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“International Energy Cooperation in the Asia-Pacific. Role of the Russian Federation in securing stable energy development of the region.”

Ladies and Gentlemen,
Honoured Speakers and Guests,

First of all let me express my gratitude to the Institute of Energy Economics for the opportunity to address the participants of this prominent Forum to discuss the key issues of the energy cooperation and stability of energy supply in Northeast Asia.

At the beginning I'd like to bring your attention to some facts and figures. As it was emphasized at 8th International Energy Forum the demand for energy recourses is expected to rise by 2% annually until 2020 i.e. from 9 billion tons of oil relative equivalent in 2000 up to 13 billions of oil relative equivalent by 2020. Asian-Pacific region will cover the vast portion of such demand. The demand for energy recourses in Asia is expected to rise by 8-10% during the first 30 years of this century. At present the Asian-Pacific region market absorbs more than 60% of world energy consumption. Two countries of the region - China and Japan - take the second and third place in world energy consumption after the USA. Over 65% of world LNG is consumed in Asia. At the same time the rise of energy consumption is seriously influenced by huge dependence from Middle East supplies and this could have negative effect on the energy security of the leading countries in the region. Bearing this in mind Russia could become in the nearest future a stabilizing factor for Asian energy markets being a major oil and gas exporter for the region.

In 2003 Russia was first in the world in oil production and the second in oil export. According to our institute experts' forecast the daily oil export from Russia in 2010 will reach the level of 5,8-6,0 millions barrels. As for gas production and oil export the

Russian Federation is an undisputed world leader. It is obvious that such increase in exports will require new and enhanced export infrastructure as well as new markets. That's why the Asian-Pacific region is considered as one of the strategically important markets for Russia. Among Asian-Pacific region countries the most promising is expected to be the energy cooperation with three countries - Japan, China and South Korea due to their rather close geographical position and high rates of growth in energy consumption. This was reflected in the "Energy strategy of Russia for the period till 2020" which is the basic document determining the priorities and landmarks of Russian fuel and energy industry development. The document calls for an active energy dialog with North-East Asia countries in order to secure the diversification of energy supply markets, to support the projects with foreign investments in the Russian economy, to develop new forms of international energy cooperation, to create instruments of coordination of state policy in regards to external trade regulation in energy sector. The strategy envisages the skyrocketing rise of Asian-Pacific market share in the Russian oil export from actual 3% up to 30% by 2020 and up to 15% in relation to natural gas exports.

Taken in account the nearness of Eastern Siberia and Far East to the Asia and Pacific Ocean countries, the availability of great oil and gas reserves, promising projects with foreign investments in oil and gas exploration and production as well as presence at the territory in question of important transcontinental railways which lay to the Russian Far East deep-water all-the-year-round open ports – bearing all this in mind we can consider Siberia and the Far East as a basis for development of energy cooperation in North-East Asia. Provided that the geological prospecting is optimistic, the annual production by 2020 will reach 80 millions of tons of oil and 110 billions of cubic meters of gas. Irkutsk, Krasnoyarsk and Sakhalin regions will be the main suppliers.

However the development of raw material base of these regions will require a great deal of funds to invest. As our experts estimated the total amount needed to invest in the fields development of Eastern Siberia and Sakhalin island for 20 years will amount circa 36 billions of US dollars, transport infrastructure excluded. The same estimates predict that the Russian oil export capacity in the years 2010-2015 will be able to cover up to

50% of Asia and Pacific Ocean region needs in oil import after 2015 and so this makes the investments in the region rather reasonable and economically attractive.

I would like to report to you briefly about some already realizing projects and let me start from those of Sakhalin.

Sakhalin-1 – oil and gas field which is developed by international consortium including American “Exxon Mobil”, Japanese consortium “SODECO”, Indian State Oil Company “ONGK Videsh Ltd”, Russian companies “Rosneft” and “Sakhalinmorneftegaz-shelf”. The project started in 1996 according to PSA. 2,3 billions of barrels of oil and 17,1 thousand billions of cubic feet of gas are potentially extractable in the project “Sakhalin-1”. 12 billions of US dollars will be invested in the project.

