

*Keynote Address**The Partnership Between Russia and the Asia-Pacific Region:
Problems Pertaining to Energy Cooperation*

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Introduction

Russia is deeply distressed about the impact of last October's earthquake on the people of Niigata Prefecture. We cannot control the force of nature with human strength. However, what we can do is to express our sympathy and extend a helping hand. I hope that you will understand the feelings of we Russians.

With regard to my report today, I would like to speak as an expert on Russia's energy situation, rather than as an official representative of Gazprom or the Russian government.

The Asia-Pacific region is the world's biggest hub for economic development, but energy and environmental problems are escalating. In this address, I will touch upon the importance of energy problems in the modern world and Russia's foreign relations, but I would also like to take a closer look at the priority issues in Russia's policy towards the Asia-Pacific region and Northeast Asia. In addition, I will discuss the aims of and challenges faced by Russia's energy diplomacy.

In India, China and the countries of Southeast Asia, which are new hubs of economic growth in the 21st century, there is massive demand for oil and gas. In 2030, India and China alone are expected to account for about 19% of total world energy demand.

The development of cooperative relationships in the field of energy between Russia and the countries of the Asia-Pacific region will largely be dependent upon the degree to which Russia's potential partners demonstrate understanding of issues that are high up on Russia's domestic agenda.

Globalization has paved the way for an integrated economic and information space and a new system for the international division of labor. The problem that each and every country faces is discovering where they fit into such new systems and identifying their comparative advantage. This problem is a particularly serious one for Russia and the other former Soviet countries.

Globalization and liberalization in the global economy and economic fields are acquiring increasingly deep political implications. Although market factors are intensifying, governments are retaining their influence. While there is international cooperation in the energy field, at the same time there is fierce competition to acquire energy resources. Without diplomatic mechanisms for reaching a compromise, cracks will appear in the energy security system and economic vulnerability is liable to increase. On the other hand, the "energy factor" in mutually dependent relationships is a tool used in political and diplomatic relationships between states. This energy factor plays an even bigger role in global politics than war and underpins

the diplomacy and regional policies of many countries. The energy factor has a direct influence on the national security system as a whole. Therefore, many governments are trying to expand their energy policies and develop cooperative energy relationships, in order to diversify their energy supply sources.

1. The Energy Factor in the World Today

Foreign experts on energy security problems acknowledge that the tendency to politicize energy problems lessened briefly immediately after the era of bipolar confrontation between East and West ended, but that the energy policies of developed countries have changed since the emergence of new problems, such as that of international terrorism. In response to the worldwide rise in oil prices, improving the efficiency of energy use has once more become a priority task.

Energy security is increasingly coming to be linked to securing a foreign partner from which energy resources can be obtained. To put it another way, energy security problems are solved at the level of energy cooperation.

For both the state and the private sector, the oil and gas business is one of the most profitable activities. Moreover, the largest oil and gas companies have the most international characteristics and make autonomous decisions. As a general rule, vertically integrated corporate entities conduct cross-border transactions and sometimes do not even take national interests into consideration.

On the other hand, oil and gas tend, on the whole, to be found in the same places. For many years, the "gas factor" occupied a subsidiary position to oil. Once, the "oil factor" was positioned higher up in the global energy balance and oil markets were more important even than national borders. The oil factor differs from the gas factor in that it has led to international tension and wars on countless occasions.

Energy problems and the solution of these will continue to be the most crucial decisive factor, not only with regard to the policies of individual countries, but also vis-a-vis pending issues in the global community as a whole. In the fuels and energy sector, given the fact that the capital investment rate is high and that investment projects take time, it is vital to forecast the limits of future energy development and energy growth, as well as various problems and trends with regard to energy resource shortages.

Both at the regional level and on a global scale, energy resource markets are in the process of expanding. This is likely to lead to the formation of a global energy space involving unified "rules of the game". Ahead of the formation of this kind of space, newly industrializing powers such as India and China will undoubtedly become

increasingly influential players.

Today, oil accounts for the main share in energy resource markets around the world, but the US and Russia are positioned at two poles, as both importers and exporters. The US consumes 29% of all oil drilled worldwide, but it depends on imports for more than half of this quantity. The US is the world's biggest consumer of oil; cheap oil drives its economy and it constantly has an enormous influence on oil prices.

