

Japan-Russia Relations from the Economic and Energy aspects

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Ministry of Economy, Trade and Industry

Deputy Director-General for Trade Policy

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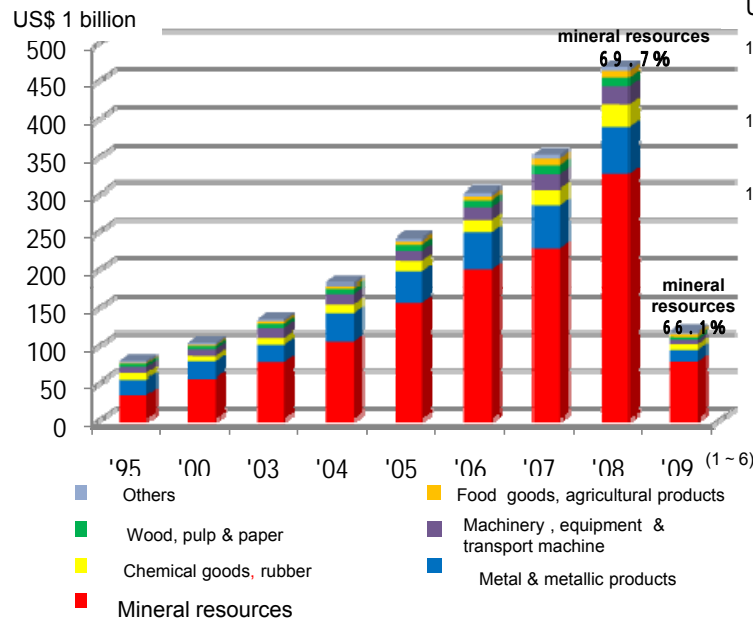
1 . Current situation of the Russian economy

2

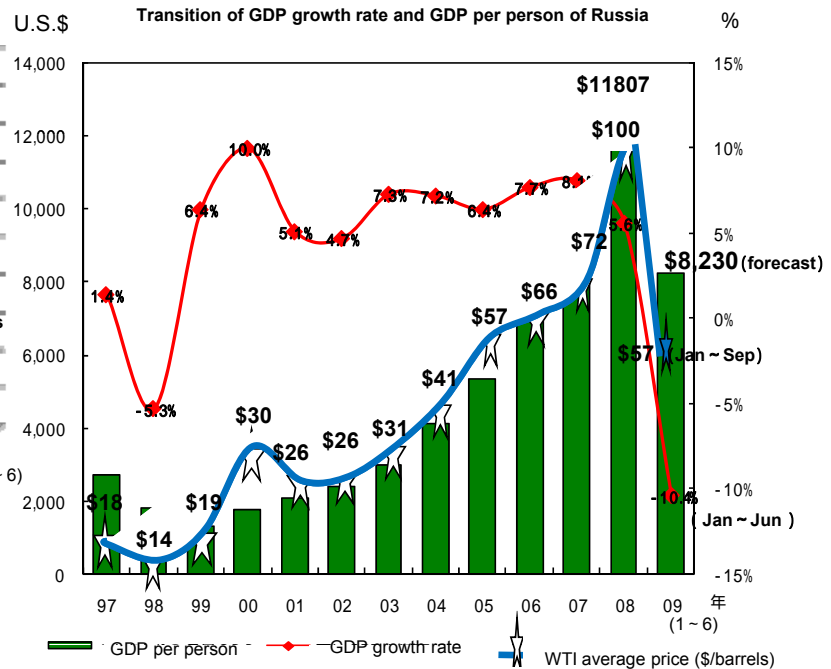
Russian economy: Steady economic growth decelerated rapidly (1)

The Russian economy is heavily reliant on resources exports.
 The Russian economy was hard hit by the global recession, even though the Russian economy grew smoothly until the first half of 2008 due to the steep rise of the resource prices.

Transition of Russian export articles



Source: Federal state statistics service
Interfax (2009)

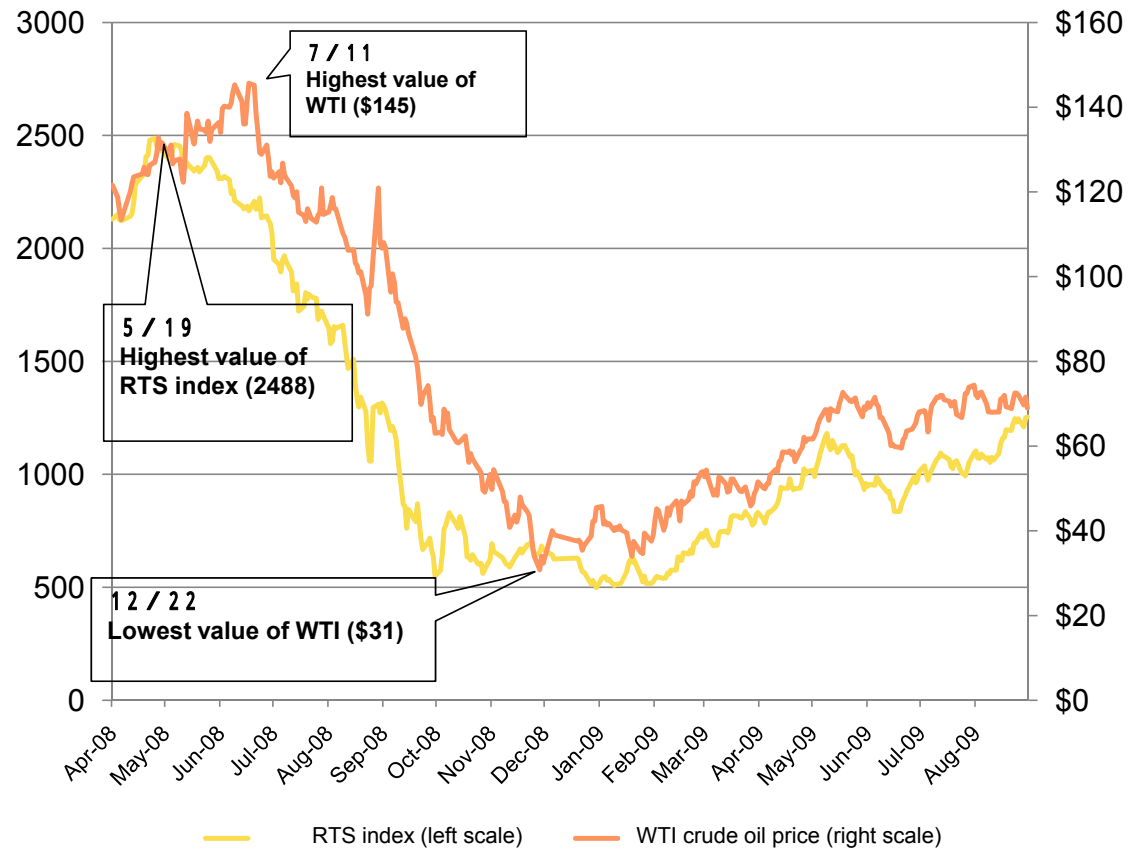


Source: Federal state statistics service
Interfax (2009)

Source: IMF "World Economic Outlook Database"

Source: Energy Information Administration

Russian economy: Steady economic growth decelerates rapidly (2)



Russian economy: Economic growth forecast in 2009

	The World Bank (1)	O E C D (2)	I M F (3)
World 4	1 . 7 % (2 . 9 %)	3 . 6 %	1 . 1 %
Japan	5 . 3 %	6 . 8 %	5 . 4 %
U.S.	2 . 4 %	2 . 8 %	2 . 7 %
EU	2 . 7 %	4 . 8 %	4 . 2 %
China	6 . 5 %	7 . 7 %	8 . 5 %
India	4 . 0 %	5 . 9 %	5 . 4 %
Russia	4 . 5 % (7 . 9 %)	6 . 8 %	7 . 5 %
Brazil	0 . 5 %	0 . 8 %	0 . 7 %

1 : Global Economic Prospects 2009 Forecast Update March 30, 2009

(Modification of Russian Economic Report June,2009)

