

OIL PIPELINE IN THE FAR EAST: ECONOMICS AND GEOPOLITICS

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Export pipelines in the east of Russia are developing into a major issue that in the wake of 9/11 has acquired a geo-economic dimension. Having realized the risk of being dependent on the Middle Eastern oil the oil importers started looking for (or creating) alternative sources of energy fuels. This increased an interest in the promising hydrocarbon reserves of Eastern Siberia. Today Russia is seeking an answer to a tricky question: How can the country play its “oil pipeline card” with the best economic and geopolitical results?

Selection of Routes

It was since the mid-1990s that YUKOS, one of the Russian oil companies, has been lobbying an idea of the strategic importance of an East Siberian export oil pipeline. China had been dead set against the original plan of laying the line across Mongolia. The plan was readjusted in favor of the so-called southern route from Angarsk to Daqing. Under the YUKOS variant the Russian stretch was expected to go along the southern tip of Lake Baikal, across Buriatia and the Chita Region, parallel to the Trans-Siberian Mainline and turn to Daqing at the city of Zabaikalsk. Today, this is the most developed project; there is even a Russian-Chinese agreement on feasibility studies. It was planned to start construction late in 2003 to complete the whole project in 2005. The route was expected to be 2,247 km long; with an annual carrying capacity of 20 million tons of oil by 2010 and 30 million tons of oil by 2030. Total construction cost was estimated at \$2.5-2.8 billion.¹

Confirmed demand is the project's main advantage. In spring 2003, the Chinese National Petroleum Corporation (CNPC) and YUKOS signed in Moscow a contract for buying 700 million tons of oil in the period between 2005 and 2030. The Russian side was expected to gain \$150 billion, \$60 billion of which were to be channeled to the state coffers. These amounts had been entered into China's na-

¹ See: *AK&M*, 8 September, 2003.

tional economic plans. The project's main fault, however, was limited export variants—in fact, it made China the only user of Russian oil. Indeed, if realized the project would make Moscow potentially dependent on the importer that would be able to impose its prices and volumes of imports. This threat has become even more real after more or less similar developments around the Blue Stream gas pipeline. Typically enough, the Chinese behaved like monopolists while the project was being discussed: for several years the project stalled because of their reluctance to negotiate mutually acceptable oil prices.

While the sides continued haggling another Russian firm Transneft came forward with a project much better suited to geopolitical realities. The route was to begin in Angarsk and finish at the Pacific port of Nakhodka. The line was expected to run to the north of Baikal along the BAM Mainline. Its estimated cost was over \$5 billion with the planned annual carrying load of 50 million tons of oil exported to the Asian-Pacific countries and the United States. Japan was very much in favor of the variant from the very beginning.

The variants were competing until in 2003 when the government of Russia opted for the Angarsk-Nakhodka pipeline with a branch to Daqing. Under the Transneft variant the line was to go along the Angarsk-Kazachinskoe-Tynda-Skovorodino (Amur Region) route with a branch to Daqing. Later, as extraction of oil in Eastern Siberia would increase a branch between Skovorodino and Nakhodka (the Perevoznaia Bay) would be added to the pipeline. No official decision has been passed. Even if the line first goes to China it is still unclear whether the southern variant (suggested by YUKOS) or the northern one (Transneft) will be realized. If turned to Daqing at Tynda the line will go slightly over 2,000 km across Russia while the Chinese stretch will be about 1,000 km. The project's estimated cost was \$3.5 billion.

The line to Nakhodka answers Russia's state interest to a greater extent than the other variant both from the point of view of socioeconomic development of the Far Eastern regions (the branch to Nakhodka will cross six subjects of the Russian Federation; under the Chinese variant only three subjects will be involved) and from the point of view of Russia's new strategic position in the energy fuels trade. This is true, first and foremost, of the Asian Pacific markets where Russia has not yet tapped its potential to the full.

We cannot ignore the already achieved agreements with China: any changes of Russia's export plans will mean that Russia refuses to start building the pipeline immediately, which will undoubtedly cripple our relations with China. The pipeline was expected to be commissioned during China's current five-year plan (2000-2005). China will hardly agree to revise the plan and it will surely resort to certain economic measures.

