeria and Venezuela; Chairman and Alternate Chairman of the Executive Board: the Venezuelan and Algerian EB Members, respectively) and the election of Mr. Lionid Bhokhanovskiy as the Secretary General of the Gas Exporting Countries Forum were the main outcomes of the Ninth Ministerial Meeting wich was held in Doha, Qatar in 2009.[17]

The Tenth Ministerial Meeting in 2010 was an opportunity to exchange views on the latest and mid-term developments in the Natural Gas Market, assess their impact on the GECF Countries and provide guidelines for the newly established secretariat. The main conclusion of the Eleventh Ministerial Meeting in 2011 in Qatar was to hold the First Gas Summit of the Forum in 2011 in Doha and the creation of high level Ad Hoc Group to prepare this event. During the Twelfth Ministerial Meeting held in June in Cairo, the Ministers emphasized the importance of dialogue between producers and consumers for the purpose of achieving stable gas market. Preparation of holding the First Gas Summit of the Forum stayed as one of the main topics of discussion in the Thirteenth Ministerial Meeting held in November 2011 in Doha, Qatar.[18]

The First GECF Gas Summit was held in Doha in December, 2011and was unprecedented for the meeting of the organizations in terms of level of participants and the scope of its concerns. The summit participants stressed that the GECF is now a days working actively towards elaborating best ways to meet the actual challenges of the regional and global gas markets, harmonizing in the long run the relation between the gas producers and consumers, launching an adequate dialogue between them.[19]

The result of the Second Gas Summit of GECF convened in Moscow, Russia on July 1st, 2013 was 'Moscow Declaration' in which Member Countries unanimously affirmed to strengthen GECF, enhance global scale coordination to protect the interest of GECF preserve principles of international trade as well as uphold the fundamental role of long-term Gas Contracts and continue to support gas pricing based on oil products indexation.[20]

The fifteenth Ministerial Meeting was held in Tehran, Islamic republic of Iran in November 2013 and was attended by the representatives of Algeria, Bolivia, Egypt, Equatorial Guinea, Iran, Libya, Nigeria, Oman, Qatar, Russia, Trinidad and Tobago, United Arab Emirates and Venezuela as well as Iraq, the Netherlands and Norway as Observers. The Member Countries showed their concern for developments in the gas market and challenges faced by GECF Member Countries.[21]

Is It a 'Gas-OPEC'?

GECF claims that it seeks to build a mechanism for a more meaningful dialogue between gas producers and gas consumers for the sake of stability and security of supply and demand in global natural gas markets.[22]

It claims that it aims to support the sovereign rights of its Members over their natural gas resources and their abilities to develop, preserve and use such resources for the benefit of their peoples, through the exchange of experience, views, information and coordination in gas-related matters.[23]

The Present Member countries of the Forum are: Algeria, Bolivia, Egypt, Equatorial Guinea, Iran, Libya, Nigeria, Qatar, Russia, Trinidad and Tobago, United Arab Emirates and Venezuela. Iraq, Kazakhstan, the Netherlands, Norway, Oman and Peru have the status of Observer Members.[24]

With the current number of Members the GECF has a strong position on the world gas market and among international energy organizations. Its potential rests on the enormous natural gas reserves of the Member Countries all together accumulating 67% of the world proved natural gas reserves.[25]

The Forbes Business Magazine even called it '*The Next Global Energy Cartel*'. [26] It writes, "GECF members control over 70% of the world's natural gas reserves, 38% of the pipeline trade and 85% of the liquefied natural gas (LNG) production. The three dominant members—Russia, Iran and Qatar—alone hold about 57% of global gas reserves." [27]

This group of gas exporters is in many ways similar to the Organization of Petroleum Exporting Countries (OPEC) in its early days. Founded in 1960, OPEC was equally disorganized and ineffective in the beginning, even though its member countries controlled significant shares of oil reserves and production. Changing market structures and political determination on the part of Saudi Arabia and its allies enabled OPEC to be an effective force in the globalizing oil market of the 1970s and 1980s. OPEC members cooperated to use their market power and as a result extracted hundreds of billions of dollars of “cartel profits” from consuming countries.[28]

Today, natural gas is mostly traded in regional markets as a result of fixed pipeline infrastructure in North America and Europe, but this is rapidly changing. In East Asia, major gas-consuming countries such as Japan and South Korea rely almost exclusively on LNG shipments via tankers. As LNG transportation costs fall, an increasing amount of natural gas is shipped across the globe.[29]