Russia is one of the world's largest oil-producing countries, but it exports about three-quarters of all the crude oil and petrochemical products that it produces. According to the Energy Strategy approved by President Putin, the quantity of oil extracted is forecast to reach 450 million tons (MT) to 520 MT annually by 2020, while the volume exported is due to reach 280 MT to 355 MT by the same year. As an oil-exporting country, Russia is hoping for a high oil price, but it does not have a significant influence on oil prices.

However, with regard to the fact that Russia and the US both feel that oil prices should at least be predictable, they indisputably share a mutual interest. With regard to the problem of oil price stability, both countries are generally aligned with each other when it comes to G8 and US-Russia energy dialogues, as well as within the APEC framework.

Over the past ten years, the fluctuation margin of oil prices has been narrow, but the magnitude of fluctuation is becoming more intense. New destabilizing factors affecting oil prices include the increase in oil exports from non-OPEC countries, including Russia and Kazakhstan, as well as the steep rise in demand in China. In order to solve this problem, all the parties involved must be actively engaged in harmonizing world oil markets.

In the near future, fuel and energy resources will become one way for Russia to exert its influence. Active energy diplomacy will help to improve the quality of the Russian economy and to vanquish external threats to its economic security. In other words, the energy factor will play the most crucial role in Russia's economic policy.

Russia boasts immense resource potential and a huge fuel and energy industry and it must link the energy factor to the modernization of its energy economy, as well as to improving the efficiency of its external economic policy. Long-term, large-scale investment projects in Russia and other countries, such as the construction of pipelines and nuclear power facilities, can be cited as examples of the direction of international cooperation. These projects have a direct link to the country's long-term interests in terms of its foreign policy. In other words, energy diplomacy is part of its foreign policy. As you are doubtless aware, foreign translational companies align themselves not infrequently with the interests of superpowers.

2. The Energy Factor in Russia's Foreign Policy

Energy diplomacy issues include: i) benefits in terms of energy security; ii) the revival and consolidation of its economic status; iii) the efficient realization of its latent export potential; and iv) the discovery of a means of survival for domestic businesses in foreign resources, markets, revenue sources and technology. In the energy field, Russia is trying to build cooperative relations both

within the CIS (Commonwealth of Independent States) framework and at the level of the global community as a whole, but it has the right to choose to which partner it becomes closer based on its own interests. The same principle applies to the forging of relationships with international energy institutions.

In order to avoid political and military pressure, the Russian government will pursue bilateral relationships with foreign partners, based on the principle of prioritizing mutual benefits and national interests. Any problems must be resolved by means of fair negotiations.

Russia has assigned priority to the Far Eastern region, Eastern Siberia and the Asia-Pacific direction in its energy diplomacy. This is because there is potential in these regions to implement vast oil and gas projects. Moreover, this will undoubtedly have immense significance for the economic development of Eastern Russia and neighboring countries.

Conceivable potential directions for international cooperation include: i) joint development of resources in Eastern Russia (mainly on the continental shelf); ii) participation in transport systems for energy resources; iii) providing assistance to individual states; and iv) the construction of next-generation power generation facilities.

The oil and gas sectors occupy a dominant position in the private sector in the Russian economy. These sectors promote development in all sectors of the national economy, increasing the employment rate and boosting budgets, export earnings and gold reserves, as well as contributing to international economic cooperation.

3. The Current Status and Future Prospects of the Oil and Gas Sectors in Russia

Assessments of estimated reserves suggest that there are 45-50 billion tons of oil and more than 170 trillion cubic meters (TCM) of natural gas. On the basis of proven reserves, Russia is counted among the world's leading oil producers, with 12-13% of total world oil reserves concentrated under its soil. For a long time, foreign experts did not even attempt to acknowledge this fact. According to a typical Western evaluation, Russia's oil reserves were no more than 6.7 billion tons, or 4.7% of total world reserves. In 2000, when the US Geological Survey reinvestigated Russia's reserves, proven reserves instantly increased to 137 billion barrels (18.6 billion tons), giving it the world's second highest level of proven oil reserves.

