



Confidence in Russian deliveries of energy

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Well, while polling and results are being debated elsewhere, let me instead turn back to Russia, and try the possibly less accurate entrail-reading on what the signs portend for their production of oil and gas in the near term.

It was just last week that Leanan pointed to the [Bloomberg piece](#) which was already noting a slight fall in both oil output and exports, from this country which is, currently, the world's largest crude oil producer.

Average daily oil output during the month was at 9.711 million barrels a day, or 41.07 million tons, down 0.4 percent from 9.751 million barrels a day in September, according to the Energy and Industry Ministry's CDU-TEK unit. Exports dropped 9.4 percent to 4.94 million barrels a day as the government raised export duties to a record. Exports to countries outside the Commonwealth of Independent States fell 6.5 percent to 4.2 million barrels a day. Russia raised export duties to oil to a record \$237.60 a ton (\$32.41 a barrel) from Oct. 1, up 9.8 percent from the previous duty of \$216.40 a ton.

And yet, today the Russian [Deputy Prime Minister](#) said that they would not cut production, but would rather boost production at the same rate as at the beginning of the century. However, there are questions about what is going to happen with the planned export of LNG to Japan and Korea from the Sakhalin 2 development, given the problems that Shell is having with that project. At present most of the production is supposed to be heading to meet those two countries needs.

However, with the Russian Prime Minister now [in China](#) good relations is leading the Russians to reaffirm its promise that the pipelines will soon be carrying oil and gas to China. However the [communiqué](#) only addresses a need for collaboration, and the creation of a board to establish a program. If there is caution on the part of the Chinese it might be considered justified, given the problems that others are having with supplies from Russia.

Consider the situation in [Georgia](#), where Gazprom intends to raise the price of gas to world prices - effectively doubling the price, while at the same time running a new gas pipeline to the breakaway region of Georgia, [South Ossetia](#). It appears that the politics of the region are increasingly going to be played out with the bludgeon of energy supply as a very visible weapon. Given the [threat to cut supplies](#) this could get uglier, before it gets better. [Slovakia](#) has obviously seen the writing on the wall.

Similarly there is a concern for gas supplies from Russia to [Poland](#) and [Blearus](#).

This lesson is not one just for the FSU states, just recently development of the Shtokman field

was set back [to 2013](#). With the earlier delays in the development of the [Yamal fields](#) that may not appear until 2011 or 2012, there is a possibility that Russian domestic supply might not be immediately able to meet demand. One wonders if the Gazprom plan is therefore to buy and sell gas from Turkmenistan and Uzbekistan first, and run down their supply, while maintaining their own until later. The Turkmen already had large deposits, and have just discovered another [very large field](#). It is interesting to note, however, who their projected partners are planning to be.

A huge natural gas field has been discovered in Turkmenistan, President Saparmurat Niyazov said.

A field containing an estimated 7 billion cubic meters has been struck in the southeastern town of Iolotan, Niyazov said in televised remarks Sunday.

"A mighty fountain (of gas) caught fire," Niyazov said. "It took us three days to put it out."

He said a Chinese energy company, which he did not further identify, had shown interest in developing the field with help from a company from the United Arab Emirates.

Perhaps Gazprom may not have it quite as easily their own way as they expect - although perhaps that is one of the things that the Russian PM will be talking about.

Turkmenistan is the second-biggest natural gas producer in the former Soviet Union after Russia. The country's proven commercial reserves amount to 2.8 trillion cubic meters. The Russian gas giant Gazprom controls the only transit route for Turkmen gas exports to other ex-Soviet republics and Europe.

Niyazov reiterated his intention to export natural gas to India, China and the United Arab Emirates through pipelines that are still under construction.

"Our goal is to lay pipelines to several countries," he said. "We have also pledged to supply 200 billion cubic meters to the world market."

In April, Turkmenistan concluded an agreement to build a gas pipeline to China. Beginning in 2007, it will also export 14 billion cubic meters of gas annually to Iran.

As the Russian [Institute of Energy Policy](#) reports, however, China is concerned about the security of the energy supply. (And watching what is going on in Georgia who can blame them?)

One of the essential principles of the Chinese Communist Party's energy policy is reliance on national energy resources for "security" considerations. For example, China has just implemented a 4,000-km gas pipeline project ("West-East") from the Tarim and Changqing gas fields in the Xinjiang Province, with proven gas reserves in the region at a mere 700 bln cu m, to the country's main gas consuming areas. At the same time, China refused to sign a contract with Russia to import gas from the Kovykta deposit in the Irkutsk Region, arguing that the gas reserves there are purportedly insufficient (Kovykta's proven gas reserves are 1.2 trillion cu m). Traditionally, Russia's gas

and power imports to China have been impeded by price disputes. One key project (Kovykta), which has the potential to become a main channel for the export of natural gas from Russia to China, has been effectively frozen due to price disagreements. The Chinese side has long time refused to buy Russian gas for more than \$30-\$35 per 1,000 cu m at point of delivery on the Russian-Chinese border, although the break-even level for the Kovykta project is \$75 to \$120 per 1,000 cu m. China said it was unreasonable for it to buy gas at prices above \$40: at this level, it would be cheaper to use its own coal as fuel at electric power stations.

Georgia is now being asked [to pay](#) \$230 per 1,000 cu.m., to put these numbers in perspective. The Russian Institute looks at this situation and concludes that the Chinese will not end up as customers for Russia.

The surge in energy demand is mainly observed in the industrially developed southeastern parts of China where deliveries of Russian energy via network infrastructure (pipelines, power transmission lines) are hindered by large distances and high costs. These regions will meet their gas demand mainly through the construction of liquefied natural gas (LNG) terminals, while this gas will not come from Russia.

So if the Chinese market is not going to develop, then this will change the way in which the Russian energy distribution unfolds.

I post much of this information more to illustrate the way the current situation is developing, rather than to draw any clear conclusions at this time. I suspect that we will be able to see the situation a little more clearly, with the longer term implications, as the winter draws its influence into the picture.



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