

**Oil Development in Russia and the Caspian States and
Its Implication to the International Energy Market**

Ken Koyama, PhD

Energy Strategy Department

The Institute of Energy Economics, Japan

<Research Objective>

Since 1999 Russia's oil production has been on the sharp rise and nowadays reached some 8.40 million barrels a day (B/D). Thus, once again Russia has been increasing its influence/presence on the international oil market as a major producing country comparable to the world's largest oil producer, Saudi Arabia. Also, the states round the Caspian Sea, notably Kazakhstan and Azerbaijan, have had sharply growing oil production as a result of successful foreign capital introduction. Such being the situations, oil development trends in these former Soviet producing countries now attract attention as a focal point of crucial importance in envisaging a future shape of not only the international oil market but also the Asian oil market, including Japan. Based on the aforesaid recognition, this paper, focusing on oil production and export infrastructure projects in Russia and the Caspian states, analyzes their recent trends and prospects, based on which their implications to the international oil market is groped for¹.

<Major Conclusions>

1. It is expected that **Russia's oil production keeps growing steadily** ahead. From now on, a fall in the crude oil price, if any, could decelerate the speed of output increases. Yet, given Russia's huge resource potentials, sustainability of the effect of recently introduced advanced technologies by Russian oil firms and ample room for expanding applications of technology introduction, output increases can be expected from production expansion in the existing oil producing area (West Siberia) as well as from newly developed blocks. As a result, the strong likelihood is **Russia's oil production will reach nearly 10 million B/D by 2010, up from 7.66 million B/D in 2002.**
2. **Also in Kazakhstan and Azerbaijan, considerable oil production gains** are

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likely. In Kazakhstan, oil flows from the leading Tengiz oilfield will be enhanced by planned output increases, and full-scale development of giant projects, such as the Karachaganak and Kashagan oilfields, are on the waiting list. If these projects are favorably in progress, oil output can reach nearly 2.00 million B/D by 2010 (compared with 940,000 B/D in 2002). In Azerbaijan too, along with favorable progress in the Azerbaijan International Operating Consortium (AIOC) project, the country's biggest foreign capital project, rising output will continue, and total oil output in 2010 is likely to reach a level above a million B/D (310,000 B/D in 2002).

3. The three countries all are badly in need of sizeable oil (crude oil) export infrastructure construction that can match future output increases. In particular, **for Russia with the existing export infrastructure (chiefly to Europe) running almost at full capacity, to advance new projects is the top priority.** At present, roughly classified, (1) Europe/America-bound export infrastructure projects (e.g. the U.S.-bound Murmansk project) and (2) Asia-bound export infrastructure projects (e.g. a 600,000 B/D export pipeline project to Daqing of China, and a Pacific route of a-million B/D pipeline project) are under consideration. It appears, **taking into account not only economics of each project but also diversification of export destinations, control of oil export system, and international politics towards Europe, the U.S., China, Japan and others, Russia will implement these projects selectively by making strategic judgements.** On the other hand, in Kazakhstan and Azerbaijan, export infrastructure projects, all designed to serve the big European market, are in progress in order to reduce their dependence on Russia. These projects are expected to surely bolster output increases in the future.
4. With the three countries combined, total oil production could increase by as much as 4.00 million B/D between 2002 and 2010 if their development projects are favorably in progress. As an expected effect, **such a sizeable output increase from these countries can curb market share as well as market power to be held by the OPEC.** Also, under such conditions as the crude oil price spike since 1999 and tensions in the Middle East after September 11 and the war in Iraq, there are internationally growing concerns over energy security. For this reason, **from the standpoint of diversifying supply sources (and lowering/curbing the Mideast dependence), greater oil production/exports by the three countries are attached an increasing importance in strategic terms.** From now on, major consuming countries all are likely to show stepped-up moves to strengthen their ties with Russia, in particular.

5. The Northeast Asian oil market including Japan is heavily reliant on the Middle East, and this area as a whole is expected to become even more dependent on oil imports in the years to come. On these accounts, it is expected that particularly oil imports from Russia helps lower the Mideast dependence, which, in turn brings about a stronger bargaining power against the Middle East, thus playing vital roles in securing oil supply at a more competitive price. From now on, in order to promote giant projects in East Siberia, Sakhalin, etc. designed to serve the Northeast Asian market, and realize/enjoy their potential merits, there are points of crucial importance. They include (1) stepped-up efforts to improve project economics, (2) strategic consideration by taking into account hardly quantifiable elements like a stronger bargaining power, and (3) confirmation and sharing of the will to promote regional energy cooperation so as to pursue the merits of Northeast Asia as a whole.

Contact: ieej-info@tky.iej.or.jp