



كلية الآداب والعلوم  
College of Arts and Sciences  
QATAR UNIVERSITY جامعة قطر

مركز دراسات الخليج  
Gulf Studies Center

# Qatar's Exit from the OPEC: Economically Driven, Politically Determined

Nikolay Kozhanov

Gulf Insights Series  
№ 5 – January 2019

## **Qatar's Exit from the OPEC: Economically Driven, Politically Determined**

**Nikolay Kozhanov**

### *Introduction*

Qatar's withdrawal from the OPEC was determined by a complex mixture of political and economic factors. On December 3, 2018, the Qatari authorities informed the secretariat of the OPEC of their decision to seize the country's membership at the oil-exporting cartel after January 1, 2019. According to Qatari minister of Energy Saad Sherida Al-Kaabi, Doha's decision to leave the OPEC as it wants to concentrate its attention on the development of its gas production sector. Sheikh Hamad bin Jassim Al Thani, Qatar's former Prime Minister, further supported this by calling the withdrawal of his country from the cartel a "[wise decision](#)" while pointing at the fact that the OPEC became "[useless and adds nothing to](#)" Qatar. In other words, Qatar's membership at the OPEC became an unnecessary spending of time and resources. These statements were immediately criticized by the blockading countries whose officials tried to present this move by Qatar as a solely political demarche to create additional troubles for Saudi Arabia and its plans to persuade the so-called OPEC+ group (a team of OPEC and non-OPEC members) to reduce their oil production in order to keep the oil prices high. However, to understand the real motives behind the decision of the Qatari leadership, it is important to consider the withdrawal from the oil cartel within more global political and economic processes taking place regionally and internationally.

### *Rising Competition of the International Gas Market*

Indeed, at a first glance, the critics of Qatar's decision might seem to be correct. For many years, Qatar has been keeping the first place among exporters of the liquified natural gas. In 2017, its share of the global gas market was about 30% whereas the distribution of gas exports was highly diversified (67 per cent of Qatari gas went to the Asia-Pacific region, 23 per cent to Europe and 10 per cent to other regions). Moreover, in 2017, Qatar resumed the development of its production capacities in order to raise Liquefied Natural Gas (LNG) annual production from the current 77 mln mts to 110 mln mts within the next six years. This, in turn, can create the false perception that Qatar just used the necessity to develop its gas sector as a pretext to quit the OPEC whereas its positions in the global gas market are strong and unchallenged. However, this is not quite true.

While Qatar remains the leader of the LNG industry, its current steps are determined by necessity to protect this status in the future. Otherwise, if nothing is done, its dominance at the LNG market can be challenged: in June 2017, the [Oxford Institute for Energy Studies](#) predicted the decrease in Qatar's share of the LNG market to 21 per cent within the next five years.

First of all, the gas market is becoming more competitive as new players enter the market and become stronger. The US, Australia and Russia have ambitions to substantially increase their share of the LNG trade that will come closer if not surpass that

of Qatar. In 2017 Australia declared about its plans to raise the LNG exports volumes up to 75 mln mt a year. By 2020, the US also has all chances to become the third leading exporter of the LNG after Qatar and Australia with the exports capacities of 75 mln mt a year. Among all, the Americans are looking into opportunities existing at the European market where Qatar has recently encountered certain problems. On the one hand, the UK, Qatar's loyal consumer of gas in Europe, is more actively speaking on the necessity to decrease the share of Qatar in its LNG imports, which in 2017 was estimated in 87 per cent. In 2018, however, this figure might decrease, as during the first half of 2018, the UK purchases of the Qatari LNG dropped down making a space for the LNG imports from the US. On the other hand, on 21 June 2018, European commission launched an anti-monopoly investigation against Qatar Petroleum looking for proofs that the long-term agreements between the Qatari company and European importers were imposing territorial limits on the consumption of the Qatari natural gas within the EU. Both of these tendencies were negative signals to Qatar.

Moreover, Russia also cherishes plans to increase its share at the LNG market by 2035 from current 5 per cent to 20 per cent. Its LNG projects are underway and timely implemented. Even under the sanctions, Russian volumes of produced LNG available for exports might reach at least 30 mln mt a year. According to the Russian government experts estimates, this figure can even be doubled if economic conditions in the country appears more favorable. Like Qatar, Moscow is trying to find the niches for its LNG at different markets including Europe, Asia-Pacific and the Middle East. The behavior of Russia, Australia and US compels other countries such as Egypt or Cyprus to

think about joining the race for markets. Even the Saudis started to demonstrate interest in investing Russian Arctic LNG-2 project (LNG producing cluster in the Yamal peninsula) seeing it as an entry point to the global LNG market.

Given the growing competitiveness among LNG producers, Qatar has to emphasize its presence in its main consumer market – the Asia-Pacific region. In October 2018, Qatar signed a 22- year long contract with PetroChina International Company Limited to supply 3.4 mln mt of LNG to China. Compared to its rivals, Qatar's main advantages still include the low cost of gas production and relative technological easiness of the extraction process. The Qatari authorities also optimized the control over its gas sector by uniting Qatar Petroleum with two other gas companies – Qatargas and RasGas. Moreover, before November 2018, the current minister of energy Saad al-Kaabi was the director of Qatar Petroleum. He is specialized in the gas industry and stands behind the recent initiatives aimed at the increase in the positions of Qatar in global gas market. However, to keep its share of the Asian market Qatar has to increase the volume of LNG production and its exports which again imply necessity to secure substantial investments in the Qatar's gas sector and a lot of micro-management in the coming years.