2 : Economic Outlook No.85 (June,2009)

3 World Economic Outlook UPDATE (October,2009)

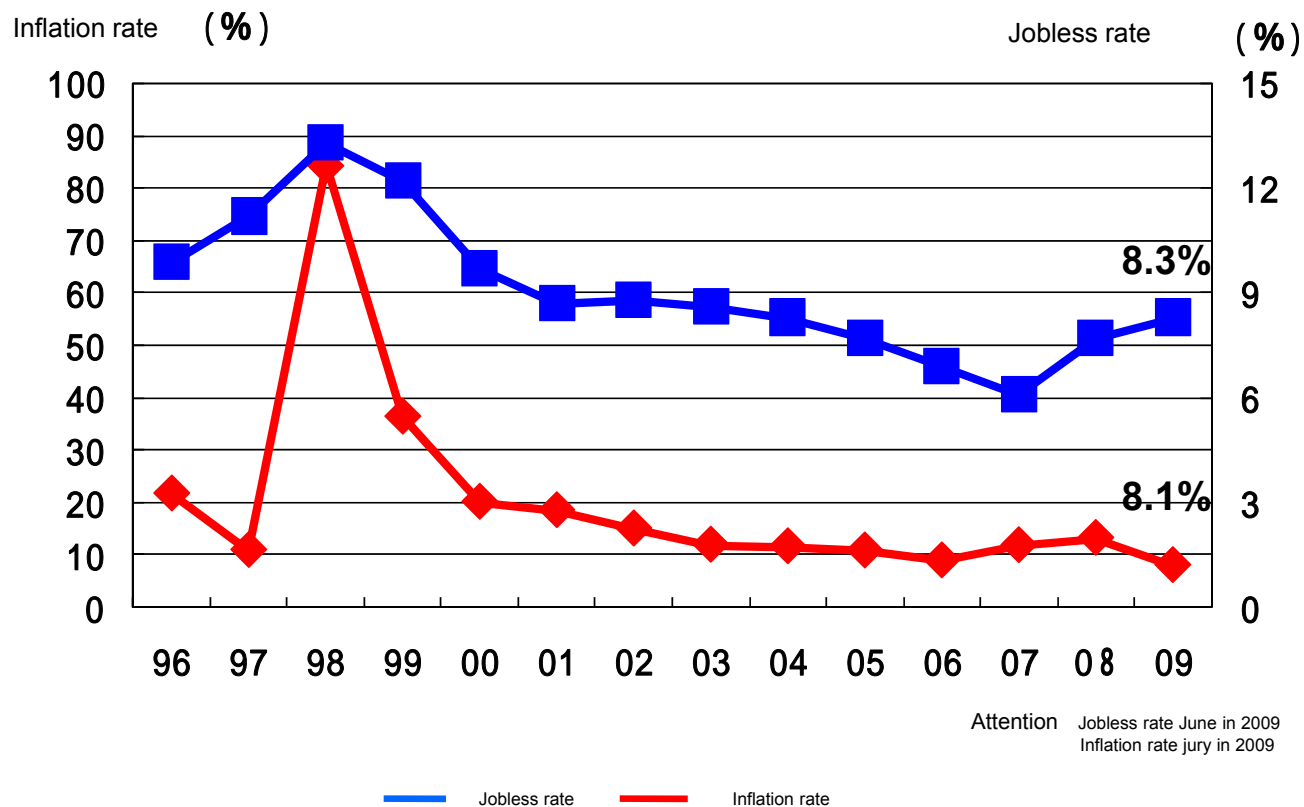
4 : The number of countries

The World Bank : 1 5 3

O E C D : O E C D signatory and China,India,Russia and Brazil : 3 4

I M F : 1 8 3

The jobless rate and the inflation rate of Russia

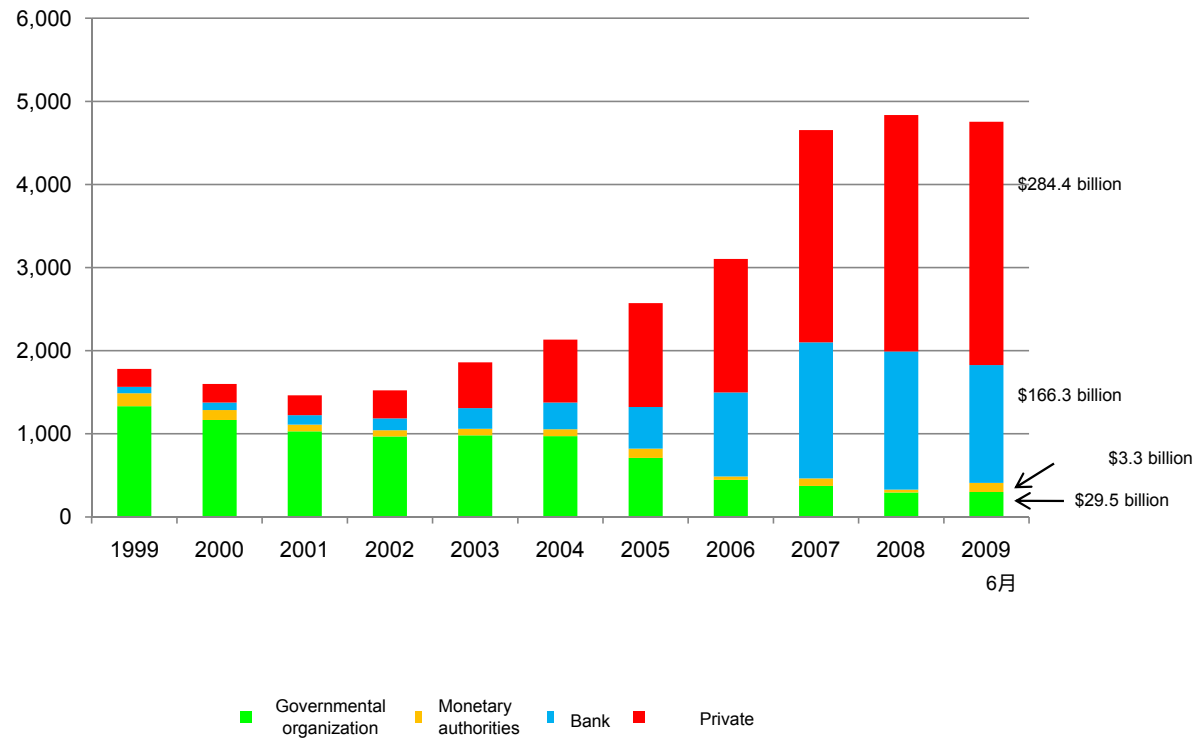


Source: JETRO, Federal state statistics service

The recent decreases of public external debt and the increases of private external debt

Transition of external debt balance

(\$ 100 million)

