Current Situation and Prospect for Joint Oil Pipeline Construction Projects in Northeast Asia: Japanese Perspectives

Session III: Toward An Integrated Energy Cooperation System in Northeast Asia

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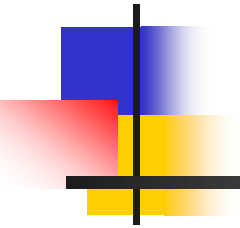
Outline

Ⅰ. Key Questions

Ⅱ. The Current Stage of *East Siberian ~ the Pacific Ocean* (ESPO) Pipeline Project

Ⅲ. Misperception v.s. Reality

Ⅳ. Impending Issues & Policy Proposals for Cooperation (= toward Sharing Responsibilities)



I. Key Questions

What must be taken into account?

Ⅰ. Key Questions

- Is *multilateral cooperation* possible over the ESPO project possible?:
  - (1) among consuming countries
  - (2) between the supplying and consuming sides.
- Is *geopolitics* the key to understand the current trend?
- Can Russia play a significant role in NE Asia?
- Can Russia make the best of its *potential* in the eastern dimension?

Ⅱ. The Current Stage of *East Siberian ~ the Pacific Ocean* (ESPO) Pipeline Project

- What has Developed?
- What is still Lacking?

Ⅱ-1. The ESPO Pipeline's Route Map

Ⅱ-2. Current Stage of Bilateral Relations: Moscow's "Dashed" Strategy for Geopolitical（zero-sum）Games

(1) with China: "Phony energy partnership"

(2) with Japan: The Delusion That "'Middle East Risk' = Japan Desperately Wants Russian Oil"

(3) Eastern Siberia ~ the Pacific Ocean Pipeline: Dream Project or *Pipe Dream*?

II-3. Uncertainties, Concerns, Unsolved Issues

Pipeline has been built rapidly, *BUT*…

- Prospect for securing stable amount of reserves and production is unfounded.

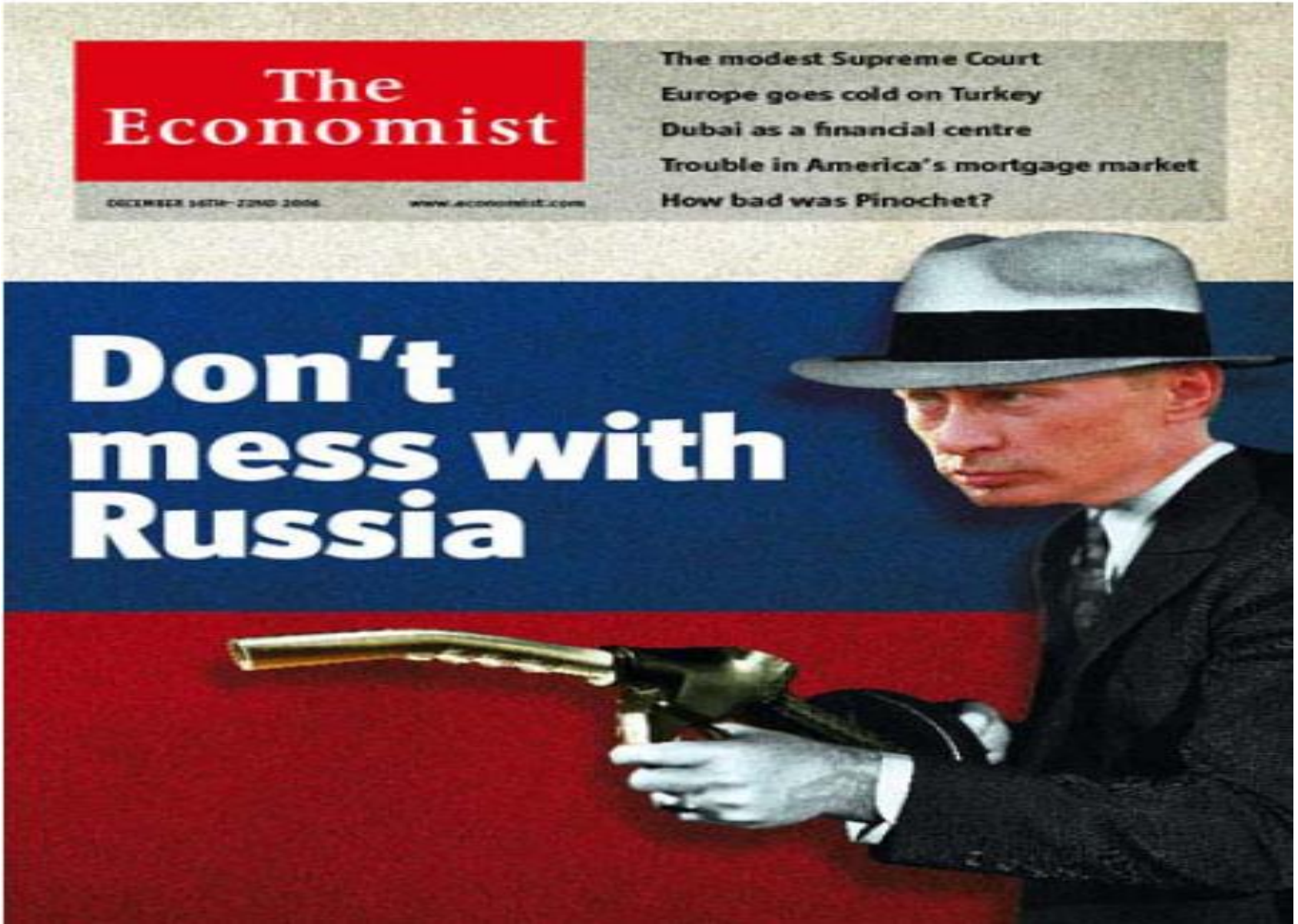
- Unexplored, unknown amount of proven reserves
  → Potential reserves (= classified merely as "resources") virtually mean "nothing" for foreign investors in a practical sense.

