

ICM-ECNEA: Russian Perspective

Dr. Tatiana Mitrova,

Kseniya Kushkina

Center for International Energy Markets Studies,

Energy Research Institute of the Russian Academy of Sciences

Deepening of regional integration processes, promotion of multilateral cooperation and the creation of new, more influential regional organisations is one of the main peculiarities of the modern world. In the last few years the most intensive and promising integration cooperation projects have been taking place in Northeast Asia. China, South Korea and Japan have already set up a trilateral analytical group aimed at providing the governments of these countries with agreed recommendations and at co-ordinating the economic and financial policies, and developing trade and investment cooperation between them. The following issues are being worked on in all three countries at the academic and business level: creation of a single energy ring and transportation corridors to Europe (in particular, via Russia), formation of a currency unit and a free trade zone, etc.

The process of expanding economic and political cooperation in North-East Asia has long been attracting attention of a wide circle of both Russian (V.Yakubovsky, O. Arin, V. Meikheev, V. Burlakov, etc.) and foreign specialists (Economic Research Institute for Northeast Asia – ERINA, Center for Energy Research, Northeast Asia – CERNA, Korea Energy Economics Institute – KEEI, the Royal Institute of International Affairs, etc.)

The interest of specialists from very different countries in the possibility of establishing multilateral cooperation between the Northeast Asian countries is not incidental. Given the ever increasing dependence of these countries from energy imports and exports, we can conclude that joint interests could unite not only the three above mentioned countries but all of the economies of Northeast Asia. The energy sector could become the driver of the regional integration of the economies of Russia, China, Japan, North and South Korea and Mongolia. Russian interests include the development of fields and territories in East Siberia and the Russian Far East, while neighbouring Asian countries have a need for energy resources.

In this article we will first attempt to evaluate the degree to which objective prerequisites exist for the establishment of multilateral energy cooperation between the Northeast Asian countries. We will then look

separately at the role of Russia in the process of energy integration, and will make a detailed review of the possibilities and limitations of such cooperation based on the example of facilitation of multilateral dialogue in this sphere - (Intergovernmental Collaborative Mechanism on Energy Cooperation in North-East Asia (ICM-ECNEA or Collaborative Mechanism). ICM-ECNEA unites the efforts of Russia, Mongolia, North and South Korea and other Northeast Asian countries in respect of promoting regional energy integration.

Prerequisites for the establishment of multilateral energy cooperation between the Northeast Asian countries

One of the main prerequisites for the establishment and activation of regional energy cooperation is the shortage of domestic hydrocarbon resources in Northeast Asian countries neighbouring Russia and the consequent need to meet rapidly growing energy demand with external imports.

Growing commercial production, an improvement in the quality of life, increasing automobilization and other processes typical of growing economies coupled with a simultaneous stagnation or complete absence of own energy resource production dictate a significant increase in energy imports. According to BP Statistical Review of World Energy 2009, China, Japan and the Republic of Korea are in the 2nd, 3rd and 11th places in the world in terms of oil consumption. Currently their dependence on oil imports is already as high as 50, 99 and 97% respectively. According to forecasts by various international organizations and institutes, for the Northeast Asian countries importing oil, this figure will increase to 70-100% by 2020. According to the well known economist and Nobel Prize winner Robert Mandell, by 2020, Northeast Asia will account for over half of global energy demand.

At the same time it is important to emphasize that resources which are strategically important for the Northeast Asian economies are currently supplied primarily by Middle Eastern countries, where military and political situation remains extremely unstable. This poses a threat to energy security in Northeast Asia.

Growing dependence on energy imports, weak diversification of import sources, high volatility of energy resource prices and increasing competition in the world energy markets are presenting new challenges to the governments of the Asian countries and are forcing them to consider uniting their efforts in the struggle for resources and spheres of

influence. Northeast Asian countries are already aiming to establish a system of energy cooperation. For example, China is taking an active part in measures of energy cooperation in Northeast Asia. In September 2008 at the second forum on trade and economic cooperation in Northeast Asia Chinese Vice-Premier Wang Qishan (Wang Qishan) called deepening energy cooperation “an important component” of cooperation of Northeast Asian countries in the trade and economic sphere. “China, while continuing to increase energy supplies to the domestic market, is ready to promote cooperation with other countries aimed towards the implementation of important oil and gas projects”, - he said¹.

Other Northeast Asian countries are also attempting to establish mechanisms for co-operation in the oil and gas sector. Japan has proposed creating an Asian energy structure. Possibilities of regional integration and establishment of multilateral dialogues are being studied by Japanese scientists at the Economic Research Institute for Northeast Asia (ERINA), which was especially set up for this purpose in 1993.

In Korea, the issues of Northeast Asian countries’ integration are being studied by the specialists at the Korea Energy Economics Institute – KEEI and the Center for Energy Research, Northeast Asia – CERNA. The Korean government set up a special committee on promoting energy cooperation in Northeast Asia. In 2004-2009 Republic of Korea financed intergovernmental meetings on the development of energy cooperation in Northeast Asia, held in association with the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP).

