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LATEST REPORT
Tuesday, December 16, 2003

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1. China's Energy Future

This report was prepared for the Department of Energy by Dr. Zhao Dadi at the Energy Research Institute in the PRC and Mark Levine at Lawrence Berkeley National Laboratory.

As China becomes wealthier and more populous, demand for energy-using products and services, including appliances, space heating and cooling, personal and freight transportation, and all the intermediate industrial products needed to produce them, will continue to grow. This presents a fundamental challenge, since, without changes in energy efficiency and energy supply structure, economic growth will drive up energy demand and consequently pollution. The primary goal of this

project was to give Chinese policy-makers detailed information about whether the stated goal of achieving a four-fold increase in GDP with only a two-fold increase in energy consumption is indeed possible. The results of this study have convinced the project team that such an achievement will not come easily to China, but it is feasible given aggressive implementation of policies across all sectors to increase energy efficiency, to rapidly switch to cleaner fuels, and to restructure energy-intensive sectors and activities.

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2. Cross-Border Oil and Gas Pipelines

Centre for Energy, Petroleum and Mineral Law and Policy, University of Dundee (Paul Stevens "CROSS-BORDER OIL AND GAS PIPELINES: PROBLEMS AND PROSPECTS," 7/14/03).

Abstract
In the near future, the world will need more cross-border pipelines for oil and gas. Two factors explain the reasons for this need:

1.Reserves close to traditional markets are being depleted. Newer, more remote sources of oil and gas will be required. Many of these will require pipeline delivery either because they are landlocked or, in the case of gas, because liquefied natural gas (LNG) projects are less attractive than pipelines, other than for distances in excess of 3,000km.

2. Many gas markets have in the past been constrained by regulatory and institutional factors. In recent years these constraints have been eroded. A potential "dash for gas" furthermore is being reinforced in many areas by a combination of gas sector reform, creating gas-to-gas competition; electricity sector reform, leading to strong demand for combined-cycle gas turbine (CCGT) generation; and concerns about the environmental damage caused by the consumption of other hydrocarbons.

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3. DPRK Refugees

Compilers Note: The Kasan/Southern Primorye area is one of the proposed routes for High-Voltage transmission lines that would be used in a North-East Asia grid interconnection project.

New York Times/IHT (James Brooke "TO FILL EMPTY FAR EAST, RUSSIANS LOOK TO REFUGEES; EXODUS OF NORTH KOREANS: GOING NOWHERE IN NORTHERN CHINA," Slavyanka, 12/8/03) reported that in Slavyanka, or Slavic village, a European outpost north of the DPRK border, the Slavic population implosion is as clear as roadside meadows where cows graze among the concrete shells of abandoned houses. But the demographic transformation of Russia's Far East, local politicians say, could have a silver lining of global importance: providing new homes for refugees from North Korea. The human drama of the estimated 150,000 DPRK refugees living clandestinely in

the northern PRC has so moved the US Congress that bills were introduced in late November in both houses to ease American visas for some refugees and to pay for the resettlement of others. On a tour of the Khasan district last week, Sergei Darkin, governor of Russia's Primorye region, said that he would take the North Koreans. This district of Russian territory is squeezed between the PRC and the Pacific Ocean until it stops at a strip of the DPRK eight kilometers, or five miles, wide. Slavyanka lies 80 kilometers north of the DPRK border. "The US is moving in the right direction to solve the problem, and I support them," he said. "I am ready to help, and financially too." Djambulat Tekiev, the district's representative in the regional legislature, agreed, waving to a vast, empty vista here that evoked eastern Montana. "Look," he said. "No people, no development." This of course is only at the talking stage. Although the governor said he would welcome as many as 200,000 refugees, it is unclear whether the government in Moscow, which controls immigration policy, will want to risk increasing regional tensions and racial insecurities among Russians here. In Russia's nearly 150-year hold on this region, attitudes have waxed and waned on Asian immigration. But during the 1990's, the population of this area contracted by 17 percent, to 6.7 million people. Much of the decline was attributed to Russians moving west, seeking higher living standards. But now, the nation's economy is growing, the unemployment rate has dropped to 3 percent, and labor shortages are spreading. Federal officials have set a target of adding a million new workers. President Vladimir Putin "has said it is strategically important to get more people to move into the East," Pyotr Samoilenko, the federal government's regional spokesman, said in Vladivostok. "The only thing that North Korea has to offer is cheap labor."

