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Situation Assessment | 6 December 2018

Qatar's OPEC Exit

Policy Analysis Unit

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Policy Analysis Unit

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Introduction

On 3 December 2018, the Qatari minister of state for energy affairs, HE Saad bin Sherida Al Kaabi announced Qatar's decision to withdraw from the Organization of Petroleum Exporting Countries (OPEC) from January 2019⁽¹⁾. Despite Al-Kaabi's assurances that the decision was a technical consideration related to Qatar's future energy sector strategy and its focus on gas, the decision has been subject to many interpretations. The move came as a surprise to many, signaling the end of a 57 year era during which Qatar was an active member of the organization.

A History of Withdrawals

OPEC was established in Baghdad in September 1960, through an agreement reached by five founding members: Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The principle objective was to coordinate to preserve and defend the individual and collective interests of the member states, and to ensure the stability of prices and supplies in a way that fulfills the interests of producers and consumers. The membership expanded with the addition of Qatar (1961), The United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973), Gabon (1975), Angola (2007) Equatorial Guinea (2017) and the Congo (2018), bringing the number of Member States to 16.

Ecuador suspended its membership in December 1992 but returned in October 2007. Indonesia suspended its membership in January 2009, reactivated it again in January 2016, only to suspend its membership once again on 30 November 2016. Gabon terminated its membership in January 1995 but also rejoined in July 2016.⁽²⁾

The Official Line

On the morning of 3 December 2018, the Secretary General of OPEC, Mohammed. S Barkindo, received a letter from Qatar expressing its desire to withdraw from OPEC pursuant to Article 8 of the FAO Statute. It states in paragraph 1 that "No Member of the Organization may withdraw from membership without giving notice of its intention to do so to the Conference Such notice shall take effect at the beginning of the next calendar year after the date of its receipt by the Conference, subject to the Member having at that time fulfilled all financial obligations arising out of its membership."⁽³⁾ The State can also restore this membership in accordance with article 7 (c) which stipulates that membership should be accepted if three-fourths of the members fully agree.⁽⁴⁾

1 Hamza Shaban, "Qatar to withdraw from OPEC over feud with Saudi Arabia", *Washington Post*, 2/12/2018 accessed 5/12/2018 at: <https://goo.gl/dmkb9Z>

2 OPEC, "Member Countries," accessed on 4/12/2018, at: <https://goo.gl/JUaNPu>

3 OPEC, "Qatar Gives Notice of its Withdrawal from OPEC," 3/12/2018, accessed on 4/12/2018, at: <https://goo.gl/UtByZW>

4 OPEC, *OPEC Statute* (Vienna: OPEC, 2012), pp. 3-4, accessed on 4/12/2018, at: <https://goo.gl/edKTWh>

Qatar's decision to leave OPEC was primarily based on the domestic considerations of the Qatari economy and its global aspirations. The Qatari strategy involves investing in the production strengths of liquified natural gas production, where Qatar holds the world's leading position with around 30% of the world's LNG production.⁽⁵⁾ This decision is in line with Qatari plans to channel its efforts into developing this sector, coinciding with the government's move to increase LNG production from 77 million tons to 110 million tons per year.⁽⁶⁾ The Qatari statement declared the decision to be a technical and economic consideration, and a response to the reality that Qatar is a small producer of oil compared to gas. It produces about 635 thousand barrels per day, and thus ranks eleventh among the producers of crude oil in OPEC, contributing to less than 2% of the group's output.⁽⁷⁾

The Qatari official line can be summarized with the following four points:

1. The decision is technical, not political. It is related to Qatar's future strategy for the energy sector.
2. The State of Qatar seeks to establish itself as a reliable global energy supplier.
3. Qatar is developing a future strategy for the oil and gas sectors based on domestic and international growth and expansion.
4. Qatar remains focused on its core business activities and consolidating its position as the world's no. 1 LNG producer.

An Inherently Geopolitical Move

Despite the priority of these technical reasons, the decision cannot be separated from the internal conditions of OPEC. The dominance of the major powers in the production of oil, which formulate agreements outside the framework of the organization and impose them on the less productive countries is especially relevant. Additionally, the general regional and international political context is a factor: it is noteworthy that Qatar has maintained its OPEC membership even in the most turbulent periods for the organization, including during the Iran-Iraq war (1980-1988), the occupation of Kuwait (1990), the invasion of Iraq (2003), or even during the collapse of oil prices following the Arab Spring (2014-2017).

