

# WebMemo



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## Gas OPEC: A Stealthy Cartel Emerges

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Steadily and stealthily, a natural gas cartel is emerging. The Gas Exporting Countries' Forum is the brainchild of some of the world's least democratic countries—Iran, Qatar, Hugo Chavez's Venezuela—and it took a step toward emergence at a meeting in Doha, Qatar, on April 9.<sup>1</sup> The cartel is led by those who stand to benefit most from its future geopolitical muscle: Russia and Iran, and specifically President Vladimir Putin and Iran's Supreme Leader Ayatollah Ali Khamenei. The United States should create a global coalition of energy consumers to oppose oil and gas cartels and to bring market principles to the natural gas industry. The U.S. should also liberalize its own regulations to allow energy exploration in the Arctic, in the Rocky Mountains, and along the Pacific and Atlantic Continental shelves.

**Russia's Global Gas Strategy.** Moscow is playing a complex and sophisticated game, one that is likely to maximize its advantages as the leading gas producer with the largest reserves on the planet.

First, Russia's approach is gradualist. Moscow has never been openly enthusiastic about a gas cartel but has waited for an opportunity to launch one. Viktor Khristenko, Russia's Vice Premier in charge of energy, rejected the idea just days before President Putin called a gas OPEC "an interesting idea" during his February 2007 visit to Qatar. This past week, however, in Doha, Khristenko said, "We have not, do not have, and will not have the goal of organizing an alliance against anyone."

The message in the Russian media after the summit was that no documents were signed to create a

gas cartel—a useful message for Gazprom, the Russian state-owned gas monopoly. But careful examination of the official announcement and media reports reveals that there is reason for concern.

Second, Russia's approach is stealthy. Instead of announcing the cartel prematurely, and spooking consumer countries, it is quietly putting the component parts into place. In Doha, Russia initiated the creation of a "High Level Group" that will "research" the pricing of gas and develop methodologies using commonly accepted gas pricing models. Conveniently, Russia will staff this group.

Third, Russia is able to appear reasonable. The immediate price-regulating function of the emerging cartel is supported by those Latin American countries that want to dispense with market principles in the gas trade: Venezuela, Bolivia and Argentina. With Iran and Venezuela (supported by Bolivia and Argentina) applying their OPEC-honed instincts to gas and demanding price regulation, Russia can afford to stand aside and let others do the talking. Nevertheless, an unnamed "high ranking member of the Russian delegation" to Doha told RIA Novosti that "as the gas market undergoes globalization, certainly such an organization [a gas cartel] will appear and is necessary."

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This paper, in its entirety, can be found at:  
[www.heritage.org/research/energyandenvironment/wm1423.cfm](http://www.heritage.org/research/energyandenvironment/wm1423.cfm)

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*Fourth*, and most importantly, a cartel by any other name is still a cartel. Members of the GECF agreed to discuss dividing up the consumer markets between them, particularly in Europe, where Russia and Algeria are major players. For example, if Russia agrees not to challenge Algeria's position in Spain, Algeria will steer clear of Germany. This will clearly challenge the European Union's energy liberalization and gas deregulation policy, which is scheduled to take effect on July 1.

The group members plan to "reach strategic understandings" on export volumes, schedules of deliveries, and the construction of new pipelines. They also plan to jointly explore and develop gas fields and coordinate start-ups and production schedules. To continue their work, members will gather for their next annual meeting in Moscow and plan to create a permanent secretariat. Despite protestations to the contrary, this has all the characteristics of a cartel in the making.

**Not Tomorrow.** Oil is a global commodity, but natural gas is not. When it is piped, prices are set as far as 15 to 20 years in advance through long-term contracts. However, liquid natural gas (LNG) is rapidly becoming a worldwide commodity.

By 2010, LNG's share of the world's total gas consumption will double. Thus, price gouging through production quota manipulation may come faster than many experts expect if the GECF becomes a new OPEC and if consumer nations do not unite and flex their muscle. Moreover, Russia and Iran are interested in increasing their geopolitical leverage against the EU in areas which often have little to do with energy.

Major gas producers share another characteristic. Qatar, Turkmenistan, Brunei, and Venezuela, to name just a few, have one feature in common: a democracy deficit. Just like OPEC, the gas cartel will be a formidable global force that can be used to oppose, challenge, and possibly weaken market-based democracies through high prices and wealth transfer. Such a cartel may cut deals with similarly undemocratic large-scale consumers, while forcing the West to pay full price.

**Coordinated Global Action Needed.** The Bush Administration barely reacted to the Doha meeting. Ileana Ros-Lehtinen (R-FL), Ranking Member of the House Foreign Affairs Committee, wrote to the Secretary of State that the establishment of a gas OPEC would be a "major and long-term threat to the world energy supply" which the U.S. should "vigorously oppose." Officials express grave concern, but only in private.

As the case of OPEC demonstrates, closing markets to competition, promoting national oil companies (NOCs), and limiting production through a quota system results in limited supply and higher oil prices. Gas, in the long run, will not be different. The United States should open its vast natural gas resources on- and off-shore to further exploration and production and encourage its neighbors in Canada, Mexico, and the Caribbean to do the same.

Finally, the Bush Administration must develop a clear global policy to limit cartelization of the gas markets. Specifically, the U.S. should work with the European Union member states, Japan, China, India, and other countries to prevent the cartelization of the gas sector. This can be accomplished through cooperation in the International Energy Agency, which China and India should be invited to join, and by applying anti-trust legislation worldwide against state-owned companies that are actively involved in cartel-like behavior in energy markets. The U.S. should also work closely with those within GCEF who oppose Russian-Iranian domination. These include Azerbaijan, Canada, the Netherlands, and Norway. The National Security Council and the National Economic Council should take the lead in developing this policy. Unless buyer solidarity is translated into action, energy consumers and economic growth will suffer worldwide.

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1. The forum was created in 2001 by Algeria, Brunei, Indonesia, Iran, Malaysia, Nigeria, Oman, Qatar, Russia, and Turkmenistan.