Moscow is aware of this; it cites a sort of arguments in favor of continued work on the project and of adjusting its ecological aspects to the demands formulated by the Ministry of Nature Protection in September 2003. Analysts agree that this is nothing more than a pretext needed to postpone route selection. According to Grigori Vygon, Head of the Department of Corporate Finances, Institute of Financial Studies: "There are ecological problems that can be settled. Environmental issues have nothing to do with stalled construction. Bureaucrats cannot decide on the route for numerous political and economic reasons."²

The compromise variant (Angarsk-Nakhodka and a branch to Daqing) could have resolved all political, but not economic, problems: not enough oil is extracted to make the line profitable. To repay itself the line should move annually 50 million tons to Nakhodka and 20-30 million tons to Daqing. Today, these amounts are forecasted but not yet extracted. In other words, the main problem is a technical rather than an environmental one: is there enough oil in Eastern Siberia and the Far East to export it by the planned pipelines and to meet the demands of the oil refineries in Siberia and the Far East. Today, they are operating at 50 percent of their capacity—the result is a chronic energy crisis in the region.

The draft Energy Strategy of the Russian Federation endorsed on the whole at the cabinet sitting on 22 May, 2003 testifies that the East Siberian oil can fill only one export pipeline. The same was

² *Nezavisimaia gazeta*, 10 September, 2003.

confirmed by the Program of Developing Hydrocarbon Resources of Eastern Siberia and the Republic of Sakha (Yakutia) elaborated early in 2003 by the Siberian Research Institute of Geology, Geophysics and Mineral Resources. Says Aleksandr Gert, one of the Institute's research associates: "Our calculations have shown that the East Siberian resource potential allows us to bring oil extraction to the annual level of 30 million tons (on the basis of the already prospected reserves) and to 50 million tons (on the basis of reliably forecasted reserves). This will require large capital investments in geological prospecting. A joint realization of both export projects that will require up to 80 million tons annually is so far remains unsupported by East Siberian resources."³

China is aware of this. Those who represent its oil companies say that the route to the Pacific will bury the Chinese variant. To heighten Russia's interest in the Daqing branch the Chinese side is prepared to credit the Russian section of the line project with \$658 million. Vice Chairman of the State Development Planning Commission of the People's Republic of China Zhang Guobao came to Moscow in February 2003 with the following suggestion: Beijing would repay ahead of time part of the earlier Russian loan extended in 1996 for the construction of the Tianwan atomic power station so that Russia could use the money to build the pipeline to China.

Japanese Interests

I have already said that the choice of the route developed into a bitter rivalry among interested oil importers. Russia's relations with China related to oil exports were aggravated by strategic considerations and because Japan had joined the race. In January 2003, the Japanese premier personally promised Moscow his country's financial support in the form of an untied credit and cooperation in building the Angarsk-Nakhodka pipeline. He had in mind \$6 billion to pay for the line (that could be better described as an energy corridor comprising oil and gas lines) and \$1 billion to build a marine terminal in the Maritime Territory. Nakhodka will offer access to many countries none of which will be able to monopolize oil imports.

Translated into the figures of promised assistance and direct cooperation in building the lines and developing hydrocarbon reserves in Eastern Siberia Japanese interest is extraordinary. At the APEC summit in Bangkok in October 2003 Sergei Dar'kin, Governor of the Maritime Territory, mentioned the figure of \$15 billion.

Experts believe that Tokyo's extraordinary interest is aroused by Beijing's obvious desire to monopolize all oil pipelines from Russia and other CIS countries with the aim of re-exporting fuel to the Asian Pacific countries to obtain economic and political advantages as a monopolist exporter.

Japan's interest in Russian oil is another weighty argument in favor of the Pacific route. It is a graphic manifestation of the changed approaches among the Northeast Asian countries to the fuel problem as a key to the region's sustainable development. It is very important, therefore, to assess the present and future requirements of these countries (China, in the first place). On the one hand, China is regarded as a locomotive of the APR economic development; on the other, it may prove less promising as a potential energy market than it looks today.

