Russia’s natural gas policy toward Northeast Asia: Rationales, objectives and institutions

Elena Shadrina

Meiji University Graduate School of Governance Studies, TA Jimbocho Building, 604D, 1-4-12 Sarugakucho, Chiyoda-ku, Tokyo 101-0064, Japan

HIGHLIGHTS

- Russia–EU institutional inconsistency has accelerated Russia’s gas export diversification.
- Institutions for regional development are an important component of Russia’s gas policy in Asia.
- Transformations in globalising gas markets induced Russia’s limited gas export liberalisation.
- Genuine gas policy liberalisation can facilitate the attainment of Russia’s goals in Asia.

ABSTRACT

The article examines the institutional dimensions of Russia’s gas policy toward Northeast Asia (NEA). During the liberal economic reforms of the 1990s, development of natural gas deposits in the Russian Far East was made possible under the scheme of production sharing agreements (PSA). However, new PSAs were banned in Russia even before the advent of state capitalism in the early 2000s. This was, to a large extent, the result of strong anti-PSA lobbying led by the domestic energy business elite. Consequently, Russia’s gas policy in the east began evolving from being project-specific toward being region-specific. Contemporary Russian gas policy toward NEA relies upon domestic (national and regional) and external institutions. In 2009, following the completion of a liquefied natural gas (LNG) plant in Sakhalin, Russia entered NEA gas markets. Transformations in the international gas markets facilitated the establishment of a two-pattern gas export policy in Russia in 2013. Under this policy, Russia’s EU-oriented pipeline gas export remains monopolised by Gazprom, while Asia-oriented LNG export is partially liberalised. Russia has not been experiencing institutional discrepancy in NEA gas markets. However, as the markets evolve toward greater coordination, a rational option for Russia is to genuinely liberalise its gas policy.

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1. Introduction

Russia is the world’s largest producer and exporter of conventional natural gas and the second largest producer and exporter of conventional oil. Russia’s traditional gas and, especially, oil provinces in Western Siberia are mature and display declining productivity while Russia’s eastern hydrocarbons remain very poorly prospected and barely exploited. The USA’s progress in unconventional oil and gas production resulting from the successful application of shale technologies increasingly challenges Russia’s role as a supplier to traditional (European) and new (Asian) markets. Severe dependence on the energy sector makes Russia’s economy vulnerable to external market shocks. Despite the fact that the country’s oil and gas sectors employ less than 3 per cent of its working population, these sectors contribute over 50 per cent of the country’s budgetary revenue, make up over 30 per cent of GDP, and account for more than 40 per cent of investment and 75 per cent of merchandise exports (Theses, 2013). Therefore, Russia’s vulnerability results from its continued failure to establish...
adequate natural resource governance. The Revenue Watch Institute ranks Russia 22nd (out of 58 countries) in the evaluation of Resource Governance Index (RGI).2 Russia’s highest evaluation for Safeguards and Quality Controls is still at 24th place with particularly problematic areas being the checks on the licencing process and management of natural resource funds. The lowest rank received is on Enabling Environment due to Russia’s poor performance on measurement of corruption control, democratic accountability and the rule of law. On Reporting Practices, Russia is found lacking contract transparency and having incomplete government reporting on most aspects of the extractive sector. Institutional and Legal Setting is evaluated as ineffective for being ambiguous, outdated, and marred by multiple amendments, which leaves room for arbitrary decision-making in the licencing process in favour of state-owned companies (SOCs). Environmental impact assessments are said to be easily politicised and often withheld from the public. Russia’s legislative provisions for state secrets are determined to be over-applied to information related to tal impact assessments are said to be easily politicised and often environmental factors as being shaped by national and regional factors as well as external determinants. The article seeks to answer three questions: (1) What is/are the rationale (s) for the Asian Vector in Russian energy policy?; (2) What are the goals/objectives of Russian gas policy in Asia?; and (3) Do Russia’s institutions for gas governance match its policy rationales and objectives in Asia? The article shows that Russia’s shift eastward is a pragmatic choice pursuing two goals: (1) to secure gas export revenues through diversification away from EU markets with their own energy governance institutions that are increasingly incompatible with Russia’s; and (2) to revive the vast and resource-rich, no less detrimental is that the sector’s concentration in Russia’s west bereaves the country’s scarcely populated and underdeveloped eastern territories of economic dynamism. To address these concerns, Russia proclaimed its energy export expansion into Asia in 2003.

This article examines some of the institutional aspects in Russia’s gas policy vis-à-vis NEA throughout the 2000s. Russia’s Asian gas policy is analysed as being shaped by domestic national and regional factors as well as external determinants. This article omits theoretical discourses for reasons of space; essential explanations are substituted by references and notes to the relevant sources.

The term is frequently misunderstood; “institutions” are often interpreted as only formal arrangements or even more mistakenly as organisational structures or frameworks (example could be found in Harris, 2008).


transaction and transformation (production) costs” (1990, pp. 6). In any attempts to improve inefficient institutions, the process is usually incremental (North, 1990, pp. 6). Distinguishing between formal (public rules) and informal (private rules) institutions helps explain differentials in depth, scope and dynamics of institutional transformations. Even if formal institutions undergo dramatic alteration overnight (e.g., judicial system changes), informal institutions tend to adjust only gradually, thereby affecting the progress of institutional transformation. North (2005) schematically depicts a complex process of economic change stirred by the transformation of institutions as a cycle where perceived reality informs beliefs which shape institutions, which in turn form policies that bring about changes and result in altered perceived reality reflected in altered beliefs, and so on.

This article suggests that the rationale for the eastward shift in Russia’s energy policy originates in the Russian government’s attempts to moderate negative externalities9 of the country’s profound dependency on European gas markets, which makes the public budget susceptible to the external energy markets volatility which is fraught with fluctuations of export revenues. No less detrimental is that the sector’s concentration in Russia’s west bereaves the country’s scarcely populated and underdeveloped eastern territories of economic dynamism. To address these concerns, Russia proclaimed its energy export expansion into Asia in 2003.

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2. Materials and methods

This study utilises materials on gas policy and relevant statistics from governmental institutions in Russia, China, Japan and Korea. The principal documents on Russia’s energy policy11 were


10 Eastern Siberia includes such regions as Buryat Republic, Irkutsk Oblast’, Krasnoyarsk Krai, Republic of Khakassiya, Tuva Republic and Zabaikalski Krai. Another abbreviation used throughout this work is RF, which stands for Russia’s Far East, a region consisting of nine territories: Amur Oblast', Chukotka Autonomous Okrug, Jewish Autonomous Oblast', Kamchatka Krai, Khabarovsk Krai, Magadan Oblast', Primorsky Krai, Sakha Republic, and Sakhalin Oblast'.

Table 1
Perception of gas security: Russia vs. EU.

