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## **Resource-Rich Russia Attempting to Enhance Energy Conservation**

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On July 9, the Russian Ministry of Energy and the Japanese Ministry of Economy, Trade and Industry agreed on and signed a joint action plan for bilateral cooperation in energy conservation and renewable energy development. What are the factors behind the energy conservation and renewable energy promotion in Russia as the world's largest oil and gas resources holder and a biggest oil and gas producer? What is the priority given to cooperation with Japan?

When crude oil prices continued a rapid hike until the middle of 2008, Russia as a resources power increased its presence and influences in international politics, the world economy and international energy markets. Income from oil and gas exports accounting for about 60% of Russia's total exports has been the driver of Russia's wealth expansion and economic growth. Therefore, the strategic value of Russia's oil and gas resources increased substantially when the security of stable energy supply was viewed as very important amid growing fears of a tighter international energy supply/demand balance.

Taking maximum advantage of its oil and gas resources for economic and strategic purposes under such situation might have been a natural choice for Russia to expand its national interests. Russian policies and strategies implemented then included tougher state controls on the energy sector, the enhancement of state-run energy companies and resources diplomacy from the standpoint of a supplying nation. They are factors of a supply-side-oriented strategy, giving priority to the oil and gas sector.

But the financial crisis deterioration and global economic slowdown after the Lehman Shock shook many political and economic conventional wisdoms and exerted pressure to reform them fundamentally in some cases. The Russian energy sector was no exception.

Obviously behind this was slack energy demand in Europe as Russia's major oil and gas export destination. In 2009, the European Union's demand declined 4.4% from the previous year for oil and 5.9% for gas. The demand fall was combined with substantial declines in international oil and gas prices to cut Russian oil and gas export income 40% from \$310.1 billion in 2008 to \$190.7

billion in 2009. The export income decline resulted partly from the shale gas revolution that emerged in the United States. As production of shale and other unconventional gases increased, U.S. demand for LNG imports declined, despite the fact that the demand had been forecast four to five years ago to increase substantially. This brought about surplus LNG, which became lower-priced spot LNG and flew into Europe on the other side of the Atlantic market. Even amid declining energy demand, Europe's LNG imports in 2009 expanded 25% from the previous year to 69 billion cubic meters. The gas demand decline and increased LNG supply in Europe dealt a double blow to Russia that exports gas to Europe via pipelines.

The slackness of the oil and gas sector as the driver of Russian economic growth forced Russia to log a 7.9% economic contraction in 2009 after a decade-long growth at an annual pace of around 7%. The contraction contrasted with China's 9.1% economic expansion in the same year. Russia, like China, has been also classified as a BRICs' emerging market. It turned out that the Russian economy, depending heavily on the oil and gas sector which would have been its strength otherwise, was very vulnerable to energy markets, as indicated by the serious economic contraction.

As structural problems of the Russian economy have become clearer, the government has recognized the need of its structural reforms. In November 2009, Dmitry Medvedev in his Presidential annual speech to the Russian parliament emphasized every area's modernization as Russia's top priority and highlighted the importance of energy conservation as one of the five major areas for modernization. The president called for the enhancement of efficiency and competitiveness, which is indispensable for diversification of the oil-and-gas-dependent economy. In fact, primary energy consumption per unit of GDP in Russia in 2007 came to 1,648 tons oil equivalent per US\$1 million, over eight times more than the OECD average at 183 tons and over 16 times more than that of Japan at 99 tons .

Russia has continued to seek modernization. In June 2010, President Medvedev released his budget address that specified the importance of energy conservation promotion in addition to fiscal reconstruction (budget deficit reduction) and innovation promotion as goals for 2013. Although the oil and gas sector's importance may not change, the Russian government is attempting to structurally shift its priority from the supply side to the demand side in order to pursue the advancement of the Russian economy as a key long-term challenge.

In this sense, the enhancement of cooperative relations with Japan will become very important for Russia. Many countries have expressed hopes to learn and introduce know-how and knowledge from Japan as a forerunner in energy conservation. Naturally, Russia has indicated its growing interests in Japan's energy saving technologies and experiences while increasing emphasis on energy conservation. Russia needs to reform its economic structure, currently depending heavily on oil and gas exports and on Europe, through the enhancement of trade with Asia in view of strengthening its position as an Asia-Pacific nation toward the summit of the Asia-Pacific Economic

Cooperation forum that it will host in Vladivostok in 2012. These requirements are consistent with Russia's enhancement of relations with Japan. Russia's agreement with Japan on the joint action plan, as discussed at the outset, may have to be understood as part of the overall trend.

In fact, Japan and Russia still have unsolved political issues such as the northern territory dispute, the peace treaty negotiations, etc. I hope that progress in and achievements through the joint action plan for energy conservation and renewable energy development will help enhance bilateral energy relations and make new contributions to the development of bilateral relations through the promotion of wide-ranging dialogues.

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