Orientation toward the APR and Chinese Markets: Pro et Contra

By 2010 oil consumption in the APR countries may grow by about 18 percent (against the 2000 level); by 2020 an increase will be 43 percent; the figures for China are larger still: 31 and 102 percent, respec-

³ *RusEnergy*, 26 May, 2003.

tively. Japan and South Korea have no oil of their own while China will not increase extraction (it may even drop by the end of the 2010s). This shows that the region will buy increasing amounts of oil from Russia.⁴

The Bangkok summit of APEC concentrated on Energy for Economic Growth issue. It was pointed out, in particular, that by 2030 the demand for oil in the APR would grow by two-thirds and that the sphere would require up to \$3 trillions of investments. Today, the Asian part of the APR imports 60 percent of gas and oil it needs, by 2030 the figure will be 80 percent.⁵

By 2010 oil deficit in the APR countries will reach 540-550 million tons; the forecasted deficit in Japan by 2015 will be 350 million tons. I have already described the future needs of China and South Korea, yet I deem it necessary to add that, according to the International Energy Agency, the breathtaking economic growth in China is rapidly changing the world map of oil demands.⁶

China's economic growth in the last 20 years increased demand for energy resources, which the country's domestic resources cannot meet. This explains why since 1993 China has been importing oil; in 1996, it became the world's third oil consumer after the United States and Japan. In 2001, China imported about 70 million tons of oil; according to expert assessments, by 2005 oil imports will reach the figure of 100 million tons; by 2030 the share of imported oil will grow from the present 30 to 80 percent. According to preliminary estimates, in 2003 China consumed about 230 million tons of oil (80 million tons were imported). According to the International Energy Agency, by 2008 China will outstrip Japan where oil demand is concerned and become the world's second largest consumer after the United States.

Long-term Forecasts of China's Oil Demand and Supply (mill. tons)*						
2001	2005	2010	2015	2020	2025	2030
Extraction						
164.9	170-178.5	174.3-180.0	163.8-180.0	155.5-182.0	150.3-170.0	150.1
Consumption						
241.4	250.0-308.0	323.5-399.0	385.0-487.0	470.0-571.0	545.0-613.0	635.0
Net imports						
76.5	80.0-129.5	145.0-224.7	210.0-323.2	295.0-415.5	375.0-462.7	484.9
Increase of net imports as against 2001						
	3.5-53.0	68.5-148.2	133.5-246.7	218.5-339.0	298.5-386.2	408.4
* The table is based on the forecasts supplied by:						
1. The PRC State Committee for Economics and Trade, 2000.						
2. The Institute of the Oil and Gas Geology, Siberian Branch, RAS, 2002.						
3. The U.S. Energy Information Administration, 2003.						
Source: <i>Neftegazovaia vertikal</i> , No. 11, 2003.						

⁴ See: *Mirovaia energeticheskaia politika*, No. 7, 2003.

⁵ RIA Novosti, 20 October, 2003.

⁶ See: Reuter, 13 November, 2003.

Today over half of Chinese oil imports come from the Middle East whose instability that has been obvious for many years now as well as oil price fluctuations affect China's energy security and its economy. In January 2003, for the first time in the last six years Beijing failed to achieve a positive foreign trade balance (import surplus being \$1.25 billion). This happened because the country had to pay \$1.11 billion more for the oil it imports (not so much because it did import more oil but because the oil prices had risen).

Diversification of sources of oil produced certain shifts in the geography of Chinese imports: for the first time in its history Angola became China's largest crude oil supplier. According to the data of oil exchange, in July 2003 China imported 2.18 million tons of oil from Africa, an increase of over 60 percent as against the previous month. Angola pushed away Saudi Arabia and Oman, China's largest oil partners.⁷

At the same time, China's efforts to join all sorts of oil extraction projects in all corners of the world produce an impression of "excessive aggressiveness." Partly this is explained by the fact that the hopes of finding big oil in the Tarim basin (western Xinjiang) failed. The largest and the oldest oilfields at Daqing that have been exploited since 1960 are rapidly depleting. The state Chinese firms are obviously working toward the maximally possible range of oil and gas sources: with this aim in view they are looking at Russia, Indonesia, Australia, Sudan, the Central Asian republics and Azerbaijan.