There are around 2,300 deposits (of oil; oil gas; and oil gas condensate) and drilling is taking place in more than 1,230 of these. Since 1999, the quantity of oil extracted has been increasing steadily and, as of 2002, Russia was second only to Saudi Arabia in terms of the quantity of oil extracted. Western Siberia, and the Urals and Privolzhsky (Volga) federal districts are the main areas undergoing development. If the domestic and international situation is favorable towards Russia, the quantity of oil extracted is likely to reach 520 MT per year by 2020. The Timan-Pechora region, the Northern Caspian Sea area, Eastern Siberia and the Far Eastern region are all promising regions in which abundant oil and gas reserves are concentrated.

The basic tasks facing the state are the improvement of its taxation policy and system concerning the use of sub-

soil resources, and the creation of an environment favorable to the stable development of the oil and gas sector. We have to break away from the underlying principle that subsoil resources are assets of the state and the people. The state must be disinterested and must manage subsoil resources as a user of those resources.

The sound development of the gas sector cannot be achieved without strong reserves. Russia's total (located on the continent and continental shelf) undeveloped reserves of natural gas are 236 TCM, while proven reserves amount to 48 TCM. This is more than 34% of total proven reserves around the world. Projected reserves are more than 170 TCM. Proven reserves are mainly concentrated in Western Siberia (77.4%). Estimated reserves are mostly located in Eastern and Western Siberia, the Far Eastern region, the Kara Sea, the Barents Sea and the continental shelf of the Sea of Okhotsk.

If domestic and international conditions and factors mesh well together, the volume of gas produced in Russia could reach 710 - 713 billion cubic meters (BCM) annually by 2020. The aim of Russia's energy strategy is to ensure that it can meet the demands of the economy and the populace, and to improve the efficiency of the gas industry.

During the period that forms the focus of the projections in Russia's energy strategy, the main actor in the Russian gas sector will still be Gazprom. Gazprom plans to produce up to 58 - 59 BCM of gas by 2020. The company's parent organization is the Unified Gas Supply System. This is one of the important characteristics of Russia's gas industry. The Unified Gas Supply System was formed 40 years ago as a unified technical complex in charge of all stages of the flow of gas, from the point when it is located in geological strata to the point at which it reaches the end user. The Unified Gas Supply System facilitates the systematic, reliable supply of gas, as well as enabling a sequence and long-term plan for the development of gas fields to be formulated. It is this Unified Gas Supply System that permits the export of natural gas "produced in Russia", without the need to use the name of a particular production area.

At present, 78 gas and gas condensate deposits, more than 150,000km of trunk and branch gas pipelines, 263 compressor stations (total capacity: 44 million kWt), 24 underground gas storage facilities and 6 gas refineries are operated under the umbrella of the Unified Gas Supply System. The average distance over which gas is transported to central Russia is about 2,500km, while the distance covered by the gas delivery network is approximately 360,000km. The Unified Gas Supply System is acknowledged both within Russia and overseas to be one of the world's most efficient and reliable systems.

Western Siberia is likely to remain the main hub of reserves and production in the gas sector for a while to come, particularly the Nadim-Pur-Tazovsky region and then the Yamal Peninsula. In the short term, the Zapolyarnoye gas field and other proven gas fields, as well as the gas fields in the Gulf of Ob and the Gulf of Taz will be used to maintain and develop production. Furthermore, the development of deposits on the Yamal Peninsula (total reserves totaling around 11 TCM) and promising deep deposits is planned. This is reliant upon the introduction of

large-scale investment, including foreign investment.

The energy strategy forecasts development taking place in Eastern Russia, the new vast gas production center with a gateway to the gas markets of the Asia-Pacific region. 25% of Russia's undeveloped reserves of gas (more than 59 TCM) are located in Eastern Russia. Of these, 44.8 TCM are located on the continent, with the remaining 14.5 TCM on the continental shelf. The Kovykta (Irkutsk Oblast), Chayandinskoye (Sakha Republic (Yakutia)), Sobinsko-Paiginskoye and Yurubcheno-Tokhomskeye (Krasnoyarsk Krai) gas fields and the hydrocarbon deposits on the Sakhalin continental shelf are being investigated as bases for gas field development. It is these gas fields that will become the foundations for the development of the gas industry in Eastern Siberia and the Far Eastern region. These key gas fields will bring together neighboring small-scale deposits to form regional gas production hubs.

