

RECENT DEVELOPMENTS:

April 2007

A Gas Cartel of Great Contradictions

On 9 April 2007 in Doha, the 16-member Gas Exporting Countries Forum (GECF) decided unanimously to set up a High-Level Group (HLG) to develop a common methodology on the formation of gas export prices and to conduct research on consumer markets.

Organisation of the GECF

Members of the GECF are Algeria, Bolivia, Brunei, Egypt, Equatorial Guinea, Indonesia, Iran, Libya, Malaysia, Nigeria, Oman, Qatar, Russia, Trinidad and Tobago, the UAE and Venezuela. Norway is an observer. Members control 70% of global gas reserves.

The HLG consists of deputy ministers or departmental directors of GECF members. It will discuss proposals from members in the course of 6 meetings to be held during the remainder of 2007 and will present the results at the next GECF meeting in Moscow in 2008.

Russia is the HLG coordinator. It will lead the market research on price formation methodology and will defray a large share of the HLG expenses.

On What Will GECF Ever Agree?

In theory, the HLG could agree on:

- ❖ the methodology of export price formation
- ❖ “allocating” (avoiding competing against each other in) specific markets, whether new or existing
- ❖ coordination or setting of export volumes and schedules
- ❖ coordination or joint development of new fields
- ❖ coordination or joint development of new pipelines, pipeline routes and ultimate destinations and
- ❖ coordination or joint development of LNG plants.

In reality, however, GECF members will encounter serious legal difficulties if any agreement between their national industry participants has an anti-competitive purpose or effect in any jurisdiction that has effective antitrust laws.

Contradictory Statements

Some of the contradictory statements reported in the lead-up to the Doha Forum and its aftermath have included:

“Having [a cartel] for the gas exporting countries is beneficial to all sides.” (Kazem Vaziri-Hamaneh, Iranian Oil Minister)

“We should work toward greater cooperation to stabilise the market, to give confidence to our consumers. We should send a very positive statement to our customers that we are with you, not against you... I hate the word cartel. We’re just here to consider our interest.” (Abdullah al-Attiyah, Energy Minister of Qatar).

“We do not, and will not, set ourselves the goal of ganging up on anybody. It could be destructive and it would make no sense at all.” (Viktor Khristenko, Russian Energy Minister)

“I think it is a very good idea. Gas is the second source of energy in the world. We need to defend our interests.” (Rafael Ramirez, Venezuelan Energy Minister).

“In the long term we are moving towards a gas OPEC.” (Chakib Khelil, Algerian Energy Minister)

Difficulties for the GECF

Adding to the legal difficulties, the most glaring difficulty for the GECF is that most cross-border natural gas trade is transacted by private sector participants, not ordained by governments.

Another glaring difficulty is that, unlike oil, gas is not a global commodity; gas markets are single country or regional gas markets and there is little interchangeability amongst them. This also applies, although not to the same extent, in the case of LNG. What Russia and Iran, for example, might agree, is unlikely to have the remotest effect on coordination between Bolivia and Venezuela. At present, three quarters of export gas is delivered by pipelines with only one quarter in the form of LNG.

In our opinion, Iran, which is not yet exporting any of its substantial gas reserves, risks damaging its credibility as a future exporter by involving itself in these matters. Iran and other potential exporters should instead concentrate on what they need most: attracting foreign investment in new infrastructure to facilitate pipeline development and LNG exports.

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