

Russia's Energy Policy and Cooperation with Northeast Asian Countries

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Energy issues in the modern world going through globalization are among the most urgent ones.

Russia's geographic position predetermines its particular role in energy transit. Russia's energy resources and energy infrastructure are important not only for its economy but also for the process of developing the energy markets and for the world economy in general. Thus the energy sector of Russia is an intrinsic part of the entire world energy market.

The availability of large oil, gas and coal deposits, considerable hydro-power potential in Siberia and the Russian Far East provide conditions for large-scale development of fuel and energy complex of the region and for developing mutually beneficial economic cooperation with foreign countries.

Slide "Russia's Energy Policy"

Russia's Energy Policy: goals and large-scale projects

The development of fuel and energy complex in the Far East is one of the conditions for dynamic regional economic growth, promoting of investments, competitiveness of regional products.

Presently the Russian government keeps working at implementation of already adopted and working out of 10 new policy documents determining the development of fuel and energy complex of Eastern Russia taking into account energy cooperation with NEA countries.

The main policy documents are as follows:

"The Energy Strategy of Russia till 2020" (2003)

"Economic and Social Development of the Far East and Zabaikalye till 2013"

"Strategy for Social and Economic Development of the Far East, Republic of Buryatia, Irkutsk and Chita Regions till 2025"

"Strategic Development of Fuel and Energy Complex of Eastern Siberia and the Far East till 2020"

"Development Program of Oil Refinery Facilities in Eastern Siberia and the Far East"

"Program on Unified Gas Supply System in East Siberia and the Far East" (covering possible export to China and other APR countries)

"Master Plan for Power Industry Facilities Location till 2020"

"Master Plan for Gas Sector Development in the Russian Federation till 2030"

Slide "Energy Strategy of Russia till 2020"

Main tasks and goals of Russia's energy policy are formulated in "The Energy Strategy of Russia till 2020". The most important among them are:

- (1) providing the energy security of Russia;
- (2) providing the energy efficiency;
- (3) providing ecological safety in energy sector;
- (4) developing domestic fuel and energy markets;
- (5) forming an efficient fuel and energy balance.

(6) the key task of the government is to develop *regional and foreign energy policies*.

Slide "Regional and Foreign Energy Policies"

The purposes of *regional energy policies* at *federal level* are as follows: forming a common free market zone in energy sector, territorial production pattern and energy consumption optimization, and some others.

The *regional energy policies* at regional level imply working out and implementation of regional energy programs, following the active energy-saving policies, supplying heat and some others.

The main strategic purposes of Russia's *foreign energy policy* are:

- (1) strengthening of Russia's role in world energy markets;
- (2) foreign investments promotion;
- (3) construction of energy infrastructure and energy international transport networks to neighboring regions of Europe and Asia, including participation of Russian companies in large-scale international projects for gas and oil transportation (and pipelining) and electric energy transfer both in western and eastern directions.

Slide "Eastern Vector of Russia's Energy Policies"

The role of *eastern direction* in developing of Russia's energy sector is steadily growing and now it is becoming a priority direction.

This priority direction of Russia's energy sector development, unofficially called as "Eastern vector of Russia's energy policies", is clearly defined in the "Energy Strategy of Russia". The main points are as follows:

- Creating of new energy centers in Eastern Siberia and the Far East will contribute into strengthening of energy security of Russia, reestablishment and intensification of disturbed fuel and energy ties between the regions of Eastern Siberia and the Far East, solving many important tasks at federal, inter-regional and regional levels;

- Rapid and large-scale development of energy sector in eastern Russia, entering energy markets of Japan, China, Korea and other NEA countries are considered as an

important means to secure Russia's role in this strategically important region of the world;

- Construction of a well-developed infrastructure in eastern Russia and NEA, such as inter – state gas and oil pipelines, power transfer lines, will allow to lower energy costs, to improve the reliability of energy and fuel supply to end-users in different countries, to ease ecological problems.

The material basis for Russia's eastern energy policies is predetermined by several large international fuel and energy projects:

Slide "Oil Pipeline "Eastern Siberia – the Pacific Ocean (ESPO)"

- Construction of Oil Pipe Line "Eastern Siberia – the Pacific Ocean" (ESPO project). Overall annual capacity is 80 mln.t. of oil, the total length exceeds 4770 km. There is a designed branch to Skovorodino to provide export to China (annually 25-30 mln.t. of oil).

Only around 5% of Russian oil export goes to the Asian countries. But by 2015 the share of the Asia Pacific region in Russian oil exports will grow to 15 – 18%. The implementation of eastern energy policies is tied with the ESPO project first of all.

