Russia’s External Energy Policy and Cooperation with Asian States

Igor V. Scheulov
RF Ministry of Industry and Energy

Dear guests and participants of the conference! On behalf of the Russian Ministry of Industry and Energy allow me to greet you and to wish you fruitful and successful work!

Russia possesses significant energy resources and has a well developed energy sector which serves as a basis both for economic development and for implementing internal and external policies.

Russia’s integration into the world circulation of energy resources, international cooperation in the field of developing and producing fuel and energy reserves, raising efficiency of their use and entering new energy markets are the key points of its national policy.

Russia’s external energy policy is aimed at:

- **strengthening its positions at world energy markets**, using the energy sector’s export potential in the most efficient way, raising competitiveness of its products and services at the world market;
- **setting up non-discriminatory approach towards foreign economic activities in the energy sector**, making foreign markets of energy resources, financial markets and advanced energy technologies available for Russian energy companies;
- **assisting in attraction of reasonable foreign investments** on mutually beneficial terms and conditions.

Given these tasks the policy in the energy sector provides for:

- getting maximum profit for the state from the foreign economic activities with attention to assessing related policy impacts in the field of export, import and transit, and presence of Russian companies at world energy and capital markets;
- encouraging diversification of export commodity composition, increasing export of products with higher added value;
- diversifying the energy markets, expanding geographical presence of Russian companies at world markets if such expansion is economically viable;
- facilitating of projects related to attracting foreign capital to Russia;
- developing new forms of international cooperation in the energy sector;
- creating mechanisms for coordinating state policy in the field of foreign trade regulation in the energy sector.

It is strategically important for Russia to strengthen its positions at world oil and gas markets so that it could take full advantage of its export capabilities in the energy sector and contribute to the **national economic security while remaining a stable and reliable partner both for European and Asia-Pacific states**.

Russia’s strategic interests call for creating a unified energy and energy transportation infrastructure in the adjoining European and Asian regions, developing international energy

transportation systems and ensuring non-discriminatory transit of energy carriers. For these purposes the government will encourage participation of Russian joint stock companies and enterprises in the development and implementation of large-scale projects related to oil and gas transportation both in the western and eastern directions.

Thanks to Russia's unique geographical and geopolitical location there are prerequisites in place to ensure that transit of energy resources provides for the security of national fuel and energy supplies, their efficient export and profit from transit processes.

For the purpose of ensuring fair energy prices, Russia as one of the largest world producers, exporters and consumers of energy resources will hold active dialogs with energy producing and consuming countries by participating in international energy conferences, cooperating with industrialized states on the basis of a declaration on cooperation with the International Energy Agency and in the framework of the G8, as well as by means of interaction with leading oil exporters both independent ones and OPEC member-states.

Allow me now to provide you with a more detailed overview on Russia's prospects for participating in the development of economic cooperation at Asian energy markets.

In the 21st century the Asia-Pacific region will become the largest consumer of hydrocarbons. This region sees development of new economic centres (China, South-East Asia), with increased demand for energy resources. At the same time the internal oil and gas reserves in the Asia-Pacific states are relatively small.

The energy sector is an important and mutually beneficial area of cooperation for Russia and Asia-Pacific states**. Russia has proven itself as a reliable supplier of energy resources to western Europe and is striving to take the same position at Asia-Pacific markets.**

This has been reflected in the **Energy Strategy of Russia up to 2020** approved by the Russian Government last year. In particular the document provides for:

- **advanced development of oil and gas sector in the eastern part of Russia;**
- **formation and development of new large gas producing provinces and centres in Eastern Siberia and the Far East;**
- **Russia's entering Asia-Pacific oil and gas markets**.

Annual oil and gas production in Eastern Siberia and the Far East is expected to reach 105 mt and 100 bcm respectively by 2020. The main sources for oil and gas production will be the hydrocarbon fields in Krasnoyarsky region, offshore fields in Sakhalin, as well as Kovyktinskoe gas condensate field in Irkutsk region and Chayandinskoe oil and gas condensate field in the Sokha Republic (Yakutiya).

The fields on the Sakhalin continental shelf are of great importance as they contain significant hydrocarbon resources. At present "Sakhalin-II" is the most rapidly developing oil and gas project in the Far East region of the Russian Federation.

In 1999 in the framework of that project Russia has first seen industrial oil production at a stationary offshore oil platform. As a result during five production seasons Russia supplied about **6.7 mt** of high quality oil to Japan, China, South Korea, Taiwan, USA and Philippines.

The date of first development at Lunsky field was announced on 15 May 2003 marking the official start of the second stage of the “Sakhalin-II” project which is a complex oil and gas initiative providing for production of 9.6 mt of liquefied natural gas per year. First supplies of LNG are scheduled for 2007.

Several contracts have been already signed with four leading Japanese companies for LNG supplies for the period of more than 20 years:

Tokyo Gas – LNG supply of 1.1 mt per year
Tokyo Electric – LNG supply of 1.5 mt per year
Kyushu Electric – LNG supply of 0.5 mt per year
Toho Gas - LNG supply of 0.3 mt per year

The total volume of contracted gas supplies has already reached 3.4 mt per year. More agreements are expected to be signed with Japanese companies. Currently under consideration are also some LNG supply options for Korea, China, and the US and Mexican west coast.

