



THE JAMES A. BAKER III
INSTITUTE FOR PUBLIC POLICY
OF RICE UNIVERSITY

THE ENERGY DIMENSION IN RUSSIAN GLOBAL STRATEGY

RUSSIA'S ENERGY POLICIES FOR ASIA

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PREPARED IN CONJUNCTION WITH AN ENERGY STUDY SPONSORED BY
THE PETROLEUM ENERGY CENTER OF JAPAN
AND
THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY
RICE UNIVERSITY - OCTOBER 2004

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Introduction

Since 1999, external economic factors such as the devaluation of the ruble and the spike in world oil prices have provided Russia with the impetus to increase domestic oil and natural gas production. For a country that depends on oil and gas for more than 50% of its exports, increasing energy production and exports on their own are important policy issues for Russia. At the same time, however, Russia's position as an energy exporting nation is also a "power resource" that enhances its status in foreign negotiations. The purpose of this paper is to analyze how energy is used as a resource in foreign diplomacy in Russia's policies for Asia.

The paper will first discuss Russia's recognition of the position it occupies in the international environment and its foreign policy goals. It will also study Russia's priorities in its foreign policy by geographical region under the Putin administration. Finally, Russia's trade and investment relations with the Asian region, and developments in energy projects, will be covered.

Principles in Russia's Diplomacy Prior to September 11

There is a general view that the foreign policies promoted by President Putin have moved away from principles based on the concept of sustaining Russia as a major world power, seen in the Yeltsin era, to principles with a practical and utilitarian focus. At the end of 1999, when Putin went from being prime minister to assuming the position of acting president, Russia's military strength was on the decline and at the same time, Russia faced an expanding North Atlantic Treaty Organization (NATO) and domestic separatism.¹ The country had already experienced a currency crisis in 1998 and its economy remained in serious flux.

Throughout the first half of 2000, a number of important documents establishing Russia's national interests and fundamental policies were announced.² The national strategies of

¹ NATO had originally been established as an anti-Soviet alliance of European countries. However, with the dissolution of the Soviet Union, its role changed to maintaining security in the region, mediating in regional conflicts, and peacekeeping. It has expanded to include Poland, Hungary, Czechoslovakia, and the three Baltic states and this has resulted in making Russia feel isolated. However, if Chechnya's secession and independence from Russia is recognized, there is concern that separatism will have repercussions on other republics within the federation. As a result, Russia is taking a firm stand.

² Specific documents include: *An Overview of National Security* (January 2000), *Open Letter to Russian Voters*

Putin's administration, detailed in these documents, are discussed below.

In terms of Russia's recognition of its own particular situation and the challenges it faced, these documents acknowledged that while the threat of a large scale war had diminished, activities motivated by extremist ethnic and religious forces, as well as separatism, were becoming more pronounced. In addition to the military threat coming primarily from forces within the country, these documents cited the threats now facing Russia as including a weakening domestic economy; tension between central versus regional relations; widespread criminal terrorism; and the gap between the rich and poor. Therefore, policy goals gave priority to domestic issues that included overcoming the economic crisis, promoting competitive technical development, safeguarding the constitutional system, and bringing crime under control. In foreign relations, emphasis was placed on "diplomacy in the national interest," where only policies that were practical and beneficial for the nation were to be implemented.

In specific terms, Russia's participation in world economic relations and enhancement of the Russian economy became the paramount issues in foreign policy. Domestic economic reforms, which included expanding retail markets for Russia's products, the formation of an integrated economic zone among Commonwealth of Independent States (CIS) countries,³ trade liberalization, deregulation and tax reform, as well as strengthening Russia's position in international financial and economic institutions, are all part of the country's efforts to achieve these goals. At the same time, however, while Russia is aiming for membership in the World Trade Organization (WTO) and professes support for foreign trade activities in accordance with WTO regulations and criteria, protectionist trade policies are also evident. These include increasing protecting Russian manufacturing interests, strengthening the national role in regulating the activities of foreign financial institutions, and restricting the transfer of interests in strategic resources and in communications and transportation network sectors to foreign companies.