Specialist economic agencies see Qatar's decision to withdraw in these circumstances as evidence of the decline of OPEC's influence. Saudi Arabia, which is leading a quadripartite blockade of Qatar, especially operates outside the framework of the Organization and in coordination with non-member countries (Russia in particular) to control the quantities of production and then the prices. These policies have been detrimental to the interests of member states. Increased production through an agreement between Saudi Arabia and Russia, at the request of US President Donald Trump, led to

5 Qatar Profile, Gas Exporting Countries Forum, accessed 5/12/2018 at: <https://www.gecf.org/countries/qatar>

6 Mohammed Afzaz "What is behind the withdrawal of Qatar .. Has OPEC become useless?" *Tellereport* (Translation of Aljazeera report) 12/3/2018, last accessed 5/12/2018 at: <https://goo.gl/UbSwtw>

7 "Qatar Pulls Out of OPEC Oil Producers' Cartel," *BBC*, 3/12/2018, accessed on 4/12/2018, at: <https://goo.gl/jiaCcS>

a drop in oil prices by more than a third in a month. Oil fell from the price of \$85 per barrel in early October 2018 to about \$50 on the eve of midterm elections in the United States early November 2018. On 20 September 2018, Trump demanded OPEC reduce oil prices, a few weeks after US sanctions on the Iranian energy sector, saying that his country protects the Middle East.

Saudi Arabia and Russia responded to US demands in an effort to improve the Republican Party's fortunes in the midterm elections. Saudi Arabia's desire to satisfy Trump increased with the murder of Saudi journalist Jamal Khashoggi in its consulate in Istanbul. The case gave Trump a powerful advantage, a means to extort full Saudi obedience, especially as he became the de facto protector of the Saudi Crown Prince, Mohammed bin Salman, from the repercussions of this crime.

On the other hand, Qatar's decision to withdraw comes at a time when OPEC membership has become a political risk. In addition to Trump's repeated attacks on the organization, the US Department of Justice has officially begun reviewing the NOPEC legislation to rein in the power of the cartel. If enacted in the United States, members of the organization would be subject to legal prosecution under the Sherman Anti-Monopoly Act of 1890, enacted at that time to dismantle the empire of US billionaire John Rockefeller.⁽⁸⁾

Likely Repercussions

Experts say that Qatar's OPEC exit will have a positive impact on its economy, because it frees its production line from the restrictions determined by oil-dependent OPEC countries, and this will allow it to increase its efforts in the gas industry and strengthen its influence in the market.⁽⁹⁾

As far as OPEC is concerned, Qatar's decision is expected to encourage other OPEC members, discontented with Saudi individuality, to pull out. The oil market has now become highly entangled with the Saudi and Russian agreements to keep supplies under control, threatening the Organization's future and weakening its ability to control supply and demand.⁽¹⁰⁾ This was clearly reflected in the position of Iran's OPEC delegate, Hossein Kazempour Ardebili, who expressed his regret over the Qatari decision, but also noted his understanding of the Qatari "Frustration" with OPEC that led to the move. The delegate went on to add that many OPEC members are disappointed that the Joint Ministerial Monitoring Committee, chaired by Saudi Arabia and Russia, is taking decisions on production alone and without prior agreement within OPEC, the Iranian delegate said.⁽¹¹⁾

8 Walid Ahmed, Dan Murtaugh & Javier Blas, "Qatar to Leave OPEC as Politics Finally Rupture Oil Cartel", *Bloomberg*, 3/12/2018, accessed on 4/12/2018, at: <https://goo.gl/25wGFJ>

9 "Doha exits OPEC to take a swipe at Riyadh", *China Daily*, 6/12/2018, last accessed 6/12/2018 at: <http://www.chinadaily.com.cn/a/201812/06/WS5c085694a310eff30328f559.html>

10 "Qatar Pulls Out of OPEC to Focus on Gas Production", *The Guardian*, 3/12/2018, accessed on 4/12/2018, at: <https://goo.gl/t2PiWR>

11 "Iran Says OPEC Members Who Increased Output Should Take Lead on Cuts" *New York Times*, 3/12/2018, last accessed 5/12/2018 at: <https://www.nytimes.com/reuters/2018/12/03/business/03reuters-oil-opec-iran-interview.html>



Conclusion

The Qatari decision to withdraw from OPEC appears to be linked to Qatar's energy strategy. It has created a safe path that liberates it from pressures and commitments that may be unfair at times. Qatar sees its oil and gas capabilities realistically and recognizes its limitations in the former, while aspiring to maintain its global lead in the LNG industry by operating within a plan extending into 2024. However, the geo-political context of the decision, related for the most part to the behavior of Saudi Arabia within OPEC and Saudi marginalization of the Organization in its external conduct (through coordination with Russia and its subservience to Trump). With Qatar's exit, the Organization's crisis deepens. Other countries may move towards independent production policies away from OPEC, unless they sense a shift in Saudi attitudes that will restore the interests of member states.