Russia’s Energy Diplomacy toward the Asia-Pacific Region

Tuesday, February 26, 2008
12:00 P.m. - 1:30 P.m.
CSIS

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Contents

Ⅰ. Potential and risks of developing Eastern Siberia.

Ⅱ. The current matrix of the triangle energy relations among China, Japan, and Russia.

Ⅲ. Policy implications for the future.
I-2. What Is Energy in Russian Diplomacy?


→

“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.)
Ⅰ-1. Stereotyped Image: How realistic is it?
1-2. Russia’s official documents and targets

- Russia’s Energy Strategy toward 2020 (Aug. 03)
  → currently under revision
  → Russia’s Energy Strategy toward 2030 (to be adopted in 2009?)

- The aim of increasing the share of the Asia-Pacific toward 2020 in the total exports.
  → crude oil • • • 30%
  → natural gas • • • 15%
1-3. “Black Gold Rush” in the East?

(1) Will the ESPO pipeline be filled with commercially reasonable amount of crude oil in the foreseeable future?

(2) Has Russia smoothly developed hydrocarbon resources of its eastern dimension so far? / Will the production go on line in the near future?

(3) Will Russia with its rising confidence have no need of foreigners’ participation?
I- 4. Obstacles to Acceleration of Developing East Siberian Resources

1. High investment risks:
   - lack of legally settled schemes
   - lack of transparency about reserves
   - technological difficulties

2. Politicization of business:
   - introduction of the “strategic deposits” category.

3. Unknown, yet possibly huge potential in the long run.
I-4. Crude Oil Production and Reserves (million tons)

1-5. Forecast of Oil Production in Russia (one of Russia’s tentative estimates)

Source: Kontseptiia energeticheskoi strategii Rossii na period do 2030g. (proekt), Institute of Energy Strategy 2007, pp.63-64.
1-6. Forecasts of Crude Oil Production (incl. condensate) in Eastern Russia (million tons)

Source: Compiled by the presenter; Institute of Geology, Oil, and Gas (Novosibirsk); Problemy Dal'nego Vostoka, No.6, 2005, p. 51.
1-7. Forecasts of Russia’s Oil Exports to the Asia-Pacific (million tons)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Crude Oil</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>West Siberia</td>
<td>7.0</td>
<td>10.0</td>
<td>20.0</td>
<td>30.0</td>
<td>35.0</td>
<td>35.0</td>
<td>30.0</td>
</tr>
<tr>
<td>East Siberia &amp; the Sakha Republic</td>
<td>0.1</td>
<td>0.1</td>
<td>6.0</td>
<td>20.0</td>
<td>35.0</td>
<td>45.0</td>
<td>55.0</td>
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<tr>
<td>Sakhalin Region</td>
<td>3.0</td>
<td>3.2</td>
<td>18.0</td>
<td>20.0</td>
<td>25.0</td>
<td>27.0</td>
<td>35.0</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td>10.1</td>
<td>13.3</td>
<td>44.0</td>
<td>70.0</td>
<td>95.0</td>
<td>107.0</td>
<td>120.0</td>
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<tr>
<td><strong>Oil Products</strong></td>
<td>7.0</td>
<td>7.2</td>
<td>9.0</td>
<td>10.2</td>
<td>11.5</td>
<td>11.8</td>
<td>12.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>17.1</td>
<td>20.5</td>
<td>53.0</td>
<td>80.2</td>
<td>106.5</td>
<td>118.8</td>
<td>132.0</td>
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</tbody>
</table>

Source: Institute of Geology, Oil, and Gas (Novosibirsk); Problemy Dal’nego Vostoka, No.6, 2005, p. 56.
## 1-8. Approximate correspondence of Russian and foreign classifications of reserves