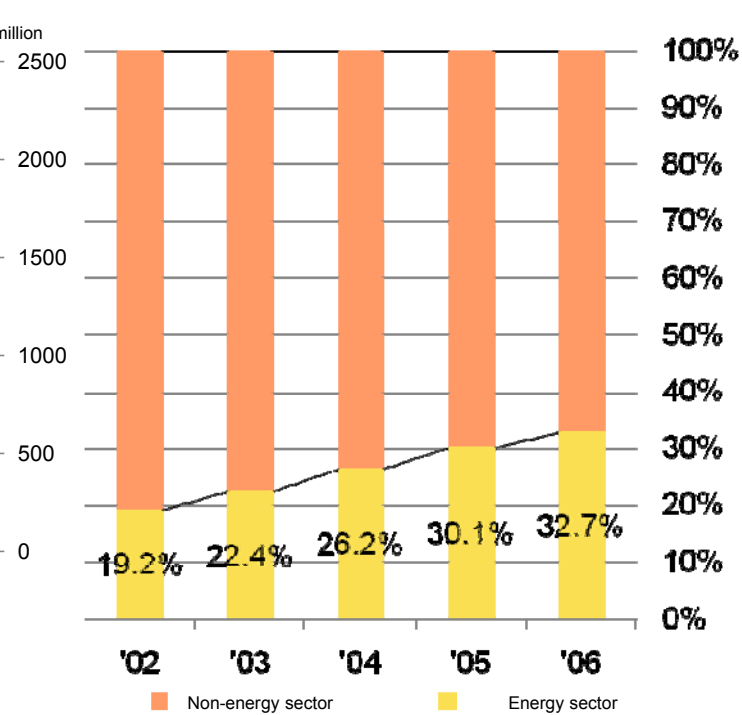
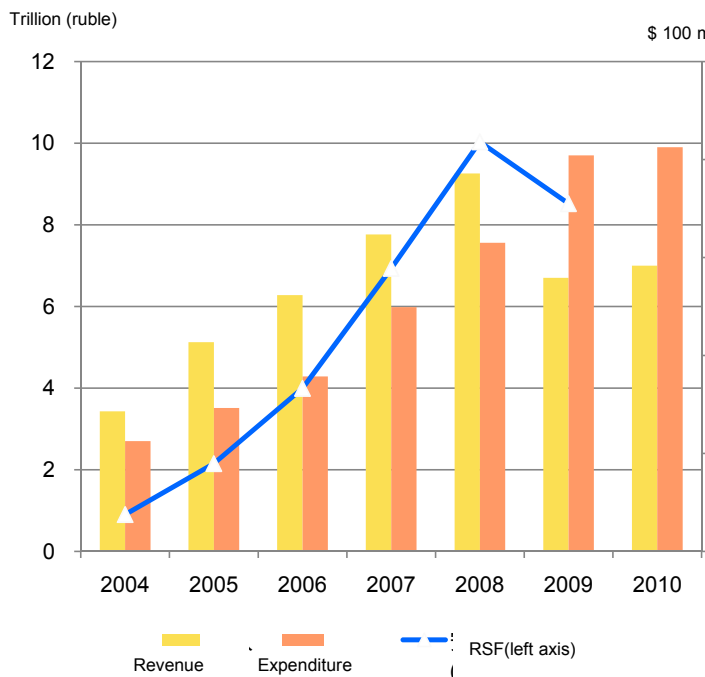


Source: Bank of Russia

The State budget of the Russian Federation

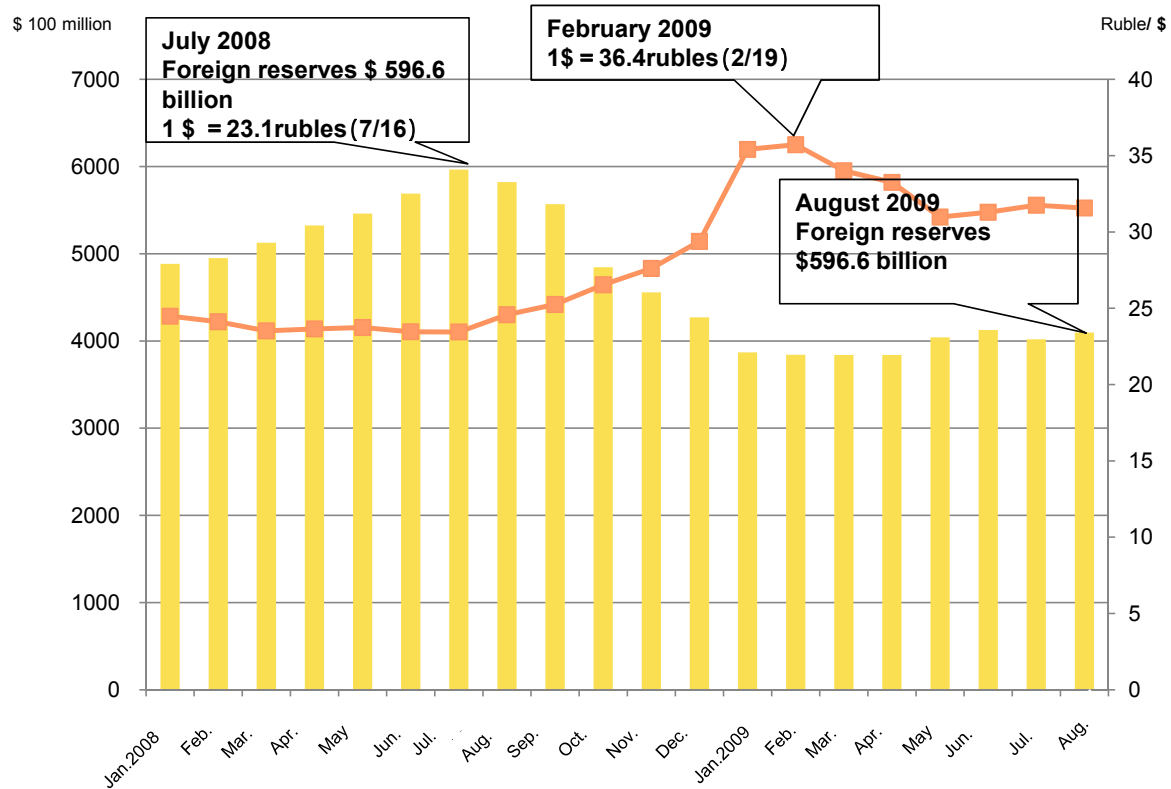
Transition of Russian Federation budget and stabilization fund

Transition of the energy sector of Russian Federation revenue



Source: Ministry of Finance of the Russian Federation

Transition of foreign currency reserves and exchange rate of ruble-\$



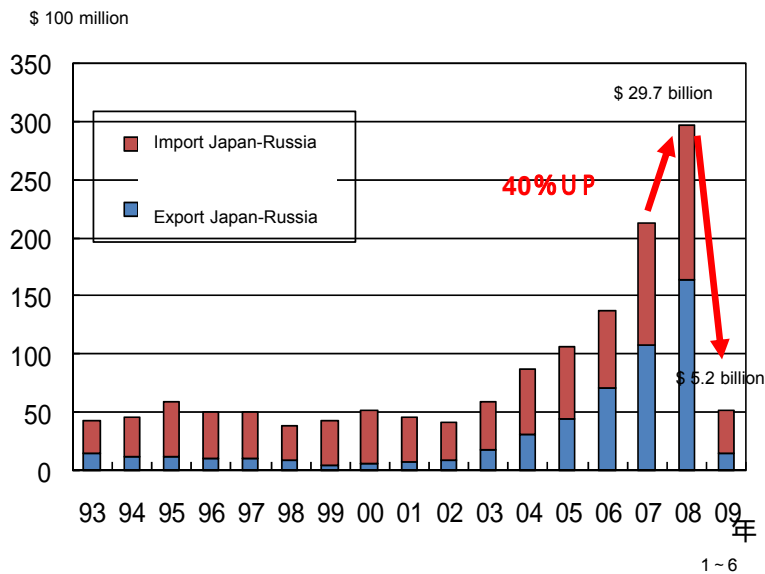
Source: Bank of Russia

2 . Japan-Russia trade and investment relations

Trade relationship between Japan and Russia (1)

In 2008, the trade between Japan and Russia developed a tendency to expand and reached a record US\$29.7 billion. But the amount of trade between two countries will decrease due to the global recession. The amount of trade between Japan and Russia is smaller compared with that with other major countries. But there is some possibility of increasingly relying on both countries' economic scale.

