



Comment to the Session of Developing Russia's East

Russia and the Caspian States in the Global Energy Balance
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Financial crisis has affected Asian energy demand

- Except for Chinese natural gas demand, Asia's energy demand has greatly affected by the current financial crisis.
 - ◆ While Chinese 4Q demand remains flat from 2007, its December demand in 2008 declined by more than 6% from December 2007.
 - ◆ Industrial sector has shown the largest decline among all sectors in all countries.
 - ◆ To what extent will the Chinese economic rescue package raise its energy demand?

	Japan		China		Korea	
	Annual	4Q	Annual	4Q	Annual	4Q
Oil	-5.4%	-11.0%	+4.2%	0.0%	-2.7%	-8.2%
Gas (LNG)	+3.6%	-2.5%	+14.0%	n/a	+4.9%	-8.2%

Significance of Energy resources in Russia's East

- While in the short term energy demand growth will be moderate in Asia, it does not change the long term picture.
 - ◆ Motorization, economic recovery, improving living standard will eventually lead to further energy demand growth in the region.
- Asia still has a strong expectations in energy developments in Russia's East (RE).
 - ◆ Appropriate investment in a timely manner is necessary to fill the gap between the regional energy demand and supply.
 - ◆ Commencement of LNG supply from Sakhalin will draw more expectations in future energy developments of the island.

Russia will find more needs in developing RE.

- Long-term goal in regional development of RE
 - ◆ Decreasing population
 - ◆ Impacts of financial crisis
- Growing uncertainties in European natural gas market.
 - ◆ Demand destruction by global financial crisis
 - Export to Europe is expected to decrease from 179Bcm in 2008 to 170Bcm in 2009, which may see a further decline.
 - ◆ Increasing share of renewable energy
 - Aiming to raise the share of renewable to 20% in 2020, Europe is aggressively adopting renewable energy.
 - ◆ Experience of gas supply disruption in January 2009
 - It may encourage some countries to divert natural gas supply sources or to import LNG.

More regional coordination is required.

- Energy resources in RE is important for all of Asian consumers.
- What is the most important is stability of market.
 - ◆ Exclusive behaviors / excessive competitions may result in political rivalries among Asian consumers and thus lead to the regional instability.
 - ◆ Utilization of market mechanism is the key.
- Multilateral approach as an option to develop RE energy resources
 - ◆ Government involvement
 - ◆ Lowering a hurdle for participation and investment
 - ◆ Avoid excessive competition among investors
 - ◆ Burden and risk sharing

Conclusions

- Asia's energy demand has been largely affected by the current financial crisis.
- Significance of energy resources in Russia's East (RE) for Asia, however, remains the same. Asia has strong expectations energy supply from RE.
- Russia will find more merits in developing energy resources in RE.
- To maximize the benefits of energy development in RE, more regional coordination is required.