When talking about China's oil requirements one should bear in mind that it intends to re-export part of the imported oil to other APR states. This is a natural desire to optimize transport expenditures—much will depend on the growth of oil demands in the APR countries themselves.

At the same time, numerous forecasts of an increased oil demand in China in the next decade on which Russian oil exporters rely today are based on current figures and fail to account for economic instability in China. A social-economic or a political crisis in China (like the crisis that shook Russia) will cripple all energy export schemes and alter the entire pattern of oil consumption on the world market. This will undermine the eastbound oil pipeline projects as well.

One-sided orientation toward China creates other problems. Indeed, successful reforms, orientation toward export and developed domestic market, as well as improved infrastructure coexist with certain negative factors described as risk factors. Here are some of them: doubtful statistics; disproportions and "bubbles" in the financial sphere; regions' uneven development coupled with social tension; inflated public sector that slows down economic development; suppressed ethnic contradictions. The hypothetical economic risks apart, one cannot ignore the fact that today coal dominates the sphere of consumption of energy resources while the latest strategic schemes describe hydropower stations as a priority. One should add that the potential number of cars in private use in the country has its limits, which means that it will also limit the amounts of oil the country will need.

An objective assessment of oil consumption in China requires a wider and multi-factor analysis that will take account of the risks enumerated above rather than a straightforward extrapolation of the current economic development rates.

Kazakhstan: A Rival or a Partner?

Recently, China has turned its attention to Kazakhstan as a possible source of oil. A new player adds intrigue to the game, which should not be regarded as a negative factor.

In the next decade Astana plans to become one of the largest oil producers: by 2010 it intends to reach an annual level of 100 million tons of oil extraction; by 2015, up to 150 million tons. (In 2003, according to preliminary estimation, the country increased oil and gas condensate extraction

⁷ See: *Finansovye izvestia*, 21 August, 2003.

and reached the figure of 54,672 million tons.⁸) These ambitious plans rest on the country's high oil potential: the aggregate hydrocarbon reserves have been officially estimated at 25 billion tons of oil equivalent of which 8 billion tons can be described as recoverable reserves while 3.6 billion tons, as proven reserves.⁹

During his talks with Chairman of the PRC Hu Jintao in Astana early in June 2003 President of Kazakhstan Nazarbaev suggested that construction of the oil pipeline between Atyrau (western Kazakhstan) and Alashankou (China) be resumed. A preliminary agreement about the pipeline 3 thousand km long had been reached more than five years before. The Kazakh side added that Russia could also use the line to export its oil to China (today Kazakhstan exports not more than 1.2 million tons of oil a year to China).

In March 2003, Kazakhstan commissioned the Kenkiyak-Atyrau line used by the CNPC. So far the line which is 448.8 km long with the carrying capacity of 6 million tons (that can be brought up to 12 million tons in case of need) is moving oil in the opposite direction: it brings oil to Atyrau where part of it goes to the pipes of the Caspian Pipeline Consortium, the rest is moved along the Atyrau-Samara pipeline. Two more stretches (Kenkiyak-Aralsk-Kumkol and Atasu-Alashankou) will connect the western and the eastern parts of Kazakhstan and will make it possible to move oil to China. In the future, the line's carrying capacity can be increased to 50 million tons a year; Astana plans to offer Moscow an annual quota of 30 million tons.

Significantly, at first KazMunayGaz, an extracting company, was prepared to fund the third stage of construction, namely, the Atasu-Alashankou stretch. Today, China is prepared to pay for it (\$800 million). Construction is scheduled to mid-2004; by 2006 China hopes to get the first tons of oil.

