Briefs on Northeast Asia

China Becomes the World's No. 1 Energy Consumer

Guangzhou, China – China has become the largest energy consumer in the world, experts told the country's main government news agency today (February 26, 2011). According to the state-owned Xinhua News Agency, China consumed a total of 3.25 billion metric tons of standard coal in 2010.

The number is provided by the Beijing-based China Energy Society (CERS). CERS vice president Mr. Zhou Dadi says as quote, "China has overtaken the United States to be the No.1 energy consumer in the world."

◆ China's Energy Intensity is as five Times as that in Japan

According to CERS, China's energy consumption increased 6 per cent in 2010. Mr. Zhou says as quote, "Last year, China's gross domestic product (GDP) overtook Japan's. This is the first time in the history. But Japan only consumed a total of 660 million metric tons of stand coal."

In 2010, China' energy intensity was as five times as that in Japan and as three times as that in the US, according to Mr. Zhou.

◆ Forecast: China's Energy Consumption will Keep Growing in 2011

CERS forecasts that China's energy consumption will keep increasing this year. But as the growth of GDP will slow down, the increase rate of energy consumption will slow down too. Most of the Chinese provinces will get enough energy supplies. But the middle-China provinces may face energy shortage, according to CERS.

At the same time, China's energy intensity will decline, according to CERS. According to a report released one month ago by China's Bank of Communications, the country's GDP will grow by 10 per cent in 2011. As a result, the energy intensity will decrease about 3.6 per cent this year.

◆ China's Oil Expenditure Doubles

Mr. Zhou says that China bought crude oil at an average price of 61 US dollars per barrel in 2010. "We paid an average of 400 million US dollars per day for buying crude oil in 2010," Mr. Zhou told the Xinhua News Agency.

As the oil price jumped to over 110 US dollars per barrel due to the chaos in the Middle East and North Africa, China may have to pay much more than last year. Mr. Zhou says as quote, "Every time when the oil price increase 10 percent, China will have to pay another 50 to 60 million US dollars for buying crude oil."

As the hiking demand for energy could damage the country's energy security, China has set up a new plan to increase its supplies of green and renewable energies, including wind power, hydropower, nuclear power, solar power and biomass power, and slow down the growth of coal-fired energy, according to the National Development and Reform Commission.

(Suite101, 2.26)

China, U.S. Should Form Strategic Alliance in Clean Energy Development: U.S. Expert

It is in both China and the U.S.'s best interest to collaborate and have strategic alliance in developing clean energy, said a U.S. expert on Thursday in Chicago.

"If the U.S. and China decide to agree and cooperate on global energy-related concerns, it can result in a positive outcome for both countries. We all breathe the same air and buy the same commodities. We can certainly

coordinate our efforts in that regard," Richard Wottrich, Senior Managing Director of International Desk at a highly respected international M&A advisory firm The McLean Group, told Xinhua in an exclusive interview.
While admitting that the amazing challenges worldwide of limited resources, Wottrich pointed out, "Forming strategic alliance on clean energy technologies will take the pressure off the limited resources in the world. We should work together to clean up the air for everybody. Indeed it is in both China and the U.S.'s best interest to do that."
Wottrich has over 30 years experience in the financial service industry, providing business owners with exclusive representation and consultation in mergers and acquisitions. He has managed over 20,000 transactions ranging from start-ups and private placements to middle market acquisitions and divestitures. Wottrich has closed transactions in 15 countries, including China and India.
The expert further explained, "We have some technologies that might be useful to China and China has manufacturing capabilities that are useful to us. U.S. energy consumption is highly efficient compared to China. The U.S. has sophisticated energy technologies that can assist China in improving its energy industry. For example, the U.S. leads the world in natural gas fracturing technologies that have unlocked vast new gas reserves in America."
When commenting on China's energy situation, he said, "China has all the challenges of a rapidly developing economy including its inefficiency in power consumption. China is opening one new coal plant a week. China mines and consumes almost 50 percent of the coal used in the world which is not considered as a dependable and clean resource."
However, Wottrich is impressed with the way China has handled its energy requirements to sustain its 10 percent annual growth. "China has a centralized economic model that has produced some consistency in its internal energy markets. Consistency attracts investments. This coupled with China's rapid growth and vast population, has facilitated the construction of Wind Power Farms at a highly accelerating rate for an example," he exclaimed.
He applauded China for its leading role in the world in wind power and its excellent job in solar power. "That is where they can take pressure off the side effects of their growth," He said.
When asked his advice for China's clean energy development, he suggested that nuclear power is an interesting option for China.
"Nuclear power plants produce an emission free power, but of course leave behind radioactive waste. Proper and safe disposal of this waste has been a political and technical problem for decades. But at least it is clean energy and can help China reduce the coal it has to use. Technologies to make nuclear power plants both safe and secure, especially from terrorist attacks, have made progress," he explained to Xinhua.
According to Wottrich, roughly 14 percent of the world's power is nuclear with France representing the highest percentage at nearly 80 percent with 59 nuclear plants. Regarding the U.S., he said, "The political resistance to nuclear power in the U.S. and elsewhere has made the process of actually bringing a nuclear power plant on line a tortuous process that can take decades."
When commenting on the current trends in clean energy in the U. S., Wottrich explained, "The major trend in the U.S. has been in wind power and solar power, which received substantial amount of federal money from the

