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# *Russia's Energy Politics and New Markets in Asia*

*Vladimir I. Ivanov  
Senior Economist, Research Division Director  
Economic Research Institute for Northeast Asia  
(ERINA, <http://www.erina.or.jp>)*

## Policy Framework: International

After 9/11, cooperative relationship with both the U.S. and Europe is the central pillar of foreign policy.

Greater centralization of power in Moscow ... ,  
... but pragmatic agenda with the West:

- (1) anti-terrorism cooperation
- (2) WMD non-proliferation
- (3) Energy supply

In 2006, Russia will assume the rotating presidency of the G8,  
G8 Agenda's focus on energy is in Russia's interests.

# Oil Production: Recent Developments

## Russia's Oil Production, 2002-2005 (Mt)

	2002	2003	2004	2005 (est.)
Production	380	421	450	475
Exports	180	228	255	275

# Policy Framework: Domestic

In January-June 2005, Russia's oil exports stood at 125 Mt

It was valued at \$32.5 billion

Oil exports contributed 33% in Russia's export revenues

Oil share was 53.4% in exports of fuels

(in June, average export price for "Urals" was \$324 per ton)

# Domestic Problems

**Very difficult socio-economic circumstances, including:**

**Wide-spread poverty**

**Low productivity**

**Unfavorable long-term life expectancy trends**

**Declining population**

**In addition to many other shortcomings in:**

**Education**

**Public health**

**Regional development**

**Government efficiency**

## Global Output Shares, 1980-2015

	1980	2003	2015
United States	20	21	19
EU25	26	22	17
Japan	7	7	5
China	3	13	19
India	3	6	8
Brazil	4	3	3
Russia	4	3	2
Other	34	25	27

## Stabilization Funds (US\$ billion)

	<b>Fund</b>	<b>Assets</b>	<b>Est.</b>
<b>UAE</b>	Abu Dhabi Investment Authority	<b>250,000</b>	--
<b>Norway</b>	Government Petroleum Fund	<b>170,000</b>	1990
<b>Kuwait</b>	Kuwait Investment Authority	<b>65,000</b>	1953
<b>Brunei</b>	Brunei Investment Authority	<b>30,000</b>	1983
<b>USA Alaska</b>	Permanent Reserve Fund	<b>29,800</b>	1976
<b>Russia</b>	Stabilization Fund	<b>29,000</b>	2003
<b>Iran</b>	Foreign Exchange Reserve Fund	<b>8,000</b>	1999
<b>Kazakhstan</b>	National Fund	<b>5,200</b>	2000

# Oil Exports: Current Priorities

- Avoid transit routes
- Diversify markets
- Upgrade "Urals" blend
- New production in Eastern Russia
- More geological exploration and development
- Build a new pipeline to the Pacific coast ("Project of national significance")



# Oil and Gas Exports, 2002 and Forecasts, 2020 (High case)

	Western markets 2002	Western markets 2020	Eastern markets 2002	Eastern markets 2020
Oil & Products, Mt	233	205	5	105
Gas, Bcm	186.4	275	--	50
Coal, Mt	37	20	10	20
Total, Mtce	583	585	17	250

# Eastern Siberia – Pacific Ocean (VSTO) Project

## Phase One (2008):

Taishet-Skovorodino

2,400 km

\$6.6 Billion

30 Mt per year

Sea terminal at Perevoznaya Bay

## Phase Two (2011 or later):

Skovorodino-Perevoznaya Bay

2,000 km

\$4.9 Billion

50 Mt per year

Taishet-Skovorodino expansion to 80 Mt

## Other Projects Related to VSTO Pipeline

First, Rosneft itself made a decision on construction a feeding pipeline, connecting its Vankor fields in Krasnoyarskiy Krai with the Transneft's system. It will be 350 km long with annual capacity of 18 Mt, the volume Vankor will produce in 4-5 years after the beginning of production.