In accordance with the framework programme of Russia’s participation in international development, approved by the Russian President in 2007, in 2009-2010 Russia will make a voluntary contribution to ESCAP of 1.2 million US Dollars each year. It will also organise and be an active member in the intergovernmental meetings on the development of energy cooperation in Northeast Asia. The official position of the Russian side in respect of future development of multilateral energy cooperation in the region was stated by Deputy Minister of Foreign Affairs of Russia A. Yakovenko at a meeting with Korean media representatives in Pusan: “We confirm our interest in further facilitation of a mechanism for continuous intergovernmental dialogue in the energy sphere with the aim to develop co-operation in energy resource development, wider utilization of renewable and

¹ Official newspaper of the Chinese government “Renmin Ribao”, 04.09.2008.

alternative energy sources and use of environmentally friendly technologies in the energy sector and modernization of energy sector facilities in the different countries in the region. We note that energy dialogue in Northeast Asia is developing fast, which is reflected in the creation of the Senior Officials Committee on Energy Co-operation. We hope that work in this direction will continue. We support the proposal to create a Trans-Asian Energy System (TAES), which was put forward at an ESCAP session in Jakarta, and consider it very promising. At the recent 3rd session of the ESCAP committee on globalization, member countries on the whole approved and supported the idea of holding additional consultations. Russian ministries, energy companies and intergovernmental organisations with Russia's participation, e.g. The Eurasian Economic Community (EAEC or EurAsEC), are also interested. ²

Russia's role in promoting multilateral energy cooperation between Northeast Asian countries

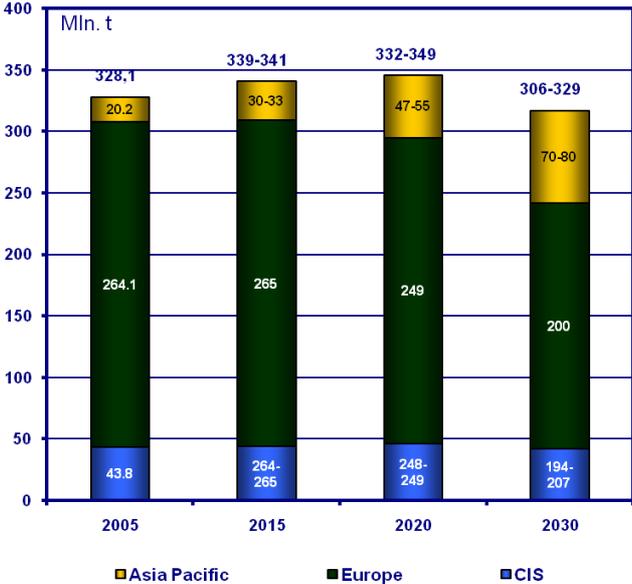
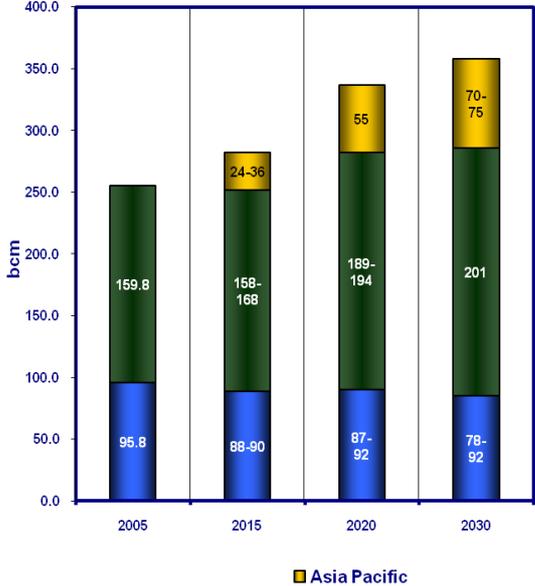
Overall economic integration of Northeast Asian countries is determined by the growing interdependency of their economies, an increase in mutual trade and capital flows and has been taking place for several years regardless of Russia's participation in it. However, it is difficult to image multilateral energy cooperation of Northeast Asian countries without Russia's part in it.

The interest of Northeast Asian energy importing countries in Russia is due to its energy reserves, sufficient to satisfy the "energy hunger" of each of these countries. Substantial volumes of potential and explored hydrocarbons are located in East Siberian fields and the Sakhalin shelf in the Far East. Until now, a large part of the fields in this region remain undeveloped. However, according to the Energy Strategy for the Development of the Russian energy sector to 2030, adopted last year, accelerated socio-economic development of East Siberia and the Far East is one of the main long term priorities for Russia, and the energy sector is to be the driver behind it. Russia's hydrocarbons industry is currently orientated firmly towards the west. In 2005, only 20.2 million tonnes of oil were exported to Asia Pacific, against a total export volume to all destinations of 328.1 mn tonnes. The vast majority (264.1 mn

² The Department for Information and the Press of the Ministry of Foreign Affairs of the Russian Federation,
http://www.mid.ru/BRP_4.NSF/76bbf733e3936d4543256999005bcbb7/3e1c0ccbf37a7c64c3257222004904d6?OpenDocument, 10.11.2006 r.

tonnes) went to Europe. The picture is even clearer in gas, with no major exports to Asia Pacific in 2005 at all. While Russia does not foresee Europe ceasing to be the main destination for oil and gas exports however, it does foresee an increase in the role of Asia. In the *Energy Strategy* Russia predicts a gradual increase in oil exports to Asia of 70-80 mn tonnes by 2030, while gas exports are predicted to rise to 70-75 bcm (approximately 20% of total gas exports). Given that hydrocarbons exports to the Far East are beginning from a relatively undeveloped position, one vital question which has been addressed by policymakers is the issue of export routes.