Recovery Act. However, often overlooked in the U.S. is that Hydropower is by far the largest source of Clean Energy in America, generating approximately 7 percent of America's electricity."

In addition, bio-fuels, notably ethanol, is also among those areas that get emphasis today in the U.S., according to Wottrich. "Fully 40 percent of the U.S. corn crop now goes into ethanol production, with the impact of escalating corn prices contributing to the current world crisis in food prices," he added.

Regarding the other energy sources used by the U.S. the expert said, "All other clean energy sources put together generate barely 3.6 percent. Coal accounts for 44.9 percent and natural gas for 23.4 percent. For transportation energy the U.S. imported 225 billion U.S. dollars in crude oil and refined distillates in 2010, 66 percent of its requirements."

(People's Daily, 2.25)

Is BP a Pawn in Russia's Energy Chess Game?

This was meant to be the week that Bob Dudley moved BP on from the Gulf of Mexico oil spill – just six months after fears of a break-up or even bankruptcy at Britain's biggest company.

On Tuesday the new chief executive heralded BP's return to financial health by reinstating its dividend. And he pledged to set BP on a path to becoming a "value, not volume, quality, not quantity" super-explorer.

In many ways, Mr Dudley had indeed succeeded in changing the topic of conversation.

For overshadowing the troublesome oil spill that has cost the company $40bn (£25bn), BP was engulfed in a new public tussle – played out not in Louisiana, but Moscow.

The great chess game of Russian energy politics forced BP into an extraordinary series of moves and counter-moves this week.

At the heart of the contest is the British energy major's desire to get its hands on the trophy of deepwater Arctic oil. Causing the controversy is BP's £10bn deal with Russia's state-owned oil company, Rosneft, that will allow it to explore for that technically difficult prize.

It is an alliance that Mr Dudley believes will transform the company's future. The companies have already shaken hands over a deal to explore Russia's north coast together and swap £5bn of shares.

All this has so far excluded BP's existing partners in Russia, the four billionaires known as Alfa-Access-Renova (AAR), who co-own the TNK-BP joint venture that produces a third of BP's oil output and annual dividends running into billions.

It didn't take long for the businessmen to make their extreme unhappiness known. They describe BP as an unfaithful spouse jumping into bed with another partner - and then proposing that all three live happily together. Insisting that BP has violated their current deal, they want to force BP to conduct its Arctic exploration through TNK-BP.

Although TNK-BP is an onshore oil and gas specialist, they are furious that BP's deepwater expertise should go to Rosneft rather than themselves. The British company could easily lend its deepwater experts to TNK-BP, they argue. Landing the first blow on BP's grand plan, they have obtained a court injunction stopping further talks with Rosneft. The two sides will now go for United Nations arbitration under Swedish law in London.

BP insists it has done nothing wrong, but Mr. Dudley admits that a solution in a "financial direction" – a pay-off – may have to be made to AAR.

A master of calming understatement, Mr. Dudley also described the Russians' court action against BP as a "time-out". Meanwhile, he insists the situation will "sort itself out" and maintains that relations between BP and the billionaires is "friendly".

Behind the scenes, the atmosphere is nowhere near so sugar-coated. Sources say there is very little trust left between BP and the billionaires - but insist that both sides are willing to work together for the sake of TNK-BP.

There is no doubting that TNK-BP is a cash cow – and that BP is valuable to both Rosneft and the billionaires for its technical expertise.

But as both sides stare at each other across the table, there is still great uncertainty over the ultimate strategies of the Kremlin, Rosneft, the billionaires and BP itself.

Is this simply an argument over a point of principle in a shareholder agreement? Is it a power struggle over TNK-BP? Or is it a bigger battle over Russia's energy resources between the state and the billionaires?