The LNG market also became more competitive as more preference is given to short-term contracts instead of long-term import agreements. This means that in order to keep up with all these changes, Qatar needs not only to increase the LNG output but also to conduct changes in the management of the gas sector and to get used to play in the market in accordance with new rules. These new rules also make participation in the OPEC less appealing for Qatar: thus, in Asian

market, the increasing role of short-term contracts makes oil prices less important for determining LNG prices while on-spot agreements are becoming more important in this regard.

All in all, as opposed to oil, Qatar's natural gas production capacities have a key role not only in securing Qatar's budget, but in ensuring Qatari's economic and political independence as well as influence. Under these circumstances, growing challenges and necessity to secure its leading role in the global gas market have determined the situation when Qatar has to concentrate its attention on the development of the gas sector optimizing its priorities, which is neither the OPEC or OPEC+.

### *Reconsidering Existing Alliances*

Qatar's decision to leave the OPEC has also an important political dimension. The leadership of the country decided to leave this organization after the 57 years of membership. This decision is not typical for Qatar. Traditionally, the membership in the regional and international organizations is believed to be an important element of the country's foreign policy as it creates additional leverage of influence on the international arena, hence, strengthening its positions regionally, ensuring Qatar's national security and economic interests as well as compensating the drawbacks caused by country's size. Previously, the membership in the OPEC was not an exception. While Qatar was not among the founders of the OPEC, it was one of the first to join the cartel in 1960s in order to be able to secure Qatari interests at the global oil market. That time, oil was still the only sources of income for the country. In addition, its domestic volume of production was insufficient to shape comfortable

conditions at the market on its own. The end of Doha's membership clearly signals that the Qatari leadership started rethinking the existing structure of alliances it has been either building or participating for the last several decades.

The reason that triggered Qatar's intention to reconsider the format of its participation in a number of regional and international organizations is simple: the undergoing rift between Doha and blockading countries that makes Qatari participation in them counter-productive. By withdrawing from the OPEC, Qatar leaves the structure that is dominated by the Saudis. As opposed to the majority of other OPEC members, oil is not the only and main source of income for Qatar. Consequently, it is only partly dependent on the success of the OPEC and OPEC+ efforts to regulate the oil market. Yet, its participation in the cartel creates the necessity to coordinate efforts with the blockading countries including Saudi Arabia. Moreover, Qatar has to accommodate Saudi initiatives in most cases as the Saudi influence in the oil cartel is much stronger than that of Qatar. Under these circumstances, it is much more natural for Doha to stay out of this organization rather than to be a part of it and accept the Saudi dominance.

### *The Sign of Bigger Changes*

The process of the reconsideration of old alliances in the region goes beyond the situation with the OPEC. First of all, Qatar demonstrates its readiness to reassess its participation in other regional structures that has large presence of the blockading countries. Thus, on 9 December 2018, Qatar limited its participation in the GCC summit by the level of deputy foreign minister. Although it is difficult to see Qatar

completely seizing its presence in this organization, the country's top leadership decision not to come to the summit was another signal sent to Saudi Arabia and its allies that Qatar was not going to conduct the proper dialog with the GCC when the blockading countries continue to exercise their pressure.

Secondly, given that the participation in international and regional organizations is one of the important elements of Qatar's diplomacy, it has to compensate the weakening of old alliances by the creation of their alternatives. This leads to more active interaction between Qatar and Turkey as well as Qatar and Iran. It is natural to expect Qatar playing more active role in the Gas Exporting Countries Forum instead of the OPEC.

Thirdly, the process of the reassessment of participation in old alliances takes place not only in Qatar. There is also understanding among the blockading countries that the rift existing between them and Qatar undermines regional structures and something should be done about it. For instance, in OPEC, Saudi Arabia has to relay more on the interaction with non-OPEC members to control the market. Thus, the agreement of Russia to support the further decrease of the oil output by the so-called OPEC+ group (a team of the OPEC and non-OPEC members that strive to stabilize the fluctuation of global oil prices) for the next six months would not be possible without the Saudi efforts to persuade Moscow to do this. Consequently, the Russian consent to support the further decrease in oil output by the OPEC+ made the oil market indifferent to Qatar's decision to quit the OPEC and saved the oil prices from unnecessary ups and downs as a result of it. Now, even if Doha decides to increase its oil output immediately after the end of its OPEC membership in January 2019, its

potential to produce additional oil volumes in less than 50kbpd is unable to change the situation in the global market given the OPEC+ decision to withdraw 1.2 mbpd from the market by April 2019.

All in all, Qatar's decision to leave the OPEC should be considered within the complex of events happening in the region of the Middle East. While being largely driven by economic consideration it definitely has a political DNA and can be seen as a result and sign of deeper processes of the reorganization of existing regional alliances.

#### **About the author:**

Nikolay Kozhanov is a Visiting Associate Professor at the Gulf Studies Center, Qatar University.

#### **About the Gulf Insights series:**

The "Gulf Insights" series is published by the Gulf Studies Center on a weekly base with the aim to promote informed debate with academic depth. The Gulf Insights are commentaries on pressing regional issues written by the GSC/GSP faculty, staff and PhD and MA students, and they can be between 1,200 to 1,500 words.

All articles published under "Gulf Insight" series have been discussed internally but they reflect the opinion and views of the authors, and do not reflect the views of the Center, the College of Arts and Sciences or Qatar University. "