<table>
<thead>
<tr>
<th>Russia</th>
<th>US, Canada, Saudi Arabia</th>
<th>France, Germany, The Netherlands</th>
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</thead>
<tbody>
<tr>
<td>Reserves</td>
<td>A (Identified)</td>
<td>Drilled</td>
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<tr>
<td>Explored</td>
<td>B (Demonstrated)</td>
<td>Undeveloped</td>
</tr>
<tr>
<td>Appraised</td>
<td>C1 (Inferred)</td>
<td>Indicated</td>
</tr>
<tr>
<td></td>
<td>C2</td>
<td>Probable</td>
</tr>
<tr>
<td>Resources</td>
<td>C3 (Possible)</td>
<td>Proved</td>
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<tr>
<td>Prospective</td>
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<tr>
<td>Predicted</td>
<td>D1 (Hypothetical)</td>
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</tr>
<tr>
<td></td>
<td>D2 (Speculative)</td>
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</tbody>
</table>

1-9. Estimated Volumes of Crude Oil Production in Eastern Siberia and the Sakha Republic

II-1. Sino-Russian Energy Relations
- Is the Strategic Partnership an Evolutionary Path or Myth? -

- “China Threat” = a reverse side of Russia’s own weakness – economic backwardness and the declining size of population in its eastern dimension.

- Chinese capital has been unwelcome to economically lucrative projects.

- Moscow’s concern: Russia may fall into China’s resource “appendage”.

- “Russian route” is merely one of many supply routes for China: Important for CNPC’s Daqing oil field, but for neither SINOPEC nor China’s energy security in general.
II-2. Japan-Russia Energy Relations
- Expectations Out of Alignment -

(Russia’s Targets)
- Diversification of consumer markets.
- Conclusion of a long-term contract with Japan in advance for the project’s going on line.
- Reduction of geopolitical threat from China.

(Japan’s Target)
- Diversification of supply routes.
  - The Sakhalin projects may be enough for this purpose.

* Delusion = “Japan desperately wants Russian oil”.
II-3. Sino-Japanese Strategic Energy Relations

- It has increasingly become clear that the so-called Sino-Japanese scramble over the ESPO pipeline may have been a search for an “empty case”.

- The recent aggravation of the bilateral relations has bottomed out.

- Notwithstanding the unsettled East China Sea dispute, business opportunities in energy fields are expanding-supported by both governments.

- Both sides favor multilayered and multinational frameworks for energy cooperation.
Conclusion

(1) Despite huge potential of hydrocarbon resources in Eastern Siberia, uncertainties outweigh concrete prospects at this stage.

(2) Despite high degree of mutual complementarity in the energy markets, concrete schemes of bilateral and/or multilateral cooperation with Russia have remained unforeseen.

(3) Russia loses its own opportunities, if it aims at projecting its geopolitical influence as an energy supplier.

(4) It is *Not that* Russia has “energy as weapon”, *But that* Russia *cannot* use it as diplomatic tool in the Asia-Pacific.
Policy Implications for Engaging Russia in the Asia-Pacific (1)

- Development of Eastern Siberia’s hydrocarbon resources
  → should be *internationalized* by way of sharing and reduction of high investment risks:

  between producing and multiple consuming countries on the one hand;

  AND among foreign investors on the other.
Policy Implications for Engaging Russia in the Asia-Pacific (2)

- Uncertainty as regards Eastern Russia’s hydrocarbon potentiality should be reduced jointly:

  → If commercially reasonable growth of production is secured, international energy markets can be stabilized.

  → Even if not, unnecessary expectation or a destabilizing factor for the global energy security and Russia’s future may be removed.
(Related Written Works by S. Itoh)

- "China's Surging Energy Demand: Trigger for Conflict or Cooperation with Japan?", *East Asia: An International Quarterly* (Forthcoming, spring 2008).

- "Moscow's Energy Diplomacy toward the Asia-Pacific: Is Moscow's Ambition Dashed?”, Slavic Research Center, Hokkaido University (Forthcoming, spring 2008).


* All publications can be sent upon request to <sho-ito@erina.or.jp>.
Thank You Very Much for Your Attention!

Questions & Comments Are Welcome!

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