Second, the Talakan field in Yakutia could produce 8-10 Mt of oil by 2010-20012. Surgutneftegaz, the project operator, also announced its plans to build a feeding pipeline that on the way to the south could also connect Verkhnechonskoe field to the VSTO pipeline.

Third, for the TNK-BP, the eastward-oriented projects also likely to be the priority direction, including the development of Verkhnechonskoe field with 201.6 Mt in reserves. The indication is the recent decision by the company to allocate \$270 million for the test phase of oil production and plans to coordinate production with the VSTO pipeline project.

Fourth, the Natural Resources Ministry has published a list of 104 blocks that to be offered for exploration by private companies. The list supplements a similar catalog of 137 prospects published earlier.

# Uncertainties and Development Approach

*Only about 1,500 Mt is currently available in Eastern Siberia and the Far Eastern Region:*

1. Move available <sub>2</sub> volumes of oil to <sub>1</sub>
2. Exploration work program supported by Government  
*(add 1,500 Mt to reserves and 1,500 Mt to resources)*
3. Legislation: Amended Law on Subsoil Use
4. Comprehensive licensing to developers
5. Exceptional development rights for "strategic projects"
6. State control over the delivery infrastructure (pipelines)
7. New role for GAZPROM and ROSNEFT

## Sakhalin Offshore Oil Reserves (Mt)

	Reserves	Production Peak
Sakhalin-1	305	12
Sakhalin-2	185	9
Sakhalin-3	450	20
Sakhalin-4	320	7
Sakhalin-5	900	40
Sakhalin-6	180	5
Other	100	3
<b>Total</b>	<b>2,440</b>	<b>--</b>

## Natural Gas in Eastern Russia

	2010	2020	2030
Extracting potential	60	160	190
Regional domestic demand	15	29-35	44
Additional domestic demand	15	51	80
External demand	17	40	50
Anticipated production range	32-47	79-130	130

## New Gas Production Centers (Bcm)

	Resources	Extracting potential
Krasnoyarsk	12,000	35
Irkutsk	8,000	46
Yakutiya	10,000	53
Sakhalin	6,000	56

# Natural Gas: Uncertainties and Concerns

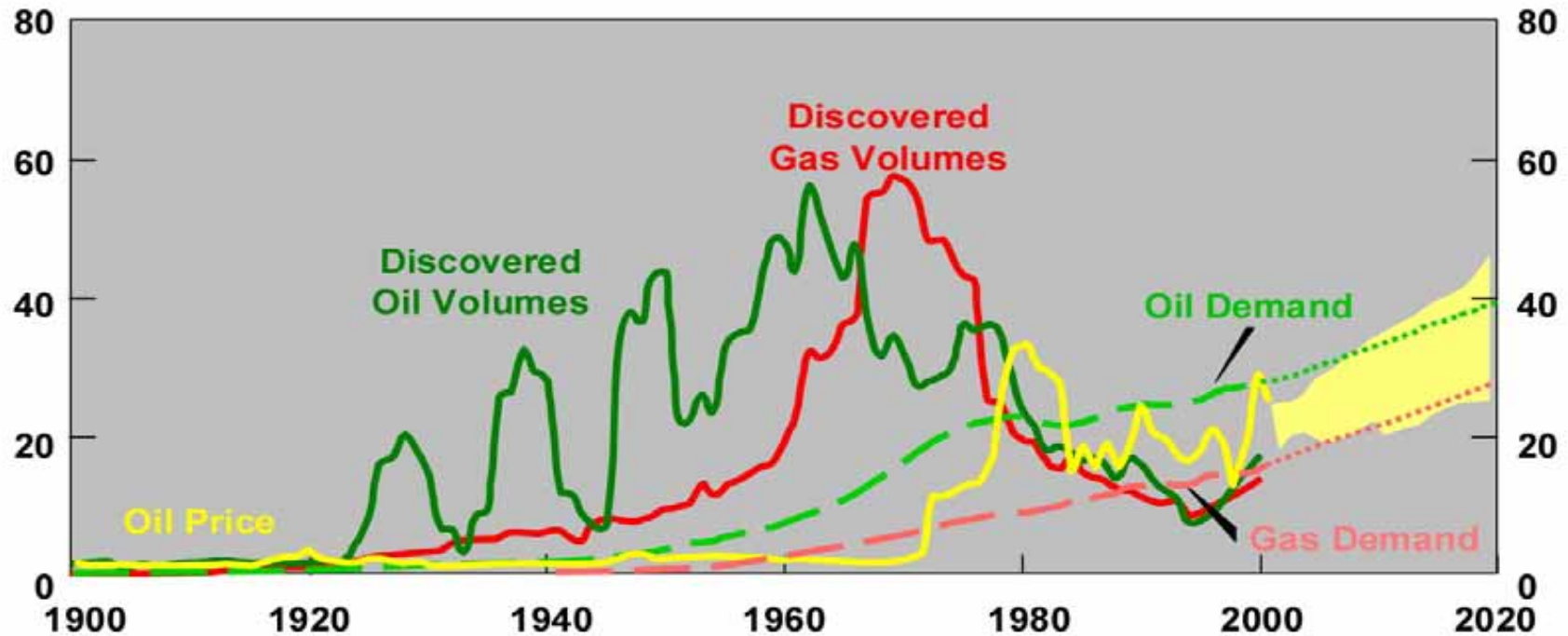
- The future of Kovykta project, prospects for separation of helium and its storage
- The separation of other valuable components for export-oriented industrial use
- Prospects for gas transformation technologies and exports of liquids
- Prospects for region-to-region export supply projects
- Prospects for new urban areas development
- Prospects for agricultural settlements improvement
- The protection of the coal industry interests in Eastern Russia
- Pricing, domestic and international
- Uncertainties related to exports pipelines to China and Korea