Speaking about national security in his annual address to the nation in April 2002, Putin

(February 2000), *Military Doctrine* (April 2000), *An Overview of the Foreign Policy of the Russian Federation* (June 2000), *Annual Address* (July 2000).

³ Commonwealth of Independent States (CIS) countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Uzbekistan and Ukraine.

appealed to Russians to build a strong nation, saying that a strong nation would develop not from confronting other strong countries or world bodies, but through cooperation with other countries. Here, he was expressing his strong opposition to the unilateral diplomacy, which many perceive as American unipolar domination of the world. Examples of American unilateralism include, its disregard for the United Nations (U.N.), its withdrawal from the Antiballistic Missile Treaty (ABM Treaty) and its National Missile Defense (NMD) plan.⁴ Putin's foreign policy, however, was not to be pursued on the unsubstantiated basis of a powerful country as in the time of Yeltsin, but by regaining Russia's strength as a nation and by increasing its cooperation with other like-minded countries. Following these principles of foreign diplomacy, foreign policy under the Putin administration has largely centered on the following two main areas:

(1) Economic reconstruction

- Encouraging European countries to invest in Russia by putting in place an environment for investment and economic planning
- Expanding the arms export industry on a par with energy as a source of obtaining foreign currency

(2) Foreign policy in anti-missile defense

- Opposing the U.S.' withdrawal from the ABM Treaty and its NMD Plan
- Ratifying START II (Strategic Arms Reduction Treaty, as a means of preventing the expansion of subordinate nuclear capability)
- Restoration of relations with allies and friendly nations of the former Soviet Union (FSU) that the U.S. viewed with hostility such as North Korea, Iran, Iraq, Libya, Cuba, Syria and Sudan (thereby, curbing the perceived formation of a unipolar world by the U.S. and obtaining benefits from those countries such as arms export destinations)

Change in the Post-September 11 Environment

The terrorist attacks of September 11, 2001, dramatically changed Russia's foreign policy and

⁴ The ABM Treaty is an agreement between the U.S. and the Soviet Union placing restrictions on antimissile capability against nuclear attack. The aim was to avoid a nuclear war through the vulnerability of both sides in the face of a nuclear attack. However, after the Cold War, the U.S. policy took into account the possibility of a new terrorist threat and conceived of the NMD as an anti-missile defence scheme to protect the country.

the international environment surrounding Russia. While there was no change in the fundamental policies mentioned above in regard to Russia's regaining its former national strength and rebuilding the economy as issues of priority, both Russia and the U.S. executed a major turnaround in their policies toward each other and, as a consequence, the international economic environment for Russia improved considerably.

Following the events of September 11, Putin was one of the first world leaders to declare his full support and cooperation in America's war on terrorism. This decision, which included approval for U.S.' war planes to fly over Russian air space and for U.S. forces to be stationed in central Asia, was a major shift in former foreign policies that had looked upon the central Asian region of the FSU as a Russian sphere of influence, where U.S. influence had been eliminated. At the same time, Washington reversed its policy by showing an understanding of Russia's previous assertions that the Chechen rebellion was a form of terrorism. As a result, criticism from the U.S. that Russia was violating human rights in stepping up military operations in Chechnya disappeared.

There were also Russian concessions in the area of arms control. In October 2001, Putin's position on the American withdrawal from the ABM Treaty softened, and at the U.S.-Russia summit talks held in November of that year, an agreement was reached on a drastic reduction in strategic warheads. The U.S. was against formalizing the agreement into a document, and regular talks about reduction and the ABM Treaty continued. A month later, however, the U.S. announced its unilateral withdrawal from the treaty. Putin responded to this calmly. In May 2002, the reduction of nuclear missile heads was formalized in the U.S.-Russia Strategic Offensive Reductions Treaty (Moscow Treaty), and in June, with the expiration of the ABM Treaty, Russia declared the nullification of START II.

