Qatar to Leave OPEC Cartel After Almost 60 Years

The statement from Qatar's energy minister on Monday caught many by surprise: His country will withdraw from the OPEC cartel effective January 1, 2019:

> In light of [our efforts to expand liquid natural gas production] and in our pursuit to strengthen Qatar's position as a reliable and trustworthy energy supplier across the globe, we had to take steps to review Qatar's role and contributions on the international energy scene….
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> The withdrawal decision reflects Qatar's desire to focus its efforts on plans to develop and increase its natural gas productions…. Achieving our ambitious growth strategy will undoubtedly require focused efforts, commitment and dedication to maintain and strengthen Qatar's position as the [world's] leading natural gas producer.

According to Qatar's former prime minister, Sheikh Hamad bin Jassim Al Thani, the cartel, after 57 years of membership and compliance, no longer served his country's best interests: "This organization has become useless and adds nothing to us. They are used only for purposes that are detrimental to our national interest."

An unnamed Qatari official provided additional clarity, as if any were needed: "This is a political move that serves us economically. We don't need OPEC or Riyadh or Russia to tell us what should or should not be done in the market." He added that the announcement just days before the cartel is to meet in Vienna was done deliberately to send the message that the cartel no longer serves its interests.

Qatar's impact is more political than economic. It adds just 800,000 barrels of crude oil to the world markets every day, scarcely two percent of the cartel's 30 million bpd. But it is the world's largest producer of liquid natural gas, over which the OPEC cartel has no control. The cartel's loss will have "no impact on the market either way, whether they're in or they're out," said oil analyst Anas Alhajji. "The cost to them is higher than the benefit."

So it is with every cartel: When things are going well, competitors are shut out or diminished in influence, profits are high, and cartel members stick like glue to the master plan. It's when outside forces that cannot be controlled become troublesome that members begin to look for an exit.

Qatar's departure is more a tell of OPEC's future. In Vienna the cartel faces many and increasingly difficult challenges. First, the cartel has been sanctioning Qatar for its alleged support of terrorism in the region, claims the Qatari government has vigorously denied. Those economic boycotts by Bahrain, Egypt, the UAE, and the Saudis have provided additional support for the move to leave. Second, pressure from the White House to keep oil prices down has strained relationships with the Saudis. Third, the involvement of the Saudis in the murder of Jamal Khashoggi in the Saudi consulate in Turkey in October has put them in a nearly impossible position: leave production levels alone and watch prices decline (hurting the cash flows of the cartel's members, many of whom need high prices to meet their government's demands); or cut production (by a suggested million barrels a day or more) and hope that prices will rise enough to keep the cartel members happy but without offending the American president further.

But the new reality is that, cutting production or not, the American oil producers will continue to increase production while at the same time reducing their breakeven points ever lower. It's a game that OPEC must play but cannot win. As The New American pointed out more than a year ago, improving fracking technology, especially when redrilling existing wells, is bringing those breakeven points down to $30, $20, $10 a barrel, or even lower. As noted then, the question posed remains relevant now: Why would the cartel's members continue to exsanguinate themselves in a failing effort to push oil prices higher?

That's the question Qatar has just asked, and answered, in its announcement on Monday.

Photo of Doha, Qatar: GordonBellPhotography via iStock / Getty Images Plus

An Ivy League graduate and former investment advisor, Bob is a regular contributor to The New American *magazine and blogs frequently at LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.*

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