# Oil Price Projections by ExxonMobil

## Historical Perspective

Billions of Oil-Equivalent Barrels / US Dollars



US Dominated  
Exploration

Global  
Expansion

Post WWII  
Growth

OPEC/  
Nationalization

Globalization/  
Mergers

Technology  
Breakthroughs

Seeps, surface exploration

2D Seismic

3D Seismic

Visualization

Direct Hydrocarbon  
Detection?

## METI's FY 2006 Economic and Industrial Policy: Key Points

### *Securing stable energy supply by strengthening fuel strategy:*

- independent development of oil and natural gas in such strategic areas as Russia
- diversification of supply sources
- protection of Japanese mining rights in the East China Sea and other areas
- strengthening Japan's relationship with oil and gas supplier nations
- promotion of natural gas-related research and development.

## Sakhalin Offshore Gas Reserves (Bcm)

	Reserves	Production Peak
Sakhalin-1	485	20
Sakhalin-2	800	13
Sakhalin-3	1,400	50
Sakhalin-4	950	25
Sakhalin-5	1,250	50
Sakhalin-6	400	5
Other	225	4
<b>Total</b>	<b>5,510</b>	<b>--</b>

## Prospects for Electric Power Exports (1)

- In Japan, the commercial and residential users of electricity together formed the leading source of demand
- In South Korea, this turning point in the demand equation could be reached soon
- the demand for electricity in China already surpassed the combined demand on the part of Japan and South Korea
- 2020—the target year set by the Chinese government for quadrupling the size of its GDP

## Prospects for Electric Power Exports (2)

The policy component behind the cross-border power interconnections currently under review may have a very significant influence on the long-term investment plans and specific projects.

There are indications that such policy support could be available in case of the trans-border transmission projects between Russia and China.

On the other hand, the chances of building a trilateral consortium, involving the DPRK, the ROK and Russia are less favorable

What is possible is a trilateral agreement between Russia, China and the ROK.

# Conclusions

## LINKED CHALLENGES:

- energy security
- rising energy prices
- climate change

## RESPONSES:

- (1) the development of the most cost effective policy mechanisms
- (2) coordinated international policy framework
- (3) other