<table>
<thead>
<tr>
<th>Russia: security of demand</th>
<th>EU: security of supply</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Perceived threats</strong></td>
<td><strong>Perceived threats</strong></td>
</tr>
<tr>
<td>Falling/float. price</td>
<td>Unfair/float. price</td>
</tr>
<tr>
<td>External competition</td>
<td>Price discrimination</td>
</tr>
<tr>
<td>(downward pressure on price</td>
<td>rigid pricing (top</td>
</tr>
<tr>
<td>shift towards less</td>
<td>provision in Gazprom's</td>
</tr>
<tr>
<td>attractive pricing; etc.)</td>
<td>contracts); etc.;</td>
</tr>
<tr>
<td>Shrinking volume demanded</td>
<td>Uns.guaranteed volume</td>
</tr>
<tr>
<td>The EU’s economic situation;</td>
<td>Russia's insufficient</td>
</tr>
<tr>
<td>climate policy; increasing</td>
<td>investment in gas</td>
</tr>
<tr>
<td>G2G competition; etc.;</td>
<td>development; untoward</td>
</tr>
<tr>
<td>Deteriorating access to the</td>
<td>foreign investment</td>
</tr>
<tr>
<td>market</td>
<td>regulation; gas export</td>
</tr>
<tr>
<td></td>
<td>diversification; etc.;</td>
</tr>
<tr>
<td>Gas exports revenue</td>
<td>Supplier’s market</td>
</tr>
<tr>
<td>maximisation → state</td>
<td>power</td>
</tr>
<tr>
<td>control over national</td>
<td>Traditional perspectives</td>
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<tr>
<td>gas sector &amp; outward</td>
<td>(transit, “gas OPEC”,</td>
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<tr>
<td>expansion (access to EU’s</td>
<td>etc.) and new</td>
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<td>mid- &amp; downstream)</td>
<td>dimensions (Russia’s</td>
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<td></td>
<td>eastward expansion,</td>
</tr>
<tr>
<td></td>
<td>G2G competition); etc.</td>
</tr>
<tr>
<td><strong>Prime objective</strong></td>
<td><strong>Policy response</strong></td>
</tr>
<tr>
<td>Gas exports revenue</td>
<td>Efficiency of gas</td>
</tr>
<tr>
<td>maximisation →</td>
<td>market → liberalisation</td>
</tr>
<tr>
<td>state control over</td>
<td>of intra-EU gas market</td>
</tr>
<tr>
<td>national gas sector &amp;</td>
<td>&amp; access to Russia’s</td>
</tr>
<tr>
<td>outward expansion</td>
<td>gas value chain</td>
</tr>
</tbody>
</table>

Source: composed by author.


subjected to content analysis. Relevant materials of the Ministry for the Development of the Russian Far East (MDFE) as well as ESFE local governments were examined.

Data from the IEA, EIA and BP were used in evaluating the trends in gas supply-demand and trade in NEA. Additionally, primary data about the four countries’ major national oil companies (NOCs) and SOCs were collected from their respective webpages. Secondary data have been obtained from research published by the Institute of Energy Strategy and Skolkovo Energy Centre in Russia, the Institute of Energy Economics in Japan (IEEJ), the Energy Research Institute in China (ERI), and the Korea Energy Economics Institute (KEEI) in Korea, among others. Diverse sources of industry news available in three languages (Russian, English and Japanese) were also used.

3. The eastward shift

3.1. Why shift?

According to E.ON, Russian gas occupied 29.5 per cent in EU imports and 23 per cent in EU gas consumption in 2013. The history of Russia–EU energy relations has examples of both cooperation and conflict. Rather frequent in the 2000s, conflicts involve a wide gamut of actors. Russian actors have repeatedly been accused of not obeying EU rules and have faced penalties for violating them. The most telling example is the European Commission (EC) antitrust investigation against Gazprom ([Kanter and Kramer 2013](#Kanter2013)), which may result in a penalty of some $15 bn. While Gazprom has demonstrated its will to settle some of the issues, the company has found it unacceptable to agree to EC requirements to revise its pricing policy by linking gas prices to the spot market.12

In dealing with EU member states, Russia is exposed to EU supranational regulatory provisions. Russia–EU gas discourse can be understood through developments in two main dimensions: (1) a widening discrepancy between the EU and Russia’s energy governance institutions, and (2) major structural shifts in the globalising gas market. [Kuzemko 2014](#Kuzemko2014) analyses the underlying differences (liberal market in the EU vs a hands-on approach in Russia) presenting the essence of Russia–EU conflict in the realm of energy relations. Similarly, concepts of institutionalism can be employed to explain Russia–EU divergences occurring due to structural transformations in international gas markets. For instance, the expanding spot trade has multiplied the pricing practices and granted importers the flexibility to adjust import volumes and the possibility of choosing from among commercially attractive methods. On the other hand, given the tremendous investment risks exporters bear, they reasonably prefer long-term contracts with more certain quantity and price terms.

Outlined in the opening part of this article, an institutional framework (perceived realities—beliefs—institutions—policies) allows for the main Russia–EU differences regarding gas to be identified. The ultimate goal/objective of national energy policy is to ensure national energy security. Here Russia and the EU have differing notions because one side is a producer and an exporter, while the other is a consumer and an importer. A large consumer of imported energy resources is concerned about security of supply, while a large producer, whose socio-economic and political stability is endangered by its profound dependency on energy export revenues, is worried over security of demand. In largely abstract, but yet quite adequate form, energy security can be perceived through the categories of price, volume and market structure (Table 1). National institutions for energy governance in Russia and the EU are established to address their respective concerns in the realm of energy security.

Despite the fact that Russia and the EU are locked into a deep symmetrical dependency, their gas relations are problematic. One main reason for this is the multidirectional and asymmetrical nature of the institutional changes that are unfolding in Russia and the EU. While Russia is departing from the initially designed deregulation of the domestic gas sector towards the norms of state capitalism, the EU is methodically proceeding with the harmonisation of member states’ energy policies and liberalisation of the EU common energy market (Box 1). Consequently, the partners find themselves increasingly uncomfortable within a once appropriate setting. Undoubtedly, the efforts to establish appropriate institutions for the bilateral cooperation are being continued. Seeking to embrace new dimensions, Russia and the EU have created a number of new frameworks, such as the Partnership for Modernisation and the Roadmap EU-Russia Energy Cooperation 2050. At the same time, Russia and the EU are simultaneously opting for the diversification of their gas ties as one of the key policy choices ensuring the attainment of their respective goals in the realm of gas security.

3.2. Rationale: why Northeast Asia?

Geopolitically, NEA is one of the world’s most complex regions. Bogged down in territorial disputes (between China and Japan and

(footnote continued)

Japan and Korea, divided by unresolved issues of historical legacy (China and Korea have uneasy sentiments about Japan’s militaristic past) and preoccupied with traditional security concerns that linger over the region, NEA states show few signs of joint action on the energy front. In the absence of a common set of rules and order-creating institutions, having almost no energy resources of their own and being, therefore, critically dependent on energy imports, NEA states have instead resorted to implementing a variety of policies. These consist of external policy measures, such as energy diplomacy, and domestic strategies, such as renewable energy and energy conservation, with the imperative goal being yet again to ensure national energy security.

Not to disregard the specifics of the national approaches in place, energy policies of NEA states can be broadly described by the so-called ‘3E’ concept (a term originally coined by Japan), which underpins concerns that are common for large energy consumers and importers – the affordability of energy (price, *economics* of energy), maximisation of *efficiency* of energy resource utilisation and minimisation of the *environmental* footprint.

In a sense, Russia’s role towards NEA and the NEA role towards Russia are reminiscent of those in the Russia–EU context; it is the same “supplier-consumer” mode, but there is no discernible tension in Russia’s energy ties with NEA. Is there a type of institutional consistency observed in Russia–NEA energy relations? Overall, it appears sufficiently accurate to liken the energy policies of the states concerned for their pursuit of a pragmatic course (Box 2). It is, however, clear that this is the case of different types of pragmatism.

In the NEA context, two shifts deserve special attention. Economic and environmental stewardship are among the most principal factors defining a state’s contemporary energy policy. For Japan, the price of energy has become by far the most decisive aspect of policy making, while the environmental dimension is turning into a serious denominator in China’s energy policy. To Russia, NEA’s growing gas demand and the expanding gas deficit

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**Box 1. Principal Developments towards the European Single Gas Market**


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**Box 2. NEAs’ Energy Policies: Compatibility in Pragmatism**

Russia – pragmatism of a large producer & export-dependent economy; production of increasing volumes and export worldwide at the best possible price; depletion in traditional producing provinces, worse geology & economics of greenshields, intensifying external competition from unconventional sources, etc. narrow policy choices.

China – pragmatism of a large consumer & net importer and a developmental state (secure supply =⇒ sustainable economic development); enhanced development of indigenous gas (unconventional sources: CBM, shale & NGD); transition to a low carbon economy, by 2020 non-fuels in primary energy consumption 15%; renewables & nuclear (18 NPPs operating, 1.7% of electricity, ~50 reactors of capacity 34 GW under construction; ~50 reactors in the planning stage; total capacity by 2015–40 GW).