As the manoeuvring continues, it is becoming less clear whether BP is a major player on a par with the Kremlin grand-masters or just a pawn on the board.

Conspiracy theories abound in the City and Moscow. There are rumors that the Russian government wants to buy the billionaires – Mikhail Fridman, Viktor Vekselberg, German Kahn and Len Blavatnik – out of TNK-BP.

Although Rosneft denies it has been in talks with the billionaires, four independent sources confirmed to the Russian media that this had been on the table. There has even been a suggestion that the Kremlin supports the businessmen in their attempt to wring some money or assets out of BP - as long as Rosneft gets to complete the deal in the end.

It is also unclear how deep the bad feelings between BP and the billionaires actually run. Some believe that AAR is simply posturing to see how much it can get, given its history for tussling over assets. AAR denies this, saying it is simply trying to ensure TNK-BP is involved in the deal. Others say the relationship is more permanently wounded.

The hostility is reminiscent of 2008, when Mr. Dudley was in charge of TNK-BP, but hounded out of Russia with visa problems, alleging his staff were being harassed.

According to Wikileaks diplomatic documents released this week, Mr. Dudley was exiled for daring to challenge the corporate governance practice of the oligarchs.

The reason, perhaps, that BP's share price has not been hit by the latest Russian spat is that the two sides managed to repair their working relationship after that bitter argument.

Once again, both BP and the billionaires are claiming that the situation is serious and complicated, but "not irredeemable".

(The Telegraph, 2.05)

EU-Russia Talks Highlight Divisions on Energy

Russian Prime Minister Vladimir Putin criticized the European Union's rules on energy infrastructure on 24 February, underlining a failure to make progress in energy talks. Speaking to reporters after discussions with European Commission President Jose Manuel Barroso, Putin said the EU's rules on the ownership of pipeline infrastructure, known as the third energy package, were a confiscation of assets. "The third energy package, it is quite clear, will harm the activities of our energy companies," Putin said, adding it would drive up the costs of energy for EU consumers. "We are talking in practice about the confiscation of property."

His comments followed a morning of closed-door meetings between over a dozen Russian government ministers and two dozen members of the commission on economic and political ties.

Jose Manuel Barroso, President of the EC, and the College of the EC hosted last Thursday 24 February a delegation from the Russian Government led by Vladimir Putin, Russian Prime Minister. Discussions focused on the full range of relations between EU and Russia, on support to Russia's modernization process, trade and energy matters.

In 2009, the EU adopted major energy reforms aimed at boosting competition and efficiency by, among other methods, forcing firms which sell energy to loosen their grip on pipelines and power grids. Russia sees that as an attack on its major players, such as Gazprom.

Defending EU rules, Barroso said the Commission has led a push to diversify Europe's sources of energy, something which would reduce Russia's influence. "We believe the Third Energy (legislative) Package is non-discriminatory, and what we ask foreign companies is to accept the same rules we implement with our own companies," he insisted.

However, both leaders stressed that their differences could be solved by negotiation. Putin said Russia "will try and prove the advantage of our approach," while Barroso said the EU understood Russia's concerns and would try to answer them.

The two sides are currently negotiating a wide-ranging cooperation agreement and a deal to help modernize the Russian economy, and are in talks on the possibility of offering Russian citizens visa-free travel to Europe, something Moscow wants keenly.

Both leaders said that their meeting had been "fruitful" and "productive", and praised one another for their "open" attitude.

However, there was little sign of a breakthrough on any of their major differences. Barroso, for example, said that the EU would "like to see this (cooperation) agreement have substantial trade and investment provisions, including on energy." But Putin said that Russia "believes that it should be a framework agreement, and that the principles of cooperation in different sectors should be fixed in separate relevant agreements."

Chris Weafer, chief strategist at Moscow's Uralsib bank, wrote in an e-mailed note to investors on 23 February that in the "energy for trade" barter that has dominated talks between both sides over the past ten years, it is "advantage" Russia for now.

Russian gas monopoly Gazprom, which has been a significant under-performer on the Russian market through 2008, 2009 and until late last year, is the main proxy for any new deals agreed on energy this year. Russia finally joining the World Trade Organization (WTO) – expected on January 1st 2012 at the latest – will be a big positive for the whole Russia story and for asset valuations, Weafer wrote.

"Although the spreading violence and instability in North Africa puts at risk the global economic recovery, an event that would hit everybody hard, for now at least Russia is in a very favorable position. The fiscal position is benefiting from much higher oil revenues than expected and rating agencies must upgrade the country's debt rating very soon. The country's energy based geo-political importance is also improving with every new headline from North Africa and the Gulf. This year, Russia will – hopefully – take full advantage of both circumstances," Weafer wrote.

