+---+

Gas OPEC Sends Prices Lower for Worst Commodity (Update1)
2010-04-19 13:17:18.919 GMT

(Adds comments from Algeria’s Khelil in 16th paragraph.)

By Ben Farey and Robert Tuttle

April 19 (Bloomberg) -- Algeria, Africa’s biggest exporter of natural gas, is getting no help from Russia and Qatar in curbing production to increase prices in this year’s worst- performing energy commodity.

Chakib Khelil, Algeria’s energy minister, plans to seek commitments from 11 gas exporting nations to reduce output and end a glut that’s caused U.S. prices to fall 28 percent since December. Russia, holder of the world’s largest reserves, said it doesn’t intend to cut supply, and Qatar, with the third- largest reserves, is opening new export facilities.

“The producers are living in a fantasy world if they think that they can influence prices by cutting production,” because it won’t be enforceable, John Fahy, managing director of energy consultant Eras Ltd. in London, said in a telephone interview.

The fuel’s value is falling as Qatar raises liquefied natural gas output 44 percent this year and new supplies from North American shale rock cut U.S. imports to their lowest in more than a decade last year. Purchasers have reduced their take from long-term contracts priced to oil and bought more from spot markets such as the U.K., where the price for same day delivery is 21 percent below its five-year average.

The Gas Exporting Countries Forum, which includes Russia, Iran and Qatar and whose members hold two-thirds of the world’s reserves, meets today in the Algerian coastal city of Oran. The GECF energy ministers will also attend an LNG industry conference in Oran that lasts through April 21.

More Like OPEC

Khelil’s proposal would make the group more like the Organization of Petroleum Exporting Countries, whose production cuts helped revive New York crude oil prices last year and pushed them to a 18-month high earlier this month.

U.K. natural gas for delivery tomorrow dropped 11 percent this year in London to 31.5 pence a therm ($4.85 a million British thermal units), or about $26.25 a barrel of oil equivalent. North Sea Brent crude is worth about $84 a barrel.

Most of the gas consumed in Europe is bought under multi- year contracts that are linked to the price of oil, a formula that exporters such as Algeria, Qatar and Russia say guarantees long-term investment.

Supply originally intended for delivery to the U.S. is coming to Europe, where it’s being sold on spot markets, grabbing market share from long term contracts, said Morten Frisch, a senior partner at U.K.-based Morten Frisch Consulting Ltd. Spot trading activity across Europe is rising.

Two-Tier Pricing

Spot prices are cheaper than pipeline gas supplied under long-term contracts to Germany, Europe’s biggest importer, which last month cost more than $8 per million Btus, according to Wood Mackenzie Consultants Ltd.

“A two-tier gas pricing system has developed in Europe,” Frisch said in an e-mail. “One price level is based on oil- indexed long-term pipeline gas and LNG supply agreements and one based on spot prices.”

Rising crude prices, which gained 71 percent last year, are bolstering long-term contract prices for gas, leading buyers including Germany’s E.ON AG, Germany’s biggest utility, and GDF Suez SA to limit contract deliveries and buy cheaper fuel on the open market.

“The spot gas element in our overall supply portfolio has almost doubled,” Wulf Bernotat, chairman and chief executive officer of E.ON, said last month.

More Spot

Russia’s OAO Gazprom, Europe’s biggest gas supplier, agreed earlier this year to adapt its long-term contracts after talks with customers including E.ON. The gas exporter agreed to give weight to spot-market moves in pricing supplies, without dropping the link to oil.

GECF members take the view that gas “isn’t getting its fair share” when compared with oil on an energy-equivalent basis, Guy Caruso, senior energy adviser at the Washington-based Center for Strategic and International Studies, said in a phone interview.

World gas demand will remain unchanged until 2013, Algeria’s Khelil said in Oran today. Demand forecasts are “rather worrying,” he said.

On March 16 in Vienna Khelil said that users are reducing the volumes they take under multiyear contracts in favor of more spot gas. He called for a reduction of sales on European spot markets, such as the U.K.’s National Balancing Point, and said a gas price of $13 to $14 a million Btus was the “target” with crude oil near $80 a barrel.

No Support

Khelil said March 30 he hadn’t yet lined up commitments to support the move, the first time a member has called for supply curbs.

It isn’t possible to limit supply, Russian Energy Minister Sergei Shmatko said April 8. Russia is the biggest single source of gas for Europe, ahead of Norway and Algeria.

“GECF cannot control gas production or prices for the next five or 10 years since the majority of natural gas supply deals are long-term contracts,” GECF Secretary-General Leonid Bokhanovsky said in a written reply to Bloomberg questions. A former executive at Russian pipeline-builder OAO Stroytransgaz, Bokhanovsky was elected as the GECF’s first secretary-general in December.

Qatar, the world’s biggest LNG producer, doesn’t plan to reduce gas output, Minister of State for Energy Mohammed al-Sada said last month.

The Qataris want to produce the most gas possible to maximize output of natural-gas liquids, said Caruso, formerly administrator at the U.S. Energy Information Administration.

It’ll be difficult for exporters to agree on supply quotas because much of the investment has already been made, he said.

Egypt Won’t Cut

Egypt doesn’t support a cut in gas production and there are “several ideas” to support prices, Energy Minister Sameh Fahmy said in Oran today.

In the U.S., gas has fallen 28 percent this year, the second-worst performer after sugar in the S&P GSCI Index of 24 commodities, as gas produced from shale rock bolstered supply.

If shale production can be replicated in Europe and Asia, it will threaten the two main markets for gas exports, Caruso said. GECF is “certainly concerned about the success of shale gas technology in North America,” he said.

Production of unconventional natural gas in the U.S. is sustainable, Khelil said today. It has led to an oversupply of LNG import capacity in the U.S. and Australian LNG output will exacerbate the surplus, he said.

Unlike OPEC, founded in 1960, the GECF hasn’t set any price targets or production quotas since its foundation in Tehran in 2001.

The forum’s members are Algeria, Bolivia, Egypt, Equatorial Guinea, Iran, Libya, Nigeria, Qatar, Russia, Trinidad & Tobago and Venezuela. The Doha, Qatar-based organization has invited Kazakhstan, Yemen and Peru to attend the Oran meeting. Norway and the Netherlands have observer status.

Angola and Yemen said today they may join the group.

For Related News and Information:
Today’s top gas stories: TGAS <GO>
To see U.K. gas prices: UGAS <GO>
Algerian gas news: TNI ALG GAS BN <GO>

--With assistance from Ahmed Rouaba in Oran.
Editors: Rob Verdonck, Jonas Bergman.

To contact the reporter on this story:
Ben Farey in London at +44-20-7673-2369 or bfarey@bloomberg.net Robert Tuttle in Doha, Qatar at +974-452-8148 or rtuttle@bloomberg.net

To contact the editor responsible for this story:
Stephen Voss at +44 207 7073 3520 or sev@bloomberg.net