- Underdeveloped and even worsening investment climate → Higher investment risks

III. Misperception v.s. Reality

International Relations are a Game of *Perception* and *Misperception* for the better or the worse.

III-1. Global Image of Russia as an Energy Power



III-2. What is Energy in Russian Diplomacy?

The 1st paragraph of the *Russian Energy Strategy toward 2020* (published August 2003):

"Russia has a considerable amount of energy resources and fuel-energy complex's capability, which is a basis for economic development and implementation of domestic and foreign policies. The country's role in the global energy markets determines its geopolitical influence."

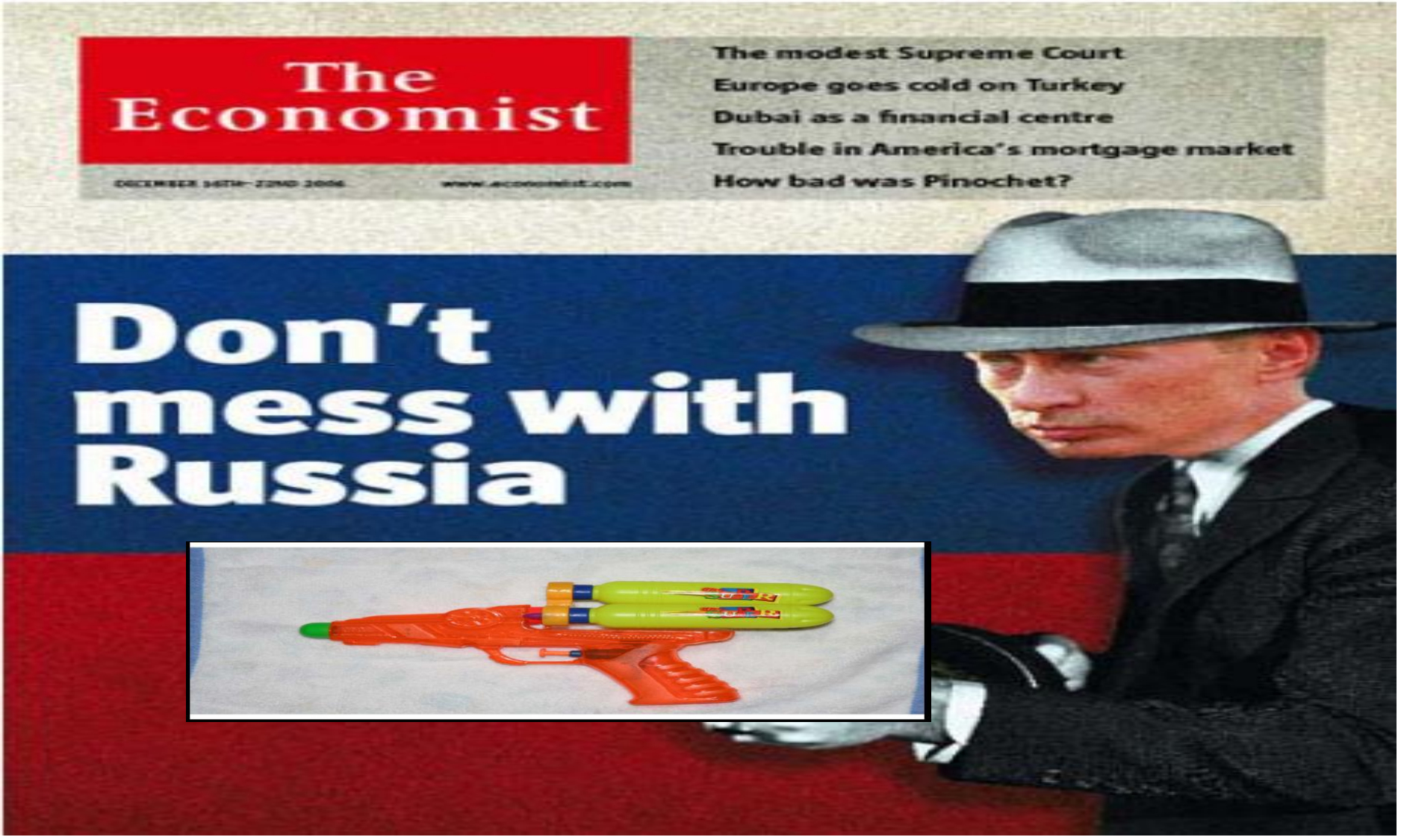
(underlined by the presenter.)