As a result of the establishment of a cooperative framework in security, Russia's foreign economic relations also improved. At the Kananaskis Summit in June 2002, Russia was formally recognized as a G-8 member and a decision was made to hold the 2006 summit in Russia. Furthermore, in a truly significant move, Russia obtained status as a market economy country.⁵ This recognition as a market economy with attendant relaxation of trade restrictions

⁵ Market Economy Status: The U.S. and Europe (E.U.) had levied anti-dumping tariffs on Russian products, which received government assistance. When a country is a "non-market economy", recognition of its dumping and calculation of punitive tariffs are based not on the country's data but in proportion to the market scale

was granted at the U.S.-Russia summit talks and E.U.-Russia summit talks in May 2002. These developments were followed by a request in the U.S. for application of a congressional amendment to the Jackson-Bannick Act,⁶ which stood in the way of granting more permanent “most-favored country” status to Russia.” Although the proposal was defeated, U.S. President George W. Bush made a subsequent proposal to Congress to abolish the act. Also, in negotiations for WTO membership, there have been repeated shows of support for Russia's early admission from various countries including the U.S. and the U.K.

In this way, the current international political situation provided a favorable environment for promoting Russia's integration into the world economy and in the rebuilding of its domestic economy. In addition, with an increase in trade revenue resulting from the devaluation of the ruble after the currency crisis, and the sharp rise in oil prices in 1999-2000, followed by sustained high oil prices since 2002, the positive growth cycle marked by increases in consumption and foreign investment has continued. Nevertheless, the favorable current economy, which is dependent on energy exports, is vulnerable to the risk of energy price fluctuations and of political barriers to the continued high pace to resource development and is thereby fragile.

There is also no assurance that the favorable relations Russia enjoys with the U.S. and Europe, resulting from the aftermath of the September 11, 2001 terrorist attacks, will continue forever. Although Moscow is taking initiatives to expand its energy exports, for the foreseeable future, it must also promote the transformation of its industrial structure and move quickly in its domestic economic reforms so that it can secure a firm foothold in the international economy.

Future Policy Issues and Energy-Related Issues

On May 5, 2003, Putin gave his annual address before the Dumas. The speech was largely an affirmation of his commitment to the country in the lead up to the Federal Assembly elections to be held in December and the presidential election in March 2004. In the speech, he cited

equivalent of a country of similar scale with market economy status and places the country in an unfair trade situation.

⁶ A clause that excludes the granting of Most Favored Country status to non-market economy countries that have various restrictions on immigrants (The target, in this case, was mainly Jewish immigrants.).

the declining population, economic fragility, and inefficiency in national government as the crises Russia was currently facing. Speaking of the economy in particular, he acknowledged the consistent positive outcomes in the rapid growth of Russia's economy over the past three years, citing the increase in exports and the effective increase in income, as well as the steady progress in the integration of Russia's economy in the world economy. He also indicated that one quarter of the population is still living below "poverty level,"⁷ and that the current growth in the economy was occurring in a favorable economic environment that would not last forever. In addition, he formulated a 10-year "GDP Doubling Plan."

While details of the plan to double the GDP (Gross Domestic Product) were not elaborated, according to the medium-term Social and Economic Development Program announced at the same time, changes could be expected in the industrial structure (with the service sector industry as a main pillar and an increase in manufactured goods) and an increase in domestic investment and foreign direct investment. There was also a strong emphasis on measures to stimulate the private sector economy by shifting from government expenditure to tax cuts. At the same time, Putin mentioned the "non-existence of established game rules" and "the lack of development of a market infrastructure" as factors inhibiting growth in the economy.

Priorities in Russia's Foreign Policy by Region

In Putin's previously mentioned annual address, he cited the regions in order of importance to Russia as: the CIS countries, Europe, the U.S. and Asia.

Relations with CIS Countries

While there have been changes in Russia's approach to the CIS, which shares Russian security interest in foreign policy, Russia has consistently considered its relationship with the CIS more important than any other. In terms of policy issues, the focus has shifted from problems inherited from the Cold War, which included establishing national boundaries following the collapse of the Soviet Union, assuring protection for Russia's ethnic citizens and disposing of weapons of mass destruction (WMD). CIS priorities also include measures

⁷ The poverty line (the lowest standard of living) in Russia is established as a reflection of the household composition and prices in each region in accordance with Krai and Republic government standards. In Sakhalin, for example, since July 2003 the lowest cost of living was set at a monthly household income of 3,831 rubles. (Website of Wakkanai city)

to deal with separatism, extremist religious groups, organized crime, and the smuggling of drugs and arms. In the beginning, Moscow emphasized maintaining its sphere of influence and its leadership role. Since 2000, onwards, however, Russia has attempted to build reciprocal relations with other CIS countries. In terms of economic relations, Russia's trade with the CIS countries has decreased dramatically as those countries make the transition to market economies. In the area of energy, however, CIS major oil and gas producing countries, like Kazakhstan and Azerbaijan, do not have their own means of transporting their products to major markets, so even at present, the relationship with Russia remains vital to those countries. Moscow also recognizes the strategic importance of holding on to the pipeline network and managing the flow of oil and gas, which are strategic resources.