Japan – pragmatism of a mature & stagnating consumer =⇒ 100% oil & gas-import-dependent economy forced to overhaul energy policy after the 2011 nuclear disaster; now all remaining 50 (4 destroyed by the 2011 disaster) reactors are offline, decision on restarts is awaited; by 2030: nuclear-energy free (?), renewables 20%; macroeconomics accentuates cost-efficient solutions; climate change policy toughens the choices.

Korea – pragmatism of a 100% oil/gas-import-dependent economy competing for supply with two neighbours; geopolitically problematic location; paradigm 2030 - renewables (4.3% by 2015; 11% by 2020) & nuclear (currently 12 NPPs, 23 reactors (6 offline), approximately 30% of electricity =⇒ BUT Fukushim & domestic issues pressure for revision of the initial plan for +10 reactors and, 41% of electricity by 2030 to 29% of electricity by 2035*).

**Table 2. NEA-3 Shares in Russia's LNG Exports, %**

<table>
<thead>
<tr>
<th>Country</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>3.78</td>
<td>3.81</td>
<td>2.29</td>
<td>3.54</td>
</tr>
<tr>
<td>Japan</td>
<td>55.82</td>
<td>61.42</td>
<td>67.82</td>
<td>76.45</td>
</tr>
<tr>
<td>Korea</td>
<td>20.42</td>
<td>29.10</td>
<td>26.96</td>
<td>19.88</td>
</tr>
<tr>
<td>NEAs' total</td>
<td>80.02</td>
<td>94.33</td>
<td>97.07</td>
<td>99.87</td>
</tr>
</tbody>
</table>

Source: calculated by author based on BP data.
in NEA emerges as a blessing. Starting in 2009, the region became the primary importer of Russia’s LNG (Table 2).

Already one of the most lucrative gas markets, NEA demands significant import volumes and traditionally offers prices higher than in any other market. Indeed, the world’s largest LNG importers (Japan and Korea) and the fastest growing gas market (China) are in NEA (Table 3).

What makes this region particularly attractive to Russia is that NEA is not consolidated by formal intraregional institutions.

3.3. Russia's eastern gas policy

"... Russia’s reorientation toward the Pacific Ocean and the dynamic development in all our eastern territories will not only open up new economic opportunities and new horizons, but also provide additional instruments for an active foreign policy." (Presidential Address, 2013).

Russian gas sector has undergone certain transformations, which scales were smaller than in the oil industry. Gazprom – Russia’s major gas producer13 – remains a SOC, as the government holds 50.002 per cent shares (Shadrina and Bradshaw, 2013).

From the very outset, the development of gas reserves in Russia’s east has been attempted in a specific form. The inception of the Sakhalin projects took place in the early 1990s amidst profound devastation in Russia’s economy. In seeking the ways to increase export revenues that Russia very much needed, as well as to keep afloat Russia’s vast eastern lands, the government realised that development of the energy sector may be that very (if not the only) expedient way to address both challenges. However, the government also realised that the development of the Far Eastern greenfields would be impossible without foreign capital and expertise. Under such circumstances, the Russian government endorsed two PSAs: the Sakhalin II in 1994 and the Sakhalin I in 1996,14 which later on were severely criticised as not protecting Russia’s own commercial interests well enough.

In hindsight, the PSAs were perhaps the most liberal institutions that the Russian government introduced in the gas sector. Yet, following Gazprom’s entry to Sakhalin II15 in 2006 and gas exports transfer under Gazprom’s rein,16 Russia’s gas sector was tightly closed for the IOCs, unless the latter were ready to accept an insignificant role in a project led by the Russian SOCs. At the time, this was largely influenced by the escalating energy prices and resource nationalism’s (erroneous) belief that national energy companies (first and foremost, SOCs) are capable of developing complex and expensive energy projects independently. Thus, Russia’s gas policy transformed from being relatively liberal (at least welcoming foreign investment) into what is commonly viewed as rigid, heavily controlled by the government system of “manual” (hands-on) resource management. The major reason for a very cautious approach towards deregulation of the gas industry is the crucial role gas plays in Russia’s energy mix. Therefore gas policy unavoidably influences other key policies affecting the socio-economic situation.

Until now, the LNG plant in Prigorodnoe, which commenced LNG exports in 2009 under the Sakhalin II project, remains Russia’s only gas link with NEA markets. Not only did LNG exports to NEA prove to be commercially beneficial to Russia, they also revealed the gains of gas-to-gas (LNG vs. pipeline) and region-to-region (NEA vs. the EU) diversification. From this perspective, the Eastern gas policy appears to be chosen correctly. Russia’s gas policy towards NEA is enforced by two sets of institutions: (1) region-specific institutions enacted through a number of incentives to activate the development of onshore and offshore gas projects in the eastern part of Russia; and (2) a sector-specific two-pattern (as regards LNG and pipeline gas) policy. The latter eventually materialised on 1 December 2013 and is a result of debates at the agencies in charge of gas policymaking and intensified rivalry among Gazprom and other domestic gas producers (e.g., Novatek and Rosneft) striving to seize the chance of entering into big gas business.17

3.3.1. Goals and objectives of Russia’s Asian gas policy

"...Let us look at such objectives as developing Siberia and the Far East. This is our national priority for the entire 21st century" (Presidential Address, 2013).

The thesis about the importance of the Far East for Russia’s political, geopolitical and economic well-being has always been one of the most exploited “politically correct” statements the Russian government used to send a formal signal of concern

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13 Even though Gazprom is constantly losing out to independent gas producers, it still produces 73.61 per cent of gas, as of 2012.


15 In 2006, Russia pressured the Sakhalin II consortium, which prompted the foreign companies operating the project under the PSA to sell control of the project to Gazprom. The reasoning on the part of the Russian government was to gain control over project costs that had more than doubled, to ensure more of the revenues from the project would come to Russian parties, and to have a direct say in the project’s export marketing strategy. Put more bluntly, neither President Putin nor Gazprom could accept that a foreign consortium was delivering Russia’s first LNG to the Asian market (Shadrina and Bradshaw, 2013).


17 As of now, only four companies Rosneft, Novatek, SOCs Zarubezhnefte and Gazprom have met government-set criteria and are eligible for LNG exports. According to the law, only those companies which have more than 50 per cent of state ownership and secured their plans for LNG plants’ construction before January 1, 2013 will be granted such rights. The liberalisation can be called partial not only because of a very limited number of eligible exporters, but also because the government set up a coordination mechanism (to prevent competition among Russian LNG exporters in external markets), which requires exporters to submit their export plans to the Ministry of Energy. The newly endorsed law on LNG export liberalisation requires the amendments to Article 3 of the Federal Law “On Gas Export” and Articles 13 and 24 of the Federal Law “On the Principles of State Regulation of Foreign Trade.”
about the fate of its vast eastern territories (Blagov 2010). The signal was barely reaching out to 4 per cent of the Russian population scattered across the lands occupying 3/5 of Russia’s territory.

From the very outset of his third presidential term, Vladimir Putin has repeatedly underscored that development of the ESFE is the government’s utmost urgent task. In the recent years, there has been an almost permanent stream of institutional shifts (Box 3). In 2014, the government initiated efforts that became more coherent (Box 4).

In Russian energy policy, the emphasis on the ESFE is not a novelty. Russia’s energy strategies (ES) traditionally contain a regional component (Table 4).

By comparing three documents – ES 2020, ES 2030 and Draft 2035 – for their overall goals and objectives for energy policy in the ESFE (regional energy policy) and towards Asia (external energy policy), it is easy to notice that the prominence of the ESFE and Asia agendas have grown constantly and the wording of relevant tasks has gained an increasingly urgent tone.

For the first time, detailed numerical targets for the Asian markets were set in Russia’s energy policy in 2003 (ES 2020, pp. 34). In the ES 2020, the Russian government envisioned that as much as 30 per cent of Russia’s oil and 15 per cent of gas would be exported to China, Korea and Japan. The task of diversifying Russia’s energy ties was re-emphasised in 2009, and the ES 2030 (ES 2030, pp. 9) targets for the three countries’ total shares were set as 22–25 per cent for oil and 19–20 per cent for gas (Table 5).