Graph 1. Oil and gas export by region until 2030



Source: *Energy Strategy-2030*.

So, the new Russian Energy Strategy gives priority to export deliveries of oil and gas to Asia. According to the experts, a re-orientation of the energy sector from Europe to the East is primarily linked to the growing demand for hydrocarbons in this region. Growing competition on the European export routes is another important reason for an increased interest of Russian energy companies in Asia.

According to the Energy Strategy, by 2030 oil production in East Siberia and the Far East should grow from 0.5 million tonnes and 13.8 million tonnes in 2008 to 69-75 million tonnes and 32-33 million tonnes a year respectively. In East Siberia, there are plans to explore and commercially develop fields in the Vankor-Suzun area in the north-west of the Krasnoyarsk region, along the ESPO pipeline route in the Krasnodar region, Irkutsk region and the Sakha Republic (Yakutia) – Verkhnechonskoye, Talakan, Sredneobutinskoye, Yurubcheno-Tokhomsokoye and other fields. Commercial operation of Sakhalin-1, Sakhalin-2 and other projects will run in the Far East (continental shelf of the Sakhalin Island).

Oil is the key factor in the Russian economy, accounting for about 60% of Russia's exports according to the World Bank.³ Russia has historically used the possibility of opening its crude and gas exports to Asia as leverage over its traditional European market, but what may have once been a strategic ambition is increasingly becoming both an imperative and a reality. Europe offers a market for oil which is expected to contract over the long-term, whereas Asia offers one of robust long-run growth. Asia is also moving closer to Russia, or rather Russia's new oil and gas fields are further east than its older ones, while the opening of Arctic shipping lanes in summer due to retreating ice could cut transport distances to Asia by a third.

The potential of new East Siberia fields (including Vankor, Talakan, Verkhnechonskoye and Kuyumbinskoye fields) is around 40-45 million tonnes a year. This figure could increase by another 10 million tonnes as smaller oil deposits are commissioned. But the problem is to attract investments necessary to develop all these greenfield projects.

In order to combat the effects of the economic crisis in the oil sector, the Russian government has put together a raft of proposals, including some to help counteract the problems in export volumes. One of the main ideas has been the plan to institute a zero rate export tax for oil produced in Eastern Siberia for three years, agreed at the Kirishi

³ The World Bank, *Russian Economic Report No.16*, (June 2008), p. 17.

Summit on February 12th 2009⁴. This can be seen as an attempt to encourage the growth of the relatively tiny production volume in Eastern Siberia, which is currently 3.3 million tonnes, or less than one percent of Russia's total production in order to fulfil the contracts signed with China. Encouraging exports to East Asia is long-term strategy, which appears more justifiable in the light of China's continued economic growth of around 8% even during a period of severe global recession.

Active development of fields in the east of the country is also planned in the gas sector. It is expected that gas production in East Siberia and the Far East will grow from 4 and 9 billion cm in 2008 to 132-152 billion cm a year by 2030, respectively. Kovyktin gas condensate field in the Irkutsk region, Chayandin gas condensate oil field in the Sakha Republic (Yakutia), hydrocarbon fields in the Krasnoyarsk region and shelf deposits in the Sakhalin Island and the East Kamchatka sector of the Pacific Ocean will become the largest gas production clusters in the region.

Simultaneously with the development of the production sector, infrastructure for the delivery of fuel to foreign markets will be actively developed. East Siberia – Pacific Ocean (ESPO) oil pipeline will be the largest oil transportation project, with total transmission capacity of 80 million tonnes. The first phase of the pipeline from Taishet (Irkutsk region) to Skovorodino (Amursk region) was commissioned in December 2009. Capacity of the first phase of ESPO is 30 million tonnes a year (15 million tonnes will be delivered by railway to the Pacific Ocean coast, and the remaining 15 million tonnes will be delivered to China).

Expenditure on the construction of the ESPO pipeline totalled 420 billion Roubles, including 60 million Roubles for the construction of the port.

In February 2010, Unipet became the first Chinese company to buy Russian ESPO crude, heralding a new milestone for the Russian blend, which has already found buyers in South Korea and Japan. The crude will be shipped from the port of Kozmino, on the Pacific coast near Vladivostok in Russia's Far East.

Currently 250,000 b/d are flowing through to Skovorodino. From there the oil is delivered by rail to the Kozmino terminal. A pipeline is currently being built by the China National Petroleum Corp. to link Skovorodino to the oil center of Daqing in China and is expected to be completed by year's end. Rosneft has signed a 20-year contract with CNPC for the delivery of 300,000 b/d from Skovorodino.

⁴

Vedomosti, 13.02.09.