Sakhalin -2 is also oil and gas project operated by “Sakhalin Energy” Company. Its shareholders are Shell Sakhalin Holdings B.V (“Shell”), Japanese Mitsui Sakhalin Holdings B.V. and Diamond Gas Sakhalin. Total extractable reserves of hydrocarbons in the project are over 1,3 billions of barrels of oil and over 28 thousand billions of cubic feet of natural gas.

The realization of “Sakhalin-2” project will require 10 billions US dollars investment the major part of the amount is reserved for the construction of LNG plant.

As estimated by Russian Government the oil extraction on Sakhalin shelf will reach 185 – 190 millions barrels a year by 2010.

The representatives of Japanese and other foreign businesses take active part in Sakhalin-2 project, where the oil production has already begun and in Sakhalin-1 where the preparations for production are underway. Besides that, private companies have carried out a feasibility study of gas pipeline construction connecting Sakhalin and Japan the results of which confirm the commercial and technological advantage of such project.

There are also other Sakhalin projects like Sakhalin 3,4 and 5. The estimates are that the total reserves of these projects can reach 11 billions of barrels of oil and about 70 thousand billions of cubic feet of gas. However these projects require a serious geological prospecting and confirmation of reserves of ABC1 category. Moreover these projects are very very capital-intensive.

Kovyktynskoye condensate field is located in Irkutsk region. Recoverable reserves under category ABC1 are estimated as 50 thousand billions of cubic feet of gas and over 500 millions of barrels of condensate. The operator of the project is «RUSIA Petroleum» Company. The cost estimated for completion of commercial development is amounting to 12 billions of US dollars.

Chayadinskoye oil and gas field is planned for commissioning in 2009 and is considered as a main field for gasification of southern area of Republic of Sakha (Yakutia), Amur region and for eventual export supplies in the countries of North-Eastern Asia. Gas reserves estimated are 42 trillion cubic feet while oil recoverable reserves are 1,7 billions barrels.

As I have mentioned above the majority of oil and gas field projects in Eastern Siberia and Far East of Russia are developed by foreign investors and some of them represent the Asia region. The international cooperation in relation to the mentioned projects is developing in the most promising direction.

The “Sakhalin Energy” Company responsible for the project Sakhalin 2 has already concluded long-term agreements with four Japanese companies: Tokyo Gas, Tokyo Electric Power Company, Kyushu Electric Power Company and Toho Gas on LNG for almost 3,5 millions of tons annual supply. The supplies are to begin in 2007 when world’s biggest LNG plant will start production in the vicinity of village Prigorodnoye. The plant is capable to output nearly 10 millions of tons of LNG. At present 6 millions of tons remain non-contracted. Our experts believe that even here there is a large potential for mutually profitable cooperation. In particular the special interest is from the Korean Company KOGAS which is going to initiate tender for 5,3 millions of tons of LNG annual supply starting from 2008. We are of a strong conviction that the Sakhalin gas has more initial advantage that is - it will take 2-3 to deliver Sakhalin LNG to Japan, Korea or China, which is much faster than from any plant in the region let alone Middle East, when it takes about 20 days of shipment. Alternatively the Sakhalin LNG can be exported to the North-American market. As far as I know negotiations with local companies are underway. And I want to share the latest information with you. The “Sakhalin Energy” Company has announced its plans to participate in the tender for 5,3 mln. tons of LNG

annual export to Korea. Moreover, “Sakhalin Energy” offered a share in the project “Sakhalin –2” in order to enhance the regional cooperation in the sphere of Russian LNG exports to Korea. This proposal was made within the framework of the official visit of the Korean President to Russia.

One more example of advance in relations between Russia and North-East Asia countries is the project of gas export to China and South Korea from the Kovyktinskoye field. It’s planned that within next 30 years China will get 600 billions of cubic meters of gas while S.Korea will receive 300 billions. The gas supplies are to start in 2008. Russian Company “RUSIA Petroleum”, Chinese CNPC and Korean KOGAZ have already approved the International Feasibility Study for construction of gas pipeline from the field Kovyktinskoye and signed the letter of intent on Russian gas trade. The gas pipeline is to pass through three regions of Russia, cross Russian-Chinese border in Manchuria, reach the Yellow Sea and go further along the seabed to the Korean shore. The new pipeline will be the longest in Asia and one of the longest in the world.