In 2007, Russia’s major gas producer, Gazprom, developed the Eastern Gas Programme (EGP, 2007), where the targets for ESFE gas production and Asia-oriented exports were projected. Comparing the ES 2030 targets with those in the EGP, the latter look more ambitious (Table 6).

Facing difficulties in developing new gas deposits in the ESFE (for different reasons, among which are both domestic, such as a

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**Box 3.** Institutions for the Development of the Far East: Attempted and Succeeded. Source: compiled based on publications by Kommersant (http://kommersant.ru).**

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**Box 4.** New Development Institutions for ESFE: Problems and Progress.

The government is assessing that the overhaul of ESFE development institutions requires budget allocations of RUB 170 bn (US$ 5 bn) in 2014 alone. Until the end of 2025, the required allocation for ESFE development investment is estimated at approximately RUB 7 trln (US$ 200 bn) with the lion’s share to be spent on a fuel energy complex (RUB 3 trln, or US$ 90 bn), the petrochemical industry (RUB 1.2 trln, or US$ 34 bn) and the transport sector (RUB 1.45 trln, or US$ 40 bn).* According to Business Russia, the modernization would require approximately US$ 700 bn (roughly 30 per cent of Russia’s GDP), whereas the federal budget’s annual allocation is mere US$ 3 bn. Currently, a number of institutions are being newly introduced (special regimes (SR) for ESFE development and transnational (TAD) or re-available (special economic zones, SEZ)) for the region so that every rouble of government expenditure would be matched by 10 roubles of non-budget investments. SR cover various dimensions, including land use, access to infrastructure, customs procedure in free customs zones, the provision of public services, tax preferences, special regulations for labour market, etc. The list of TAD** is to be finalised by July 2014, but currently 23 shortlisted ESFE sites are being considered for such a status. Meanwhile, the process of establishment of new SEZs in ESFE has already started.****

Notes:
* Russiaytva Gazeta. 22 April 2014 [http://www.rg.ru/2014/04/22/votemy.html] [7 May 2014]
** The draft of the Federal Law On Special Regimes for Advanced Development of the Far East and Baikal Region (available from: [http://www.russianm.gov/files/d/e/d8/d877b/364/856/1881a95ea5a.pdf]) was discussed at the government regular meeting for social and economic development of ESFE 20 March 2014.
*** There is difference between TAD and SEZ. While the former are newly developed relatively compact in size sites of primarily industrial orientation, SEZ is being planned to attract additional investment into existing centres of economic activity. Typically, the latter reproduces the contours of a certain administrative entity (city, area, etc.), whereas TAD is established to create a certain production activity.
very limited regional gas demand, and external, such as various setbacks in entering the Asian gas markets), Gazprom has regularly revised the EGP targets. While LNG production and export – for which Gazprom’s CEO Alexey Miller always very willingly (but unjustly) credits his company – increased, other goals proved hard to attain. Indeed, it took Gazprom about a decade to complete negotiations with CNPC and sign a US$ 400 bn contract envisaging a 30-year (starting from 2018) gas supply. The 21 May 2014 deal involves the construction of the Power of Siberia gas pipeline with an annual capacity of 38 bcm (Table 8) for which an estimated US$ 55 bn of Russian and US$ 22 bn of Chinese investments are necessary.18

Table 4
Comparison of Russia’s energy strategies.

<table>
<thead>
<tr>
<th></th>
<th>ES 2020</th>
<th>ES 2030</th>
<th>Draft ES 2035*</th>
</tr>
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<tbody>
<tr>
<td><strong>Primary goal</strong></td>
<td>Maximised efficiency in energy resource exploitation and in the use of the fuel-energy industry’s potential for the purpose of <strong>economic growth</strong> and improvement of quality of living standards</td>
<td>2020+ sustainable economic growth) creation of an innovative and efficient energy sector meeting the needs of a growing economy and allowing Russia to strengthen its <strong>foreign economic status</strong></td>
<td>2030+ development of domestic energy infrastructure (overcoming imbalance in favour of export infrastructure); improving the availability and quality of energy products and services; supremacy of principles of sustainable development in energy governance at corporate and national levels</td>
</tr>
<tr>
<td><strong>Regional policy (RP) with focus on ESFE</strong></td>
<td>Creation of a single energy space through the development of inter-regional markets and infrastructure; optimisation of regional energy demand-supply structure; development of new large gas producing centres in ESFE; development of (domestically oriented) gas infrastructure in ESFE</td>
<td>2020+ coordination between federal energy programmes and regional programmes for socio-economic development; implementation of innovative and capital-intensive (export-oriented) energy projects in ESFE;</td>
<td>2030+ development of a system of indicators for monitoring a region’s energy security (RES) and analysis of RES; prioritised development of energy infrastructure in ESFE with more accentuated focus on domestic/regional needs;</td>
</tr>
<tr>
<td><strong>Foreign energy policy (FEP) with focus on Asia</strong></td>
<td>Strengthening position in global energy markets, most efficient utilisation of FEC export potential; increasing competitiveness; <strong>utilisation of Asia Pacific markets potential</strong> (share in export by 2020: 30% (from 3% in 2003), gas – 15%)</td>
<td>Main challenge – price volatility in global energy markets; strengthening Russia’s position in global energy markets through improved competitiveness; geographic and product diversification of exports; further promotion of a common Eurasian energy market; <strong>increasing role of Asia Pacific markets</strong> (26–27% of energy exports in 2030)</td>
<td>Main challenge – increasing global competition; 2030+ adoption of FEP to new trends in development; strengthening position in LNG global market; stable energy relationships and development of dialogues with traditional partners; adaptation to structural and institutional changes in European markets; rapid entry to Asia-Pacific markets (region’s share in oil exports – 32%, gas – 31%, total energy – 28% in 2015); enhanced energy dialogue with Asian partners; finalising gas negotiations with China</td>
</tr>
</tbody>
</table>

Table 5
Excerpts from ES 2030 on gas production in Eastern Siberia and Russia’s Far East.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total gas production, bcm including:</strong></td>
<td>685–745</td>
<td>803–837</td>
<td>885–940</td>
</tr>
<tr>
<td><strong>Eastern Siberia (ES)</strong></td>
<td>9–13</td>
<td>26–55</td>
<td>45–65</td>
</tr>
<tr>
<td><strong>Russia’s Far East (RFE) including:</strong></td>
<td>34–40</td>
<td>65–67</td>
<td>85–87</td>
</tr>
<tr>
<td><strong>Sakhalin</strong></td>
<td>31–36</td>
<td>36–37</td>
<td>50–51</td>
</tr>
<tr>
<td><strong>Gas production in ES and RFE, % to total</strong></td>
<td>7–18%</td>
<td>12–14%</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Total gas export, bcm</strong></td>
<td>270–294</td>
<td>332–341</td>
<td>349–368</td>
</tr>
<tr>
<td><strong>Share of Asia Pacific in total export, %</strong></td>
<td>11–12%</td>
<td>16–17%</td>
<td>19–20%</td>
</tr>
<tr>
<td><strong>LNG export, % to total export</strong></td>
<td>6–7%</td>
<td>10–11%</td>
<td>14–15%</td>
</tr>
</tbody>
</table>

Table 6
Excerpts from Gazprom’s eastern gas programme, 2007.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total gas production in ESFE, bcm including:</strong></td>
<td>27</td>
<td>85</td>
<td>150</td>
<td>162</td>
</tr>
<tr>
<td><strong>Eastern Siberia</strong></td>
<td>5</td>
<td>50</td>
<td>55</td>
<td>57</td>
</tr>
<tr>
<td><strong>Far East</strong></td>
<td>22</td>
<td>35</td>
<td>95</td>
<td>105</td>
</tr>
<tr>
<td><strong>Gas consumption in ESFE, bcm</strong></td>
<td>13</td>
<td>18</td>
<td>41</td>
<td>46</td>
</tr>
<tr>
<td><strong>Export, bcm</strong></td>
<td>14</td>
<td>23</td>
<td>71</td>
<td>78</td>
</tr>
<tr>
<td><strong>Pipeline export, bcm</strong></td>
<td>–</td>
<td>9</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td><strong>LNG export, bcm</strong></td>
<td>14</td>
<td>14</td>
<td>21</td>
<td>28</td>
</tr>
</tbody>
</table>

Table 7
Russia’s gas exports distribution: actual and projected in the energy strategy 2030, %.