Two months ago, Darkin traveled by train from Vladivostok to the DPRK. What he saw there, he said in an interview this week, gave him little hope for economic revival. "The economy there is still on a decline," he said. Noting that his train clanked along at 40 kilometers an hour, stopping frequently because of power shortages, he said, "They lack everything -- fuel, cement, fertilizer." As North Korea's poverty forces it to abandon its socialist supply system, malnutrition and economic desperation are spreading, Masood Hyder, the UN aid coordinator in North Korea, said last week in Seoul. "A million people fall into this new category of underemployed beneficiaries, underemployed urban workers who need assistance," he said. He urged global donors to contribute to a UN appeal for $221 million in aid for the DPRK.

With China hostile to the refugees, the Russian Far East could offer an alternative, said Mark Palmer, who was an American ambassador to Hungary as communism collapsed. "With Putin there is a chance," he said recently. "We should work hard on him to let refugees come out into Russia and to create the kind of flows that I personally saw coming through Hungary in 1989, which really is what led to the collapse of East Germany." * On his return from the DPRK, Darkin said he would double next year's quota for North Koreans working here on official labor contracts, to around 5,000. He said that less than a third of the area's arable land was being cultivated and that North Koreans would be farming, working construction and picking up garbage. Today, 40,000 ethnic Korean Russians live in Primorye and another 40,000 on the neighboring island of Sakhalin.

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4. DPRK Energy Imports

Yonhap ("U.S. OIL CUTOFF BOOSTS N.K'S ELECTRICITY IMPORTS FROM CHINA," Seoul, 11/30/03) reported that the DPRK's electricity imports from its neighbor the PRC jumped 57-fold to 10.03 million kilowatt hours (kWh) from January to October compared to 174,000 kWh in the same

period of last year, according to data released Sunday by the Korea International Trade Association. The surge highlighted the DPRK's worsening shortage of electricity after the US halted heavy oil supplies last December in response to the state's development of nuclear weapons.

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5. Russian-PRC-ROK Oil Deal

Financial Times (Carola Hoyos "STUDY SET TO RULE OUT N KOREA FOR PIPELINE ROUTE," London, 11/17/03) reported that the Russian oil company TNK-BP has advised against a ROK government plan to run a natural gas pipeline from Russia through the DPRK into the ROK. The idea was suggested by the ROK to spur peace negotiations with the DPRK and involved offering gas supplies in exchange for a halt in the DPRK's nuclear program.

But it was found to be significantly more expensive than running the pipeline under the Yellow Sea and down the Korean coast, a person involved in the study said, and the risk of supply interruptions would also be greater.

In March, Ra Jong-yil, the ROK's national security adviser, floated the idea of supplying the DPRK's thermal power stations with Russian gas, saying it could provide a peaceful alternative to Pyongyang's nuclear program, which the US suspects has military purposes. The ROK and some of its regional neighbors have sought to engage rather than isolate the DPRK.

Rusia Petroleum, of which TNK-BP owns more than 60 per cent, China National Petroleum Corp and Korea Gas Corp will unveil on Friday a feasibility study of a project to develop the giant east Siberian Kovykta gas condensate field. It is expected to find the North Korean route uneconomical. The project has been opposed by Gazprom, Russia's gas monopoly. In June Moscow promised to give BP preferential treatment and, together with the ROK and the PRC, agreed to finance the feasibility study. The development is in its early stages and the partners must still secure sales contracts in the PRC and the ROK before final approval for the project can be given.