Relations with Europe

For Russia, relations with Europe, apart from a period in the latter half of the Yeltsin administration, have always been top priority. Under Putin's administration, in particular, Russia's relations with Europe have witnessed a marked improvement. Areas of regional cooperation have expanded from promotion of political dialogue, market reform and support for WTO membership to security and defense. New areas of geopolitical cooperation are emerging in challenging the U.S. as the perceived unipolar power in a multipolar world. Cooperation in energy has already been singled out as an important area of discourse, reflecting a close, mutually dependent relationship between Europe and Russia. In October 2000, after repeated meetings among governments and strategists, the E.U.-Russia Summit produced the Strategic Energy Partnership.

Relations with the U.S.

The U.S., as the sole super power in the world, is an important country that exerts considerable influence on the rest of the world and shapes the international environment in which Russia exists. The present American-Russian relationship is complex and contains elements of conflict and cooperation. Both countries are no longer in a hostile relationship but remain a latent threat to each other as countries possessing powerful offensive capabilities. Russia remains opposed to what it perceives as the United States' unilateral domination in the world, but in the face of security problems beyond the control of one country-such as the situation in the Middle East and the problem of the proliferation of WMD-cooperation with the U.S. is critical for both European nations and Russia.

Economically, the stability of Russia is consistent with the national interests of the U.S., in that it contributes to the stability of Europe. For Russia, amicable relations with the U.S. are necessary in gaining the support of international financial institutions.

Asia

In comparison with the importance of its relations with CIS countries, Europe and the U.S., the importance of Russia's relationship with Asia has been limited. In the next section, this paper will discuss Russia's policies toward Asia and energy-related issues in particular.

Energy Relations with Asia

The Asian region is extremely complex and dynamic. As regional, developed countries face an era of low economic growth, the expanding economies of China and India can be expected to be core forces driving the world economy. Accompanying economic growth is the inevitable surge in energy demand. At the same time, sudden economic growth, industrialization and urbanization in Asian countries have brought with them a widening in the gap in income. This income disparity, when combined with already existing religious and ethnic conflict, could be a destabilizing factor in the region.

The region also has a wide range of unresolved problems, which include: China's and India's development into strong military powers; the presence of the U.S. in Japan and South Korea and the wariness of the surrounding countries; the problem of divisions in countries such as China and Taiwan, and North and South Korea; conflict between countries such as India and Pakistan; separatism in Kashmir and the Sinkiang-Uyggur Autonomous Region; and territorial conflicts, including the longstanding dispute over the Senkaku (Daioyu) and Nansha (Spratly) islands. Asia is also one of the regions of the world where terrorism, the proliferation of WMD, destruction of the environment, and population explosions are most conspicuous.

Russia has not been deeply engaged in matters and problems of the Asian region. This was due, first, to the pro-Western line that Russian diplomacy followed after the collapse of the FSU. Second, even during the process of revising its Atlantic foreign diplomacy beginning in the latter half of the 1990s, areas of importance to Russia were limited to those regions that were directly related to its own security. Russia perceived its immediate concerns to include

stability in central Asia and the increased influence of the U.S. and China in world affairs. Moscow was also concerned about unsettled national boundary issues between China and Russia.

Even while Russia, under the Putin administration, has opposed the perceived unipolar domination of the U.S. by appealing to multipolarity, there have been no indications that Russia intends to oppose the presence of the U.S. in the Asia Pacific region. Russian foreign policy in Asia has largely been focused on East Asian issues related to interactions with China, the Korean peninsula and Japan. This could also be said of Russia's foreign policy mentioned at the beginning of this paper. The importance of Asia to Russia, like its abovementioned foreign policies, is limited. While it is important to Moscow that nuclear conflict be avoided in the Koreas, Russia's more routine focus towards Asia is viewed against its importance in Russia's economic development in Siberia and Russia's Far East.

