

Ukraine Situation and Its Implications for Asian Energy Geopolitics

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The Ukraine situation is growing even tenser. On May 11, effective independence referendums took place in the eastern Ukrainian provinces of Donetsk and Lugansk under the control of pro-Russian separatists. While many reports pointed out fraudulent votes, nearly 90% of voters reportedly endorse their effective independence. The interim Ukraine government and Western countries criticized these forced referendums as threatening the unity of Ukraine and indicated they would never recognize the referendum results. If the situation is left untouched, however, pro-Russian separatists may effectively establish and expand their control of eastern Ukraine, leading the eastern part to be separated from Ukraine. Meanwhile, the interim government has indicated a hardliner policy including its use of force against pro-Russian separatists to make a breakthrough. Depending on developments, however, domestic disputes and destabilization could become even more serious. The Ukraine situation has thus destabilized further, deepening its turmoil.

While the unity of Ukraine is threatened, the next focus of attention is a presidential election planned for May 25. Originally, it had been expected that a legitimate government would be established through the presidential election to secure domestic governance and stabilization in Ukraine. Amid the domestic turmoil, however, concerns have emerged about whether preparations and arrangements could be made for implementing a clean, fair and transparent presidential election. In eastern Ukraine where referendums have been implemented as mentioned above, moves to block the presidential election are seen, making the election uncertain. U.S. State Secretary John Kerry pointed to the importance of the Ukraine presidential election at his meeting with his British, French, German and Italian counterparts in London on May 15. He then warned that sectoral economic sanctions on Russia could be toughened if Russia and pro-Russian separatists in Ukraine muddle the presidential election. Tensions over the presidential election are growing within Ukraine and between Western countries and Russia.

The Ukraine tensions have shaken Eurasian geopolitics and are imposing great impacts on Asian energy geopolitics. It may be needless to say that the key point in this regard is the Russian energy problem. As Europe's heavy dependence on energy imports from Russia is important for Europe, Russia's heavy dependence on the European market is significant for Russia. Europe has

adopted a basic, general policy of reducing its dependence on Russian energy supply, even though the reduction may be difficult. Russia earns about 70% of its total export revenues with oil and gas exports mainly to Europe. Even before the Ukraine crisis, Russia had been affected by a European demand slump and the U.S. shale revolution. Under the crisis, Russia is expected to face further difficulties.

In order to reduce its dependence on Europe and diversify oil and gas export destinations, Russia has had no choice but to look east to enhance its Asian market strategy. Due to the recent Ukraine developments, it is unprecedentedly urgent for Russia to do so.

In this respect, the most attention-attracting problem may be Russian strategy toward China. China has kept a distance from the Group of Seven Western industrial countries' anti-Russia sanctions and criticism and grown important for Russia. At the planned May 20-21 Summit Conference on Interaction and Confidence Building Measures in Asia, Chinese President Xi Jinping is expected to propose a new Asian security view calling for Asian problems to be solved at the initiative of Asia. Russian President Vladimir Putin is scheduled to attend the conference and hold a bilateral summit with Chinese President Xi. Their talks are attracting attention as a key to anticipating future China-Russia relations.

A key point in this respect is whether Russia and China could reach a final agreement on a bilateral gas pipeline toward their summit meeting after long negotiations. As noted in my report titled "Gazprom and CNPC Made Step forward to Final Gas Contract" (A Japanese Perspective on the International Energy Landscape (143) on September 6, 2013), the two countries reached broad agreement on the deal excluding pricing last September, leaving the pricing as the last pending problem.

The gap between China and Russia over the pricing has remained wide, serving as a factor behind the difficult negotiations. Under the new situation, however, some people see the momentum emerging for a final agreement. This means that Russia could take up a more flexible attitude as securing the Chinese energy market has become unprecedentedly important for Russia in terms of energy exports and international relations in the wake of the Ukraine developments. China for its part is urgently required to expand natural gas consumption in quick response to its air pollution problem. It has grown more important for China to utilize Russian natural gas. If the final agreement is achieved under such circumstances, it may represent a major Russian concession and allow China to procure natural gas in a competitive manner, according to some observers. While natural gas pipeline construction is expected to cost much, some observers point to possible Chinese financial support as is the case with the Eastern Siberia-Pacific Ocean oil pipeline.

It would be significant for major powers China and Russia to reach a final agreement on a large-scale pipeline gas contract after long, difficult negotiations. Given the major change in

Eurasian energy geopolitics as a factor behind the final agreement, the deal may have great implications. Its significance will have various meanings for not only the China-Russia problem but also Asian energy supply and demand, energy security and Japan's energy strategy. In this sense, the China-Russia summit from May 20 is attracting great attention.

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