Transition of the amount of Japan-Russia trade



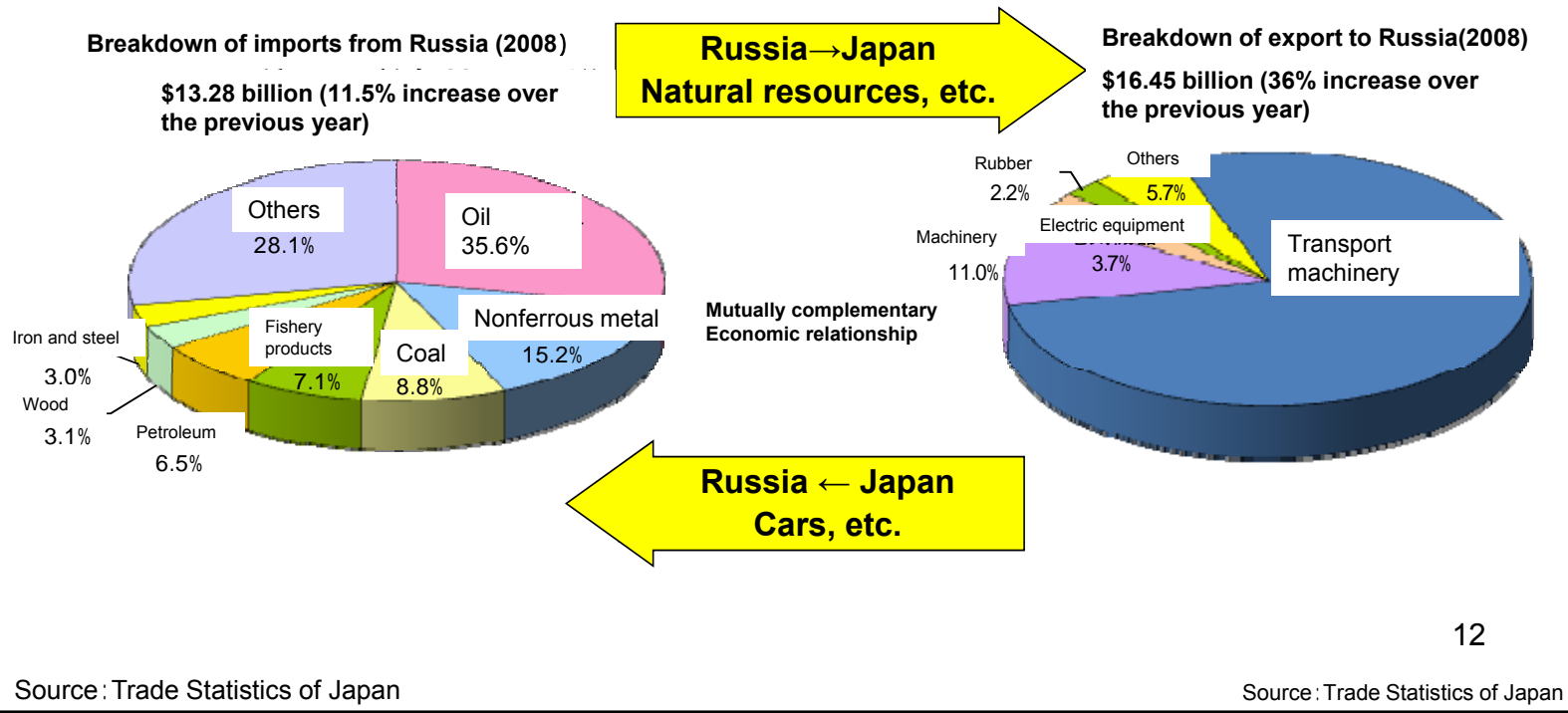
Source: Trade Statistics of Japan

Comparison among Japan-the U.S. trade, Japan-China trade, Japan-South Korea trade, Japan-EU trade and Japan-Russia trade

	Total amount (\$)
Japan - Russia	1 (\$ 2 9 . 7 billion)
Japan - China	9 . 0 (\$ 2 6 6 . 6 billion)
Japan - U.S.	7 . 5 (\$ 2 2 2 . 6 billion)
Japan - EU	6 . 3 (\$ 1 8 7 . 2 billion)
Japan - South Korea	3 . 1 (\$ 9 2 . 2 billion)

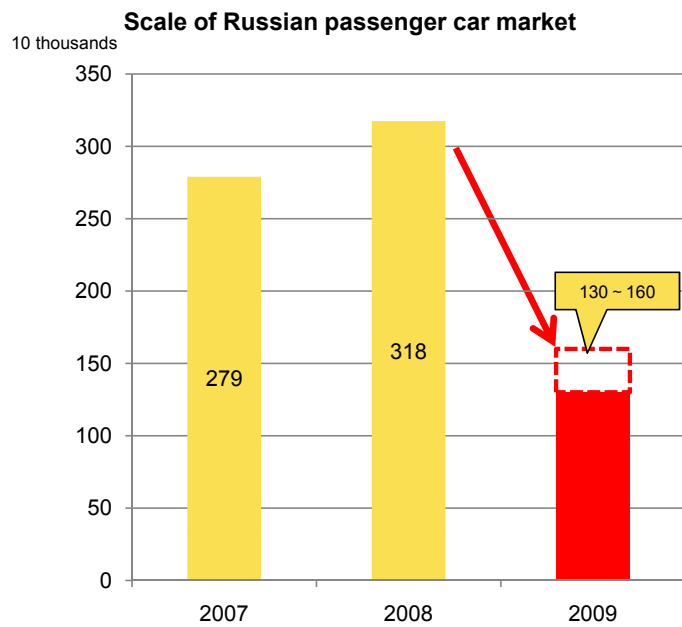
Trade relationship between Japan and Russia (2)

Trade between Japan and Russia has developed a tendency to suffer restrictions on some specific articles, so that an expansion of exports of other articles to Russia can be expected in the future.

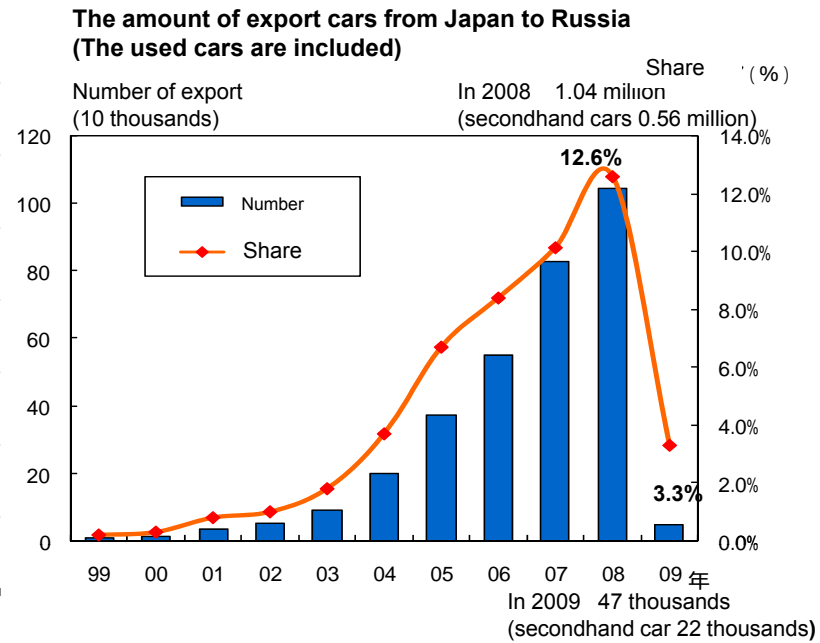


Passenger automobile market in Russia

The passenger automobile market in Russia has expanded continuously every year. Exports from Japan increased rapidly until last year. A market reduction is expected because of the recession. In 2008, the market scale exceeded 3 million cars; however there is a forecast of the market from 1.3 million cars to 1.6 million cars in 2009.