Relations with China

In East Asia, Russia's relations with China, with whom it shares a national border, have strategic importance. Relations with China at the time of the Soviet Union progressed from confrontation over socialist ideology to military clashes and were often tense. During his visit to China in 1989, then Soviet President Mikhail Gorbachev put an end to Sino-Soviet hostilities. With the collapse of the Soviet Union in December 1991, China and the newly born Russian Republic established diplomatic relations. Despite unresolved border issues between the two countries, in the first half of the 1990s, Moscow supported Beijing in its squabble with Taiwan and likewise, China supported Russia's policies in regard to the Chechen conflict. The two countries also agreed to work toward establishing a "constructive relationship."

Beginning in 1996, Sino-Soviet relations gradually grew warmer. An underlying reason for this was that both countries required a stable international environment to enable their economic development. Second, both countries were facing U.S. demands to improve their human rights. In China, American pressure centered on the status of Tibet, and in Russia, concerns were aired over Russia's handling of the conflict with Chechnya. In addition, both countries were feeling wary over the overwhelming military strength of the U.S.—for China, worries centered on the American presence in the Taiwan Straits, and for Russia, over

an expanded NATO.

The result was a common understanding between both countries not to tolerate what they perceived as a unipolar American domination of the international order. At the April 1996, Sino-Russo heads of state meeting, the two countries declared a “strategic partnership for the 21st century,” and from 1997 to 1999, they succeeded in almost completely settling their border issues. China saw an increase in the export of arms and technical military assistance from Russia in the wake of the Tiananmen Square incident in 1989, when American and European arms sales and military assistance to China came to a halt.

In economic cooperation, the two countries signed a “practical business agreement” at the 1996 summit meeting, which an energy agreement that mentioned the supply of natural gas from Eastern Siberia to China and the construction of a pipeline. The plan at that time, however, was lacking in specific details. Again in 1997 and 1998, talks were held between then Russian Prime Minister Viktor Chernomyrdin and then Chinese Prime Minister Li Peng concerning economic cooperation. Discussions at that time included cooperation in various areas such as the manufacture of machinery, aerospace technology, gas pipeline construction, and the building of geothermal power and nuclear power plants in China. A plan was formulated in 1998, between Russia's Yukos and the China National Petroleum Corporation (CNPC) for a pipeline from Siberia to supply crude oil to China. This project was taken up as a national project in the Russian-Chinese intergovernmental economic and energy cooperation agreement of February 1999, and was confirmed in the 2001 Treaty of Good Neighborliness, Friendship, and Cooperation, and again in 2002, in talks between Putin and then Chinese President Jiang Zemin.

Compared to political cooperation, however, expansion in economic cooperation between the two nations was lagging. This point was cited in 1997, by Chernomyrdin, who set a goal to increase trade between the two countries to \$20 billion by 2000. The target proved overly ambitious. Trade in 2000 reached only \$8 billion. By 2001 it had increased to \$10.7 billion and in recent years continues to grow.

As mentioned earlier, Russia's relations with the U.S. improved considerably with Moscow's cooperation with Washington on the war on terrorism. Likewise, China's relations with the U.S. also improved. However, this is not to say that this turn of events diminished the importance of relations between China and Russia.

As the stationing of U.S. military troops in central Asia becomes prolonged, Russian and Chinese concern about American infiltration in this region is increasing. Both Beijing and Moscow opposed the steps taken by the U.S. in the lead up to the American attack on Iraq in March 2003 and the stance that Washington took towards the United Nations (U.N.). While there is still a marked disparity in economic strength between China and Russia and there is some tension in relations with the unresolved Chinese immigrant problem in Russia's Far East and Siberia, the important partnership is being maintained. In a gesture that seemed to signify the strengthening of sound relations between the two countries, Chinese President Hu Jin Tao visited Russia in May 2003, and he and Putin signed a joint declaration affirming the commitment of the two countries to the strengthening of the strategic partnership. Energy ventures could be an important aspect to such a partnership but so far have not progressed very far.