Slide "Gas Pipelines in the South of the Russian Far East"

- The Government of Russia approved the "Program on Unified Gas Supply System in East Siberia and the Far East" (covering possible export to China and other APR countries).

The main purpose is to create an efficient gas industry in Eastern Siberia and the Far East, as well as the conditions for dynamic social and economic development of this region via developing new gas industry centers: in Sakhalin (Sakhalin 1 and 2 projects, further expansions due to Sakhalin3-6 projects) , Yakutsk (Chayadiskoye

field), Irkutsk (Kovyktinskoye field and deposits in the northern part of Irkutsk region) and Krasnoyarsk (Sobinsko-Paiginskoye and Yurubcheno-Tohomskoye fields). According to the Program, it is expected to supply 44-88 BCM of gas annually by 2015, and 76-133 BCM annually by 2020.

As far as power industry is concerned, eastern Russia in general is an energy-excessive region. That is why the key issue is to supply power to each and every Russian customer and to export the electric power without prejudice to domestic demand.

For such purposes by 2020 it is expected to put into operation a number of new generating facilities (efficient and ecology-friendly).

There is a study for large-scale project of electric power export to China: about 30 bln. kWh starting from 2015, and about 60 bln. kWh by 2020.

It is expected to build new energy generation facilities in Eastern Siberia (Olon-Shibirskaya, Tataurovskaya and Novo-Kharanorskaya facilities with total capacity of 6 mln. kW) and in the Far East (Urgalskaya heat power station with the capacity of 3,6 mln. kW)

According to the Energy Systems Institute of Siberian Branch of the Russian Academy of Sciences, basing on the analysis of eastern Russia's oil and gas resources, and considering the already made inter-governmental agreements and contracts, the most likely export volumes may be as follows: natural gas – 40-50 bln. cubic meters in 2020 and 65-75 bln. cubic meters in 2030; oil – 50-60 mln. t. in 2020 and 80-120 mln.t. in 2030; coal – 30-35 mln.t. in 2020 and 35-45 mln.t. in 2030.

The implementation of eastern energy policies of Russia is a very complicated processes. The difficulty is that it is of complex character, it covers a vast area, it engages a large number of Russian and foreign participants, all projects (especially international ones) are capital-intensive, their realization implies close international energy cooperation. It is obvious that till 2020-2030 without foreign investments it

will be impossible to secure a large-scale export of Russian energy resources to the APR and NEA countries.

Slide "Geographic Position of Khabarovsk Krai"

The Khabarovsk Krai as a Transit Energy Corridor to NEA Countries

The projected energy infrastructure for fuel and energy resources transit (oil and gas pipelines, high voltage power transfer lines) as well as Baikal Amur and Trans-Siberian railway routes by 2015-2020 will provide in the area of "Eastern Siberia – South Yakutia – Skovorodino – Khabarovsk – Komsomolsk – Vanino – south of Primorsky Krai" a powerful transit energy corridor directed to energy centers in NEA countries.

Through Khabarovsk Krai in the east this corridor is connected with hydrocarbons of Sakhalin projects (oil, pipelined natural gas).

Thus, it is obvious that the new specialization of regional economy is being formed. The Khabarovsk Krai is turning into the region for export-oriented transit of oil, natural gas and coal with the turnover exceeding 100 mln. tons of standard coal annually.

The Khabarovsk Krai Government in its policies of receiving benefits from such transit, of course, counts on fiscal income from infrastructural projects and job growth.

At the same time the main concern of Khabarovsk Krai Government is to work out and implement regional infrastructure projects and programs that will allow to use a high-quality resources of export-oriented projects for the benefit Khabarovsk Krai: improvement of fuel supply to local end-users, energy resources processing and improvement of transport infrastructure. The main emphasis is placed on the potential opportunities for economic development of Khabarovsk Krai.

There are **two strategically important projects** for the Krai economy:

The first project covers the development of port facilities in the shore line of the Tatar Strait.

Since recently the significance of port zone "De-Kastri – Vanino – Sovgavan" is growing distinctly. It is a place for concentrating interests of transnational corporations, both Russian and foreign. In "De-Kastri – Vanino – Sovgavan" area under close cooperation with Khabarovsk Krai Government there is a number of projects, and the main among them are the following:

Slide "Oil Terminal in De-Kastri"

- **Oil Terminal in De-Kastri, built by "Exxon" as a part of Sakhalin-1 project, started operating in October of 2006.** The annual production capacity is 12,5 mln.t. This terminal provides for the most efficient option for the Sakhalin oil exports. According to the project the pipeline (660 mm in diameter) crossed Sakhalin island and connected Onshore Production Facility with the double-point mooring of De-Kastri oil terminal. The terminal is located next to the operating terminal and moor of Rosneft, operated since 1998 (for transshipment and export of oil from Sakhalin in-land oil deposits). The terminal runs year-round and round the clock. The annual oil shipment makes 12 mln.t. for the tankers of up to 110 thousand tons capacity.