Ⅲ-3. Russia's Suspension of Energy Supplies

Date	Country	Energy
January 03	Latvia	oil
January 06	Ukraine	natural gas
	Georgia	natural gas
July 06	Lithuania	oil
October 06	Poland	natural gas
January 07	Belarus	oil

*Including temporary and resumed cases.

III-4. How Realistic Is It?: Just a "*Joke*"?



Ⅲ-5. Entangled Perceptions

Question:

Can Russia really use energy as "weapon"?

Epistemologically → Hardly deniable.
(beyond Russia's intention)

Ontologically → Questionable;
(Russia's capability) More difficult toward Asia.

III-6. Is it Really a Weapon?: Who is *Paranoid*?

(1) How many bullets does his gun have?

(2) Perhaps, is it just a water gun?

(3) Can they refill the bullets (= reserves)?:

Who and how?; What is the time span?

(4) Is Russia's "gun" menacing or suicidal?

III-7. Does "Black Gold Rush" Await US?:
Crude Oil Production Forecasts in Eastern Russia toward 2030
(Million tons)

	2004	2005	2010	2015	2020	2025	2030
Sakha Republic							
Srednebotuobinskoe	0.01	0.02	0.81	2.13	2.17	2.17	1.75
Talakanskoe	0.20	0.30	1.60	5.21	5.21	5.11	4.51
Chaiandinskoe	0.00	0.00	0.10	0.95	2.12	2.12	2.12
Verkhnevilyuchanskoe	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Srednevilyuiskot	0.18	0.09	0.25	0.28	0.28	0.27	0.25
Other deposits expected to be discovered	0.03	0.03	0.60	0.80	1.00	3.50	14.97
Subtotal	0.4	0.4	3.4	9.4	10.8	13.2	23.6
Irkutsk Oblast							
Kovyktinskoe	0.00	0.01	0.54	0.94	1.09	1.09	1.09
Verkhnechonskoe	0.00	0.00	0.81	6.94	9.34	9.34	8.84
Dulisminskoe	0.01	0.02	0.05	0.30	0.31	0.31	0.29
Iaraktinskoe	0.05	0.06	0.30	0.55	0.60	0.60	0.50
Other deposits expected to be discovered	0.02	0.02	0.02	0.40	2.10	5.50	19.28
Subtotal	0.1	0.1	1.9	9.1	13.4	16.8	30.0
Krasnoiarsk Krai (including Evenki Autonomous Okrug)							
Yurubcheno-Tokhomskoe	0.04	0.06	4.07	14.38	21.42	21.43	21.43
Kuyumbinskoe	0.02	0.04	3.00	8.05	11.05	11.06	11.06
Sobinskoe	0.01	0.01	0.04	0.39	0.82	0.62	0.5
Other deposits expected to be discovered	0.00	0.00	0.10	0.70	2.50	6.90	23.41
Subtotal	0.1	0.1	7.2	23.5	35.8	40.0	56.4
Eastern Siberia & Sakha Republic							
	0.6	0.6	12.5	42.0	60.0	70.0	110.0
Sakhalin Oblast							
Sakhalin I (Lunsk, Pil'tun-Astokh)	1.6	1.7	8.5	8.5	8.5	8.1	7.3
Sakhalin II (Chaivo, Odoptu, Arktun-Dag	0	0.1	12.5	12.5	12.5	12.5	12.1
Other deposits expected to be discovered	2.1	2.2	2.0	4.0	9.0	12.0	15.6
Subtotal	3.7	4.0	23.0	25.0	30.0	32.6	35.0
Eastern Siberia & the Far Eastern Region							
Total	4.3	4.6	35.5	67.0	90.0	102.6	145.0