To be profitable the oil pipeline to China should carry no less than 20 million tons a year (so far the new stretch can carry 6 million tons). Chinese companies are actively prospecting for oil in Kazakhstan. If expert forecasts about oil reserves in the Kazakhstani part of the Caspian prove correct this oil can be sent to China; at the same time, the line's carrying capacity can be increased.¹⁰

Experts believe that Beijing's readiness to fund the project means its desire to demonstrate Russia that there are alternatives to the Russian projects.

The Russian media were jealous of Kazakhstan's involvement in the Chinese schemes, yet the titles like "Nazarbaev Pushes Moscow Away from the Chinese Line"¹¹ are one-sided at least.

An export oil pipeline between Kazakhstan and China does not mean that China will never need Russian oil. Much depends on several factors such as: how fast oil demand will grow in China and how fast Astana is prepared to develop offshore oil extraction. On top of this, oil demand in other APR countries will be important because of China's plans to re-export oil through the Chinese ports. In fact, China plans to sell its oil to Japan and Korea; if domestic oil demand in the two latter countries develops at a fast pace China will need both Kazakhstani and Russian oil. It looks as if in the mid- and long-term the Kazakh and Russian projects will be mutually complementing; rivalry at the initial stage cannot be excluded since China's oil consumption remains limited so far. The country that will manage to build the pipeline first will dominate the market and enjoy all advantages.

Any discussion of a Russia-Kazakhstan rivalry inevitably raises the question: Will Astana have enough oil to fill the Chinese route to its carrying capacity because of its involvement in other pipeline projects (CPC, Atyrau-Samara, negotiations on Kazakhstan's involvement in the Baku-Ceyhan line)? An analysis of the republic export potential and its domestic demand (that will remain within 10 million tons a year in the next decade) provides a conclusion that by 2010 Kazakhstan will be able to export not more than 100 million tons. There is the opinion that this is not enough to fill the existing line to say nothing of those under construction. In the next decade the republic will not need more transportation capacities since by 2010 they will exceed the demand by about 10 million tons a year. From this it follows that Astana's

⁸ See: Prime-TASS Agency of Economic Information, 10 September, 2003.

⁹ See: *Mirovaia energeticheskaia politika*, No. 5, 2002.

¹⁰ See: *Kommersant*, 3 September, 2003.

¹¹ *Nezavisimaia gazeta*, 14 October, 2003.

political ambitions apart, the country has no economic potential to compete with Russia where the Chinese route is concerned. What is more, it does not need such rivalry. In fact, cooperation between Astana and Moscow in the energy field can be translated into strategic cooperation. Recently, the Kaztransoil Company invited several Russian companies to cooperate in moving their oil to China along the future Atasu-Alashankou line.

The republic's desire to guarantee the line's complete loading is understandable while the Russian oil firms may find this invitation attractive in the context of increased oil extraction in Russia. The Chinese branch may create a new variant of transporting oil to China—first along the now idling Omsk-Pavlodar-Chimkent line and then by the future Kazakhstan-China line.

C o n c l u s i o n s

The Russian leaders have adequately responded to the changed geopolitical context. At the Bangkok summit President Putin spoke of Russia as the main guarantor of energy security of the entire APR. Since Russia is already dominating on the European energy market and since it has established contacts with the U.S. in the energy sphere this statement should be interpreted as a desire to widen “the possibilities window” born by the oil importers' concern over possible disruptions of oil supplies from the traditional sources (the Middle East and Africa). Russia is obviously working toward converting its energy potential into stronger geopolitical influence.

Russia's energy potential is large and fast-growing. In October 2003, the International Energy Agency registered another Russia's achievement: monthly oil extraction exceeded that of Saudi Arabia: 8.5 million barrels and 8.47 million barrels a day, respectively. This is not the limit: experts believe that in the next two to three years Russia may bring its daily extraction up to 9 million barrels since in the last two years the branch boosted its efficiency. There is the opinion that external conditions are conducive to Moscow's new strategic designs.