The following section of this paper will present an overview of energy projects between Russia and China and their current status.

Angarsk-Daqing crude pipeline

As mentioned earlier, an agreement was reached between then Chinese President Jiang Zemin, Russian President Vladimir Putin, and then Prime Minister Mikhail Kasyanov, in July 2001 for a crude oil pipeline project, as proposed by Yukos and CNPC. This was an oil export pipeline from Angarsk to northeast China with CNPC, Yukos and Transneft as the main participants. After the launch of a feasibility study of the plan, which aimed to begin exports of 600,000 barrels a day (b/d) in 2005, Transneft further proposed another pipeline to the Pacific Ocean also originating in Angarsk. Of the two plans, the Daqing route was superior from an economic point of view. If that plan went ahead, however, China would be the sole customers of East Siberian exports, causing concern that Beijing could have the upper hand in negotiations.

In May 2003, with the Russian government still not having made a formal decision on the route, a 25-year general agreement on the supply of oil was signed between Yukos and CNPC. According to the agreement, China has an obligation to purchase oil via the pipeline, starting with purchases of 400,000 barrels a day between 2005 and 2010, and 600,000 b/d

thereafter. At the same time, Yukos agreed to supply CNPC with 120,000 b/d of crude oil by rail from 2003 to 2006.⁸

Development in East Siberia

The joint Yukos-CNPC declaration of May 5, 2003 included promotion of the exploration and development of oil fields within Russian territory through cooperation of both oil companies. In September 2001, the Daqing Oil Field Company Ltd., an affiliate of CNPC, signed an agreement with Russia's Yukos and Rosneft for the joint development of oil and gas fields in Irkutsk and the Sakha Republic.

Tomsk Junggar Basin Gas Pipeline

Gazprom has completed a feasibility study for a gas pipeline in the Tomsk Junggar Basin to China. Investment in the pipeline would be approximately \$14 billion and annual capacity is estimated at 10 billion cubic meters (BCM). This is believed to be part of the Asia Pipeline Network plan announced by Gazprom in July 2001, together with the signing of the Treaty of Good Neighborliness, Friendship, and Cooperation between Russia and China. However, no progress has been reported since then.

Xinjiang-Shanghai Gas Pipeline (West-East Gas Pipeline Project)

Gazprom joined a consortium that consisted of ExxonMobil, Royal Dutch/Shell and other companies in the West-East Gas Pipeline Project, an enormous national project undertaken by China. The participating companies, which include PetroChina and the China Petroleum and Chemical Corporation (Sinopec), signed a framework agreement in July 2002. Prospective customers are showing great indifference, calling into question the viability of the project because the price of the gas to be supplied is said to be too expensive. At the same time, from the supply side perspective (particularly foreign investors), it appears that profitability on the basis of prices established at present is insufficient, and, with foreign investors demanding a guarantee of profit, negotiations broke down. The eastern section of the pipeline, to be fully operated by the Chinese companies, began test operations in October 2003.

⁸ It can be interpreted that an aim of this railroad transport agreement for the Chinese was to secure a crude oil supply and for the Russians to secure the new market until the Angarsk-Daqing pipeline was completed.

Irkutsk-Northeast China Gas Pipeline

Plans have been proposed to deliver gas supply from the Kovytko gas field in the Irkutsk region to the coast of China. A memorandum for the project was signed at a heads of state meeting in April 1996, and in 1997, negotiations were carried out among the countries involved, including Mongolia, South Korea, and Japan. In 2000, participation of South Korea's Korea Gas Corporation (KOGAS) in the project was formalized. A license to develop the Kovytko gas field itself in Irkutsk was obtained by Russia Petroleum in 1993, but is now called into question. The gas pipeline plan has been delayed repeatedly, however, due to opposition by Gazprom, which is concerned that it will bring an end to its favorable monopolistic position. Under the present plan, more than 4,000 kilometers of pipeline will be laid to supply gas to China and South Korea, with supply for China set at 20 BCM of gas per year and for South Korea 10 BCM. Negotiations between China and Russia have stumbled over the gas sales price. There have been further problems related to the routing and questions as to whether the pipeline should pass through or detour around Mongolia. Extensions to North Korea have been discussed. China favors a detour around Mongolia due to concerns about stability in the Inner Mongolia Autonomous Area, while South Korea has been promoting a route that goes through North Korea to assist that country in halting its nuclear development. An agreement for a feasibility study, signed on November 14, 2003, seemed to opt for a detour route through Mongolia and North Korea.⁹