The first oil cargo was brought by railway from Skovorodino to the port of Kozmino, and was shipped to Hong Kong by tanker. Rosneft sold the 100,000 tonne cargo to Finnish oil trader IPP Oy in a tender as early as at the end of November, at a premium of \$0.5 per barrel to the regional benchmark Dubai crude. The second tanker will be loaded at the port of Kozmino on 1-2 January 2010. This is TNK-BP's oil, which was sold to international oil trader Trafigura. The company said that the price is higher than that achieved by Rosneft. In the first quarter of 2010 the companies plan to supply 500 thousand tonnes of oil each via the ESPO.

Figure 1. ESPO Pipeline Route



Source: IEA.

Completion of the construction of a branch to China and the Skovorodino-Nakhodka branch is planned for the end of 2010 and 2013-2014 respectively. The system will be technologically connected up to Transneft's active major trunk pipelines and will enable to set up a single network, providing strategic distribution of oil flows in the Russian territory in the western and eastern directions. Therefore, ESPO will become one of the elements of the developing single Eurasian energy system.

The extension of ESPO to Kozmino and the expansion of the pipeline's capacity should see Russian crude exports to Asia rise above 1 million b/d by 2014, according to some analysts, who also predict a drop in Russian exports to European and Atlantic markets of 500,000 b/d over the same period, the fall coming mainly in Black Sea exports, destined for the Mediterranean market.

Concerning gas export infrastructure the situation is yet less advanced so far. Russia has experienced very turbulent times in terms of its gas sector, particularly with regard to the drop in demand both from Europe and its own domestic customers. In such circumstances, it appears that Russia's best option is to be more flexible in terms of its gas exports. This can be done both through actively seeking out new markets in East Asia, especially in China which has been one of the most successfully-performing economies in the crisis. Russia and China have signed co-operation agreements for the total amount of around \$3.5 billion within the Russian-Chinese forum in October 2009. The new framework agreement between Gazprom and China National Petroleum Corporation is the main one. It reiterates the protocol signed as early as 2006. Both documents envision two export routes – Eastern and Western. The total volume of gas supplies will be around 70 bcm a year, nearly 90% of the 80 bcm which China consumed in 2008. Gas deliveries could begin in 2014-2015, with up to 30 bcm a year to be delivered via the Western route and around 38 bcm via the Eastern route. A. Miller has clarified that gas deliveries to China will start primarily via the Western route, as there is a ready resource base and gas processing and gas chemical facilities in place on the route. Gas supplies to China in the first phase until 2015 could total 10-15 bcm. Kovykta and Chayadina fields could become the resource base for gas deliveries via the Eastern route.

The Russian-Chinese agreements signed in October are an exact replica of the 2006 memorandum with one exception. For the first time there is a mention of an agreement reached by Gazprom and CNPC which stipulates that the gas price will be linked to the Asian oil basket. This is a key point, as previously the unwillingness of the Chinese side to tie gas prices to the oil ones has been slowing down negotiations. The Chinese proposed to either set a fixed price of gas or tie it to the prices of coal in the Chinese domestic market. Evidently, neither of these was suitable for the Russian side. Although no specific documents were signed, the sides announced that the final contract is due to be signed in June 2010, leaving 9 months for the negotiations. It is far from clear whether the sides will manage to complete negotiations within this time. However, in any case some key shifts have taken place. China will satisfy its "gas hunger" somewhat with pipeline deliveries from Turkmenistan at the end of this year. However, by 2015 it will require additional gas supplies. Taking the length of construction into consideration, there is not that much time remaining for negotiations.

One alternative to using pipelines for exports is through utilising Sakhalin's own gas export capacity. This would take advantage of the fact that the most attractive markets for Russian gas – Japan and S.Korea – are LNG-focused. Sakhalin has been transformed into a major gas-producing region with "Sachalin-2": 17 shipments have already been realized (about 1mn tonnes). It should be noted however that while LNG deliveries to the Asia Pacific region have a great deal of potential, there are a number of projects due to come onstream over the next decade which may end up changing the market significantly. The *Gorgon* project offshore Western Australia is a case in point, as are the two rival projects currently underway in Papua New Guinea, or several smaller projects in Indonesia. Nevertheless, LNG offers Russia the possibility of flexibility in its exports, a possibility which is reflected in Russia's far north by the recent announcement that the next phase of Shtokman will be entirely transported as LNG. In East Asia, this flexibility would prevent Russia from experiencing the problems of being committed to a limited number of markets. One route which is not currently being considered is taking advantage of the sea route across the Russian Arctic. It was recently reported that one of the first commercial cargoes of goods had been transported along the northern coast of Russia from the Far East to Europe. While this is not yet viewed as a serious option, climate change may make this a possibility to be considered in the future.

The key issues behind the choice of export routes for gas are based around questions of cost and capacity. According to Russia's production forecasts, by 2020 Sakhalin is predicted to be the area of greatest gas production in the Far East, with 59.4bcm, followed by Irkutsk with 39.5bcm. The remaining two centres, Yakutia and Krasnoyarsk, are slightly smaller with 34.6bcm and 11.6bcm respectively. Altogether however, these four regions have a capacity of 145.1bcm, or roughly equivalent to one and half times the entire gas production of Norway. This presents significant export potential, and gives reason to believe that if export facilities can be organised, then sufficient capacity will exist in future to make eastern exports a significant part of Russia's energy export balance.

