

## **Russia's Energy Strategy toward APEC Summit**

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Mr. Vladimir Putin will recover the Russian presidency in May after his victory in March's presidential election. This comes after he served two four-year terms as president as successor to Mr. Boris Yeltsin from 2000 and led a tandem government along with President Dmitry Medvedev for four years. As the 2008 constitutional amendment lengthened the presidential term to six years with one person allowed to serve up to two terms, Mr. Putin can be expected to serve as president over the next 12 years, extending his engagement with the Russian leadership to 24 years from 2000.

Based on the parliamentary election results late last year, later anti-Putin demonstration/movements and the factors behind his presidential election victory, various views have been indicated in and outside Russia about how his leadership and support base would change in the future. The matter has attracted global attention. This report, while refraining from touching on the matter, analyzes energy problems as a major factor for his power base and how Russia would address these problems.

It can be simply stated that Russia's power, particularly its economic power, is dramatically susceptible to the dynamics of the energy situation and to international energy prices. This is because oil and gas account for nearly 70% (65% in 2011) of Russia's total exports. The Russian economy thus depends heavily on the energy sector. The 1990s, in which crude oil prices slackened, were a lost decade for Russia. After Mr. Putin assumed the presidency in 2000, crude oil prices continued to rise until the 2008 peak, allowing Russia to recover its position as an economic power. We also easily remember that a sharp decline in crude oil prices after the September 2008 Lehman Shock has been a major factor behind the Russian economy's slump.

In this sense, crude oil price hikes amid the Arab Spring destabilization and the tense Iranian situation since 2011 serve as a tailwind for the Russian economy and are significant for Mr. Putin in his new presidency. Conversely, however, a downturn in crude oil prices may inflict great damage on the Russian economy again and shake the Putin administration. After Mr. Putin promised massive social spending in his presidential campaigns, particularly, the trend of crude oil prices and its impact on oil and gas income will be the key factor for predicting whether Russia would remain stable.

As well as crude oil price levels, Russia's external strategy regarding energy exports and sales channels is very significant. As is well known, Russia has gained most of its oil and gas income from exports to Europe. In Europe, however, energy demand has slackened on the economic crisis. In addition, LNG supply from international market, cheaper than pipeline gas from Russia, has been flowing into Europe. Russia's energy exports to Europe have thus faced a difficult situation. Russia's negotiations with Germany's E.ON and other major Russian gas buyers about pricing formula revisions and price cuts have run into rough waters.

Therefore, Russia and its new President Putin are now looking to the East, or Asia and the Asia-Pacific region. Asia has important markets including China that is expected to drive global oil and gas demand growth. Particularly, natural gas demand is expected to grow in almost all Asian countries, including China as well as Japan where gas demand has soared on the nuclear plant accident triggered by the Great East Japan Earthquake. The exploration of Asian markets to expand exports is significant for Russia's regional economic strategy to boost underdeveloped Eastern Siberia and Far East regions. In the Pacific, Russia sees potential natural gas market competitors such as the United States, Canada and Australia. Russia cannot take its eyes off the moves of these potential competitors. Energy is the most important issue for Russia to grow as an Asia-Pacific country in a full-fledged manner. This point might have captured a key position in new President Putin's strategy.

From now on, Russia will step up preparations for an annual summit of the Asia-Pacific Economic Cooperation forum in Vladivostok in September. In this respect, the energy issue is likely to be given priority. Given Russia's long-term strategic goals of economic modernization and structural advancement, Russia is likely to emphasize the promotion of energy conservation and renewable energy development that have been priorities over the past several years. Given the recent situation including the Great East Japan Earthquake, the U.S. shale gas revolution and U.S. LNG export plans, however, natural gas can be expected to become a major topic at the APEC summit. Meanwhile, Russia has positioned its nuclear industry as a strategic sector with international competitiveness, therefore, it may also place emphasis on nuclear power generation problems including safety and how to promote the peaceful use of nuclear energy.

Discussions on the abovementioned key energy problems at the APEC summit will be greatly significant for Japan, East Asia and the entire Asia-Pacific region. This is because Russian energy resources are expected to be used effectively for the development of the Asia-Pacific region, particularly Northeast Asia, to benefit all relevant countries.

As Russian president, Mr. Putin hosted a Group of Eight summit in St. Petersburg in 2006, where energy security topped the agenda. Then, Mr. Putin successfully managed the G8 summit and boosted Russia's national prestige at a time when Russia was taking advantage of its energy

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resources to increase its power. What strategy new President Putin would develop for his APEC summit debut is attracting great attention.

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