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# Russia pushes an 'OPEC' for natural-gas nations

The world's biggest suppliers will meet in Moscow on Nov. 18 to finalize plans for a cartel to control gas prices.

**By Fred Weir** | Correspondent of *The Christian Science Monitor* from the October 30, 2008 edition

Moscow - The nations with the world's three biggest reserves of natural gas – Russia, Iran, and Qatar – are quietly moving ahead to form a "gas OPEC," an organization modeled after the oil cartel. In Tehran last week, representatives of the Russian natural-gas monopoly Gazprom met with counterparts from Iran and Qatar and agreed to create "a big gas troika." The group will meet quarterly to discuss pricing and supplies. Between them, these three countries hold an estimated 55 percent of known global gas reserves. The possibility of a cartel has long been opposed in Washington and European capitals.

The new cartel plan may be finalized Nov. 18, when Russia hosts a forum of gas-exporting countries in Moscow, including possible additions to the group such as Algeria, Indonesia, Libya, and Venezuela.

For Russia, which blames the US for causing the current global financial crisis and the attendant collapse of oil and other commodity prices, forging new energy-based international relationships holds political promise. "There is a clear desire in Moscow to work toward breaking what it perceives as US dominance of the world economy, but it's way too soon to predict where this global crisis is leading," says Masha Lipman, an expert with the Carnegie Center in Moscow. "If the US should really go into decline, I suppose we shall see new groups of states, and new contenders, come forward."

As global energy prices plunge, cooperating with the Organization of Petroleum Exporting Countries (OPEC) to stabilize markets has gained fresh traction in the Kremlin while the long-discussed idea of creating a "gas OPEC" of leading producers is suddenly getting a big

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push from Moscow.

Russia has earned huge profits in recent years amid soaring prices for its key exports, mainly oil and gas, which have enabled the government to accumulate significant currency reserves, now at \$530 billion. Russia is one of the world's largest oil exporters, accounting for about 12 percent of the global supply. But even before prices began tumbling, Russian oil production was stagnating at under 10 million barrels per day, raising doubts about Kremlin claims that Russia was to become an "energy superpower."

"This is a crisis, one that's concentrating minds in Moscow," says Mikhail Krutikhin, a partner with RusEnergy, an independent consultancy in Moscow. "All Russian state budget projections are based on the assumption that crude prices will remain above \$70 per barrel for the next two years, but they're already below that. It means that we'll have to tax those foreign currency reserves, and perhaps cut social spending. It's being viewed as a very serious challenge."

Perhaps that's also why Russia, which has long been cool to OPEC, now says it wants to cooperate with the 13-nation oil cartel.

Russian President Dmitry Medvedev hosted OPEC's Secretary-General Abdalla Salem el-Badri last week and announced that Russia will henceforth interact with the global oil cartel as a "key area of Russia's energy policy aimed at maintaining stable and predictable prices," in the petroleum market.

Of course, energy industry experts point out that OPEC has never been very good at controlling oil prices – except when it was used as a political weapon against the West during the 1970s – and that Moscow's newfound interest in the group may reflect the Kremlin's shifting global political strategies. "You cannot separate economics from politics. After all, this is energy, and it obviously has a national security dimension," says Artyem Konchin, an oil and gas analyst with Unicredit-Aton, a Moscow investment bank. "Russia is unlikely to join OPEC, but its interest in the organization at this moment is not coincidental. It wants to cooperate at some level."

Many experts also say that even if Moscow does succeed in creating a gas cartel, the gas market is different than the oil market. Most supplier-customer relationships are locked in by expensive pipeline infrastructure and long-term contracts. Russia now provides about 20 percent of Europe's natural gas and is making huge investments in two new pipelines: Nordstream, which will connect Russia with Germany via the Baltic Sea, and South Stream, which will run from Russia's Black Sea coast to Bulgaria and southern Europe.

But Russia and other gas producers may see a way to change the dynamic. Emerging liquefied natural gas (LNG) technology, of which Qatar is a pioneer, makes the gas a more easily traded commodity, like oil. Currently about 8 percent of natural-gas supplies are delivered in LNG form, Mr. Krutikhin says, but that will grow in the future. Russia is close to completing a big LNG facility at Gazprom's Sakhalin-2 project on Russia's Pacific coast, and Gazprom is reportedly mulling construction of another near St. Petersburg.

Still, some analysts are skeptical that a natural-gas cartel will yield the political benefits that the Kremlin anticipates. "It's understandable that the idea of a gas OPEC sets up tremors in the West, where the idea of Russia controlling gas supplies has long been a source of disquiet," says Ms. Lipman. "But these players are very diverse. Moves to consolidate Russia's position as a leading gas producer are not identical to mustering anti-American forces around it."

But that isn't preventing the Kremlin from reconsidering many of its energy positions. Deputy Prime Minister Igor Sechin, Russia's top energy official, startled many industry

observers last week by saying that the Kremlin may create a vast storage facility for oil, which would be modeled on the US Strategic Petroleum Reserve, which has a capacity of almost three-quarters of a billion barrels of oil.

The idea behind the Russian reserve would be to stabilize oil prices by holding back or releasing stocks as necessary, Mr. Sechin said. Some experts scoff that the idea is impractical for an oil-exporting country, and a possible sign of Kremlin desperation. "It would be much safer to just keep that oil in the ground. Why invest millions into a storage facility?" says Krutikhin. "It's really hard to understand what they're thinking in the Kremlin sometimes."

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