LNG thereby transmits price signals across major natural gas markets from North America to Europe to East Asia, leading to a gradual convergence of regional prices. This contributes to the creation of a globalized, integrated gas market—a development similar to the globalization of the oil trade in the 1960s and 1970s. The convergence of regional natural gas prices toward one global price is likely to expose gas consumers to OPEC-style cartelization efforts in the future.[30]

Moreover, gas exporting countries are determined to work together in order to make use of current and future economic leverage. “The Gas Exporting Countries Forum should function like OPEC [to] defend the economic interests of its members,” said Algeria’s Energy Minister Chakib Khelil. Citing low natural gas prices, he called for “the member countries to reach agreement on a strategy for obtaining a fair price for gas.” Such words cause alarm especially in European and Asian countries, many of which are highly dependent on gas imports from GECF member states.[31]

Despite potentially mitigating factors, the economic risk of an emerging natural gas cartel remains since market structures change rapidly and gas exporters are determined to cooperate. In the early 1960s, OPEC was dismissed as an ineffective forum, but it managed to harm the world economy and extracted enormous “cartel profits” at the expense of consumers only a decade later. Today, policymakers need to take the scenario of a natural gas cartel seriously. It could cost consumers dearly and hurt the world economy if we were unprepared.[32]

Russian Prime Minister Vladimir Putin in GECF Ninth Ministerial Meeting in Doha, Qatar declared, “The era of cheap natural gas is coming to an end.”[33]

Russia, Iran and Qatar together hold about half of the world’s remaining gas reserves, and their positions will obviously determine whether GECF will turn into an effective gas cartel or not in the years to come. More generally, the effectiveness of any gas cartel (GECF or not) will depend on the decisions made by these countries. Both Russia and Iran are also big consumers of natural gas, and it is not in the interest of these countries to raise their domestic gas prices above their alternative

costs of gas. Thus, what is relevant here is their exports of gas and how export cuts may influence on export profits. Furthermore, this could free up more gas supply for domestic consumers, possibly reducing gas prices within GECF countries.[34]

Some gas consumers are concerned that a gas cartel will become as effective as OPEC has been in the crude oil market, resulting in higher gas prices due to curtailed production. Comparing GECF to OPEC, there are both similarities and differences to be aware of. First, Middle Eastern countries are central in both organizations. However, whereas Saudi Arabia is the dominant country in OPEC, Russia is the most important country in GECF. Second, both GECF and OPEC have a majority of remaining global reserves, and a large but not majority of global production. Third, the gas market has some important characteristics that differ from the oil market, which affects the impacts and likelihood of cartelization. Finally, OPEC did not play a significant role in the oil market the first decade after it was founded, and now GECF is heading towards its 10-year anniversary.[35]

One important difference between the oil and gas markets is that transport costs are much higher for gas than for oil. As a consequence, it has been more common to talk about regional gas markets than a global gas market. In addition, gas sales in Europe and Asia have been dominated by long-term contracts, with only a small share of spot sales. Similar market structure is true also in the United States where long-term contracts dominate over spot market sales. Volumes of LNG purchased in spot market are low but show relative increase in market share. In 1987 the share of international LNG trade was 1.5% while in 2002 it increased up to 8%. The current trend, however, is towards a more globalized gas market with more spot sales, partly due to lower costs of LNG transport over the last decade. Nevertheless, the significant transport costs have some important implications for the cartelization issue. First, it presumably implies that the effects of cartelization will differ across regions, as regional prices will differ because of the transport costs. For instance, the U.S. market is located further away from most GECF countries than the European and Asian markets. Furthermore, the United States is no longer expected to import significant amounts of gas in the coming decades, which was the common thinking a few years ago. Thus, we should expect less impact in the U.S. market than in the European and Asian markets.[36]

Second, the gains from cartelization will not only depend on the total cut in supply from the cartel as a whole, but also how much each member country cuts back. For instance, it could be the case that it is optimal for the cartel as a whole that one member cuts back its production substantially whereas another member hardly at all, if they export gas to different regions. Clearly, this makes it more challenging to share the cartel benefits compared to in the oil market, where OPEC's total revenues are more or less unaffected by which member country cuts back on supply.[37]