<table>
<thead>
<tr>
<th>Region</th>
<th>2005</th>
<th>2008</th>
<th>2012</th>
<th>1 ph.</th>
<th>2 ph.</th>
<th>3 ph.</th>
<th>2030 against 2008*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>62.5</td>
<td>64</td>
<td>69.9</td>
<td>57.8</td>
<td>56.9</td>
<td>56.1</td>
<td>~ 8</td>
</tr>
<tr>
<td>CIS</td>
<td>37.5</td>
<td>36</td>
<td>30.1</td>
<td>31.6</td>
<td>26.6</td>
<td>23.7</td>
<td>~ 12</td>
</tr>
<tr>
<td>Asia Pacific 0</td>
<td>0</td>
<td>~/9.9</td>
<td>0</td>
<td>10.6</td>
<td>16.3</td>
<td>20.2</td>
<td>~ 20</td>
</tr>
</tbody>
</table>

Source: composed by author based on data from the original document, pp. 101 and 111.

Source: composed by author based on data from the original document.

Source: developed by the author based on the Strategy 2030, BP Statistics 2013 and Shadrina (2010).,

Notes: Data for each phase are averages based on the Energy Strategy 2030’s scenarios. Column marked with * presents the overall change (“~” decrease; “þ” increase) in geographical structure of gas exports by 2030 against 2008.

Data for 2005, 2008 and 2012 are factual and serve for the comparison.

Two-data set (“)” reflects share of a region in Russia’s export of pipeline gas/share of a region in Russia’s total gas exports with LNG included.

Notes: Data for each phase are averages based on the Energy Strategy 2030’s scenarios. Column marked with * presents the overall change (“~” decrease; “þ” increase) in geographical structure of gas exports by 2030 against 2008. Data for 2005, 2008 and 2012 are factual and serve for the “target-achievement” comparison.

3.3.2. Russia’s Institutions for Asian gas policy

“...[G]overnment and private sector resources should go towards development and achieving strategic objectives [development of the ESFE, E.S.]. The challenges we will need to tackle are unprecedented in their scale, which means we must take unconventional approaches”

Presidential Address, 2013.

Russia’s relations with NEA-3 are far from being characterised as unproblematic. Within the troika, Russia has the most convincing achievements with China. Having agreed on the settlement of their border dispute back in 2004 and having finalised the agreement in 2008, Russia and China have been methodically working towards having closer economic and security cooperation. China is, by far, Russia’s largest trading partner in Asia with 2013’s bilateral trade at US$ 90 bn, and the target of US$ 200 bn being set for 2020. In recent years, the two countries have stressed the importance of bilateral relations (not only through the number of official visits, but through their scheduling), demonstrating rather converging positions in the matters of international scope (Libya, Syria, Iran’s nuclear programme, etc.), ramping up security and military cooperation. Yet, these rapprochements signify a genuinely strategic partnership due to the countries’ pragmatic contemporary need for one another. The increasing gap in economic potency (which directly defines the military and other potentials) creates a rather discernible scepticism about the nature and durability of the Russia-China partnership. Interestingly, Russia realises its weaker bargaining positions vis-à-vis China, with the gas area being one of the most illustrative cases (Shadrina, 2014b). It is important to note that Russia has a certain perception about China’s threat, which is to heighten progressively on pace with the widening discrepancy between Russia’s and China’s potentials. Russia is wary of its growing dependence on China and, in the context of this study, Russia strives to avoid the overdependence on the Chinese gas market. However, diversification of energy links in Asia is not an easy task for Russia.

A problem with other NEAs – Japan and Korea – is that being allies of the USA, they follow a common line even in situations where their own economic interests are threatened. Comparing China’s, vis-à-vis Japan’s and Korea’s, responses to the ban on oil imports from Iran provides an example (Shadrina, 2013a). In the aftermath of the 2014 crisis in Ukraine, Russia has already faced sanctions imposed by Japan. Following the early 1990s development of cordial relations with Korea, Russia did not experience any serious conflicts of interests with this country. Today, the only significant hindrance for developing energy links is Korea’s geographical location, which often necessitates participation with the reclusive DPRK’s government. Russia’s relations with Japan are more complex. Over the recent years, the two countries’ constructive robust efforts have helped them instil more optimism into bilateral relations (the bilateral trade reached a record US$ 34.8 bn in 2013) and change the overall context of the Kurile Islands/Northern Territories negotiations. In 2013, Japan’s prime minister visited Russia for the first time in 10 years; the bilateral security cooperation measures have been upgraded to a rather unique format of “2 + 2” (foreign ministers and defence ministers) for the non-allies; the meetings of experts on territorial issues have become frequent; and visits by a number of top officials, including Russia’s president, were planned for 2014. All efforts

### Table 8
Russia’s Actual and Projected Gas Exports to NEA, bcm/y.

<table>
<thead>
<tr>
<th>Projects</th>
<th>2012</th>
<th>2017</th>
<th>2019</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sakhalin II LNG plant (Gazprom Sakhalin Holdings B.V. 50% + 1; Shell Sakhalin Holdings B. V.</td>
<td>14.99</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Yamal LNG (16.5 Mt, Novatek 60% &amp; Total 20% &amp; Sinopec 20%)</td>
<td>4.14</td>
<td>4.14</td>
<td>&quot;X&quot;</td>
<td>&quot;X&quot;</td>
</tr>
<tr>
<td>Vladivostok LNG (Gazprom &amp; Japan Far East Gas Co.)</td>
<td>13.8/20.7</td>
<td>13.8/20.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sakhalin II LNG plant 3rd train</td>
<td>6.9</td>
<td>6.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RN LNG plant in Sakhalin (Sakhalin III, plant construction Rosneft &amp; ExxonMobil &amp; General Electric; Sakhalin I, long-term sales contracts between Rosneft &amp; Marubeni and Rosneft &amp; SODECO)</td>
<td>20.7</td>
<td>20.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sila Siberi [Power of Siberia] pipeline, aka Eastern Route (Kovykta, later stage)-Chayanda-Lensk-Olyomkinsk-Neryungri-Skovorodino-Belogorsk-Blagoveshchensk (→ China)-Birobidjan-Khabarovsk-Dalnerekehensk (→ China) – Vladivostok – (→ Korea, later stage)</td>
<td>38</td>
<td>61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Altai pipeline*, aka Western Route</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>19</td>
<td>99/20</td>
<td>152/2</td>
</tr>
<tr>
<td></td>
<td>105 + &quot;X&quot;</td>
<td>158 + &quot;X&quot;</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: composed by author based on various sources.
Notes:
* "X" denotes unknown/undecided quantities of gas supply to NEAs.
* A consortium of five Japanese companies, including Itochu Corp., Japan Petroleum Exploration Co. (JAPEX) and Marubeni Corp.
* Sakhalin Oil and Gas Development Co. – a consortium established in 1974, unites JAPEX, JOGMEC, Itochu Corp. and Marubeni Corp.

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24 As an illustration to the point, China’s president Xi Jinping first official visit abroad at the time of the Chinese New Year celebrations was to Russia during the Sochi Olympics.
25 Under the auspices of the Conference on Interaction and Confidence Building Measures in Asia (CICA) and the Shanghai Cooperation Organisation (SCO).
were expected to provide certain benefits to both countries but the Ukrainian crisis of 2013–2014 halted the progress. In 2014, the Japanese foreign ministry announced that it would discontinue regular work with its Russian counterparts until the situation in Ukraine stabilised, and some scheduled visits were cancelled. Although Japan’s official perspective has always been such that the matters of political dialogue and economic cooperation would not be intertwined and that the latter would not be affected by the former, the remaining unsettled territorial dispute between Russia and Japan certainly constrains the dynamism of bilateral cooperation.