In the wake of 9/11 the revised worldwide oil priorities moved Russia, at a fast pace, to the first place among the world's energy-exporting countries. First, the oil and gas reserves of the OECD countries are steadily declining; second, according to the European Commission's forecasts in the next 20 years the European countries will increase their oil demand by 40 percent. These figures are behind the changed attitude of the OECD members, the U.S. in the first place, to Russia. The recent rating issued by the U.S. Geological Survey gave Russia the first place as the most perspective country where oil and gas extraction are concerned; Saudi Arabia comes second; Iran is third; Turkmenistan is tenth followed by Kazakhstan. An assessment of Russia's proven recoverable oil reserves has also changed: in the last 30 years Western sources were talking about 6 to 7 billion tons, in 2003, the figure was 20 billion tons.¹²

In this context Russia's first place where daily oil extraction is concerned is not merely a line in an information flow: it is an event of independent geopolitical importance that speaks of Moscow's changed role on the international scene. In this context the already made strategic decision about the eastern oil pipelines becomes part of the country's energy and social-economic strategy for the next 20 years. Such strategy should not only formulate the goals but also indicate the means with the help of which these goals can be achieved.

Russia is increasing oil extraction while its domestic demand remains more or less the same: obviously, the country needs new markets in the U.S. or the APR. As soon as Moscow reaches these markets through an increased volume of trade and the consumers' energy dependence it will further increase the oil importers' dependence on itself. This will further promote bilateral and multilateral relations. Russian economy will profit from an increased volume of mutual trade, which means that a positive political effect will create a positive economic effect.

¹² See: *Rossiiskaia gazeta*, 17 November, 2003.

The above raises a question: To which extent do Russia's domestic realities correspond to the brilliant geopolitical context and its serious strategic plans? This can be translated into the oil-export language as: To which extent is the oil branch's infrastructure self-sufficient and how many pipelines do we need? The Russian's Energy Strategy up to the Year 2020 plans an increase of oil extraction to 445-490 million tons in 2010 and up to 450-520 million tons in 2020 (the 2002 figure is 379 million tons).

Today, the main oil pipelines move 300 million tons of oil from Western Siberia westward and up to 100 million tons to the south and the east. Combined annual carrying capacity of Russia's export pipelines is 200 million tons. The oil branch is facing a danger of an overproduction crisis as detrimental to any industry as stagnation. According to specialists, the country needs more carrying capacities to move about 40 million tons of oil a year; according to President of LUKoil Vagit Alekperov, by 2010 the gap will reach 120 million tons.

At the background of increased oil extraction the gap is slowing down the oil companies' development rates; the same can be said about the country's economies as a whole. In 2002, YUKOS estimated its short-received incomes caused by lack of optimal transportation routes at \$1 billion. Private oil companies are prepared to invest much more than the above-cited sum in export pipelines.¹³ This readiness is understandable: shortage of transportation capacities negatively affects capitalization of the Russian vertically integrated oil companies. When substantiating the need to extend export possibilities Semyon Kukes, the then head of the Tiumen Oil Company (TOC), pointed out that two export lines, to Murmansk and the Far East, would increase capitalization of the Russian oil companies by \$30 billion.¹⁴

From this it follows that Siberia needs a pipeline for political as well as for purely economic and technological reasons. President of Transneft Semyon Vainstok believes that so far the pipelines' capacities are more or less adequate. He has to admit that they are loaded to 100 percent (with the norm of 80 percent), which means that the system's resource is gradually diminishing. This is not the case of an eternal disagreement between those who extract and those who move oil. Time has come to realize the development strategy for Eastern Siberia and the Far East: we have been talking about it long enough. The country's continued economic unity is at stake; vast territories have to become a single economic and production complex. Such integration requires: a single system of communication, transmission lines, railways, highways and pipelines. In Russia the latter are absent: this undermines the unity and stability of the entire system of infrastructure support of territorial integrity. Any unstable part of such system may become an undeveloped enclave.

Obviously, instead of complaining about the "threat to Russia's territorial integrity" (presented, for example, by China) it would be much wiser to develop the load-carrying structure of economic identity. One should bear in mind that undeveloped hydrocarbon reserves of Russia's eastern territories threaten its energy security.