Xinhua News ("RUSSIA, CHINA, SKOREA TO FINALIZE MEGA GAS PROJECT ROUTE NEXT WEEK" Seoul, 11/10/03) reported that Russia, the PRC and the ROK will decide next week on whether to include the DPRK in a 11 bln usd project to pipe Siberian natural gas into the Korean peninsula, officials said. "The three countries will officially complete the feasibility study at a meeting in Moscow on November 14," the commerce, industry and energy ministry here said in a statement. But the ministry did not confirm a news report that the study results themselves are proposing to exclude the DPRK from the multinational project. "They have yet to agree on the feasibility study results, which will be finalized on November 14," the ministry statement said. "Each is supposed to get government approval for the feasibility study results by March in 2004 to launch the project." Earlier, the Seoul-based JoongAng Ilbo newspaper said the three-year joint feasibility study concluded that gas pipelines should bypass the DPRK due to hefty costs and safety reasons. "The route to run through North Korea requires more investment and operational costs than others and also raises security issues as it passes through the inter-Korean military border," an official told JoongAng.

The study, set to be announced next week, instead suggested that the pipelines from the Kovytka gas field near Irkutsk in eastern Siberia, should link up to the ROK through the PRC and the Yellow Sea.

The consortium is to meet in Irkutsk on Wednesday to discuss the joint feasibility study results, and seeks to sign a deal at a meeting in Moscow on Friday, it said. But ROK officials said more talks would open in March next year. The ROK had pushed for natural gas pipelines to run through the DPRK because the project could help ease the DPRK's chronic energy shortages and settle a crisis over its nuclear ambitions. Some officials in the ROK propose to offer natural gas to the DPRK in return for ending the communist state's nuclear program. The three-nation natural gas project was first proposed in 1995. The feasibility study began in 2001. Construction is expected to start in 2004.

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6. DPRK and the Gas Pipeline Route

Yonhap/Asia Pulse ("TRI-NATION CONSORTIUM FINDS AGAINST OIL PIPELINE VIA N KOREA," Seoul, 11/10/03) reported that building a pipeline linking a Siberian natural gas field with the PRC and the ROK via the DPRK is not feasible, a consortium of oil companies has tentatively concluded. The consortium of KOREA GAS CORP. and state-run Russian and Chinese oil companies found that considerations of investment, operations and security made it preferable to run the pipeline along the bottom of the Yellow Sea.

* The preferred route would pass through Shenyang in China and across the Yellow Sea to reach Pyeongtaek in the ROK.
* The ROK, Russia and the PRC will exchange views on the feasibility study at a coordination meeting slated for Wednesday in Irkutsk, and reach agreement on the joint project in Moscow on Friday.

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7. Natural Gas Trading in Asia

Mark H. Hayes & David G. Victor ("FACTORS THAT EXPLAIN INVESTMENT IN CROSS-BORDER NATURAL GAS TRANSPORT INFRASTRUCTURES: A RESEARCH PROTOCOL FOR HISTORICAL CASE STUDIES") ABSTRACT: The most recent World Energy Outlook envisions that global gas consumption will double by 2030 and other major energy scenarios anticipate similar increases in gas demand. In the areas of highest expected demand-North America, Europe, China, and South and East Asia-the projected consumption of gas is expected to far outstrip indigenous supplies. These regions could import gas from regions where there is large surplus, but those are geographically distant. Delivering gas from these sources to the future demand centers will require a major expansion of inter-regional natural gas pipelines and LNG trains, in addition to significant intra-regional, cross-border gas transport infrastructures.

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8. Current Status of the ROK Energy Market

The Nautilus Institute (Jungmin Kang, "UPDATE ON ENERGY SECTOR ACTIVITIES AND PLANS IN THE REPUBLIC OF KOREA," 11/8/03) released this study examining the current status of the energy market in the Republic of Korea written as part of our East Asian Energy Futures Project (EAEF) last month in Vancouver.

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