Ⅲ-8. Russian Crude Oil Reserves by Region and Category as of Jan. 2002 (1 billion tons)

	A+B+C1	C2
Western Siberia	12.2	6.4
Eastern Siberia	0.4	0.6
Northern Region	1.5	0.7
Urals & Volga Region	3.7	0.4
Far Eastern Region	0.5	0.3
Total	18.3	8.4

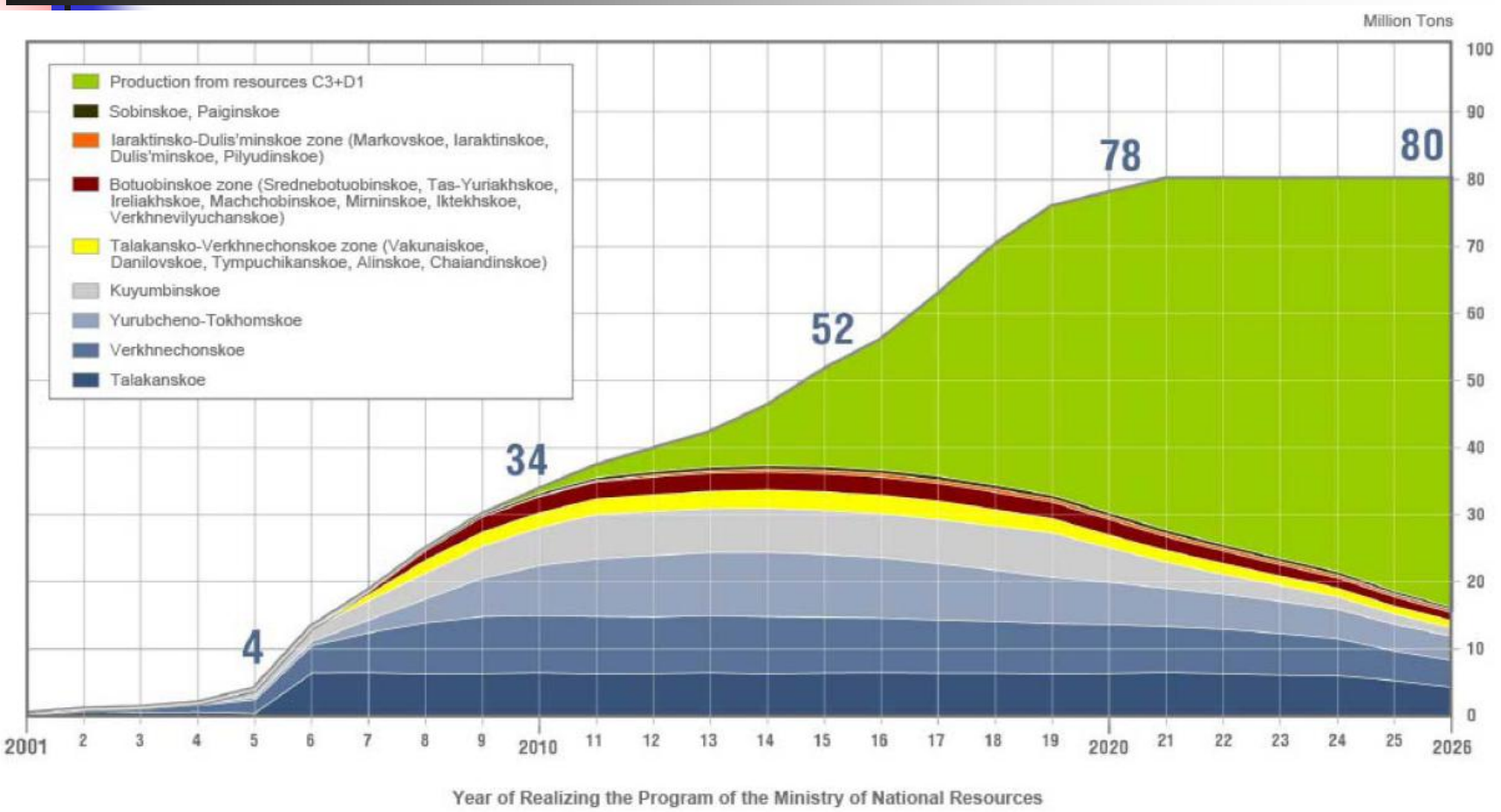
Source: State Reserves Committee

III-9. Approximate correspondence of Russian and foreign classifications of Reserves

Russia			**US, Canada, Saudi Arabia**				**France, Germany, The Netherland**
Reserves	Explored	**A**	Identified	Demonstrated	Drilled	Proved	Proved
		B			Undeveloped		
		C1			Indicated	Probable	Probable
	Appraised	**C2**		Inferred			
Resources	Prospective	**C3**	Possible				
	Predicted	**D1**	Hypothetical				
		D2	Speculative				

Source: Ministry of Natural Resources / *The Russian Energy*, No.22 (263), 9 June 2007.

III-10. Estimated Volumes of Crude Oil Production in Eastern Siberia and the Sakha Republic



Source: Russian Ministry of Energy and Industry (2007)

IV. Impending Issues & Policy Proposals for Cooperation

What Is To Be Done?

Ⅳ-1. New Opportunities for Finding Common Interests: Who will benefit from Rivalries?

(1) Unknown, yet possibly huge potential in the long run.

(2) High investment risks → can be diversified and shared

- lack of legally settled schemes
- lack of transparency about reserves
- technological difficulties
- politicization of business

(3) Internationalization of developing Eastern Russia

→ global public good

Ⅳ-2. Policy Proposals

(1) Policy coordination among the consuming countries is the most essential.

→ the positive trend in Sino-Japanese energy cooperation should be further consolidated and bolstered within multilateral frameworks including South Korea, the United States, etc.

(2) Russia should stop geopoliticizing energy issues

→ Energy dialogue should be based on market (=business) principles.

→ Agreements at St. Petersburg G8 Summit (2006) must be strictly implemented.

St. Petersburg Plan of Action on Global Energy Security (July 2006)