Source: Expert, Pricewaterhouse Coopers



Source: Trade Statistics of Japan
Japan Automobile Manufacturers Association, Inc

Russian Protectionist measures (raising import tariffs on automobiles)

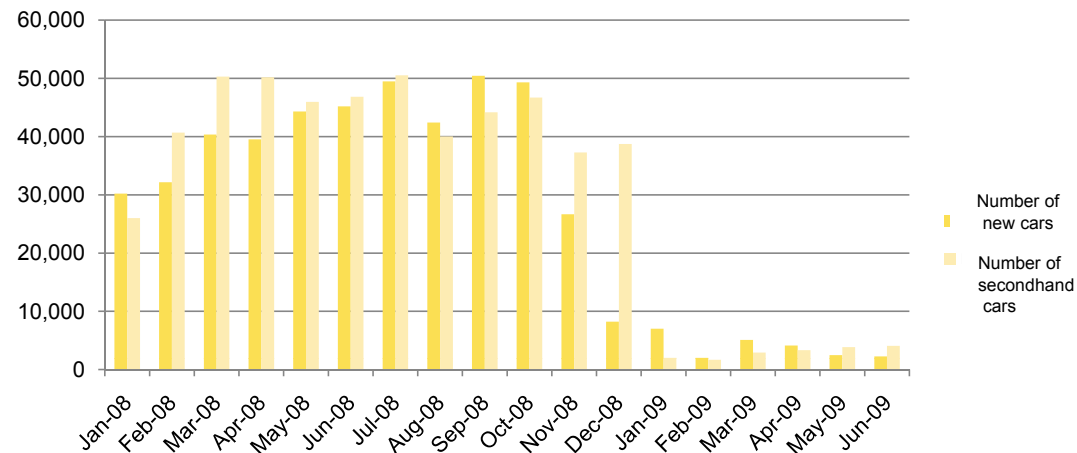
The Russian government raised import tariffs on automobiles to protect domestic automobile manufacturers in January 2009. This measure was extended in October 2009.

This measure against the G20 summit declaration and the spirit of the WTO, which the Russian government hopes to join. The Japanese government is asking the Russian government to abolish the measure.

(Reference) Contents of raising import tariffs on automobiles

- Foreign cars over five years old
Before: Displacement per 1 cm³ 1.4 ~ 3.2 Euro →After: Displacement per 1 cm³ 2.5 ~ 5.8 Euro
- Foreign cars under five years old
Before: 25% →After: 30%,35% or Displacement per 1 cm³ 1.2 ~ 2.8 Euro

Automobile exports decreased suddenly because of the raising of the import tariff in January .



Russia's protectionist measures (Others)

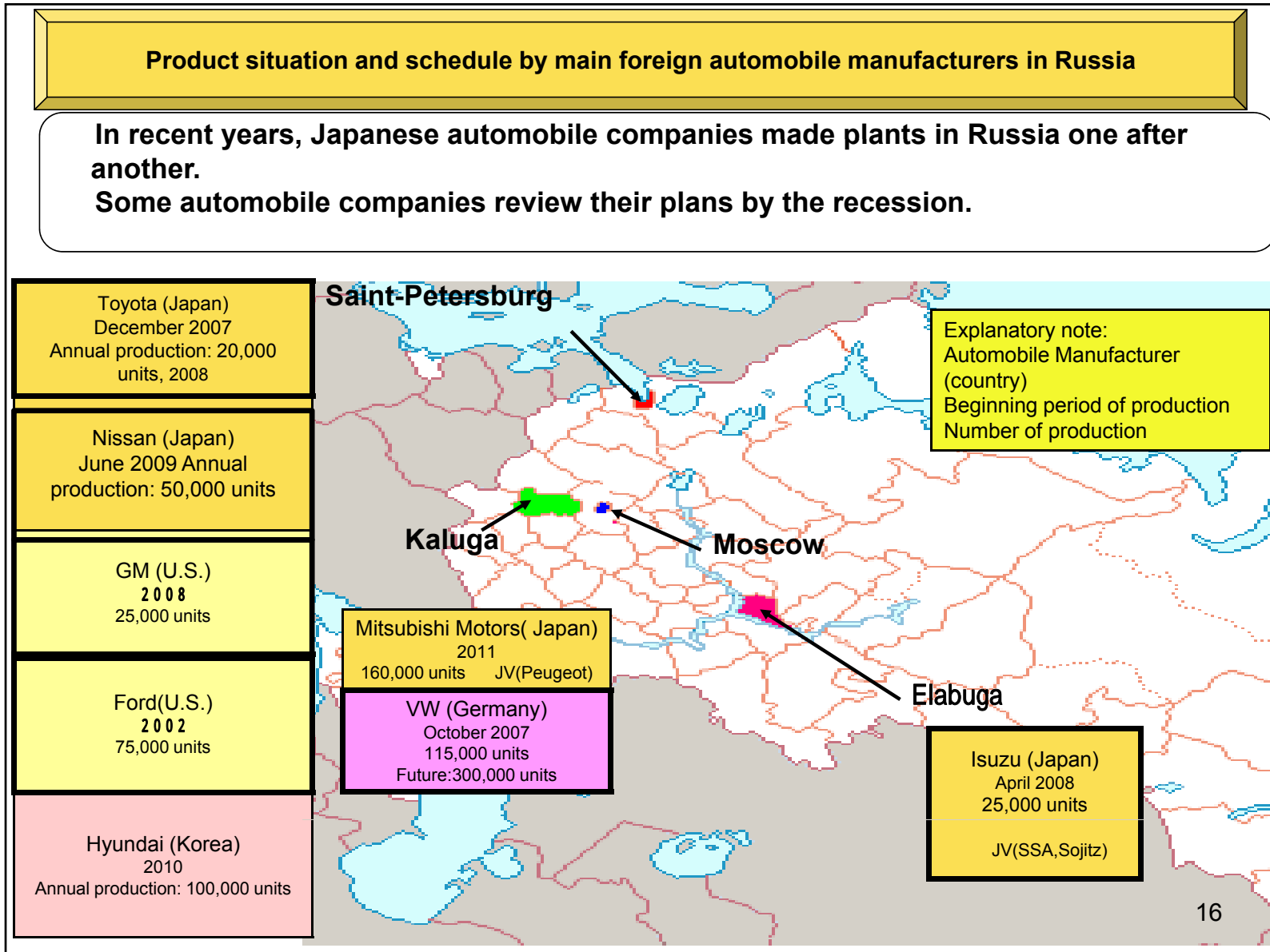
Raised import tariff on steel products

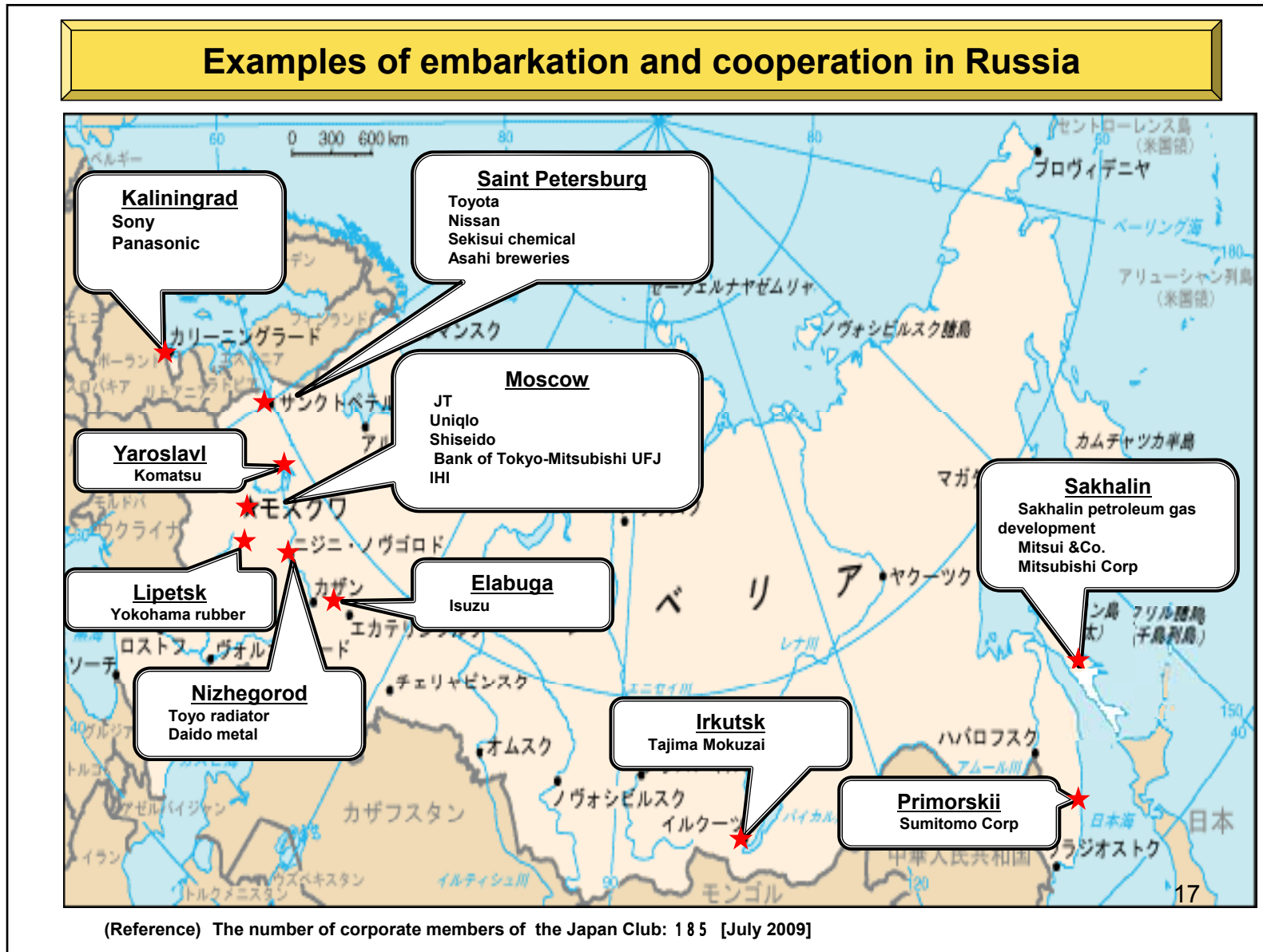
The Russian government raised import duties on wide range of steel for 9 months from February 14, 2009. Some tariffs were raised from 5% to 15% and others from 15% to 20%.

