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# ***The Energy Dimension in Russian Global Strategy***

**A joint energy study sponsored by the Energy Forum of the  
James A. Baker III Institute for Public Policy at Rice  
University  
and  
The Petroleum Energy Center of Japan**

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# *Key Findings*

- Russia is entering a potentially historic moment of opportunity as a world energy superpower
- The potential for strong growth in oil production is real
  - ◆ Oil exports could rise by over 2 million b/d by 2008 based on known resources and existing cash flow
  - ◆ Increase could be obtained mainly from production areas controlled by Lukoil, Yukos, TNK and Surgutneftegas
- Kremlin's plans to reorganization could dampen level of increase by disrupting speedy implementation of plans to remove infrastructure constraints or if it causes a slow down in capital expenditures and project development



# *Pipeline Issues*

- Sustainable export growth depends on removing major bottlenecks in
  - ◆ Eastern Siberia
  - ◆ Northern route to Barent's Sea for ocean bound movements by ultra large tankers
  - ◆ Bypass to Bosphorus Strait

State control in pipeline sector unlikely to change

Problem of financing –state funds and higher tariffs unlikely to be enough

Outside investors?

State Stabilization Fund?



# *Geopolitical Trends*

1. **Russia actively being courted by U.S., China, Japan, Europe**
  - Kremlin as a moderator of global prices?
2. **Russia worried about fate of eastern regions**
  - Emigration a demographic threat to Russia's sovereignty
  - Fears of splintering of oil-rich distant regions
3. **Energy as key plank to Russia's diplomacy in Asia**
  - Russia wants to speed up integration process with Asia Pacific but pipeline routing remains an economic and diplomatic problem



# *Putin reasserting government control over Russia's natural resources*

- Philosophy dates back to late 1990s
- Believes in a mixed system of state and private ownership in assets but state protecting the interests of the nation
  - ◆ Since early 2004, new appointments of like minded officials to cabinet, presidential administration and state oil and gas firms
    - ❖ Many have background that includes service in state security organs
- Sea change likely to affect business model for Russian industry
  - ◆ New round of redistribution of petroleum assets
  - ◆ Corporate responsibility a la Russe; need to follow “unwritten rules” to succeed in Russia
  - ◆ These rules involve limits to Western involvement and Western style management



# *Market Impact of Russian Oil and Gas*

## ■ Asian oil premium

- ❖ Not enough Russian oil to eliminate premium
- ❖ Higher Russian and non-Saudi Middle East purchases need to be combined with oil demand management

## ■ LNG prices

- ❖ Eastern pipelines will hold Asian LNG prices at lower levels over time
- ❖ Pipeline supplies will reduce LNG prices by 20 to 30 cents per million btu



# *Consumer Country Strategies*

- More measured and concerted effort by oil consuming nations to establish energy policies that do not depend on influencing outcomes inside oil producing countries
- Higher priority to alliances with other major oil consuming nations
- Need to enhance institutional mechanisms that favor markets over political intervention by governments; bring rules of global oil trade and investment into harmony with rules governing trade in manufactures and services
- Liberalization and open access for investment –European Energy charter
- International cooperation on alternative energy technologies, improved automotive efficiency and renewable energy such as solar-derived energy and clean coal