Agreement to Supply Crude Oil to China

Yukos is supplying crude oil to Sinopec by rail. In 2002, 20,000 b/d were supplied and an agreement was made to increase supply to 325,000 b/d in 2003 and a target of 50,000 b/d in 2004. Yukos also supplied 18,000 b/d to PetroChina in 2002.

Relations with Japan

⁹ In addition to the Kovytko plan to supply gas from Russia to South Korea, there is the Sakhalin-1 pipeline transport plan. The seabed pipeline for Japan from Sakhalin-1 has suffered a setback over compensation for the fishing industry, but ExxonMobil is promoting this plan. For this plan too, South Korea would also like to see the pipeline routed through North Korea as a way of easing tension in Northeast Asia surrounding the Korean peninsula.

Russian relations with Japan are marked by outstanding political issues that have yet to be settled. The two countries have not signed a peace treaty formally ending hostilities of World War II, and they have a number of unresolved territorial issues that have been longstanding. In the 1993 Tokyo Declaration, the names of four disputed islands were mentioned and the existence of the territorial issue was confirmed. Since the signing, successive government administrations have confirmed their intentions to continue negotiations to normalize relations between the two countries. During head of state talks in January 2003, the Japan-Russia Action Plan was also agreed upon and signed. In addition to taking up the territorial problem, the action plan included the promotion of cooperation in establishing the Northeast Asia region as a nuclear free zone and in strengthening economic and trade relations between the two countries.

While political relations between Japan and Russia have not made remarkable advances, economic relations are progressing favourably, and trade between the two countries is following an increasing trend, with Russia showing a strong interest in Japan in the area of energy in particular (Table 1). This raises the question as to how important Japan is in Russia's policies for Asia.

Among Moscow's relations with other countries in Asia, relations with Beijing are the most important. Russia shares with China a national boundary several thousand kilometers long and China not only has nuclear power but is also building up its weapons through the purchase of arms from Russia. In economic terms, domestic demand in China is increasing in line with the increase in population and income. As a result, China has been absorbing foreign capital that has promoted rapid industrialization and enabled China to supply inexpensive manufactured goods to the rest of the world. For Russia, which has to depend on imports for the time being, Beijing poses a threat. This is especially true in Siberia and the Far East region, where economic development is lagging and population decreasing.

There is concern over the influx of illegal immigrants from China's coastal provinces and the possibility that it will result in Chinese settlement of the area. To ensure security in its territories against a burgeoning neighboring country that is growing dramatically, development of Siberia and Russia's Far East is essential. The declining population problem and development of the Far East were mentioned by Putin as critical issues facing Russia in his 2003 annual address. In the development of Russia's Far East, Japan can be a promising

partner, not only because of its financial power and technical expertise but also because there is no fear that Japanese labourers might infiltrate the region.

At the same time, as China's political clout in the Asia Pacific region increases, Russia should take advantage of its strong historical relations with North Korea and play a consistent role in stabilizing East Asia. In this regard, Russia could also be a partner that Japan can turn to in seeking cooperation with North Korea. Tokyo has no means of exerting direct influence but has outstanding issues with North Korea, such as the abduction of Japanese citizens in the past and the threat of nuclear development.

Due to the economic and political factors mentioned above, there is strong merit for Russia to develop a sound relationship with Japan. Russia, however, does not acknowledge its strategic importance enough to make unilateral concessions in territorial disputes between the two countries. Nevertheless, Russia expects Japan to play a role as a cooperating party in maintaining the power balance in the Asia Pacific region.