Because the overall intraregional cooperation in NEA is weak and order-creating institutions are missing, Russia’s gas policy is less strategic and more opportunistic. However, the questions of which institutions serving the purpose of Russia’s gas cooperation with NEA countries and how much coherence at the institutional level is being observed remain.

There are no gas governance institutions which could be compared with those in the EU. To a degree, such an institutional void is beneficial to Russia, which has a bigger space for manoeuvre when negotiating with each individual NEA country. As in the EU context, Russia employs its national institutions in gas relations with NEA. However, there are certain specific aspects deserving a more detailed analysis (Box 5). Russia’s gas relations with NEA embrace two levels (national and regional) and two types (formal and informal) of institutions. The distinction between formal and informal institutions is important because, as it is shown here, the actual effectiveness of formal institutions frequently deviates from what is expected due to the impact of informal institutions.

Russia’s formal institutions for Asian gas policy could roughly be characterised from two dimensions: governance structures which include a wide gamut of economic agents with government agencies (at the national and local levels) playing a rule-setting role; and the products of governance structures activity, such as development programmes (for the national economy socio-economic development, as well as region-specific and sector specific programmes). Boxes 3 and 4 represent principal governance structures involved with Russia’s Asian gas policy. Table 4 and Box 4 reflect the major products of the governance structure activity. The latter involves: (1) programmes for Russia’s fuel-energy complex development (Russia’s long-term energy strategy), which contain regional (for the ESFE) and gas export components; (2) Russia’s (targeted) programmes for ESFE socio-economic development, which contain components of energy resource development and cooperation with Asian countries; (3) Russia’s programmes for (cross-border) cooperation with NEAs, which include an energy resource development component; and (4) large businesses’ programmes, such as Gazprom’s EGP, which link the goals of gas development in the ESFE with the targets for gas exports to Asia.

Additionally, Russia’s energy policy towards NEA embraces a set of formal institutional provisions enacted in the ESFE to facilitate the development of gas deposits in this region. A number of objective factors, such as natural hazards – climatic, geographic, and geological – translate into prohibitively high costs of gas production in the ESFE, thereby challenging the realisation of the Asian gas policy. To initialise gas development in the east, the Russian government attempts to improve the economics of production via the introduction of a system of region-specific incentives, such as, for instance, severance tax exemptions, gas export duties and exemptions from an import tariff on equipment required for gas production that is not produced domestically. However, as long as such notorious all-Russia ailments of the energy sector as the overall low economic efficiency of the SOCs and the openly corrupt schemes (e.g., friendly contracts, otkat, etc.) are continued, such attempts will not be as effective.

It is interesting to see how informal institutions may affect the actual performance of formal ones. The decision making in Russia’s energy sector formally lies with such government agencies as the Ministry of Energy, Ministry of Natural Resources and Ecology, and Federal Agency for Subsoil Use. However, a number of indirect or even informal arrangements prove to be more influential in reality. There is evidence of regulatory capture, when an agency assigned with energy policymaking gets so deeply involved with a regulated company that the regulator no longer performs its functions vis-à-vis the company. Putting things in perspective, the powers of the Governmental Commission on the Fuel and Energy Complex and Regeneration of the Mineral and Raw Materials Base established in 2005 have been challenged by the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security since it was created in June 2012. While the Governmental Commission (currently chaired by Deputy Prime Minister Arkady Dvorkovich) has effectively become a body for running primarily coordinating activities, chaired by President Vladimir Putin with Rosneft’s CEO Igor Sechin acting as an executive secretary, the Presidential Commission has an extensive mandate embracing tax, tariff and price policy for petrochemicals, gas and electricity and investment, all of which is of binding power for other authorities. The intrigue here is that Rosneft itself has strong ambitions to expand its oil and gas business and establish itself as a dominant Russian energy exporter to Asian markets. The Presidential Commission and the Government Commission often confront one another on the principal issues of the national fuel energy industry’s development.

Overall, the government’s involvement with the energy sector remains strong. The long-time debate about the necessity of the fuel energy sector’s privatisation and the government’s withdrawal from the BoDs in the SOCs has not resulted in any concrete steps. While Prime Minister Dmitry Medvedev, who introduced the idea at the time of his presidency, referred to 2016 as the year by which privatisation of the SOCs and streamlining of decision-making may start materialising, this looks increasingly unrealistic. The CEOs of major SOCs, such as Gazprom, Rosneft and Transneft, remain closely involved with the energy policymaking in Russia. Frequently, it is performed in the form of direct petitions to the President or lobbying in the federal government entities (e.g., Ministry of Energy and Ministry of Finance) for more favourable regulation to be extended to the SOCs concerned. The SOCs customarily ground their reasoning for...
exceptional treatment (e.g., tax breaks and simplified procedure of licensing for new deposits) on their complaints about the prohibitively high costs of developing the greenfields in Russia’s North and East both on land and offshore (Fedorov, 2013). Expectedly, such lobbying often leads to a conflict of interest of the government entities assigned with conducting the policies directed at oil and gas production growth (Ministry of Energy) and the agencies concerned about the means of increasing fiscal revenues (Ministry of Finance). In the recent years, there has been growing consolidation among the industrialists themselves.35

As noted, Russia’s energy policy towards NEA embraces a number of specific arrangements enacted in the ESFE for the purpose of rapid development of gas resources located in the region. This, in fact, allows a region-specific pattern in Russia’s gas policy (Shadrina, 2013a) to be distinguished. However, there is no delegation of authority to the regional level. Likewise, the regional governments have no power of discretion in matters involving the development of mineral resources located in the ESFE. The region-specific pattern within Russian energy policy is deliberately established and strictly controlled by the central government through a system of fiscal, licensing, tariff, and foreign investment regulation and is implemented through the government’s reliance on the SOCs: Gazprom in the gas sector, Rosneft in the oil industry and Transneft in oil export transportation. In a sense, the RFE is a mere recipient of the transplanted policy mode with very limited capabilities to participate in energy policy formulation and its implementation, despite its direct relations to the region’s natural resources.

Russia has established bilateral energy dialogues with each of NEA-3 and bilateral agreements on closer economic cooperation between Russia and NEA countries for the development of the ESFE, including its oil and gas sectors (Box 4). Two other frameworks concern gas cooperation in an all-NEA format seeking to contribute to gas policymaking in the region. Under UN auspices, for instance, the Intergovernmental Collaborative Mechanism on Energy Cooperation in North-East Asia (ICMECNEA) was established in 2005.36 One of the deficiencies of the ICMECNEA is that Japan, a significant gas consumer and importer, is not its member. Another rare example of an all-NEA framework for gas cooperation is the Northeast Asian Gas and Pipeline Forum (NAGPF), a non-profit organisation consisting of five member countries including Russia (represented by Asian Pipeline Research Society of the Russian Federation), China (Asia Gas and Pipeline Cooperation Research Centre of China (AGPRCC), Korea (Korea Pan-Asian Natural Gas and Pipeline Association), Mongolia (Petroleum Authority of Mongolia) and Japan (Northeast Asian Gas and Pipeline Forum of Japan). Since its foundation in 1997, the NAGPF has been promoting natural gas development in NEA through international conferences (the most recent, the 13th, was held in September 2013) and joint research projects. The NAGPF platform is being actively utilised to articulate the concerned countries’ interest in establishing an intra-NEA natural gas network.37

With regard to informal institutions (e.g., ideas, beliefs and practices), NEA countries demonstrate more tolerance for the state’s direct intervention in a certain industry or even the economy as a whole owing to their own rather recent experiences of development and institutional transformation (Samuels, 1987). This perfectly matches Russia’s contemporary approach to energy governance, which can be described in the categories of state capitalism (Shadrina, 2013a). The Russian and NEA governments play a crucial role in establishing and maintaining energy cooperation. In the NEA context, it is a normal practice that governments keep close communication with their national large businesses’ on

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35 See, for instance, the web-page of the Union of Oil and Gas Producers of Russia. Available from: (http://www.sngpr.ru/tribune.php) (01.09.13).


