

New Moves Seen for LNG Development in Russian Far East

Ken Koyama, PhD

Chief Economist, Managing Director

The Institute of Energy Economics, Japan

New moves have been seen for developing natural gas/LNG in the Russian Far East and Eastern Siberia. On February 13, Russia's largest oil company Rosneft and international oil major ExxonMobil agreed to expand their cooperation under their 2011 Strategic Cooperation Agreement. The new agreement subjected seven new blocks over a 600,000-square-kilometer area of the Russian Arctic continental shelf to their joint exploration and gave Rosneft the option to acquire a 25% interest in ExxonMobil's Point Thomson development project in Alaska's North Slope. In addition, they agreed to conduct a joint feasibility study on a potential LNG project in the Russian Far East.

The Russian Arctic and Alaskan gas development sites are in frontier regions under severe climatic and environmental conditions. These companies will have to clear very high technological and economic hurdles in hopes of developing massive resources. These challenging projects are expected to attract much attention in the future. At the same time, we must pay great attention to the study on the potential LNG project in the Russian Far East as its fate and future development are very significant for predicting the LNG/natural gas market in Japan and the whole of Asia.

Natural gas/LNG development projects in the Russian Far East and Eastern Siberia have been expected to provide new large gas supply sources geographically close to Asia where gas demand has been growing. Asia includes Japan whose LNG imports have increased fast since the Fukushima nuclear plant accident. South Korea has become the world's second largest LNG importer after Japan and is expected to steadily expand gas demand. China is expected to substantially increase gas demand as it is required to shift to cleaner energy sources for its further economic development. The Association of Southeast Asian Nations has emerged as a new LNG-consuming region. Asia has thus been positioned as a promising growth market for Russia to substantially expand gas sales channels. Particularly because Russia has been put into a difficult position in Europe, its traditional mainstay market, due to slumping gas demand and pressures from importers and consumers over gas sale and pricing conditions, it is now required to take the new strategy of "Looking East". It is indispensable for Russia to develop an Asian market strategy.

When announcing the new agreement, Rosneft and ExxonMobil released a plan to form a

joint working group in a few weeks to study the viability of the LNG project using available natural gas resources. As the new LNG project is about to be considered, we may have to pay attention to Russia's domestic political tug-of-war and power balance over LNG exports as well as the consideration of and decisions on purely economic and technical feasibility.

Traditionally, state-run Gazprom has taken exclusive charge of natural gas/LNG exports in Russia. But movements have emerged in Russia for liberalizing LNG exports. On February 13, President Vladimir Putin instructed relevant authorities to consider the gradual liberalization of LNG exports. The announcement of the Rosneft-ExxonMobil agreement on the LNG project study coincided with the instruction, indicating that the study may trigger diversification of Russian LNG export players. But the emergence of new players could change and complicate competitive conditions for the traditional LNG/natural gas export plans that Russia has considered.

"Available natural gas resources" to be used for the Rosneft-ExxonMobil project may attract much attention. The resources could be new or ones discovered earlier and left undeveloped. Depending on the resources, the project's feasibility including economic efficiency may differ. In this respect, some reports stated that Rosneft and ExxonMobil could consider using gas resources put under the Sakhalin 1 project.

As for Sakhalin gas development, LNG exports have been successfully started under the Sakhalin 2 project in which Gazprom participates along with Japanese trading houses Mitsui & Co. and Mitsubishi Corp. Sakhalin 2 participants are considering additional LNG facilities to expand exports. Also under consideration is the Vladivostok LNG project in which Japan and Russia are cooperating under a memorandum signed on the occasion of the Vladivostok summit of the Asia-Pacific Economic Cooperation forum last year. Gazprom is participating in this LNG project. In addition, there are plans to lay pipelines for natural gas exports to South Korea via North Korea and to Japan from Sakhalin. Multiple plans thus exist to export LNG and natural gas to the Asian market. Rosneft's study on the new LNG project may greatly affect competition between these projects.

After the Rosneft-ExxonMobil agreement was announced, Rosneft CEO Igor Sechin visited China from February 17 and came to Japan on February 19 for his exchange of opinions with the two countries' energy experts. He may be implementing his positive Asian strategy based on the Rosneft-ExxonMobil agreement. Rosneft's future moves could become the most important factor to determine the fate of gas development in the Russian Far East for the Asian market. Meanwhile, former Japanese Prime Minister Yoshiro Mori met with Russian President Putin in Moscow on February 21 to discuss various topics including bilateral energy cooperation. Mori handed Prime Minister Shinzo Abe's personal letter over to Putin and had wide-ranging discussions with the Russian leader toward enhancing Japan-Russia relations, laying the groundwork for Prime Minister

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Abe's visit to Russia. Given the significance of energy problems to the two countries, we may have to pay close attention to high-level bilateral discussions on energy cooperation including LNG/natural gas development and to future bilateral cooperation achievements.

Contact: report@tky.iej.or.jp

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