Raised import tariff on LCD and plasma TVs

The Russian government raised import tariff on LCD TV and TVs from 10% to 15%.

Additionally, there has been some movement to raise import tariffs in other wide sectors .

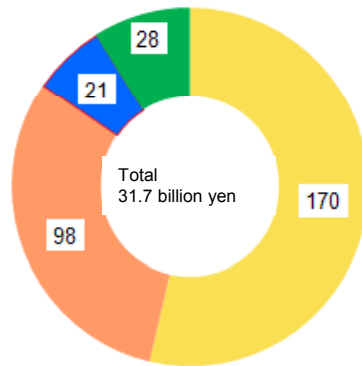
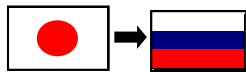




Breakdown of direct investments to Russia from Japan (2008)

The amount of the direct investments from Japan to Russia was 31.7 billion yen. In 2008, the main fields of investments were machinery, wholesale & retail and finance & insurance.

The amounts of direct investments from Japan to Russia (2008) Comparison of the amount of direct investments from Japan to the main countries (2008)



■ Nonmanufacturer Wholesale & retail
 ■ Nonmanufacturer Finance & insurance
 ■ Nonmanufacturer Others
 ■ Manufacturer

Source: Bank of Japan

	Total
Japan - Russia	1 (3 1.7 billion yen)
Japan - China	2 1 . 1 (6 7 0 billion yen)
Japan - U.S.	1 4 0 . 7 (4 , 4 6 1.7 billion yen)
Japan - Brazil	1 7 . 0 (5 3 8 billion yen)
Japan - India	1 7 . 1 (5 4 2.9 billion yen)

(注) Upper: Number of ratio
Lower: Amount of direct investment

Problems that Japanese companies in Russia feel they face

Delay in infrastructure improvement (harbors and railways, etc.)

- Arrears of freight, insufficient harbor facilities
- Damage caused by rolling stock transportation (vibration, shocks, etc.)

Unclear industrial policy of Russian government

- For example, no measures of development in the automobile parts industry are shown.

Complicated and unclear administrative procedures

- Problems of administrative procedure are complicated, unclear, subject to differing interpretations by officers in charge and prolonged wait times.

Efforts by Japan to help reform the business environment in Russia

Business environment improvement in Russia

- Russia applied to join GATT in 1993 and Japan agreed to this, and Russian signed in November 2005. Main countries except Georgia basically finished bilateral market access negotiation.
- Russia hasn't solved its protectionism issues before joining WTO, and it is necessary for Russia to make one-a stop investment service.

Holding of Japan-Russia investment forum (hosted METI in Japan and the Ministry for Economic Development in Russia, etc.)

A Japan-Russia investment forum took place to increase investment from Japan to Russia.
(The 1st meeting in September 2006 at Saint Petersburg (participants: 700) the 2nd meeting in February 2007 at Tokyo (participants: 500) The 3rd meeting in September 2008 at Saint Petersburg (participants: 500))

Holding of intergovernmental working group about Japan-Russia transportation cooperation

The Japanese government and the Russian government negotiated Japan-Russia logistics on the Trans-Siberian Railway.

Activities with “The Japan-Russian Trade and Investment Promotion Organization”

ROTOBO and JETRO work out information services and business matching to promote Japan-Russia trade.

Efforts of Japan-Russia in the Far East and the eastern Siberia area.

There are a lot of delays of various infrastructure improvements in the Far East and the eastern Siberia. On the other hand, there are a lot of undeveloped natural resources.

The Russian government adopted a program of development in the Far East and the eastern Siberian area in 2007. The Japanese government proposed “The initiative for the strengthening Japan-Russia cooperation in the Far East and the eastern Siberia.”
(Energy , transportation and improvement on the trade and investment, etc.)

The Russian government expects not only technologies but also finance. The Japanese government dispatched an economic mission to the Far East in June 2009.



Russian Far Eastern Economic Mission

From 31 May to 6 June
Vladivostok, Nakhodka, Vanino, Khabarovsk
72 mission members of public and private sectors