The gas fields in Eastern Siberia and Yakutia are characterized by their complex composition of components, high helium content and the existence of oil and condensate deposits. The helium in the gas fields in this region is an extremely valuable commodity as far as Russia is concerned, so it is an asset.

The complex composition of natural gas provides the rationale for establishing large-scale export-oriented gas chemical plants. Thus, the challenge is not simply to produce and export gas, but to create gas chemical companies in Eastern Russia and export products with a high added value. Through such initiatives, Russia will be able to contribute to energy security, not only in neighboring countries, but also in Asia as a whole. This is because gas chemical plants engage in energy-intensive production activities, so it is more efficient to locate them in countries with an abundance of energy resources. In order to deal with these issues, it would be preferable to obtain the cooperation of many companies from the Asia-Pacific region, which is home to cutting-edge technology.

When selecting the destination of gas from Eastern Russia, the priorities are likely to be a stable gas supply within Russia, obtaining favorable conditions of sale in countries in the Asia-Pacific region, and environmental issues.

Based on such initiatives, proposals have been made regarding the formation of an Eastern Trunk Line that would integrate the hub gas fields of Eastern Siberia and the Far Eastern region and link them to the Unified Gas Supply System. The Eastern Trunk Line would, over the next few decades, become the foundation of a stable, reliable supply of gas to consumers, not only in Eastern Russia but also in neighboring countries in Northeast Asia.

Another method of gas refining and delivery is also being considered. This involves the liquefaction of the gas in the production district and its delivery to the consuming district, where it will be processed to create a synthetic liquid fuel.

In 2003, Gazprom established a Committee on Liquefaction and the Production of Compressed Gas and its Delivery Via Marine Routes. This committee is actively involved in discussions with major foreign companies in order to ensure that the most beneficial technological and market-related judgments can be made. Russia will become

a major producer and exporter of liquefied natural gas (LNG) and Gazprom should become a major player in the relevant sector of the world gas market. One of the most significant projects in this field is the development of the Shtokman gas condensate deposit (in the Barents Sea).

4. Russia's Priorities

The success of energy cooperation depends largely upon the degree to which potential partners understand and share our economic development priorities.

In his annual address to the Parliament of the Russian Federation on 25th April 2005, President Putin stated unequivocally that, "Russia has a tremendous interest in the large-scale inflow of private capital, including foreign capital. This is our strategic choice and our strategic endeavor." However, this announcement certainly does not mean that this kind of investment will be channeled into fields, regions and industrial sectors that will yield a profit for the investor alone.

According to an EU assessment, Russia needs \$735 billion of foreign direct investment over 25 years, with European investors able to supply a quarter of this. In this case, it will be necessary to invest 33% of this amount in Russia's oil industry and 26% in its gas industry. However, the question is whether Russia's oil and gas businesses actually require this investment. We can understand that our partners would like not only to import Russian energy resources, but also to acquire the development rights to these, but to what degree does this work to Russia's advantage?

We agree with the concept of cooperation with foreign businesses, groups and financial organizations. However, cooperation - whatever forms it may take - means that those participating complement each other's potential. Russia has been a dominant world force in hydrocarbon production for decades, without the assistance of foreign capital or foreign experts. At the same time, our own experts have been active in other countries for decades and have assisted in developing our oil and gas industry from nothing. The volume of reserves remaining in oil fields under development and in the continental shelf, particularly in concessions that are difficult to develop, due to being in deep-sea continental shelf areas or having complex topography, is another matter entirely. These areas require advanced technology and vast amounts of investment, so the prospect of recovering funds invested in their development is rather low.

