

—  
**Progress Made toward Operations of China-Russia Crude Oil Pipeline  
on Completion of Russian Portion**

Ken Koyama, PhD  
Director  
Strategy and Industry Research Unit  
Institute of Energy Economics, Japan

On August 29, a ceremony took place in the presence of Russian Prime Minister Vladimir Putin to mark the completion of the Russian portion of the planned Sino-Russian crude oil pipeline. Of the planned 1,000-kilometer pipeline linking Russia's Skovorodino (in Amur Region) to China's Daqing (in Heilongjiang Province), the completed portion is about 70 kilometers from Skovorodino to the Sino-Russian border. The Chinese portion, which has been constructed along with the Russian portion, is planned for completion within this year to pave the way for Russian crude oil exports to Daqing through the pipeline.

This pipeline represents part of a giant project known as the East Siberia-Pacific Ocean oil pipeline (ESPO). The Russian government approved the basic concept of the ESPO project in late 2004, and the construction of the Phase 1 started in April 2006. The ESPO project envisages the development of oilfields in East Siberia as a frontier region in Russia and the construction of a 4,600-kilometer pipeline to transport 50 million tons in crude oil annually (1 million barrels per day) from Taishet in Irkutsk State to the Pacific Coast after the completion of the Phase 2. The Taishet-Skovorodino portion (i.e. the Phase 1) was completed in October 2009. An oil export terminal was built in Kozmino on the Pacific Coast in December 2009, and oil exports to the Asian market started subsequently.

China and Russia have so far implemented crude oil trade via railways. China's crude oil imports from Russia in 2009 totaled 15.3 million tons. Russia is the fourth largest crude oil exporter to China, following Saudi Arabia, Iran and Angola. The Skovorodino-Daqing pipeline as discussed at the outset is a Chinese branch of the ESPO pipeline, linking Russia's East Siberian oilfields to China. But the portion between Skovorodino and Kozmino on the Pacific Coast does not exist now. The planned Phase 2 ESPO project to increase the annual transportation capacity from 30 million tons to 80 million tons has many problems and uncertainties. Under such situation, the Russia-China branch pipeline construction has made steady progress in an attention-attracting manner.

How significant are the progress toward operations of the Chinese branch, the entire ESPO project and Russia's East Siberian oil development? I would like to analyze these questions from the viewpoints of Russia, China, international energy markets and Asian energy markets including Japan.

Russia may expect the construction of the Chinese branch pipeline to lead to the enhancement of Russia-China economic relations through the expansion and deepening of bilateral oil trade. It may also be expected to provide Russia with many advantages including (1) its enhanced access to the expanding Chinese energy market, (2) the diversification of oil export destinations that have so far focused on Europe, and (3) the promotion of economic development in East Siberia as a frontier region. Just as was the case of the ceremony to launch oil exports at Kozmino in late 2009, Prime Minister Putin was present at the ceremony of the Chinese branch pipeline to demonstrate the importance of the project for Russia.

Meanwhile, the Russia-China pipeline project is very significant for China that has expanded oil demand substantially and grown more dependent on imported oil. Like Russia, China may expect to enhance bilateral relations through energy cooperation. In addition, China may expect such effects as (1) secured massive energy supply from Russia's East Siberia that is geographically close to China and (2) the reduction of China's dependence on the Middle East to diversify energy supply sources. Furthermore, the project could provide CNPC and other Chinese state-run oil corporations with opportunities to participate in the development of energy resources in Russia including East Siberia.

The Chinese branch pipeline is thus very significant for both Russia and China and their governments have fully recognized the significance. This may be the reason for the Chinese branch construction making faster progress than the overall ESPO project. Another contributor to the progress might have been a \$2.5 billion loan that China provided to Russia (for state-run oil company Rosneft and state-run oil transporter Transneft) amid difficulties facing the energy industry in February 2009 after the Russian economic situation deteriorated in the course of the financial crisis. As noted by experts, China and Russia may still have mutual distrust or a sense of caution against each other from national security and other viewpoints. Their relations might have ambivalent aspects as well as deepening economic relations through energy cooperation. Regarding basic energy interests, however, the two countries undoubtedly need each other in some areas. In this respect, we may be able to conclude that their relations are deepening steadily.

Lastly, how Russia would go ahead with energy resources development through ESPO and other projects may attract attention when we consider Russia's influences on international energy markets. As indicated by the North Sea oil development, the construction of pipelines as infrastructure can trigger energy resources development. How Russia will develop East Siberia (and the Russian Far East) with apparently rich energy resources in connection with infrastructure development is important for anticipating the medium to long-term international energy supply/demand balance. We may also have to pay attention to how Russian energy resources development will influence energy procurement by China that has become the most attention-attracting buyer in international energy markets. China's increasing energy imports from Russia are expected to affect the overall market supply/demand balance as well as other major energy suppliers' export and market strategies. As such energy suppliers as Middle Eastern oil producers pay attention to the Chinese market, I am deeply interested in how they will develop their

Chinese market strategies. Considering that ESPO crude oil exports, which have started at Kozmino, and expanding Sakhalin crude oil exports have begun to influence the supply/demand balance and prices in the Asian oil market, we may have to carefully analyze the future effects of Russia's expanding energy trade with Asia including China.

Contact: [report@tky.ieej.or.jp](mailto:report@tky.ieej.or.jp)