

At the 21st World Petroleum Congress

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

On June 15-19, the 21st World Petroleum Congress (WPC) took place in the Russian capital of Moscow. (I participated in the conference from June 15-18.) The WPC, for petroleum industry people around the world, is a major international energy conference, rivaling the World Energy Congress for electricity industry people and the World Gas Congress for gas industry people. Participants included high-level government officials and state-run oil and gas company leaders from the host country of Russia and other major countries, as well as top executives of international oil majors or other oil and gas companies. They discussed important challenges involving petroleum and gas markets in the world. From Japan, some 140 people took part in the conference, including leaders of oil, gas and other relevant industries. The WPC, though designed for the petroleum industry, included many natural gas and LNG sessions since gas problems are important for today's petroleum industry. Gas problems were thus one of the major topics at the conference.

During the conference, Russia's suspension of gas supply to Ukraine (resulting from a shift to the system of advanced payments) became a big news item reported worldwide, attracting global attention. At the same time, the Iraqi situation rapidly grew tense, leading crude oil prices to rise. The conference thus came as the Middle East and the petroleum situation were attracting attention from throughout the world. Also during the conference, BP and China's CNOOC announced a \$20 billion, 20-year LNG contract. Russia hosted the large-scale international conference at a time when tensions between Russia and Western countries were intensifying amid the destabilization of the Ukraine situation. This is a major attention-attracting point. Although this report has no space for detailing the conference, I would like to summarize my feelings about my four-day participation in the five-day conference.

First, the conference gave me an opportunity to feel Russia's great presence in international oil and gas markets anew. According to BP Statistical Review of World Energy 2014 whose global launch was timed to coincide with the conference, Russia was the world's second largest oil producer after Saudi Arabia in 2013, with output totaling 10.79 million barrels per day (accounting for 13% of the global total), and the second largest gas producer after the United States, with output aggregating 604.8 billion cubic meters (accounting for 18% of the global total). Russia thus boasts the largest oil and gas combined production volume in the world. Including gas exports to Europe that have attracted attention in regard to the Ukraine problem, Russia's pipeline gas exports in 2013 increased 9% from the previous year to 211.3 billion cubic meters. This is reportedly because Russia

lowered gas sales prices at the request of users amid the severe gas supply/demand situation in Europe and recovered its price competitiveness. As gas infrastructure including pipelines has been fully depreciated, the competitiveness of Russian natural gas for Europe is so strong that it would be economically difficult for Europe to substitute Russian gas with alternative supplies, according to European experts. At the conference, Russian business leaders made presentations on both conventional and unconventional energy resource potentials in Russia, as well as Arctic Ocean and Eastern Siberia/Sakhalin development initiatives, emphasizing Russia's resource development potentials.

In fact, Russian oil and gas industry leaders, including Rosneft President Igor Sechin, Gazprom Vice President Alexander Medvedev and Lukoil President Vagit Alekperov delivered speeches stressing the importance of Russia for international oil and gas markets. In an apparent response to Western economic sanctions, Russian speakers remarkably emphasized that Russia would welcome and maintain an open-minded approach on various partnerships important for Russian resource development. Even with Western economic sanctions on Russia, oil industry leaders, including international oil major executives such as ExxonMobil CEO Rex Tillerson and BP CEO Bob Dudley, made speeches on future prospects and challenges for international oil and gas markets and Russia's positioning and importance in these markets. In this way, Russia's presence in international energy markets was reaffirmed before world oil industry leaders at the conference in Moscow.

Russia signed a historic natural gas supply contract with China as late as last month, indicating its willingness to further enhance its expansion into the Asian market. In this respect, future resource development plans in Eastern Siberia, the Far East and Sakhalin are attracting attention. The conference included some roundtable sessions on the Asian natural gas market, where participants had active discussions on the problem of regional gas price gaps (the so-called Asian premium), the possibility of future price convergence, and the feasibility and economic efficiency of new gas supply options such as new LNG projects and pipelines. This might have been a noteworthy point regarding the conference.

Although Russia demonstrated its great presence at the conference, it faces various challenges regarding future oil and gas business. Russian President Vladimir Putin and Gazprom President Alexei Miller abruptly cancelled their addresses at the conference. They reportedly had to make responses to the suspension of gas supply to Ukraine, indicating that the tense geopolitical environment directly shook Russia due to the great significance of oil and gas problems for the country. While the abovementioned partnerships are truly important for the Russian oil and gas industry, the possibility of enhanced economic sanctions casts a shadow on the Russian industry's future cooperation and partnerships with Western companies regarding advanced technologies, markets and sales channels.

This point is of grave significance for Russia and could affect stable oil and gas supply for the global market. In this respect, we have to give consideration not only to the impacts of short-term supply disruptions on the supply-demand balance but also to long-term impacts on the balance that

could emerge from adverse effects on Russian oil and gas sector investment. Russia is expected to exert great influences on the global supply-demand environment at a time when supply disruptions are seen in many oil and gas producing countries in the Middle East and Africa while U.S. shale resource development is making progress. The Russian factor is very important for considering energy security for Asia and Japan.

Contact: report@tky.iej.or.jp

The back issues are available at the following URL

http://eneken.iej.or.jp/en/special_bulletin.html