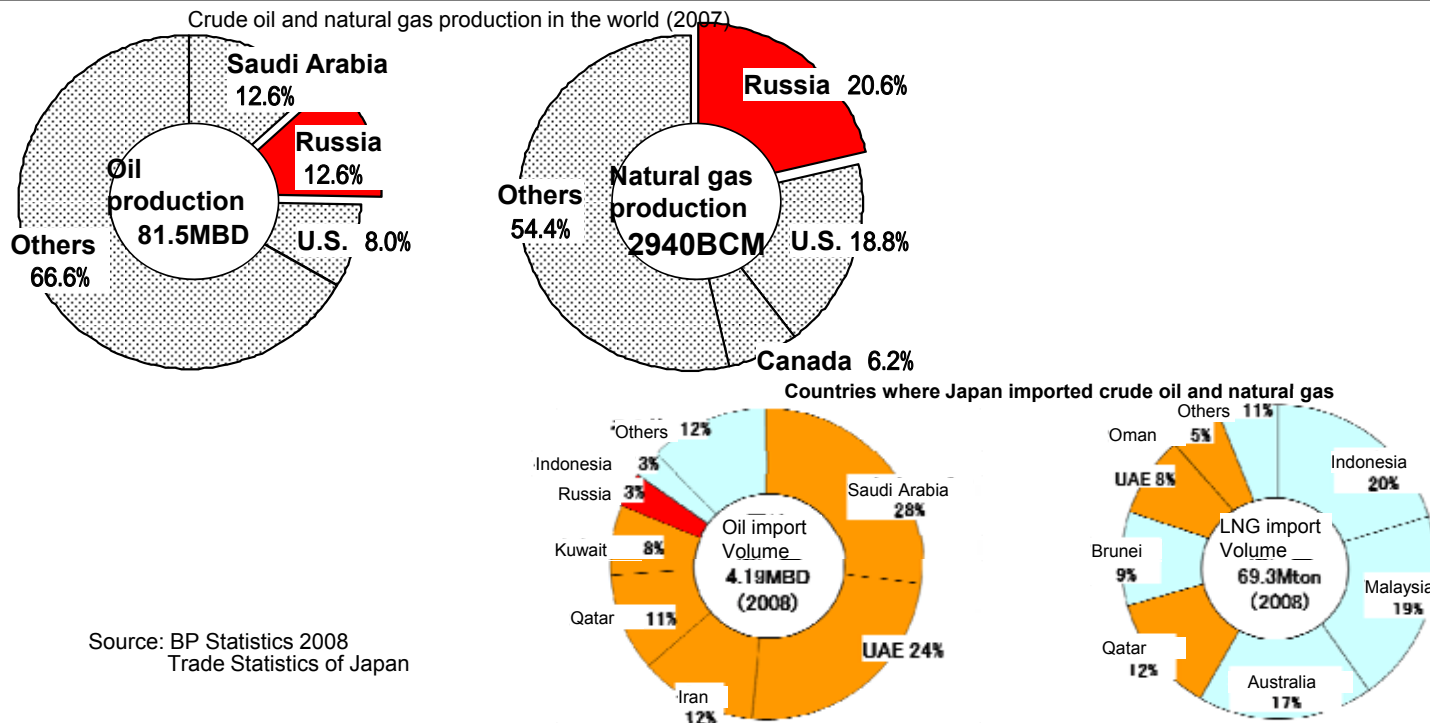
3 . Japan-Russia energy relations

Importance of Russia in Japan's energy policy

Russia is a resource-rich country with both major crude oil and natural gas reserves and is geographically near Japan.

Japan depends on the Middle East for about 90% of its crude oil. It is important for Japan's energy security to secure export countries for crude oil and natural gas that don't rely on tankers passing through the Straits of Hormuz and Malacca.

It is mutually beneficial to cooperate together because Japan intends to diversify its sources of energy supplies, and also Russia intends to develop the Far East and eastern Siberia and to strengthen the relationship with the Asia-Pacific region .



Outline of the Sakhalin 1 project

The Sakhalin 1 project is a collaborative project by the U.S., Japan, Russia and India.

The United States: ExxonMobil 30%

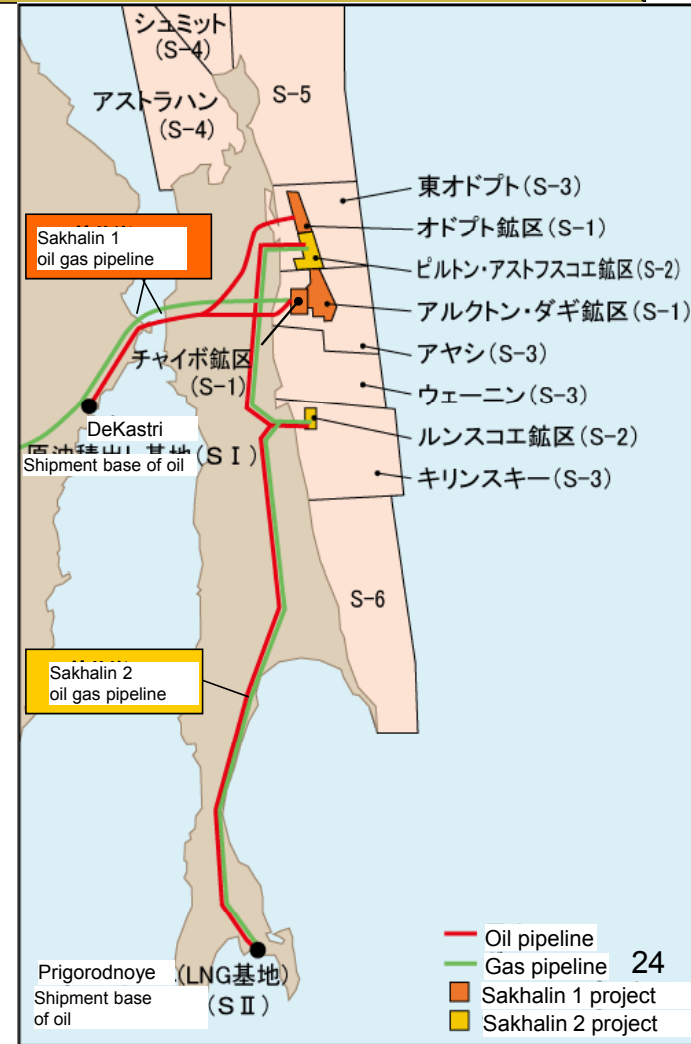
Japan: Sakhalin oil and gas development 30%

Russia: Rosneft 20%

India: ONGC 20%

The Japanese government has 50% of the stocks of Sakhalin petroleum gas development.

Crude oil has been produced since 2005 and about 40% of the production to Japan (about 250,000 barrels per day at peak) goes to Japan.



Outline of the Sakhalin 2 project

The Sakhalin 2 project is a collaborative project by the co-parent company (Sakhalin Energy) of Russia, UK, Netherlands and Japan.

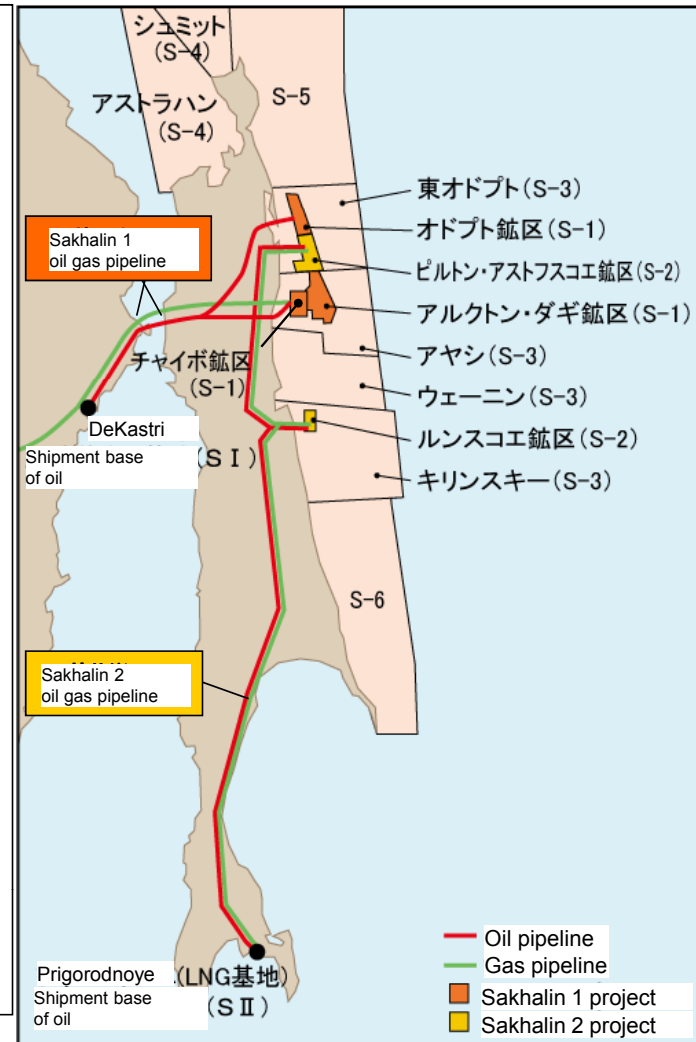
Russia : Gazprom 50%+1stock
UK, Netherlands : Shell 27.5%-1
Japan : Mitsui & Co. ,Ltd 12.5% ,
Mitsubishi Corp. 10%

Crude oil has been produced since 1999 and about 50% of the production (peaking at about 150,000 barrels per day) goes to Japan.

The export of LNG began at the end of March this year. About 50% of the amount of production (about 9.6 million tons per year) was contracted over the long term to Japan.