I would like to give you one more example, concerning investment in geological exploration and survey work and high-risk investment, such as the implementation of projects relating to the "gas development program in Eastern Siberia and the Far Eastern region (the Eastern Program)", which is nearing completion. Cooperation in the development of gas, gas condensate and oil gas condensate deposits and the construction of oil and gas trunk pipelines is being proposed to us. However, there are no other companies in the world that have as much experience of producing gas and laying large-bore pipelines as the Russian companies Gazprom, Transneft and Stroitransgaz. We need a completely different type of cooperation in the implementation of the Eastern Program. Firstly, we need to introduce foreign

capital and technology in order to develop gas refining plants and gas chemical plants in Eastern Russia and upgrade the manufacture of new products, such as GTL (gas-to-liquid) and DME (dimethyl ether). Furthermore, we need collaboration in joint sales in Asia-Pacific markets of helium, natural gas and products processed from it, as well as the development of joint production activities with particular Russian machinery manufacturers, steel manufacturers and manufacturers of other products aimed at the oil industry. Gazprom executives have repeatedly stated the company's interests in these directions in talks in China, the ROK and Japan.

For instance, in April this year, Alexander Ananikov, Deputy Chairman of Gazprom, touched upon these problems in talks with executives from major Japanese companies and conglomerates (Mitsui & Co., JFE, Sumitomo Corporation, Sojitz Corporation, Mitsubishi Corporation and Itochu Corporation), as well as in discussions with the head of the Resources and Energy Agency and executives from the Japan Oil, Gas and Metals National Corporation (JOGMEC) and the Japan Bank for International Cooperation (JBIC).

Russian companies and manufacturers will be prioritized in implementing the Eastern Program. At present, the potential is emerging for Japanese companies to participate in development projects in Eastern Siberia and the Far Eastern region through joint ventures. Gazprom would welcome the establishment of a plant in Russia to refine the helium contained in large quantities in the Kovykta and Chayandinskoye gas fields. The establishment of joint ventures to manufacture construction materials and construction machinery is essential to the implementation of the Eastern Program. If a joint venture focused on the construction of mobile plants for corrosion-proof pipes for use in pipelines along the seabed were established, it would be possible to cooperate with Japanese manufacturers of large-bore gas pipes. In the metallurgy industry, Japanese steel manufacturers could participate in the development of strengthened steel. There is also the possibility of building methane tankers in partnership with Russian shipbuilding companies. The establishment of high-tech plants is a particular focus of the Eastern Program. Japanese companies could participate in the development of reserves where excavation is difficult and cutting-edge technology is required.

In the aforementioned address to the Russian Parliament, President Putin stated that the time is coming when we should clearly identify fields where overwhelming state control is required, including state capital, in order to reinforce Russia's independence and safety. Furthermore, he asserted that the targets of such control should be a number of infrastructure facilities, defense contractors, mineral resource production centers with a strategic significance for the future of our country and the younger generation, and infrastructure monopolies.

In his responses at a press conference on the outcomes of the APEC summit (in Chile) in November last year as well, President Putin expressed similar thoughts, saying, "Hitherto, Russian companies had sufficient funds to maintain the level of investment required by the Russian economy. However, there are fields where investment

that entails risk is required, such as in the energy industry, with regard to concessions where explorations have yet to be completed. It is, of course, necessary to bring together relevant Russian and foreign organizations. We would welcome this wholeheartedly. Our many partners, including those in other countries, are already providing funds for this purpose.”

With regard to Russia’s domestic priorities, President Putin stated in his closing address to the Far East and Trans-Baikal Transport Infrastructure Development Conference, which took place in Khabarovsk on 26th February 2004, that, “The problem is not creating infrastructure to move something somewhere. With regard to the export of mineral resources and transport infrastructure, we should first of all develop our energy production capacity for the purpose of our own country’s growth.”

5. Energy Dialogues in the Asia-Pacific Region and Russia’s Partners: Problems With Bilateral Cooperative Relationships

Currently, Russia is conducting active energy dialogues with many countries in the Asia-Pacific and South Asia regions.

India

Energy is one of the priority sectors for cooperation in our relationship with India. In the energy cooperation field, talks regarding the construction of thermal, hydroelectric and nuclear power generation plants, the implementation of joint fuel resource development projects, and exchange in the fields of chemistry and technology. An agreement has been reached concerning investment in the Sakhalin I project by India’s national oil and gas development companies.