Russia's ambassador to the EU had already warned that last weeks' talks will be difficult. "Russia sees itself to be in a much stronger position concerning energy supplies and will use that to press hard for EU support for WTO entry by the end of 2011. Membership of the international trade body is seen in Moscow as one of the key elements in the government's efforts to attract higher levels of foreign investment into the economy," Weafer wrote. "After skirmishing around the issue since the mid 1990's, Moscow now urgently wants to join the WTO because without higher levels of F.D.I. – and the active involvement of foreign companies in JV and PPP roles – the economy is in danger of sustained low growth, higher oil price vulnerability and the social and political consequences implied," Weafer wrote.

The reasons that Russia views its "energy bargaining", or perhaps "energy bartering" position as being stronger than in the last ten years is because the alternative options, which seemed safe only last year, now look a lot less reliable than energy supplies from Russia, Weafer wrote. Specifically; Transit disputes with Ukraine have been fully resolved; Transit disputes with Belarus cannot be more than irritations from time to time; The Nord Stream pipeline system is well progressed and will eventually make the EU even more reliant on Russian gas imports. Phases I and II have a capacity of 55 billion cubic meters; South Stream is much more likely to be built than the floundering Nabucco pipeline system and will add a minimum 30 billion cubic meters to exports; Shale Gas looks less of a significant alternative in Europe than at first thought; Price competition from LNG is also now less of the significant threat than was thought a few years ago. Major exporters, such as Qatar, are in no mood for a price war and are in contact with Moscow about price structuring; Uncertainty over supplies from North Africa and the threat of contagion to bigger producers in the Gulf; The very real threat that Nigeria will be next; China's insatiable demand for imported energy – made real with the opening of the ESPO oil pipeline and the probability of a gas export deal during this year – means that Russia has very viable alternatives to the EU export market. Product from Novatek's LNG project will also more likely sail east rather than west when completed.

Staying the world's biggest energy producer is the number one priority for Russia. Russia is the biggest energy supplier to the EU, in terms of piped gas, crude and refined oil. It is also the most important route for Central Asian oil and, to a lesser extent, gas to western markets, Weafer wrote. Russia is also now much more important as an energy supplier to China and that role will expand with the expected gas export pipeline. The planned development of projects in Sakhalin and the expansion of the East Siberia Pacific oil pipeline will mean that the country's importance across all of northeastern Asia and to the west coast of the United States will increase further, Weafer wrote.

(New Europe, 2.27)

Uranium Chronicles of Mongolia

Khan Resources Inc. Continues to create headlines in a saga of operational impediments which investors and observers have followed as they have been developing and escalating for more than a year.

Previous litigious filings by Khan have sought damages from Atomredmetzoloto JSC (ARMZ) and its affiliate JSC Priargunsky Industry Mining and Chemical Union (JSC PIMCU) for breach of fiduciary duties as one of the company's joint venture partners and a shareholder of Central Asian Uranium Company, LLC (CAUC) and general damages resulting from their unlawful interference with the plaintiffs' economic relations and business interests.

Earlier in February the Russian Ministry of Justice notified Khan that it refuses to effect service on ARMZ, citing Article 13 of the Hague Convention. Article 13 provides that "the State addressed may refuse to comply therewith only if it deems that compliance would infringe its sovereignty or security."

◆ Mining License

In January, Khan announced that it has formally commenced an international arbitration action against the Government of Mongolia for, "its expropriatory and unlawful treatment of Khan in relation to the Dornod uranium deposit located in northeastern Mongolia." An arbitration Tribunal of three will be appointed in the near future with each side appointing an arbitrator followed by the selection of president of the Tribunal by the two appointed arbitrators. The claim seeks over US$200 million in compensation for losses and damages.

The arbitration, which is brought by Khan and several of its subsidiaries, will take place under the Arbitration Rules of the United Nations Commission on International Trade Law, and asserts claims under the Energy Charter Treaty, the Foreign Investment Law of Mongolia, and the Founding Agreement between Khan and the Mongolian Government.

These developments follow an announcement last November from the Nuclear Energy Agency of Mongolia that it would not reinstate the licenses that Khan holds on the Dornod uranium property, but which the government cancelled in order to pursue the project without the company.

◆ Still Profitable

Yesterday Khan posted a net income of $34,000, or break even on a per share basis, compared with a loss of $826,000, or 2 cents per share from last year's results. The company recovered $522,000 in income tax during the quarter. The share price has climbed almost 19 percent from the beginning of the year to trade within its current range of 57 cents.

