

*2006 Working Group on Energy Cooperation in NEA
Comments on Session 1.*

Energy Cooperation in Northeast Asia: Status, Trends and Prospects in Oil and Gas Cooperation

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1. Current Status of Oil Development and Trade in NEA

- ✦ Energy demand of Japan, China, and South Korea accounts for 98% of total energy demand in NEA region.
- ✦ China, Japan and Korea are 2nd, 3rd, and 7th oil consumers in the world.
- ✦ Japan, China and Korea are major oil processors in the World, ranks 3rd, 4th, and 5th. The total processing capacity of three countries is 15% of the world's total.



✦ Japan and Korea are almost 100% dependent on imported oil. 75% of China, Japan and Korea's oil import comes from Middle East.

✦ In 2003, the oil import reached 497 million tons, accounting for 22% of world's total oil trade of 2.26 billion tons

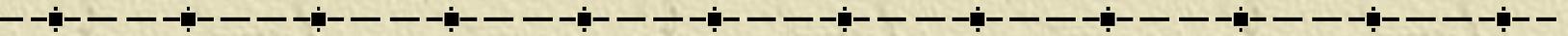
✦ North Korea and Mongolia are also dependent fully on oil import.



2. Trend of Oil and Gas Development and Trade in NEA

2.1 The NEA Has a Strong Energy Supply and demand Potential.

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- ✦ The Far East and Siberia has 72% of Russia's total oil resources.
 - ✦ The initial total resources (ITR) of natural gas in East Siberia and the Far East amount to about 64.3 trillion cubic meters, of which 49.4 trillion cubic meters are located onshore. (Saenko)



✦ The economic growth of NEA and its demand for oil and gas has prompted the global oil and gas demand. This trend will continue in a long run.

✦ Oil and gas supply potential of Russia is attractive to all countries in the North East Asian countries.

China's gas demand By 2020

- ✦ will surpass 200 BCM (Billion Cubic Meters)
- ✦ growth rate of 11-13% per year
- ✦ external trade dependent degree of China's gas will reach 50%, have to import gas more than 100 BCM.

- ✦ Gas from West Siberia, East Siberia and Sahalin will be expected to 30 BCM, 20BCM, and 10BCM, respectively. Kazakhstan will provide 30BCM. Gas in form of LNG will be 67BCM-80BCM.

Saenko:



- ✦ The potential demand for Russian gas in the Asia-Pacific region by 2020-2030 was assessed at 50 billion cubic meters.
- ✦ of which 25 billion cubic meters will be pipeline gas. The bulk of gas exports will be delivered to China and South Korea.

2.2. Strengthened Energy Cooperation Is a Mutual Beneficial Choice

- ✦ NEA region *seems to be the most logical target for East Siberian and Russian Far East hydrocarbons.* (Saenko)
- ✦ Russia can speed up its access into the Asia Pacific market by regional energy cooperation.
- ✦ For China, Japan and South Korea, importing oil from Russia's Far East is a good source of energy import because of short transportation route, low cost and stable supply.



3. Oil Development and Trade Makes NEA Economic Cooperation into New Stage

3.1 In the 21 Century, the Priority of Cooperation Will Be the Energy Section.

- ✦ Oil development cooperation has becoming the most important one, which is likely to become the priority area of cooperation.
- ✦ Multilateral cooperation will be gradually replacing bilateral cooperation.
- ✦ New approaches of cooperation will emerge.

3.2 Regional Energy Cooperation Faces the Challenges:



- ✦ China, Japan and South Korea are inevitable to have conflicts and competition
- ✦ Diversified System and Inadequate Trust.
- ✦ NEA: a region where energy and security is closely connected. Energy is a two-edged sword.

3.3 Energy Development Situation Description in NEA

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- ✦ Increased competition risk, enormous cooperation potential, lack of cooperation mechanism.
 - ✦ Multilateral cooperation system is the key to the interests of NEA countries in the process of seeking mutual benefits.
 - ✦ The principle of "regional cooperation is more important than bilateral cooperation."



4. The Basic Condition : Meeting the Stakeholders' Demand

4.1 Russia

- ✦ Energy cooperation: drive force for Far East development.
- ✦ Putin's policy of developing West Siberia and Far East.
- ✦ The transportation capacity of Taishet-Nakhodka line is 80 million tons, 50 million tons will be transported to Nakhodka, 30 million tons to China
- ✦ The pipeline is expected to be completed by 2010).

4.2 China

- ✦ Has given more importance to importing energy from neighboring countries and *will be devoted to the Neighbor(Vladimir)*.
- ✦ China's oil import :1/3 should come from Russia, 1/3 from Central Asia, and 1/3 from the Middle East.
- ✦ China plans to invest 12 billion USD to Russia by 2020.including energy exploration and development.

4.3 Japan

- ✦ Working with Russia is one of the most important steps in energy strategy.
- ✦ Since 2000, begun to develop the Sakhalin oil field, which will meet Japan's demand for the next 13 years.
- ✦ Want Russia to transport oil and gas thru Taishet-Nakhodka directly to its coast.

4.4 South Korea

- ✦ “Strategic energy dialogue” with Russia
- ✦ Russia’s relevant departments are considering South Korea’s application to participate in the pipeline construction project.
- ✦ Cooperatively exploring Russia’s oil and gas resources is also beneficial to South Korea.

4.5 US

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- ✦ The largest oil consumption and import country in the world.
 - ✦ Will influence the oil demand and supply status in NEA.
 - ✦ Two factors: the oil trade between Russia and US; the US oil companies' exploration and production in Russia



5. Prospects of Cooperation (Conclusion)



✦ The vision of energy cooperation is positive and optimistic. However, there is still a long way to go.

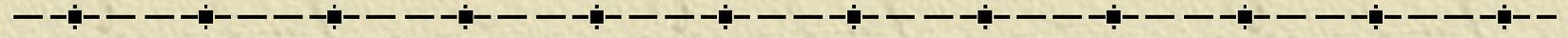
✦ The political relationship improvement will smooth the progress of oil exploration and trade.

✦ Russia's oil exploration and cooperation will become the priority for the economic integration in NEA.

✦ Oil and Gas pipeline will be the primary carrier and core means.



- ✦ The complexity and long term features of the oil exploration and cooperation.
- ✦ It is hard for the all involved countries to reach an agreement for their oil interest in the short term.
- ✦ Understanding and cooperating each other will be the rational selection for the countries in NEA.



Thanks for your attention!