On 4th December 2004, an agreement concerning strategic cooperative relationships was concluded between Gazprom and India’s state-owned gas company in New Delhi.

On 15th January 2005, the first Russo-Indian energy seminar, entitled *Cooperation in the Development of Fuel Resources: Possibilities and Challenges*, was held in India and in April this year, Gazprom and ONGC Group signed a memorandum of understanding concerning cooperation.

Kazakhstan

One of the biggest cooperative projects is the joint venture based on the Ekibastuz 2 thermal power station. If this project is implemented, it will allow Kazakh electricity companies to enter the Russian electricity market, which is currently in its formative period, as well as making it possible for Russian companies to expand into the Kazakh market. To put it another way, a unified electricity market would be formed.

The quantity of oil transported from Kazakhstan via Russia is also likely to increase. More specifically, it is planned to increase the capacity of the Caspian Sea Pipeline Consortium’s oil pipeline to 670 MT annually and that of the pipeline between Atyrau and Samara to 250 - 300 MT. In the Caspian Sea region, cooperation in the development of oil and natural gas is deepening. In 2004/5, an agreement was reached regarding the joint development of oil and gas from the Kurmangazy deposit and the first joint

development project will enter its implementation phase this summer.

China

This year, the 7th meeting of the Energy Cooperation Panel of the Preparation Committee for Regular Talks Between the Chinese and Russian Prime Ministers will be held in Moscow. As President Putin has emphasized, “Sino-Russian dialogue is completely frank. We understand that China wants stable imports of Russian energy resources. Russia can also trust China - where demand is increasing - as a partner. There are no political, ideological or economic problems hindering Sino-Russian cooperation in the energy sector.”

In 2004, Russian exports of oil by rail to China reached 7 MT, but it is expected to import more than 10 MT in 2005 and more than 15 MT in 2006. The possibility of creating a branch line to China when the Pacific oil pipeline is built is under consideration. At a press conference in China, President Putin stated the following about the pipeline route. “We will make a decision based, first and foremost, upon consideration of Russia’s national interests. We must plan and implement large-scale infrastructure development projects in order to develop Russia’s Eastern and Far Eastern regions, but we are also thinking about the benefits for our partners.”

In October 2004, Gazprom and China’s CNPC concluded an agreement on strategic cooperation, encompassing such areas as geological surveys, extraction, delivery and sales, with the aim of intensifying cooperation in the field of natural gas development.

I would like to emphasize once again that Russia is not thinking solely in terms of the export of energy resources to China. It is aiming first of all to upgrade bilateral relations through the implementation of mutual investment and the supply of high added-value products and high-tech products. At the regional level, machine and equipment components, petrochemical products and natural gas chemical products are exported, among other items. The quantity of electricity exported from Russia to China in 2003 was 161 million kWh, and a further increase of 85% was recorded in 2004.

The Western Development Plan is being implemented in China and the Russian government believes that there is sufficient potential for a number of regions in its own country to participate in this program. I am certain that Russia can make an immense contribution to the development of the economy, infrastructure and transport systems throughout Eurasia.

DPRK

At present, more than 60% of the DPRK’s mining and manufacturing output and about 40% of its electricity is produced using facilities constructed or renovated by Russia. Fields for cooperation between Russia and the DPRK in the future could include the development of the DPRK’s continental shelf, the completion of the construction of power generation facilities, including the East Pyongyang thermal power station, and the export of electricity from Russia.

ROK

On 23rd September 2004, the ROK-Russia Joint Declaration was adopted in Moscow, with Russia and the ROK agreeing to strengthen long-term cooperation in such key fields as the fuels and energy industry, transport, science and technology, oceanographic surveys, the development of space technology, the development of natural resources, IT, communications, the fishing industry and regional cooperation. Moreover, the Joint Declaration included a statement to the effect that regular strategic dialogue would take place concerning energy issues.

The first Russia-ROK Strategic Security Forum took place in Moscow in May 2005 and the program included special sessions on transport and energy. One of the crucial areas for energy cooperation between Russia and the ROK is the issue of natural gas. Gazprom, KOGAS and LG have concluded a cooperation agreement and joint working group meetings are held regularly. One large-scale joint project being undertaken is the construction of a petrochemical plant and oil refinery in Tatarstan.