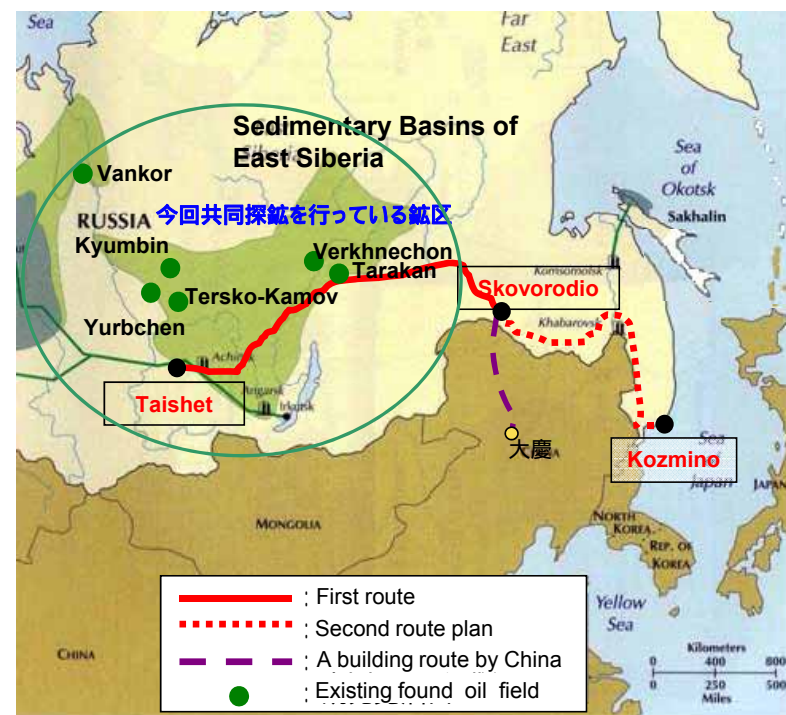
JBIC financed about US\$ 3.7 billion (about \$5.3 billion including the private bank groups).

NEXI undertook the trade insurance to additional loans of \$1.4 billion in October 2009.



Outline of prospective development cooperation of the Pacific Ocean Pipeline and Russian oil companies

Eastern Siberia is an important region with major reserves of crude oil the transportation of which bypasses the Strait of Hormuz and Malacca. The second stage of the Pacific Ocean pipeline (to the Pacific coast) will be decided by the progress of the eastern Siberia oilfield developments. JOGMEC and the independent oil company (Irkutsk oil) are prospecting to secure the throughput as a first step cooperation of Japan-Russia in eastern Siberia.



Outline of the East gasification program

The gas development of the Far East and eastern Siberia “East gasification program” is progressing by Gazprom.

The gas pipeline from Sakhalin to Vladivostok is scheduled to be constructed by 2012 when the APEC summit is held in Vladivostok.



Cooperation between The Agency for Natural Resources and Energy, Gazprom & Rosneft

Cooperation between Agency for Natural Resources and Energy & Gazprom

Agency for Natural Resources and Energy agreed on the framework for cooperation with Gazprom in November 2005. Regular consultations have been held four times.

Gazprom is the largest gas corporation in the world; the Russian government is a 50% stockholder. Gazprom has a de facto monopoly of gas production and export in Russia.

Gazprom and a Japanese company (Itochu Corp) are executing the economic evaluation of an agreement which executed joint gasification studies in December 2008.

Concerns of Japan: Development of natural gas fields and cooperation of LNG project.

Concerns of Gazprom: Cooperation of gasification project and science technology.



Cooperation between Agency for Natural Resources and Energy and Rosneft

The Agency for Natural Resources and Energy agreed on the framework for cooperation with Rosneft in March 2008. Regular consultations will be held in the near future.

Rosneft is the biggest oil company in Russia. The Russian government has 75% of the stocks. Rosneft is a leading company in eastern Siberia development.

Concerns of Japan : Joint oil prospecting

Concerns of Rosneft : Cooperation in petrochemistry facilities construction in the Far East



Current situation of Japan-Russia nuclear power cooperation

Strong point of Russia: Russia is the largest country to supply uranium enrichment.

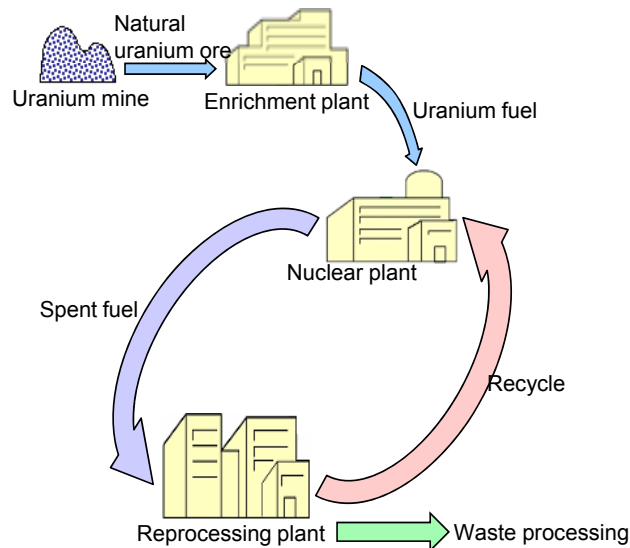
The expansion of the nuclear power generation is advancing worldwide. There are a lot of worries about tight supply and demand of nuclear fuel.

Especially, uranium enrichment is controlled by an oligopoly, and there is possibilities of this becoming a bottleneck.

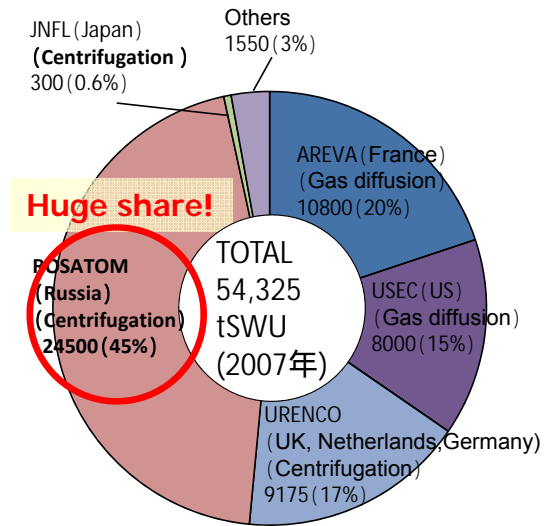
As Russia is the world's largest uranium enrichment supply country, Russia has a major influence on the nuclear power market in the world.

Russia has the largest capacity of the concentrated equipment.
Russia supplies a lot of enriched uranium to the U.S. market for scrapping nuclear weapons.

Nuclear fuel cycle

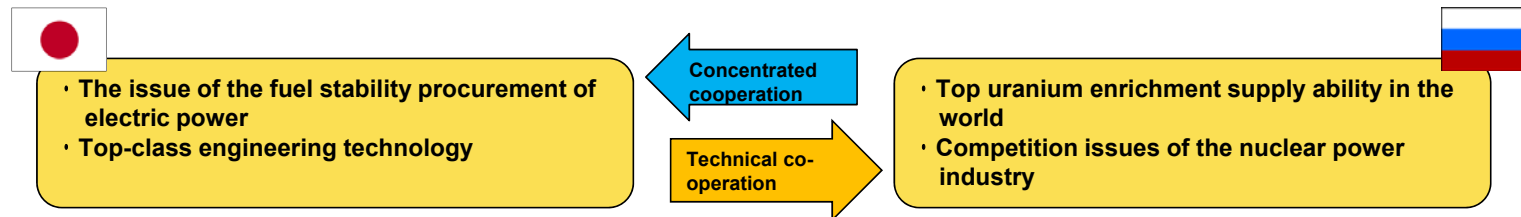


Concentrated equipment capacity of the world



Current situation of Japan-Russia nuclear power cooperation

Mutual complementary form of Japan-Russia nuclear power policy



Cooperative movement of Japan-Russia nuclear power cooperation

- Agency for Natural resources and Energy and Rosatom
- The Director-General of the Agency for Natural Resources and Energy of Japan , and the President of Rosatom , Kirienko agreed on cooperation promotion in March 2008.
- Cooperation of Toshiba and Atomenergoprom
- Agreed cooperate framework in March 2008.
 - They are considering the possibilities of cooperation in such as concentration, the nuclear power plant construction and the equipment manufacturing.
- Agreement of Japan-Russia nuclear power
- When Prime minister Putin came to Japan in May 2009, the agreement of Japan-Russia nuclear power cooperation was signed.(Not yet ratified.)