We reaffirm our commitment to implement and build upon the agreements related to energy reached at previous G8 summits. We will enhance global energy security through actions in the following key areas:

- increasing transparency, predictability and stability of global energy markets;
- improving the investment climate in the energy sector;
- enhancing energy efficiency and energy saving;
- diversifying energy mix;
- ensuring physical security of critical energy infrastructure;
- reducing energy poverty;
- addressing climate change and sustainable development.

Ⅳ-2. Policy Proposals (continued)

(3) Considering global energy security, Eastern Russia's energy resources should be *primarily* expected to feed China's growing energy demand.

→ In the ultimate sense, Japan is not thirsty for Eastern Siberia's oil: more than enough with Sakhalin's oil.

(4) Establishment of an international consortium, including more than a few foreign companies can be desirable.

→ High Risks should be diversified.

Conclusion

- It is still too early for any single foreign country to rush into making a large scale of investment without a multilateral portfolio.
- We should basically wait until the investment climate, including information about the amount of proven reserves in the western standard, drastically improves.
- However, the ESPO project may provide a new ground for multilateral cooperation, if the issues are *de-geopoliticized* and misperceptions are overcome.

Conclusion (continued)

- We must pay close attention to the feasibility of the ESPO project (i.e. scale of production, time span, etc.) since its result will have a significant impact on global oil markets: whether new reliable supply route can be ensured or not.

- Russia should open its eyes that policy coordination among consuming countries would eventually benefit the supplier from a viewpoint of expanding the scale of economy.

Thank You Very Much for Your Attention!

Time has come to Work Together
for the Next Generations!

Innocent Children will depend on
what WE make out for them!

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