Slide "Vanino Sea Port"

- **In 2005 the largest Russian and world's 6-th largest coal producer Siberian Coal and Energy Company (SUEK) made a decision on construction of a coal terminal in Vanino port (Muchka Bay).** The annual designed capacity is 12 mln.t. and it will reach 24 mln.t. annually as soon as the Russia Railways complete the construction of Kuznetsovsky Tunnel and expand the railway capacity. During 3 years SUEK invested about 9 bln.roubles (appr. USD 360 mln.) into this project. The terminal will start commercial operating in 2009 and it will become the 2-nd largest

coal port in Russia. This terminal will contribute to expansion of port facilities in the Pacific coast, which is the main deterrent for export of Russian coal to the APR countries.

At present Indonesia and Australia are the main coal suppliers in Asian markets, Russia covers only 4% of Asian demand for imported coal. At the same time the demand for imported coal in Japan, Korea, Hong Kong and Southeast Asian countries grows rapidly. China and India considerably increase their coal import (due to expected putting into operation of new coal-fired generating facilities). It is forecasted, that by 2012 the consumption of imported coal in Asia will grow for 25%.

So, it is obvious that the "De-Kastri – Vanino – Sovgavan" near-shore zone dynamically transforms into a transit port zone.

Slide "Gas Pipelines in the South of the Russian Far East"

The second strategically important regional project covers gasification of Khabarovsk Krai which was initiated by Khabarovsk Krai Government in middle 1990-s due to signing of PSA (production sharing agreements) within the frameworks of Sakhalin 1 and 2 projects that provided a potential opportunity for natural gas supply from Sakhalin to Khabarovsk Krai.

By present time the Plan for gasification generally includes:

- construction of main gas pipeline from Komsomolsk to Khabarovsk (was put into operation in October of 2006);
- construction of radial gas pipeline branch De-Kastri – Nikolaevsk (234 km long, construction started in February of 2007 and two weeks ago the facility was put into operation, total investments – 5,7 bln.roulbes);

During USSR times, 600 km of gas pipelines were constructed in Khabarovsk Krai and during recent years – 900 km. In 2008 Khabarovsk Krai budget spent over 8 bln. roubles (over USD 300 mln.) for the gasification program.

- transfer of some energy generating facilities, industrial facilities, utilities to gas (first of all those that work on expensive black oil and diesel oil) in the towns and settlements along the route of "Okha – Komsomolsk – Khabarovsk" main gas pipeline and branch "De-Kastri – Nikolaevsk";

- gasification of gas-chemical industry facilities in the future at the final stage of this gasification plan;

- reaching beneficial agreements with Sakhalin 1 and 2 projects operators for supply of natural gas.

The PSA of Sakhalin 1 and 2 projects do not contain any exclusive conditions for gas supply to the Far East domestic market.

The main resource for gasification of Khabarovsk Krai at present time is natural gas produced by Sakhalin-1 project.

Sakhalin-1 project operator "Exxon Neftegas Limited" prefers export of gas to sales in domestic Russian market.

But the Khabarovsk Krai Government in 2005 managed to make agreements for natural gas supply between Sakhalin-1 project operator and two Khabarovsk wholesale customers for up to 3 bln. cubic meters annually during 20 years at reasonable price conditions in return for infrastructural benefits for De-Kastri oil terminal located in Khabarovsk Krai.

The Khabarovsk Kai Government principally has accomplished the task of economically sound and energy-optimal level of gasification of regional economy.

Conclusion

Shifting focus of Russia's energy policies to the east opens up positive prospects also for the Asia Pacific countries. The formation of the infrastructure of international network in eastern Russia in combination with production and processing facilities developing in the Far East itself will enhance the stability of energy supplies to the regional countries and will also help solve the energy security

issue in North-East Asia. The growth of the domestic demand for gas in Eastern Siberia and the Far East will improve the environmental situation thanks to a transfer of production facilities to environmentally friendly fuel and will tell positively on the region.

Inactivating the eastern vector of Russia's energy policy is quite obvious. The measures undertaken by the Russian authorities and the private sector to create a transportation system for hydrocarbons and in general to improve the energy infrastructure in eastern regions of Russia nourish fertile soil for growing NEA energy markets. And only agreed and coordinated effort of all countries can duly safeguard the regional need in energy and guarantee energy security to all APR countries without exception.

Thank you for attention !