

Session 1: Cooperation in the Gas Sector

Keynote Report

Gazprom's Activities and Cooperation with Japan

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Gazprom is a key player in the Russian gas market, and a player in the global marketplace. Gazprom is a global energy company, and the sectors for its main activities are geological survey work, and production, transportation, storage, processing and sale of gas, gas condensate, and petroleum. In conjunction, cogeneration projects have also become major. Gazprom is currently actively implementing large-scale gas development projects on the Yamal Peninsula, on the Arctic continental shelf, in East Siberia, and in the Russian Far East, etc. Furthermore, it is working on a large number of hydrocarbon resource exploration and production projects abroad. Gazprom possesses the most abundant natural gas resources in the world. Its share of global gas reserves is 18%, and within Russia the share is 70%. In addition, in terms of gas production, it accounts for more than 14% of the global total, and 78% within Russia. In this way, the Gazprom group is a company boasting the world's largest reserves of natural gas.

As of 13 December 2011, Gazprom's gas reserves had grown to 35 trillion cubic meters, and its petroleum and condensate to 3.0 billion tonnes. As a group, last year it produced 513.17 billion cubic meters of natural and associated gas, 12.07 million tonnes of condensate, and

32.28 million tonnes of petroleum. In addition, it is constructing the Unified Gas Supply System, the largest gas transportation network in the world. Its total length exceeds 161,000km. What Gazprom has been aiming toward in recent years is the expansion of the production of gas chemical products, the extraction of rare components from gas, and the expansion of higher-order processing. The Gazprom group is currently also a company possessing Russia's largest scale electricity-generation resources. The main electricity-generation resources have grown to 17% of the total rated output of Russia's electric power system. Gazprom is also working in petroleum and not just gas, and is among the five biggest oil majors within Russia.

Gazprom is actively dedicating itself in attempting to shape the gas industry in the Russian Far East. The project for bringing together gas from Sakhalin and Yakutia to the environs of Vladivostok and building a liquefaction plant there has extremely important significance strategically, along with constructing the Unified Gas Supply System for eastern Russia, and has become able to subsequently send out Russian-produced natural gas to markets of great promise in the Asia-Pacific region, including Japan.

Gazprom is currently actively promoting cooperation

with a variety of Japanese organizations and firms. Since 2005 a framework agreement relating to cooperation has been in effect between Gazprom and the Agency for Natural Resources and Energy of the Ministry of Economy, Trade and Industry. In line with that, a joint coordination committee has been set up as a permanent implementing agency for cooperation. To date meetings of the committee have been staged six times in Moscow and Tokyo. Recently one was held in Tokyo on 7 June 2012. As a major subject of discussion on that occasion future measures for the implementation of the Vladivostok LNG project were raised.

Here I would like to stress that Gazprom is currently intensifying its activities in the Asia-Pacific region. Then, the supply of gas in LNG form will be a matter of priority for the next ten years. In particular, it is today actively exporting LNG to Japan in the framework of Sakhalin II.

At Sakhalin II Gazprom has been actively cooperating with Japanese firms regarding four sectors, including the sale of LNG. Plant construction is at a point where it has not yet been completed, and long-term contracts for Sakhalin LNG of more than 20 years have already been concluded. Approximately 65% of Sakhalin-produced LNG is to be exported to 9 Japanese user-companies, including Tokyo Gas and Tokyo Electric Power Company (TEPCO). The remainder will be sent out to the ROK and other markets. In 2011, 112 ship deliveries were made to Japan, with Sakhalin-produced LNG of over 7 million tonnes in total being exported. In 2012, as of the end of September there have already been 96 ship deliveries, of approximately 6 million tonnes. In January 2012 LNG came to be exported to Osaka Gas also. The company is a recent, new long-term user, and has an extremely large long-term contract.

The company Sakhalin Energy has achieved its LNG production target-level, and is actively supplying Japanese users and buyers. Gazprom, in addition, has tied up with Japanese firms in petroleum sales also. Japanese firms are buying on average 20-30% of the crude oil and condensate produced at Sakhalin II.

Another sector for cooperation is finance. The Japan Bank for International Cooperation (JBIC) is the biggest financial institution providing finance for this project. US\$3.7 billion has been provided to Sakhalin Energy for the second phase of the project.

Furthermore, Gazprom is collaborating in business with Japanese firms. In particular, Sakhalin Energy is actively taking on Japanese firms as subcontractors. In particular, Chiyoda Corporation is the principal contractor for the construction of the two LNG production lines

currently in operation.

The Vladivostok LNG plant is continuing to become an important project in the economic exchange between the two countries. Therefore, the project takes as a necessity support from the governments of both sides. The first step has already been taken. In Saint Petersburg in June this year, a memorandum of understanding concerning project support was concluded between Russian Minister of Energy Alexander Novak and Japanese Minister of Economy, Trade and Industry Yukio Edano. Furthermore, a memorandum of understanding concerning mutual understanding was signed on the occasion of the APEC summit in Vladivostok on 8 September between Gazprom and Japan's Agency for Natural Resources and Energy. The next discussions relating to the project are also near, and the prospect is of them being held when Gazprom Chairman Alexey Miller visits Japan.

Alongside the putting in place and upgrading of gas infrastructure, such as the Sakhalin-Khabarovsk-Vladivostok gas pipeline, prospects for wide-ranging cooperation in the gas chemical field are also opening up. This field fits into the higher-order processing policy for mineral resources which the Russian government is promoting. This is currently in particular attracting the interest of many firms which possess cutting-edge technology.

As another area for cooperation between Gazprom and Japanese firms, the procuring of the steel pipe for the pipelines which Gazprom is building can be raised. For example, 9% of the necessary piping for the "Nord [North] Stream" pipeline was supplied by Sumitomo Corporation.

Other than that, as something currently being examined there is the possibility of the construction of a pipeline from Sakhalin to Japan. For the total volume of gas that is currently produced or will be produced in the future there is the situation of it first being used to satisfy the demand for the LNG plant whose construction is planned in Vladivostok and domestic demand. As far as I know, however, this gas pipeline concept has not yet been abandoned, and if there is a sufficient volume of gas, there will also be the possibility of it being realized. At the current point in time, however, there has been no decision whatsoever on this matter.

Lastly, cooperation in the Japanese gas sector with Russia as a whole, including Gazprom, is certain to continue being promoted all the more smoothly in the future. In that sense Niigata will continue playing an extremely important role in the future also.

[Translated by ERINA]