37 For more information refer to the NAGPF web-page. Available from: (http://www.nagpf.info/introduce/about_us.htm) and (http://www.nagpf.info/pdf/130729NAGPF%202013.pdf) (23.09.13).
matters of energy resource supply and oversee their champions' operations in respective country-owner of energy resources. NEA governments' efforts tend to intensify when a controversial issue arises. In Russia, such were the cases of the 2006 Gazprom's entry into the Sakhalin-II, the dispute between Gazprom and Sakhalin-I operator ExxonMobil with regard to the IOCs and Rosneft's China-oriented gas export plans, the case of the oil price dispute in the ESPO-I Daqing Spur to China, the Rosneft – TNK-BP deal, Gazprom – CNPC negotiations on the routing of a gas pipeline and the terms of supply. The official bilateral frameworks are indispensable and regularly activated to foster business-to-business energy agreements or settle energy related commercial disputes.

On the whole, the multilateral frameworks play a very limited role in the development of energy cooperation in NEA. The bilateral schemes are of more use, as they prove to be a more expedient mechanism in facilitating the projects and solving issues whenever such arise in the disintegrated context of NEA. NEA countries express no discontent with the Russian state's profound involvement with the gas sector development in the ESFE. On the contrary, this is perceived as a certain assurance that the Russian government extends to its Asian partners. Within Russia itself, however, this model of energy governance is criticized as disadvantageous for the national economy (this aspect is addressed in the concluding part of this article).

4. Discussion: Russia's Asian gas policy's rationales, objectives and institutions

Two rationales-increasing discrepancy with European institutions resulting in Russia's deteriorating access to European gas markets and continued economic underperformance in Russia's east-have driven Russia closer to NEA. Russia's two primary policy objectives addressing these realities are diversification of gas exports and enhanced development of the ESFE natural gas deposits. Has Russia succeeded in attaining these objectives? Are the institutions in place adequate to conform to the rationales and attain the objectives?

Russia has certainly progressed towards its goal of gas export diversification (Table 7). However, this result is entirely due to Sakhalin II's LNG plant operation, which remains the only gas project Russia has managed to implement in the ESFE. In this case, participation of foreign capital under the PSA scheme needs to be recognised as critically important.

Russia's gas policy towards NEA is influenced by a range of factors. The geopolitical environment affects the dynamics of Russia's gas cooperation with NEA, particularly, the progress in pipeline projects development. Other aspects include ongoing structural transformations in the gas markets triggered by increasing unconventional gas production in North America, the shifts in NEA national gas strategies towards further diversification of their supplies, growing NEA ambitions to expand the share of indigenous gas through unconventional gas production (CBM, SNG and shale gas in China) and the application of cutting-edge technologies (methane hydrate and clean coal technologies in Japan and Korea). NEAs have also clearly spelt their priorities for the liberalisation of domestic gas markets. Speaking of China's gas pricing reforms (OECD, 2012, Kushkina and Chow, 2013), this makes the prospects for future imports somewhat ambivalent: it may signify opportunities for additional volumes of more expensive supplies, but it may also result in larger domestic production because Chinese producers will be more motivated to expand their output, thereby lessening the need for imports. Under the tenets of Abenomics, Japan looks increasingly resolute to introduce more competition into the domestic electricity market, which in turn would result in a greater number of LNG importers. This could be a positive change for Russian exporters, who now deal separately with each of Japan's large electricity utilities. Furthermore, the demand for LNG has been growing in the aftermath of Fukushima, as the utilities need to substitute for the halted nuclear reactors. As of 2012, LNG occupies a significant 48 per cent share in electricity generation (up from 29 per cent in 2010). By all measures, Japan's LNG imports (already the world's largest) stand to increase further. The world's second largest LNG importer – Korea – may also be perceived as offering more opportunities for the LNG exporters because the government lowered its targets for nuclear power generation (Box 2).

Russia aims to launch a large number of Asia-oriented gas projects (Table 8). Provided Russia succeeds in their implementation, the country stands to strengthen its profile, growing from the current niche of just under 5 per cent of the global LNG production to approximately 10 per cent by 2020 (Kuzjinin, 2013). There are, however, conditions for Russia's success. Given that now it is not only China, but Korea and Japan, which are seriously concerned about the price of future gas supplies, Russia needs to offer commercially attractive deals to be competitive in one of the largest regional segments of the globalising LNG business. The latter means that most of all Russian potential exporters need to be concerned about appropriate timing of new gas deliveries and the costs of new gas projects. Speaking of timing, if Russian companies fail to launch LNG projects by 2018 (by 2020, in the worst-case scenario), they will almost certainly lose their market niche (Chemia 2014a). Russian LNG supplies will also find no demand if the LNG price exceeds US$11 ($12 at the maximum)/MBtu (Chemia 2014b). Provided Russian gas producers become more cooperative (Henderson and Stern 2014), their chances for the expansion in the NEA-LNG markets look rather solid, as they have a clear advantage in transportation costs. The latter is estimated at under $1/MBtu as opposed to the North American rate of around $4/MBtu. Russia's prospects for pipeline gas exports depend, first of all, on China's needs. The 2014 gas deal stipulates Russia's annual gas deliveries of 38 bcm throughout 2048, but depending on China's success in indigenous gas production, Russia's gas exports to China may expand to 61 bcm in the long term. Korea and Japan could also become consumers of Russia's pipeline gas. The on-land pipeline for Korea requires solving the DPRK-centred security problem while the probability for the under-sea pipeline for both demands satisfactory economics of pipeline supply and, in the case of Japan, also involves the progress in domestic power sector liberalisation.

Restraints on timing and costs could be significantly eased provided Russia opens its gas sector for foreign capital. Expansion of gas production in Russia's east inevitably requires investment...
and technology from Japanese and Korean NOCs and other IOCs. The Chinese-Russian NOCs’ loan-for-gas schemes seem to be as important as those in the area of bilateral oil ties (Shadrina, 2013b). Overall, Chinese companies are demonstrating their sheer interest in Russia’s equity gas. Given the specifics of NEA states’ energy diplomacy (which in most general form can be described by China’s “going out-bringing in” version (12th 5-Year… 2013: 52), Russia can no longer neglect their interest in gas equities. Seeking state-of-the-art technical capacities to develop geologically challenging gas deposits in the ESFE and technological capabilities to produce high value-added petrochemical products in the ESFE, Russia has no realistic alternative but to adopt more friendly foreign investment legislation and allow the IOCs and NOCs into the Russian gas value chain.

As previously stated, in NEA international cooperation (trade and investment, for instance) in the gas sector has been run exclusively on bilateral agreements. However, recent attempts to introduce multilateral arrangements for the Asian gas markets have been made. Among these are the IEA-led joint study on the establishment of a natural gas trading hub in Asia, the Japan – India study group on LNG pricing in the Asia-Pacific market, Japan’s initiative to list U.S. dollar-denominated LNG futures on the Tokyo Commodity Exchange and establish a price benchmark for LNG by March 2015. These sundry moves demonstrate that the Asian gas markets have started evolving towards a more efficient structure and better coordination among regional gas consumers. The latter are known to have been especially discontent all along with the Asian premium that results in Asian LNG prices being times above North America’s Henry Hub (HH) benchmark. Concerning features such as a destination clause and the overall predominance of long-term contracts over spot trade (which regional LNG importers consider disadvantages of the Asian LNG markets), Russia has shown some flexibility42 and therefore managed to establish a somewhat credible reputation with NEA buyers. It needs to be noted, however, that because it is unlikely for Japan and Korea, which are concerned about the security of their gas supply and are 100 per cent import-dependent, as well as China, which is 30 per cent import-dependent, to opt for imports based solely on the spot trade, Russia seems to be well positioned for composing a balanced portfolio of long-term and spot gas contracts with NEA countries.

