

## **Russia Enhancing Efforts to Develop LNG for Asian Market**

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In a new development involving Russia's energy strategy for Japan and other Asian markets, Rosneft, the largest Russian state-run oil company, announced on April 18 that it signed a strategic partnership agreement with Japanese trading house Marubeni Corp. on a Far Eastern liquefied natural gas project and their joint oil and gas exploration and development. The strategic partnership is designed for Rosneft and Marubeni to enhance efforts to realize the Far Eastern LNG project for Japan and other Asian markets while anticipating their joint exploration and development of Rosneft-owned oil and gas concession blocks.

As described in my earlier report, "New Moves Seen for LNG Development in Russian Far East: A Japanese Perspective on the International Energy Market (121) February 22, 2013," Rosneft has been developing and enhancing its Asian market strategy rapidly. Under its 2011 Strategic Cooperation Agreement with international oil major ExxonMobil, Rosneft has indicated its intention to promote bilateral cooperation in a Far Eastern LNG project as well as a Russian Arctic continental shelf oil and gas development plan and ExxonMobil's Point Thomson gas development project in North Slope, Alaska. Based on these intentions, Rosneft CEO Igor Sechin visited China, South Korea and Japan to meet with government officials and energy industry executives in the respective countries. This time, Rosneft made a step forward to promote its cooperation with a Japanese partner in Far Eastern LNG development.

The Rosneft-ExxonMobil Alaskan gas development project is likely to target Asian markets ultimately. In this sense, Rosneft may have multiple options to develop LNG for Asian markets. Furthermore, strategic options for Rosneft may include pipeline gas supply. Both the Russian and Asian (Japanese) sides have various potentials, speculations and strategic plans concerning how to develop natural gas resources under the Sakhalin 1 project and explore channels for gas sales for Asian markets including Japan. Therefore, Rosneft may have both LNG and pipeline gas supply to Asian markets in mind.

Meanwhile, Rosneft's aggressive strategy development is coinciding with

Gazprom's activated approach on Asian markets including Japan. Gazprom has so far represented the Russian gas industry and monopolized Russian natural gas exports. On April 16, Gazprom representatives participated in a Japan-Russia joint natural gas coordination committee meeting in Fukui Prefecture. On April 17, Gazprom CEO Alexei Miller exchanged views with Japanese Economy, Trade and Industry Minister Toshimitsu Motegi on the Gazprom-led Vladivostok LNG project.

Japan and Russia signed a memorandum of understanding on the Vladivostok LNG project when an annual summit of the Asia-Pacific Economic Cooperation Forum took place in Vladivostok in 2012. It has become Russia's new frontrunner project for LNG exports to Asia including Japan. Russian President Vladimir Putin has placed great expectations on the project and has promoted it as a key national project in which Russia's national prestige is at stake. Gazprom representatives' visit to Japan and talks with Japanese government and industry executives apparently represent its attempt to enhance and promote the project in consideration of the latest Japanese and Asian market developments and the abovementioned Rosneft moves.

Basic factors behind these Russian moves may include (1) slumping gas demand in Europe as a mainstay gas market for Russia and severe market environments for Russian gas, (2) growing needs to explore and expand channels for sales to expanding Asian markets, (3) the need to leverage energy development for economic development in Eastern Siberia and the Russian Far East, and (4) Japan's growing LNG demand after the Great East Japan Earthquake. In addition, progress in U.S. and Canadian LNG export plans, new LNG development moves in Eastern Africa (Mozambique) and other regions, and other moves that work to intensify competition for Asian markets have emerged in response to the growing business chances that stem from expanding Japanese/Asian demand for LNG and natural gas.

In a sense, Russia has employed Rosneft as a new player to accelerate progress in exploring Asian markets including Japan as Gazprom has taken the initiative in doing so and has been no so much successful to make smooth progress. Russia has shifted to an aggressive strategy to take advantage of the window of opportunities. It is significant for Japan and other Asian markets to effectively use gas (energy) from Russia that is geographically close to Asia and has abundant gas/energy resources. If Russia develops its aggressive strategy to sell gas to Asia, it may be significant for Asia including Japan to hold constructive talks with Russia while watching medium- to long-term market conditions.

But the situation is confused somewhat as Russia is going ahead with its aggressive market exploration amid new players' emergence and growing presence. In addition to Gazprom and Rosneft as mentioned above, Novatek, which is involved in the

Yamal LNG project, is likely to explore Asian markets, complicating the Russian situation. As various Russian parties are planning to develop resources for exports to Japan (Asia), what specific plan to choose and how to take part in any specific plan are key issues involving Japan's national interests. Japan may have to make key policy decisions based on strategic, objective and prudent analyses of the complicated Russian situation, supply and demand in Asian markets including Japan, and bilateral ties and relations between major countries such as the United States and China.

When Japanese Prime Minister Shinzo Abe visits Russia in late April, Japan-Russia energy cooperation is expected to become a key topic in his talks with Russian leaders. I hope to see constructive discussions on the matter.

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