Table 1: Japan's Trade with Russia
(million dollars)¹⁰

	1999	2000	2001	2002	2003	year on year basis
Exports	480.7	571.4	717.5	942.5	1,764.0	-21.6%
Imports	3,756.0	4,592.2	3,874.3	3,276.7	4,217.9	+34.3%
Balance	-3,275.3	-4,020.9	-3,156.8	-2,334.2	-2,453.9	—
Ratio of Total Exports	0.1%	0.1%	0.2%	0.2%	0.4%	—
Ratio of Total Imports	1.2%	1.2%	1.1%	1.0%	1.1%	—

Source: JETRO Data

¹⁰ Japan has had a consistent adverse trade balance with Russia. Major exports are cars, audio equipment and industrial machinery, while imports have centered on foodstuffs, timber, minerals, fuel oils and metals. For the past two consecutive years, imports have been on the decline. The main imports that have shown a decrease are textile goods, office equipment and furniture and imports from Russia have become further focused on raw materials.

Current energy projects in progress between Japan and Russia are the following:

Sakhalin Offshore Crude Oil and Natural Gas Development Project

The Sakhalin-1 and Sakhalin-2 projects are currently in progress offshore Sakhalin. Companies participating in Sakhalin-1, include ExxonMobil and Japan's Sakhalin Oil & Gas Development Co., Ltd. (SODECO). Those firms participating in Sakhalin 2, include Royal Dutch/Shell and Japan's Mitsubishi Corp. and Mitsui & Co., Ltd. Sakhalin-1 began in June 1995 and Sakhalin-2 in June 1994, with the signing of a Production Sharing Agreement (PSA) with the Russian government.

Sakhalin-1 has plans for a supply pipeline for crude oil and natural gas to Japan. Due to concerns that site acquisition and compensation for fisheries could significantly increase costs, a route that is more than 200 meters offshore where fishing rights do not apply is being considered. At the same time, a plan for supply to China and South Korea is also being discussed.

Sakhalin-2 received approval from the federal government on August 8, 2001, to export natural gas as LNG. Since important gas buyers such as Tokyo Electric Power and Tokyo Gas committed to purchases of LNG, the principal companies of Sakhalin-2 decided in May 2003, on the next phase investment plan of approximately \$10 billion. (Of that, \$4.5 billion will be invested by Japanese companies.) Accompanying investment plans for the project, other businesses related to the project are also getting actively involved, and Japanese companies are receiving orders for plant construction and other business.

The Siberia Pipeline

The pipeline plan from Angursk to Nakhodka on the Pacific coast was proposed by Transneft in May 2002, as a counter plan for the above mentioned Angursk -Daqing route. Transneft had previous plans for the supply of crude oil to the Pacific coast but negotiations between Russia and China came to a deadlock over the crude oil sales price. Due to these problems, a proposal was made to Japan. This meant that there were two proposals for crude oil supply pipelines from Eastern Siberia to Asia. However, in view of the production capacity of the oil

fields in Eastern Siberia that are expected to supply the crude oil, and the substantial funding the projects would require, the viability of both projects proceeding would be unlikely. In addition, if both projects went ahead, it would mean they would be competing with each other.

Japanese Prime Minister, Junichiro Koizumi, at a meeting of heads of state in January 2003 showed his positive support for the Pacific route, proposing financial cooperation for its realization. In February 2003, the two routes were integrated and a proposal for a branching of the pipeline was put forward. The final decision from the Russian side regarding the selection of the route was not made in March 2003 and was postponed to May and then again to the autumn. During this time, Tokyo announced its plans to provide a total of \$7 billion for the laying of the pipeline and the development of gas fields in Eastern Siberia. China has also expressed interest in a crude oil pipeline with Kazakhstan.

Conclusion

The above describes the relations between Russia and key nations within the Asian region in energy matters and, in the view of the author, the agreements between these countries and the support for these projects hold less significance than Russian relations with the U.S. and European nations. One reason for this is the existence of the many problems in the Asia Pacific region, including Russia, which should be resolved, such as boundary and territorial disputes. Even during the Cold War, relations between Russia and Europe were maintained such that trade and investment continued uninterrupted, and despite ongoing conflict between Moscow and Washington, there have been ample opportunities for negotiations and communication over critical issues such as arms reduction. In contrast, relations between Russia and Asia are still at the nascent stage of establishing a place for dialogue and preparing the necessary systems and frameworks for trade and investment.