On Friday Cameco, reported adjusted earnings per share in the fourth quarter of 48 cents, posting a very strong result with the consensus view targeting 27 cents. Earlier last month the company had experienced some operational challenges. Strong outperformance was attributed primarily to a higher realized uranium price of $48.50 per pound and lower than expected operating costs. The current share price in the range of $43.30 has appreciated 15 percent since achieving a year to date low on January 21 of $37.78. TD Newcrest analyst Greg Barnes raised his price target by $6 to $51 per share and maintained a "buy" recommendation, reflecting his more bullish view on the uranium market. UBS analyst Brian MacArthur also hiked his price target but was somewhat more cautious with a 12-month target revised to $47 from $44.

◆ Spot Market Price Outlook

This week, the spot uranium price continued to maintain its position in the $73.00 per pound range as reported by both TradeTech and Ux Consulating. Yesterday, Mr. Barnes raised his uranium price forecasts for 2011 through 2014, as well as in the longer term.

He now anticipates the spot market uranium price to average $75 per pound in 2011, a 20 percent increases from his previous forecast. His longer term price, which starts in 2016, was also raised to $70 a pound.
(IB times, 2.17)

Capital Dynamics Sees Renewable Energy Growth After Japan's Nuclear Crisis

Capital Dynamics Ltd., a Swiss private equity firm with more than $20 billion in assets, expects demand for alternative energy investments to grow after Japan's earthquake led to the worst nuclear disaster since 1986.

Demand for renewable energy sources may increase in Japan, where the industry has been dominated by Tokyo Electric Power Co., providing opportunities for independent power producers, said Capital Dynamics Chief Executive Officer Thomas Kubr. The accident may also lead to a regulatory system that would give "sufficient support" for alternative energies, he said.

Policymakers worldwide are reevaluating their commitment to nuclear power, a carbon-free generation source, after the magnitude-9 temblor and tsunami on March 11 crippled Tokyo Electric's nuclear plant in Fukushima. Investment in so-called clean energy, including wind, solar and biofuels, totaled $243 billion last year, according to Bloomberg New Energy Finance.

"Very clearly, the Fukushima issue will cause a major shift in thinking about nuclear power all over the world," Kubr said last week in an interview in Tokyo where he was on a business trip. "What that really means is that for clean energy infrastructure, there will be bigger demand and will require more focus on that type of investing."

Capital Dynamics runs clean energy funds that focus on infrastructure projects with expected cash returns of 15 percent to 20 percent, managing director Karl Olsoni said in an interview in December, declining to provide details of existing funds including assets managed and investments.

◆ Less Polluting

The company, which hasn't yet invested in clean energy projects in Japan, may start allocating money earlier than it planned because of the disaster, Kazushige Kobayashi, managing director of the firm's Tokyo office, said in the same interview.

More than 27,000 people are dead or missing after the quake and tsunami. The nuclear disaster is rated 5, the same degree of severity assigned to the Three Mile Island accident near Harrisburg, Pennsylvania, in 1979. The world's worst nuclear accident was the level 7 disaster at Chernobyl, Ukraine, in 1986.

China, India and Britain are among countries that have said they would review what happened in Japan before moving forward with new nuclear power stations favored over traditional coal power because they pollute less.

In the U.S., nuclear power, together with solar and wind, is among the energy options in President Barack Obama's plan to require that 80 percent of U.S. electricity comes from low-polluting sources by 2035.

◆ Asia Expansion

Capital Dynamics has hired a compliance and regulatory officer since opening its Tokyo office in November, bringing the number of employees to three. The firm plans to open an office in Beijing in the next few months and another one elsewhere in China by the end of the year as part of an expansion in Asia, said Kubr, who is based in Zug, Switzerland.

During his visit to Japan, Kubr met with institutional investors including banks and insurers that are saying that “business is stable and they have not stopped investment after the earthquake,” Kobayashi said. The only exception was the casualty insurers that are assessing the damage, though the impact would be a temporary one, he said.

“In a sense, it’s not big damage as far as investments are concerned,” Kobayashi said. “They are cautious, but they have not changed their plans.”

Capital Dynamics, which has been doing business in Japan for five years, won its first mandates from local institutional investors this year, according to Kubr. To meet demand, the firm is exploring a Japan-focused fund of funds and raising dedicated funds from local investors, he added.

“Japan is a long-term journey, but if you’re committed to the country the reward will be there,” Kubr said. “In a time like this, we don’t change our plans. We are committed to Japan and the operation here.”

(Bloomberg, 4.11)