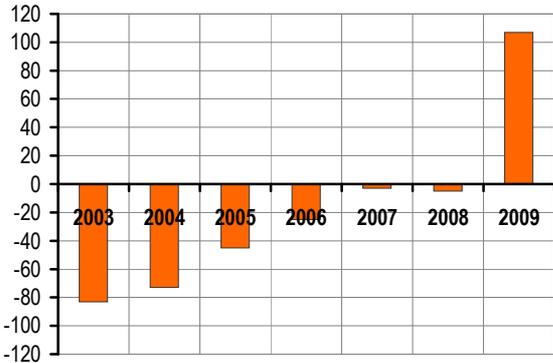
In the coal sector negative dynamics in European and domestic sales (due to the economic crises) forced the companies to actively search for new sales markets. In total based on 2009 year end results Russian hard coal exports to the far abroad increased by 15.8%. The main direction of exports has changed – now the Asia Pacific region is the main driver of demand for coal. For example, deliveries to Great

Britain (the largest European importer of Russian coal) increased from 15 to 17 million tonnes, while deliveries to China saw a multiple-fold increase – in 2009 10 million tonnes of coal were shipped, compared to 244 thousand tonnes in 2008.

Mechel however has increased its exports to South Korea after signing contracts with Hyundai Steel to supply an additional 200,000 tonnes of coal from Yakutia each year for five years from 2010 in addition to the existing 1 million tonnes it already exports to the country⁵. The capacity to move exports eastwards is limited however by geography, which makes it prohibitively expensive for coal from regions further west to be exported to East Asia. Sourcing coal from Yakutia ensures lower costs, as does the fact that the coal is supplied through the Posyet trading port⁶, managed by Mechel. Rospadskaya also took advantage of the continued relative strength of the East Asian market by beginning exports to Asia through Nakhodka.

In the long term, this direction of exports is to be expanded – rising prices of oil have prompted an increase in the number of new coal energy generation projects, especially in Southeast Asian countries. In 2009 for the first time in history China – one of the leading coal empires in the world – became a net importer of coal. In the past China had never purchased Russian thermal coal, but in 2009 deliveries from Russia totaled 10 million tonnes of thermal coal.

Graph 2: Net import of coal to China, million tonnes



Source: Peabody Energy

The apparent coal deficit in China was primarily caused by a cartel collusion in the domestic market and logistical problems. Only 17% of coal reserves are located in the industrially developed east and south-east of China. As a result, nearly two thirds of coal is shipped by railways

⁵ Company data.
⁶ Company data.

over an average distance of 550 km. Despite the relatively small distance, transportation of giant volumes of coal (2.6 billion tonnes of coal is produced in China) causes overload of railways, frequent accidents and, as a result, supply interruptions. Since 1992 the Chinese government has been slowly relaxing control over price setting for coal. Coal prices began to be set by agreement between state coal producing companies and large consumers. As a result, domestic prices of hard thermal coal in China are 5-7 US Dollars above global spot prices. It is not surprising that Chinese companies purchase coal abroad, despite giant reserves of their own.

Electricity exports are also expanding fast, reflecting Russian state policy of market diversification. Eastern Energy Company, which is part of Inter RAO UES Group, has exported over 630 million kWh of electricity to China in the eight months of 2009 (from 1 March to 1 November). These are maximum volumes in the history of nearly 10 years.

In October 2009 export of electricity to China exceeded 100 million kWh a month, for the first time. A significant increase in export volumes (by over 40% compared to average monthly levels this year) is linked to growing electricity consumption in the north-east of China. Based on 2009 year end results, Eastern Energy Company plans to export around 800 million kWh to China. In 2010 deliveries could grow to 1-1.2 billion kWh. The contract with the state electricity grid company of China provides for the purchase and sales of up to 5 billion kWh of electricity a year, for the first stage of the project. The company plans to construct new generating facilities with overall capacity of 10,800 MW, as well as over 3,000 km of AC and DC grids.

Figure 3. Construction of new facilities in Russia to increase electricity exports to China



Additionally, at the end of November it became known that Eastern Energy Company plans to build a 500kW AC electricity

transmission line from Russia to South Korea. A technical assignment for the development of transmission line construction has already been given to the Korea Electric Power Corporation specialists. A response is expected from them at the end of the year.

This powerful electricity transmission line will act as a safety net for the Russian side, protecting it from any unexpected moves by the Chinese partners. Part of the electricity could be rerouted to Korea at any given moment. Technical capabilities of the new electricity transmission line allow for the flow of up to 20 billion kWh of electricity a year.

In addition to export projects, Russia's cooperation with the Northeast Asian countries includes other directions, primarily – attracting foreign companies to the development of Russian reserves. Today a number of foreign companies are taking part in the oil and gas production sector in Russia. Japanese and Chinese companies are taking part in the development of oil and gas fields in the Irkutsk region, Korean companies – in the development of the Kamchatka shelf. Sakhalin fields are being developed jointly with Japanese companies. As the ESPO implementation progresses, the interest of the Asia-Pacific region countries in the development of fields in East Siberia and the Far East is growing. The governments of Korea, Japan, China and the Democratic People's Republic of Korea are putting forward proposals for cooperation (including multilateral cooperation) within the scope of East Siberian field development, as East Siberian fields serve as a resource base for the East Siberia – Pacific Ocean oil pipeline. Achieving the targets to grow hydrocarbon production will require substantial investment in geological exploration and the use of the cutting edge production technologies. Should foreign companies be in the position to offer the Russian side mutually profitable conditions of cooperation, with the appearance of new production clusters they will be able to expand their presence in the upstream sector and partially meet export needs with own stakes in production.