5. Conclusions and policy recommendations

Institutionally, Russia’s gas policy toward NEA differs from that vis-à-vis Europe in a way that the former is largely developmentalist in its nature. In the ESFE, the focus is putting in place institutions capable of triggering the region’s economic development in the short-run. While such an approach can be rightfully critiqued for its incomprehensiveness and a lack of strategic statecraft thinking, it objectively cannot be constructed in an all-embracing format because the scope of the ESFE development agenda is tremendous. What is observed in the ESFE is an attempt to create the centres of growth with the anticipation of a multiplier effect, synergism and positive externalities that will assist the ESFE’s under-developed economy to expand first, and then to accumulate necessary qualities to attain intensive growth. Aside from the domestic socio-economic agenda, the development of the ESFE allows Russia to more fully explore new geo-political dimensions. Having developed its eastern gas (and oil) provinces, Russia can hedge against the outcomes of Europe’s ongoing policy of gas supply diversification. On the other hand, as a gas supplier to NEA, Russia could reasonably seek more prominent roles in the matters of regional security and cooperation, especially if the at-the-moment-looking-rather-improbable gas pipeline bypasses China and, is routed via the DPRK, stretches into South Korea. Without a doubt, the long-term nature of gas deals would turn Russia into that missing intra-regional link connecting the divided NEA nations.

In line with how this article presents the institutions that Russia puts in place and relies upon in the context of NEA while mastering its eastern gas policy, the policy recommendations cover three dimensions: improvement of institutions for ESFE development; improvement of domestic institutions in Russia’s gas policy; and improvement of institutions for Russia’s external gas policy in Asia.

Despite the fact that the ESFE institution-building agenda has been at the forefront of Russian government efforts to initialise the region’s development, too frequent organisational shifts, as well as rather evident discrepancies in “policy objectives – policy levers” linkage (“too ambitious – inadequate”) resulted in bureaucratisation of the management system and replacement of real processes of the region’s development with the establishment of institutions as an end in and of itself (VDCR, 2014). The attempted institutionalisation has been fragmented. Even though a number of formal institutions, such as the MDFE and programmes for the ESFE’s socioeconomic development, were introduced, they remained largely inactive due to a lack of the MDFE’s actual credentials in the region’s policy formulation and its implementation. Additionally, a shortage of adequate financial resources seriously undermines the effectiveness of the programmes’ implementation.43 The existing “centre-periphery” institutional setting which bereaves the ESFE economic actors of any commercial freedom, especially in the sectors exploiting natural resources, contributes to the rather modest scale of economic transactions between the ESFE and NEA businesses (VDCR, 2014: pp. 67). Lately, the Russian government has been reiterating the idea of redistributing the functions of federal authorities, as well as decentralising managerial functions of the large vertically integrated natural resource businesses (SOCs) between the centre and the regions. There are suggestions that some federal ministries and the SOC headquarters should be relocated to Russia’s east. While the transfer of ministries (except for the MDFE) may turn problematic for many reasons, some companies (Rosneft is among those) are seriously considering such a move, although it may also require several years to materialise. The redistribution of “centre-periphery” powers would empirically prove the Russian government’s seriousness about its “go-east” strategy, while the businesses’ eastward move would work towards more fair revenue distribution, letting the regions (not Moscow, as is almost exclusively the case now) where the actual extraction of natural resources takes place enjoy some benefits of the increased tax inflows.

The most generic policy recommendation as to how Russia could improve its domestic institutions for gas policy is that Russia needs to think strategically and act sharply. Meanwhile, the draft of the ES 2035 gave domestic energy experts (Milov, 2014, Mitrova, 2014) plenty of reason to assess the document as proving that strategic thinking in Russia’s energy policy remains largely absent. As long as NEA gas demand is projected to continue growing rapidly (BP, 2014) and the Asian markets are found to have excess demand through the late 2020s (Aguliera et al., 2014), Russia needs to keep its eastern gas policy institutions in place and tune

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42 Learnt from personal communications with Russian and Japanese practitioners.

them accordingly. It is essential for Russia to think about ways to optimise its Asian gas policy. It needs to incorporate a long-term vision and adopt a comprehensive approach. The dimensions for policy readjustment embrace both domestic and external scopes. Domestically, a great number of critical issues are interconnected and need to be addressed systematically. To name but a few possible directions, Russia could

- revisit the region-specific sub-pattern within its national energy policy towards a broader approach, including, among other measures, liberalisation of foreign investment and incentives for small- and mid-sized oil and gas producers. In investment policy, the adjustments are urgently required. Public–private partnership in co-financing large-scale gas development projects, the importance of which has been emphasised repeatedly (e.g., ES 2020, ES 2030, and Draft 2035), is not supported by essential changes in foreign, and equally so, in the regulation of domestic private investment. This is especially important for the development of new gas deposits because commercial terms in both schemes – pipeline gas and LNG exports – are likely to be determined by the format of NEA capital participation (loans and investments) in Russia’s ESFE gas projects;

- accentuate policy incentives for geological prospecting in the ESFE where initial exploration is under 10 per cent (Shadrina, 2014b). This is critically important for the timely development of new production provinces required for the materialisation of Russia’s eastern gas policy;

- encourage application of advanced technologies for higher productivity;

- improve economic incentives for the fuller utilisation of resources, in particular, against gas flaring,44 waste of valuable components in eastern gas deposits (such as helium), and so on;

- adopt a comprehensive approach in gas policy targeting the coordinated development of gas and other sectors (machinery building, construction, engineering, specialised services, professional education; etc.) of the Russian economy; and

- implement (fiscal) reforms enforcing economically rational (cost-reducing) behaviour of SOCs. The economic performance of Gazprom (heavily indebted, the company lost 2/3 of its capitalisation in 2012 alone) demands the government’s attention. Rosneft’s financial results also increasingly concern analysts (Mukhin, 2014).

External gas policy dimension necessitates adequate institutions to respond to rapidly maturing NEA gas markets. To utilise emerging opportunities there, Russia needs to be attentive to such transformations in NEA gas markets as: solidifying prospects of additional gas supplies from new destinations (North America and East Africa–Kenya, Tanzania and Mozambique); activating NEA’s attempts to find solutions to the notorious Asian premium by reviewing the existing pricing practices and establishing an LNG price benchmark; pursuing the establishment of LNG trading hubs in NEA (Japan, Singapore and China are competing as principal potential hosts), and so on. The NEA-3’s dramatic progress in the area of renewable energy development, as well as their pronounced policy priorities for indigenous gas production need also to be accounted for in Russia’s projections of NEA’s long-term demand for natural gas. Russia’s responses to NEA’s gas markets’ multidimensional evolution need to be fast (to be able to catch the existing supply-demand gap) and flexible (to offer pricing schemes and supply schedules fitting the NEA’s gas markets’ changing parameters).

As the Ukrainian events of 2013–2014 illustrate, Russia has no alternative but to work methodically towards achieving a geographically optimal balance in its gas policy. To establish itself as a recognised gas supplier that is indispensable to NEA, Russia needs to improve the business environment in the ESFE. The success in the ESFE development would increase Russia’s chances to succeed in implementing its Asian gas policy, and vice versa: provided Russia has an effective energy policy towards NEA, the ESFE would have a chance for economic revival.

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44 After the East Siberia Pacific Ocean oil pipeline was launched, Eastern Siberia became Russia’s absolute leader in gas flaring: over 7.5 bcm or 44 per cent of Russia’s total 17.1 bcm in 2012; the Far East’s waste is under 0.5 bcm or 2 per cent of Russia’s total. For more detail see: Associated Petroleum Gas Flaring Study for Russia, Kazakhstan, Turkmenistan and Azerbaijan. Carbon Limits Report CL-13-28. November 2013.

44 After the East Siberia Pacific Ocean oil pipeline was launched, Eastern Siberia became Russia’s absolute leader in gas flaring: over 7.5 bcm or 44 per cent of Russia’s total 17.1 bcm in 2012; the Far East’s waste is under 0.5 bcm or 2 per cent of Russia’s total. For more detail see: Associated Petroleum Gas Flaring Study for Russia, Kazakhstan, Turkmenistan and Azerbaijan. Carbon Limits Report CL-13-28. November 2013.


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