Let me say few words about the perspectives of pipeline construction for the Russian oil export to the North-East Asia countries. At present several are under consideration and among them the routes Angarsk-Dazin and Angarsk-Nahodka which are worth mentioning. Our institute has already started the study of this issue and I would like to point out that Japanese, Chinese and Korean markets are not viewed as alternatives to each other. Besides the financial and economic component, the environmental factor of pipeline construction should be taken into account, as the mentioned routes will pass through the territory of a unique natural reserve. The need to develop Russian regions is also of certain importance. As I said our Institute is studying the problem and we are ready to cooperate with public bodies, companies and scientific centres of Japan, China and Korea on the matter.

As my speech is approaching the end I’d like to touch some points related to the energy dialog of Russia with North-East Asia countries in which our institute takes a very active part. Lately there have been several high-level meetings between the leaders of Russia and Asian-Pacific countries. The agenda of these meetings included negotiations on regional energy cooperation. At the meeting between Japanese Prime Minister D.

Koidzumi and Russian President V. Putin the issue of energy cooperation has been a key topic of negotiations. The Russian and Japanese leaders have specially emphasised the will of parties to favour the stability in terms energy secure supply in North-East Asia and to develop the bilateral energy cooperation. The projects Sakhalin-1 and Sakhalin-2 were of special importance at the summit. An “Action Plan” on energy dialogue has been adopted which outlines the need for “enhancing cooperation in the development of Russian Far East and Siberia energy resources as well as favouring the construction of gas and oil pipelines”.

Energy cooperation is considered as to be a very important in the agenda of Russian-Chinese summits. At the forum of ASEAN countries as well as at the conference Shanghai Organisation for Cooperation the Russian Federation President V. Putin and the President of CPR Hu Zintao have discussed issues concerning oil and gas exports to China, export of Russian energy equipment and technologies, investment partnership between two countries.

The energy dialogue between Russia and South Korea is also a part of a broader agenda of economic cooperation between Moscow and Seoul. During his last visit to the S.Korea in 2001 President Putin declared about Russian readiness for an active partnership in oil and gas resources development in Far East and Siberia, for construction of oil and gas pipelines network. The President has also emphasized the will of both parties to favour the stability of energy supply and bilateral cooperation in enhancing the presence of Russian oil and gas at the Korea market. The Presidents of Russia and Republic of Korea have met in October 2003 in Bangkok during the ATEC summit where the importance of the energy cooperation had been specially highlighted. I have already said that Russian oil and gas companies consider the South Korean energy market as the most rapidly developing and promising from the point of view of Russian oil and gas export. During the recent visit of the Korean president to Moscow last week our Presidents agreed to enhance bilateral cooperation in energy sphere. This political will was supported by a contract between Korean “LG” and Russian “Tatneft” for building new oil refinery and chemical plant in Russia. Within that visit Korean National Oil

Corporation and Russian “Rosneft” signed a memorandum on mutual understanding on joint E&P activities within the project “Sakhalin-3”

Being a part of Ministry of Foreign Affairs of Russia, our institute plays an active role in realization of bilateral and multilateral agreements on regional energy cooperation. Today, our Institute is unique in Russia which is engaged in the staff training for the development of the international activities of the leading enterprises and organizations in the energy sphere. Supervising Board on the development of the Institute headed by the Minister of Foreign Affairs of the Russian Federation comprises of the leaders from more than 30 oil, gas, energy companies and about 10 governors of the oil and gas producing regions.

I would like to stress out the fact that our Institute develops not only an education base but is also engaged in the analytical and research activity. The Center for Strategic Energy Research and Geopolitics created in the frameworks of our Institute conducts fundamental research and assessment of the international activity of the oil, gas and energy corporation. We are ready to offer to our partners research and analytical work in the field of strategy development and perspectives of the national and world oil and gas industry, optimization of the investment strategy of the oil and gas companies, comprehensive assessment of the international investment projects in the energy sphere, analysis of the legal, tax and investment climate in Russia, etc. We are already working with the foreign companies, research and education centers. Our Institute and Center actively develop cooperation with the leading international energy organizations – IEA, Secretariat of the Energy Charter, OPEC, leading world universities. And we are very pleased that we are keeping good contacts with the Japanese, Chinese and S.Korean institutes and universities, governmental institutions and private companies.

Concluding I would like to thank once more the Forum organizers and express my believe that our work will favour the development of mutually profitable energy cooperation in the region.