

Qatar Petroleum's CEO and recently appointed Minister of State for Energy Affairs, Saad Sherida Al Kaabi, has announced that his country is withdrawing from OPEC on the 1st of January 2019.

The Minister claimed that this was not a political move but rather a strategic action serving the market logic of trying to deter liquified natural gas (LNG) competitors in the early 2020's market window. Indeed, Qatari officials believe that their membership in OPEC is rather a distraction from their real potential which lies in natural gas. Qatar only produces 600,000 bpd of oil with an additional 200,000 bpd of spare capacity. The country accounts for only 2% of OPEC's oil production and does not rely as much as other members on oil as its breakeven price for the budget is \$47 the barrel against \$87 for Saudi Arabia.

Instead, Qatar has decided that it is more efficient to focus efforts on plans to develop and increase natural gas production. The Dutch-British energy company Shell believes that demand for LNG will increase by a yearly 5% until 2030, which means that this market is particularly attractive for Qatar, where the third biggest gas reserves on the planet exist. Natural Gas prices have lately experienced a trend opposite to oil prices as the commodity is now priced at \$4.3 per thousand cubic feet against \$2.75 in mid-September.

Already supplying 30% of world demand, particularly Asian consumers, Doha is looking for international partnerships to increase natural gas production from the current 77 million tons a year to 110 million tons a year in the coming decade. To do so, the world's largest gas field, North Dome, is going to see its production increased by 20%, which should allow Qatar to produce 6 million bpd of oil equivalent by 2022.

Qatar is not the only Gulf country interested in natural gas. This is why Qatar is trying to cut out competitors by announcing development plans guaranteeing its position as the world's biggest natural gas exporter. Less than two weeks ago, Saudi Arabia's primary energy company, holding 4.2% of global proven gas reserves, announced more than \$150 billion of investments in natural gas for the next 10 years to nearly double its gas production to 25 billion cubic feet per day. Representing the cleanest fossil fuel, natural gas would help Saudi Arabia implement its sustainable goals under Vision 2030. The Kingdom hopes that gas will make up the overwhelming share of domestic utilities in addition to renewables and nuclear power. Nonetheless, Qatar and Saudi Arabia are not the only countries interested in higher gas production. The Emirate of Abu Dhabi lately discovered 15 trillion cubic feet of gas whilst Bahrain found 20 trillion cubic feet of gas, as well as 80 billion barrels of shale

oil, which is however more difficult to extract.

Although Qatar's importance in OPEC is small, and OPEC's ability to impact the oil market is on the wane, it is highly unlikely that there are no political calculations behind Doha's withdrawal. The country is giving up a card that could have been disposed of much earlier, if strategy was the real reason behind Qatar's exit from OPEC. Iran, a much more significant player in the organisation draws an interesting parallel. Although it produces nearly seven times more oil than Qatar, the Persian Gulf nation has time and again criticised OPEC for giving too much weight to its rival Saudi Arabia and is forced to work through Russia in order to reach a consensus with other Gulf nations, something which would be much harder to achieve bilaterally considering today's fraught relations. Similarly, Iran is said to have the world's largest gas proven reserves and is an important producer of this commodity, although most of its output is used domestically. Yet, the country has never raised the possibility of leaving OPEC to focus on natural gas.

It is true however that both Iran and Qatar have an interest in having an institutional alternative to OPEC for natural gas. The prospect of having OPEC gradually transform itself into a larger fossil fuel cartel, enjoying much clout on the international natural gas markets, is indeed a rather distant and elusive dream. Instead, the world's largest gas producers, namely Qatar, Russia and Iran, have since 2001 organised a yearly forum called the Gas Exporting Countries Forum (GECF) which has gradually evolved into an institution, with headquarters in Doha. Adopting a charter in 2008, the forum has held the objectives of favouring dialogue between producers and promoting a stable and transparent energy market. Yet, despite its holding of 57% of global proven gas reserves, the organisation has never played a similar role to OPEC, largely as a result of differing dynamics between trading oil and gas on an international stage, and increasingly because of regional politics. The GECF only counts one of four countries forming the Arab Quartet, namely Egypt. It therefore remains to be seen whether regional politics will act as a barrier to the entry of Bahrain, Saudi Arabia and the UAE into GECF or whether such countries will continue their traditional policy of prioritising energy and economic concerns in the long term.

Qatar's withdrawal from OPEC is therefore far from being a benign action. The country's officials decided to announce their withdrawal rather late, in the last month of 2018, in order to ensure that OPEC would accept Qatar's exit in 2019. If their reasoning was purely strategic, one could presume that Qatar's withdrawal would have been announced in a more serene manner and much earlier. Although Qatar had a small role in devising prices and production levels in the organisation, the

country still acted as an important political bridge and enjoyed a subsequent platform within the Vienna-based institution. In April 2016, the Qatari capital hosted an important albeit inconclusive OPEC meeting. It therefore is likely that Qatar is signalling its dissatisfaction with specific members within the organisation, since the country is facing the impact of intra-GCC rivalries and its growing powerlessness within OPEC as a result. Additionally, Qatar signals its readiness to implement a politics of gamble, whereby it exits important institutions without giving much explanation in order to voice its discontent and cause some organisational disruptions.

Qatar's withdrawal could augur something much bigger for the future of the Vienna-based organisation. OPEC is indeed seeking to gain more members, lately adding Congo and Equatorial Guinea to its members list, but it has now lost the production gains of these latest admissions with Doha's exit. Qatar is the first Middle Eastern country and the third country to have left the organisation in OPEC's history. Yet, Indonesia and Gabon, the two previous quitters, joined the organisation back in 2016. It is therefore a reasonable question to ask whether Qatar's withdrawal is not the beginning of a long-term haemorrhage in which the organisation loses members as they gradually turn toward alternatives to oil.

Last month, Saudi Arabia's top government think tank ran several simulations to study the possible effect on oil markets after a breakup of OPEC. This study led Energy Minister Khalid Al-Falih to guarantee markets that his country was not considering the end of the organisation. Convening on the 6-7th December in Vienna, OPEC members will therefore meet their Qatari counterparts for the last time. OPEC is also facing three main difficulties from the US. First, American shale producers are turning out to be more resilient than expected. Second, President Donald Trump is vocally opposed to oil production cuts, and finally American legislators are now considering the No Oil Producing and Exporting Cartels Act (NOPEC) bill which could remove sovereign immunity in the US for oil producers.

The cartel's relevance is therefore on the wane. On the diplomatic side, the organisation does not offer an efficient platform on which member states can approach each other to discuss shared problems and solve disputes. Instead, some analysts believe that only two countries, namely Saudi Arabia and Russia -which is outside OPEC-, dominate the oil market and have the key to its equilibrium, thus sidelining other lesser producers.

On a more general level, Qatar's withdrawal from OPEC is highly unlikely to impact the oil market. Oil prices are currently rising and enjoying the positive effect of several events, primarily the Sino-

American trade truce decided during the G20 in Buenos Aires. Canada's Alberta province has also announced a 9% production cut for 2019 and the Saudi Crown Prince's meeting with Vladimir Putin during the G20 have raised the likelihood of an oil production cut in 2019.

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