Energy resource transportation sector has a large potential for the development of multilateral energy cooperation in the territory of Russia. In addition to the above mentioned ESPO oil pipeline project, options are being discussed to supply Russian natural gas to China (from East Siberian or West Siberian fields, the Far East and the shelf of Sakhalin) and to South Korea via the Democratic People's Republic of Korea.

Northeast Asia and Russia are actively cooperating in the power sector. Russia is running construction of power facilities in the countries of the region and is trading electricity with Mongolia (in 2008 195 million kWh were supplied) and China (according to intergovernmental agreements, by 2020 electricity transits from Russia to China should increase more than 60-fold – to 60 billion kWh.) Projects are being discussed to construct power transmission lines, connecting Russia, South and North Korea, and also Russia and Japan. In the long term, the possibility to connect the energy systems of Russia, Mongolia, China, Japan and Korea into a single energy space is being reviewed. The project would run within the framework of the North East Asian Region Electric Systems Tied (NEAREST).

Nuclear power sector is another high potential direction of cooperation. In the region, there are both countries with large uranium reserves in the region (Russia, Mongolia) and countries-consumers of nuclear power (Russia, China, Japan, South Korea), which have substantial expertise in the construction of nuclear power plants. Northeast Asian countries can develop cooperation both in the sphere of nuclear power plant construction and in deliveries of fuel to them. Creation of a regional nuclear power bank is also possible. These reserves could be used to provide reliable supplies to power plants.

Exchange of expertise and technologies is also viable in the renewable energy sector, as Northeast Asia has significant potential for the development of small hydropower, tidal power and wind and geothermal power projects.

The importance of development of regional energy integration for Russia

Russia could play a structure-forming role in regional energy integration, due to its geopolitical position, presence of large energy resources and a wide scope for cooperation. Given the right approach, new projects to develop eastern territories and resources could lead to more active participation of Russian and foreign business in the region, which could greatly benefit Russia.

Firstly, the strategy of building the eastern energy vector corresponds with the now pressing need to develop the eastern regions of the country more actively. Since 1992 the population of the Far East has been migrating to the central regions of Russia. In the 18 years, the population of the Far East fell by over 1 million people – none of the

European colonies in the New World had such a catastrophic gap between social and migration ties and its metropolis. There is still no adequate system in Russia to oppose the geopolitical expansion of Northeast Asian countries towards the east of our country. The media increasingly publishes reports of the “Chinese” and “Japanese” threats, occupation of the Russian territory and the need to apply protectionist measures to the region. Nationalism is characterized from the beginning by a cautious, if not hostile, attitude to global and regional integration processes. Protectionism, in the experience of Russia and many developing countries, is more likely to preserve economic, technological, legislative and ministerial backwardness than to promote an improvement in the quality of the services and goods produced. Nationalism and protectionism are especially dangerous in the conditions of the Russian Far East with its sharp discrepancy between extremely rich natural resources, small population and own investment resources.

Both Northeast Asia and East Asia as a whole remain relatively new subjects of global policy for Russia, and the government is still fine tuning effective measures to connect Russia and in particular its far eastern regions to the integration processes in Northeast Asia. The process of spontaneous integration of the Russian Far East into Northeast Asia began as early as in 1991. Russia needs not to ignore the processes taking place in the region but to take control over them and pursue a targeted policy aimed at economic development and prosperity of the region. In the current conditions it is important not to safeguard the Far East from foreign presence but to build cooperation with foreign companies in such a way as to use their expertise and finance to develop production, create new jobs, and improve the quality of life for the population. As a result, all of this could lead to the Far East becoming more attractive and slow down migration of indigenous population from the region.

The energy sector will play a defining role in the task of accelerating the development of East Siberia and the Far East. Primarily this refers to the formation of a new energy infrastructure to connect Russian regions and set up new production clusters on the basis of energy supplying and processing facilities' development. It is expected that the appearance of new clusters of production, processing and exports of energy resources and the development of petrochemical and gas chemical facilities will stimulate economic development in the region

and ensure levels of GDP growth, which would exceed the average across the country by a minimum of 0.5-1.5% a year.

Secondly, implementation of complex energy projects in the region requires attracting substantial investments and the use of modern technologies. Russian, Chinese, Japanese and South Korean companies have large investment and technological capabilities, as well as the expertise in the implementation of projects that have no equivalent in the world. The joining of this potential within the framework of implementation of separate initiatives, of interest for several countries in the region, will make it possible to implement even the most ambitious projects. Examples of this are the fields being developed now, pipelines and nuclear power plants currently under construction. Joint operation of companies is possible not only in the region but also in third countries. Advantages of various project participants will allow them to create consortiums which could offer attractive conditions when bidding for contracts in many parts of the world.