The likelihood of a gas cartel obviously depends on how the gas market develops over the next years and decades. Here it is important to emphasize two important drivers for the future gas

market, unconventional gas and gas transportation, and to investigate how sensitive the impacts of cartelization may be to the development of these two factors.[38]

The idea of a gas OPEC was first floated by then Russian President Vladimir Putin and backed by Kazakh President Nursultan Nazarbaev in 2002. In May 2006 Gazprom deputy chairman Alexander Medvedev threatened that Russia would create “an alliance of gas suppliers that will be more influential than OPEC” if Russia did not get its way in energy negotiations with Europe.[39] In 2007 CNN quoted The Wall Street Journal as, “Russia and Iran are in talks on creating a natural gas organization that could shift the alignment of the energy markets. The cartel would be similar to the structure of the Organization of Petroleum Exporting Countries, but Russian President Vladimir Putin has downplayed talks of setting prices like OPEC.”[40]

The forum is a cartel only in the eyes of its Russian and Iranian promoters. Russia’s former Minister of Energy Sergey Shmatko announced in December 2009, somewhat prematurely: “Today we can speak about gas OPEC as a fully-fledged international organization.” The members had no chances to reach coordination on the gas market, or at least to achieve understanding of the need to act in a concerted manner. Gazprom, for example, wanted suppliers of LNG to stop competing with Russian piped gas in Europe, but neither Qatar nor anyone else was prepared to heed the pleas. In the competition between pipelines and LNG terminals the pipes are losing because consumers increasingly prefer flexibility and lower prices of LNG and spot deals to pricey long-term contracts which are a sine qua non condition for huge pipeline projects. Gazprom’s leverage in the fight for a gas cartel is getting weaker as the Russian monopoly sees its gas contracts competing with its own gas deliveries.[41]

Conclusion

It cannot be said with surety that the GECF has become a ‘gas-OPEC’ or not. The opinions of the scholars are divided on this issue. Some believe that it has already become a cartel; fixing prices and allocating markets for the export of natural gas. While the others believe that due to the differences between the commodities in which the OPEC deals which is oil; and in which the GECF deals which is natural gas; it should not be said that GECF has become a ‘gas-OPEC’. The GECF is approximately forty years younger to OPEC, what it will become forty years down the line cannot be predicted now with surety. But we find similarities in the working of OPEC’s and GECF’s first ten years of incorporation. Sometimes the statements made by the heads of the GECF Member Nations show their concern for high prices and disrespect for the welfare of the importing consumer Nations. It can be said that the major natural gas exporters want to make GECF a ‘Gas-OPEC’ one day.

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United Arab Emirates is a member of GECF. Suhail Al Mazrouei was speaking at the occasion of Second Summit of GECF at Moscow. He said further, "The potential role of gas in the world energy mix rests on the availability of reliable supply at affordable prices, but any shortage of gas supplies and increases in gas prices could negatively affect the status of the fuel as a reliable source of energy — thereby prompting consumers to seek alternative sources to meet their needs. Striking the right (supply) balance in the market could diversify the uses for gas and would serve to attract more investment for the downstream sectors of the economy.

UAE would invest USD 25 billion on gas development projects over the next five years to explore new gas fields and to increase gas output. Several UAE oil and gas companies were investing in gas development and production projects in other countries."

[2] OECD, cartels and anti-competitive agreements; available at: <http://www.oecd.org/competition/cartels/> accessed 3 June 2015.

The website provides, "Hard core cartels (when firms agree not to compete with one another) are the most serious violations of competition law. They injure customers by raising prices and restricting supply, thus making goods and services completely unavailable to some purchasers and unnecessarily expensive for others.

The categories of conduct most often defined as hard core cartels are:

- price fixing
- output restrictions
- market allocation
- bid rigging (the submission of collusive tenders)"

[3] Advocacy booklets, Series 3, Cartels under the Competition Act 2002, Competition Commission of India, November 2009, available at: http://competitioncommission.gov.in/advocacy/PP-CCI_CartelsNew_7_12.pdf accessed 3 June 2015.

Cartel is defined in section 2, sub section (c) of the Competition Act 2002 states: '(c)"Cartel" includes an association of producers, sellers, distributors, traders or service providers who, by agreement amongst themselves, limit, control or attempt to control the production, distribution, sale or price of, or, trade in goods or provision of services;'

[4] *Ibid.*

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