USA

Large-scale, official energy dialogues take place between Russia and the US, and issues such as both countries' energy strategies and joint projects in the field of energy are discussed at the conferences, symposia and ministerial talks that are held regularly. Energy issues are also raised at summit talks. LNG is a particularly big topic. Russia-US energy summits are held on a regular basis.

ExxonMobil is actively participating in the development of the Sakhalin continental shelf, while in October 2004, ConocoPhillips purchased stock in LUKoil, one of Russia's biggest oil companies.

According to a pre-feasibility study of the development of the Shtokman gas field conducted by ConocoPhillips, the amount of investment required for that project will be \$10-15 billion. At the first stage, the volume of natural gas extracted will reach 30 BCM annually, while the LNG plant due to be constructed will have an annual capacity of 21 MT. It is planned that 90% of this will be exported to the US, but there is also the possibility of exporting some to Europe.

Japan

Japanese companies are actively participating in the Sakhalin oil and gas development projects. The memorandum of understanding signed at the 7th meeting of the Japan - Russia Intergovernmental Committee on Trade and the Economy on 22nd April 2005 contained the following statement: "The expansion of Russo-Japanese energy cooperation is essential in order to strengthen the energy security of both countries and the Pacific region as a whole. Both parties agree that the construction of a pipeline from Eastern Siberia to the Pacific coast is of immense importance to both countries."

As you are undoubtedly aware, the Japan-Russia Action Plan was adopted on 10th January 2003. This plan forms the basis for cooperation between Japan and Russia and also focuses on economic cooperation.

The area that will be important in Russo-Japanese cooperation in the future is that of advanced technology

relating to energy. There are many projects in such fields as the peaceful use of nuclear power, including fast neutron reactors and the International Thermonuclear Experimental Reactor (ITER), the improvement of energy efficiency through the implementation of the Kyoto Mechanisms and the use of new energies, including gas hydrate. The search for alternative energy sources, which are vital to the future of the earth, is also going to become a major task.

6. Conclusion

In closing my speech, I would like to stress that the potential for and scale of energy cooperation in Northeast Asia and the Asia-Pacific region as a whole requires not only bilateral but also multilateral cooperation.

Energy dialogue promotes economic development and solutions to specific problems.

Russia has been a dominant force in the world market as the most reliable major supplier of energy resources for decades now. Energy cooperation between Russia and the EU is a good example of this. As a result of this cooperation, 16% of the oil and 20% of the natural gas consumed within the EU comes from Russia.

At present, Russian companies are actively tapping new markets in the US, Asia and the Far East. We are planning to develop deposits in Eastern Siberia and on Sakhalin and the Russian coast of the Caspian Sea.

Russia's energy strategy is based on the assumption that the country will continue to be a major exporter of fuels and energy resources during the period under consideration in the strategy. In particular, exports of 268 - 380 MT of oil and 236 - 245 BCM of natural gas by 2020 are envisaged.

European countries will continue to be major markets for the sale of Russian fuel and energy resources. At the same time, Russia will develop its exports in the eastward and southward directions in order to diversify the destinations of its energy resource exports.

The energy strategy is based on the assumption that Russia's expansion into the world market for LNG will be achieved and exports of synthetic engine fuels will begin during the latter half of the forecast period. These products are more suitable for delivery than conventional natural gas, so they will enable us to expand the scope of our export network significantly.

The implementation of the gas program in Eastern Russia will lead to the completion of an integrated East Asian gas market linked to the integrated Russo-European gas market. Then the formation of an integrated European and Asian gas market will begin. New LNG export supply routes (especially India) are likely to be added to the integrated European and Asian gas system.

If new oil export routes are created, the future stability of energy security on the Eurasian continent will increase. On 19th October 2003, at the APEC Practitioners' Conference (in Bangkok), President Putin stated that, "Russia is ready to contribute to the establishment of a new energy mechanism in the Asia-Pacific region." Such a mechanism, if established, would enable the energy-consuming countries within the APEC framework to diversify the supply sources of their energy resources and guarantee their own security.

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