Thirdly, the network of interconnected oil and gas pipelines, linking the countries of Northeast Asia could be viewed as measures to strengthen trust in the relations between the countries in the region and could to a certain degree aid the development of political and economic relations between them. For example, construction of a gas pipeline connecting North and South Korea and development of joint projects between China and Japan could promote development of economic ties and lessen the tension in the relations between these countries. According to one of the observers, in the short term construction of the oil and gas pipeline system will play the same role in determining the character and forming the structure of international relations as strategic weapons did in their time⁷. Creation of the new pipeline system, various ways of oil and gas transportation and expansion of energy resource trade could not only have an impact on the individual relations between the countries in the region but also improve relations between Russia and other Northeast Asian countries. It is clear that the latter will be interested in ensuring guaranteed supplies of energy for their economies, and therefore interested in a stable and developing Russia, which would be able to maintain long term partnership relationships and meet contractual obligations.

⁷ V. Yakubovsky, head of the APEC research group at the Institute of Far Eastern Studies, Russian Academy of Science, "Prospects of the formation of multilateral energy cooperation in Northeast Asia: Russia's role", information source – opec.ru

Fourthly, in the case of successful implementation of projects to partially integrate energy markets of the Northeast Asian countries, we could speak of the formation of a single Eurasian energy space. Russia would occupy the profitable position of a link between Asia and Europe, which undoubtedly will help strengthen its political and economic position in the world, and allow it to pursue a more flexible pricing policy and optimise and adjust delivery destinations according to changes in the market situation. Cooperation with Asian countries will enable Russia to diversify destinations of energy exports and therefore lower export risks.

Problems and barriers on the way to the activation of multilateral energy cooperation in the region

Still, there are significant problems and barriers on the way to the activation of multilateral energy cooperation in the region. Despite some steps towards rapprochement of separate economies in Northeast Asia, the forms of economic integration in the region are at this stage prevalent over political ones. The countries in the region are consciously distancing themselves from the resolution of political problems (in particular, the issue of final reconciliation on the Korea peninsula, the Taiwan problem and territorial disputes between virtually all of the Northeast Asian countries, etc.) and are instead focusing on the economic cooperation issues alone. Given that the process of integration in Northeast Asia is in its initial stage, prevalence of economic relations could be considered justified. However, with further development of intraregional ties it will become impossible to ignore the existing political problems. Unresolved territorial disputes and mutual distrust could significantly slow down the making of even economically justified decisions. A staged approach to the resolution of political problems could be a possible solution. However, political problems would have to be settled not at the bilateral level but at the regional level with the involvement of all interested parties and with the active participation of Russia. In the case that the Northeast Asian countries find themselves ready to settle the most important disputes independently, this will give further impetus to the integration process.

We should also emphasize the continuous competitive struggle between separate countries in Northeast Asia (for example, between Japan and China), both for the spheres of influence in general and for hydrocarbon resources in particular. Longstanding competition between

these countries could seriously impede the drive towards cooperation. In this respect, it could be useful to search for solutions not on a bilateral but on a trilateral basis, with Russia taking a proactive role in this.

Speaking of the implementation of large scale projects in the east of Russia, it is important to remember the unique nature of the region where the projects are to be developed. Intact nature in the Far East and East Siberia is one of the main riches of this region, and it would be extremely short sighted to cause harm to the protected areas in the service of economic profitability. It is reassuring to see that environmental issues are given high priority at the political level. For example, the route of the ESPO pipeline was moved 400 km to the north of Lake Baikal, despite a 1 billion US Dollars increase in project costs. The project to build the Primorsk refinery, which was opposed by the scientists and environmentalists in the Far East was deemed as not meeting environmental requirements by the Federal Environmental, Industrial and Nuclear Supervision Service. Increased attention to preserving the environment is also paid within the framework of other energy projects, which are being implemented in Russia. All companies wanting to take part in these projects have to be prepared for this.

Another argument against the development of energy cooperation with the Northeast Asian countries is the premise that Russia's raw materials industry is mainly oriented towards meeting the needs of external and not domestic producers and that main added value in the processing of Russian fuel is created outside the country and not domestically. Moreover, while Russia receives large profits from oil and gas exports and a certain amount of tax revenues to the budget, no incentives are being created in the country to encourage the development of own production. If Russia's role as a raw material appendage to the world market becomes final, it will be squeezed out onto the periphery of global development and will not be able to use its natural resources effectively for the integrated development of the national economy.

Indeed, without following a targeted government industrial policy, it is unlikely that raw material export orientation of the economy can be overcome. However, the development of Russia's resource base does not on its own mean that the current situation will be preserved. Besides the danger of generating easy profits, the development of raw materials industries also brings with it the potential to develop production in other sectors and industries. Given a certain political will and a well thought out policy aimed at the recovery of the industry in

our country, oil and gas resources could become the factor which stimulates rather than impedes development. For example, one of the conditions of foreign companies accessing Russian fields could be the entry of Russian companies in the domestic markets of the Asian countries (as was the case with China). Development of oil and gas fields in the east of the country could stimulate the development of processing facilities (as was the case with the LNG refinery in Sakhalin, the refinery in the Primorsk region and others). It could also stimulate the expansion of generation capacity. For example, as a result of growing energy resource production, development of remote regions and subsequent growth in power consumption in these regions, capacity of hydro power plants will be expanded and new thermal power plants operating on coal and gas and renewable energy sources will be constructed. Development of oil and gas fields in the east of the country will lead to the development of the economies of the remote regions.