Development of hydrocarbon resources in Eastern Siberia is seriously hindered by the lack of transportation infrastructure. In this connection the Russian Ministry of Industry and Energy together with other ministries and bodies as well as energy companies provides for a set of measures for developing hydrocarbon pipeline transportation system in the Russian Federation including:

To the end of **2004**:

- updating the Programme on creating a unified gas production, transportation and supply system in Eastern Siberia and the Far East taking into account possible gas export options for Chinese and other Asia-Pacific markets;
- designing the construction of “Taishet-Pacific Ocean” oil pipeline;

In **2005**

- consideration of the project on the general development of the **Russian gas sector** prepared by Gazprom;
- elaboration of the project on the general development of the Russian **oil sector**

The draft of the **Programme** on creating a unified gas production, transportation and supply system in Eastern Siberia and the Far East taking into account possible gas export options for Chinese and other Asia-Pacific markets was reviewed during the session of the Russian Government on 13 March 2003 and taken as a basis. At present the draft is being further elaborated.

The Programme is based on the following key principles:

- integrated approach to development of gas resources of with attention to all the internal and external factors, maximization of social and economic benefits for the country;
- **priority is given to gas supply of Russian consumers based on the expansion of the Russian unified gas supply system to the East;**
- **single export policy based on one gas exporter.**

The following fields are considered as a basis for the gas sector development in East Siberia and the Far East:

1. **Kovyktinskoe gas condensate field in Irkutsk region with C1+C2 reserves amounting to about 2 tcm;**
2. **Chayandinskoe oil and gas condensate field in the Sokha Republic (Yakutiya) with C1+C2 reserves totalling 1.2 tcm. Additional seismic analysis and deep drilling is required.**
3. **Yurubcheno-Tokhomskoe and Sobinsko-Paiginskoe fields in Evinkiysky Autonomous Region serve as a basis for creating the third regional gas production centre**

Taking into account the existing reserves, the annual gas production is estimated at:

- 31 bcm for Kovyktinskoe field;
- 22 bcm for Chayandinskoe field;
- 18 bcm for Yurubcheno-Tokhomskoe field.

The investment needs for implementing the Programme up to 2020 will be about US$ 40-50 bln.

In general, the period up to 2010 will be used by the government for creating conditions for possible gas supplies to Asia-Pacific states. During the period up to 2010 the demand from the main potential consumers of Russian gas such as China, Korea, Japan and USA is expected to be covered by self-production and long-term contracts for purchasing LNG and natural gas. Only after 2010 China and Korea are expected to slowly increase their demand for Russian natural gas, whereas by 2020 China's needs in pipeline natural gas will significantly increase to 50-60 bcm. North-Eastern, Northern, Eastern and Central parts of China are to become prospective markets.

As to **LNG** development, it will remain the main type of gas purchased by Japan and Korea. Furthermore, given their diversification policy on LNG supplies, and as soon as existing contracts expire (after 2010), there may be a market niche for Russian LNG. The option of exporting Russian LNG to USA requires additional studies and surveys, and will hardly be available until 2015-2020.

Prospects and scales of economic cooperation with Asia-Pacific countries in the context of the planned **oil pipeline system "Taishet-Pacific Ocean"** are of great importance as well. The project on constructing such a pipeline with the capacity of 80 mt per year is being developed in accordance with the Russian Energy Strategy up to 2020, which was approved last year, and is based on the analysis of long-term oil production and consumption forecasts for the Russian Federation and on the level of demand for hydrocarbon feedstock at Asia-Pacific markets.

In 2002 Asia-Pacific states consumed 992 mt of oil and oil products which is 28% of total world consumption. Forecasts indicate that oil and oil product consumption will increase to 1510 mt by 2010, to 1970 mt by 2020, and to 2205 mt by 2030.

Presently a Declaration of Intent to construct an oil pipeline system and Investment Feasibility have been prepared and submitted for a state expertise.

The main regions to fill the new oil pipeline system are Tomsky region and Khanty-Mansiysky Autonomous Region in West Siberia, as well as oil and gas provinces in East Siberia, of which Leno-Tungusskaya and Khatango-Vilyuiskaya are the largest ones.

The new oil pipeline will run across the territory of seven Subjects of the Russian Federation including Irkutsky, Chitinsky and Amursky regions, Republic of Buryatia, Jewish Autonomous Region, Khabarovsky and Primorsky regions. The length of the pipeline routed Taishet-Kazachinskoe-Skovorodino-Perevoznaya will be 4130 km.

Due to significant investment needs (round US$ 15-16 bln in prices of 2004), the project is to be implemented stage-by-stage using existing railway infrastructure.

As we see, Russia is prepared to broaden its energy cooperation with Asia-Pacific states **which will allow to diversify supply of Russian energy resources and to considerably strengthen our economic position and energy security in this part of the world**.

Thank you for attention.