Therefore we can see that there are now ready prerequisites for the development of regional energy cooperation, both from the point of view of Russia and from other Northeast Asian countries.

The latter are most likely to realise the benefits from the gradual rapprochement of regional energy markets. It is not incidental that dozens of scientists in each country are studying the prerequisites and prospects of forming multilateral energy cooperation in Northeast Asia, and that the countries themselves are making steps towards the activation of this cooperation. Nevertheless, institutionalisation of this process is only in the initial stage.

Pros and cons of the ICM-ECNEA as a regional representative energy cooperation body

As described above, a number of Northeast Asian countries (such as Japan, Korea and China) are already putting forward initiatives to set up mechanisms of cooperation in the oil and gas sector. One of the projects in this area are intergovernmental meetings on the development of energy cooperation in Northeast Asia, held in association with the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP).

The first meeting was held in Mongolia in November 2005. Government and scientific representatives from the Republic of Korea, the Democratic People's Republic of Korea, Russia and Mongolia took part in the meeting of the Senior Officials Committee on Energy Cooperation. The US took part as an observer. The purpose of the meeting was to unite the efforts of the governments of the member countries in

the resolution of energy problems in the region, discuss and develop recommendations for energy security in Northeast Asia and promotion of cooperation between Northeast Asian energy companies. Based on the results of the meeting, a document setting out the mechanism of energy cooperation in Northeast Asia was adopted. The document also reflects the principles on which this cooperation will be based in 2010-2014 and is entitled "The collaborative mechanism of energy cooperation in Northeast Asian countries".

The main aims and principles of the Mechanism are as follows:

1. Formulation and approval of policy recommendations and/or intergovernmental agreements among the participating countries of NEA through the conduct of joint studies and policy dialogues;

- Development of oil, gas, and coal resources
- Development of policies and regulations for energy trade through oil and gas pipelines and grid interconnection
- Investment promotion and project development for a regional energy market
- Study on the use of renewable energy and improvement of energy efficiency
- Evaluation of establishing a subregional strategic oil reserve.

2. Increase the importance and visibility of the Collaborative Mechanism by serving as a reliable source of information to energy industries and government organizations;

- Collection and dissemination of information and data regarding the energy situation in NEA.

3. Strengthening the Government-Business dialogue in order to increase the involvement of industries in the activities of the Collaborative Mechanism; and the

4. Promotion of energy trade and investment through the organization of trade fairs, forums, and exhibition involving energy industries, government agencies, and the financial sector.

After nearly four years since its establishment, the Collaborative Mechanism has attained some recognition as an important initiative on energy cooperation in NEA. The Collaborative Mechanism has thus far successfully accumulated information on energy policies and demand/supply statistics, forecasts of member countries, and established common databases through the activities of its Working Groups. It provided information to government policymakers, strengthened the collaboration among research institutions, involved

energy industry representatives and experts in the policy dialogues, and facilitated the Government-Business Dialogue.

Until now, the Mechanism has been successfully fulfilling the function of information and statistics collection in the Northeast Asian countries. However, its ability to facilitate dialogue between the Northeast Asian countries and to stimulate the processes of regional energy integration remains rather limited.

This is mainly linked to the fact that not all of the countries in Northeast Asia are included in the functioning of the Mechanism. Only South Korea, Russia and Mongolia officially take part in the Collaborative Mechanism. Participation of the Democratic People's Republic of Korea is limited – it only takes part in separate initiatives within the Mechanism and is not represented in joint research run by the project working group. China takes part in joint research and attends in most initiatives organized by the Collaborative Mechanism. However, the Chinese government has not yet officially confirmed the country's participation in the operation of the Mechanism. Japan remains in the role of an observer.

In the conditions of the key players' insufficient involvement in the activities of the Mechanism, it would be difficult to build an effective strategy for the development of energy integration of the countries in the region. In the absence of interest in cooperation from Japan and China, activities of the Mechanism are aimed at facilitating not multilateral but, more likely, bilateral energy dialogues, which do not promote development of mutual understanding between the countries in the region. Non-participant countries are in their turn slow to join the Mechanism, since the benefits from taking part in the work of this organization are not obvious to them. Without refusing to take some part in the operation of the Mechanism, they continue to independently set up mechanisms of cooperation in the oil and gas sphere. As a result, initiatives of individual countries in Northeast Asia duplicate each other. Since these initiatives cannot operate at the regional level, their role is limited to providing information support for the projects under implementation. In addition, incomplete participation of the countries in the region in the work of the organization stops it from accumulating finance needed to implement bigger and more important projects in the region.

Participants in the Collaborative Mechanism have to resolve another problem – communication of the results of analysis and

recommendations for the regional foreign policy to the governments of the Northeast Asian countries, and the transformation of these results from the theoretical to the practical plane.

Activity of the Collaborative Mechanism should also receive wider publicity both in the Northeast Asian countries and outside the region. The problems identified within the scope of the organisation's projects should be taken to the international level, and receive an expert evaluation and comments from various countries. As of today, despite Russia having participated in the activities of the Mechanism for over five years, there are few reports in the Russian media on its involvement in the activation of multilateral energy cooperation in the region.