Everybody knows that production and export of high technologies is much more prestigious and ecologically much safer. So far, we are mainly exporting liquid fuels. Today we should think about how to decrease Russia's dependence on fuel exports and the concurring risks within an adequate system of coordinates. The answer is simple enough: even if we are doomed to fuel exports as the key to the country's competitiveness in the foreseeable future we should at least minimize the risk of turning the country into the world economy's raw-material appendage. Diversification of markets is the only remedy; this will also keep the prices at an acceptable level. In turn, diversification cannot be achieved without creating reliable accesses to the Far Eastern borders (the Chinese border or the Pacific ports). Main oil (and gas) pipelines will make it possible to address the task of domestic economic integration, to boost Russia's export competitiveness and to meet the interests of the fuel-energy complex by linking it with much more promising and cheaper fuel sources. A newly created and denser system of infrastructure (made up of pipelines, highways and transmission lines) will help deal with the integration issues and will add to the country's export potential.

¹³ See: *Mirovaia energeticheskaia politika*, No. 7, 2003.

¹⁴ See: *Vremia novostei*, 28 May, 2003.

There is another side of the same issue: to which extent will new capacities correspond to the dynamics of their loading (current and predicted extraction) and worldwide oil demand? There is the opinion that China seeks control over oil exports to Japan and Korea for the sake of political advantages, therefore it is trying to concentrate a larger part of energy exports from Russia and Central Asia.

Still, when discussing a route one should think, first and foremost, about its future loading. Today the prevailing opinion is: if the Angarsk-Daqing project is rejected the companies working in Eastern Siberia (who would like to see it realized) will be satisfied with supplying their oil from the Iurubchansk-Takhom zone to the Achinsk and Angarsk oil refineries while the surplus of oil from Western Siberia will be exported to the United States. There is a reluctance to discuss a possibility of channeling part of West Siberian oil eastward; this reluctance is probably caused by an active lobbying of the oil terminal at Murmansk.

Since the Russian government so far has not selected the oil route to China oil companies have to use railways to move part of the promised oil to China. YUKOS has recognized that because of the continued vagueness the company will have to move even more oil along railways. By 2004-2006, 5.5 million tons of oil will be moved along railways every year (the present figures are 3.5-4 million tons); in the future, the annual amount will be up to 15 million tons. Oil companies have calculated that an adequate infrastructure will require from \$400 million to \$1 billion and about two years to be completed. It should be said in all justice that 15 million tons a year are not quite real: in 2002, all Russian oil companies exported not more than 22 million tons along railways.¹⁵

This temporary variant will allow the government and YUKOS that has the contract with the Chinese National Petroleum Company to save their faces by fulfilling their obligations under the present contract and to take time to choose the route. This decision should rely on real oil reserves in Siberia, the requirements of China and the region as a whole and on Russia's geopolitical and geo-economic interests.

Today no one can assess the damage done to Russian-Chinese relations by the actual disruption of an oil pipeline agreement. In the best eastern manner Beijing avoided any comments, yet it bought 300 civil aircraft in the United States, not in Russia. At the official level, the choice is explained by a desire to improve the trade balance with the U.S., yet this was obviously China's response to the oil problems.

It is unwise to ignore and refuse to use China's investment potentials—they can be used to create an industrial upsurge in Russia's eastern regions. According to the Chinese government, China's investments in 160 countries were estimated at \$10 billion late in July 2003. They created over seven thousand jobs while construction contracts realized abroad are estimated at \$123.8 billion. The following state oil companies are actively investing abroad: Sinopec, PetroChina, and the Chinese National Offshore Oil Corporation.¹⁶ They can obviously be useful in developing Russia's oil industry.

There is another aspect of Russia's strategy designed to extend its positions on the APR energy markets: the relationships among the former Soviet republics in the oil sphere. The CIS role on the world oil market is rapidly growing. Under favorable conditions by 2010 the CIS leading oil producers will account for 25 to 27 percent of the market's needs. By that time the CIS-based oil bloc should have acquired allies among independent oil exporters to become one of the three regulators of the world's oil market together with OPEC and OECD/IEA. To achieve this, the former Union republics have to harmonize their diverse interests and formulate a single energy policy of the future energy alliance. The CIS infrastructures, especially, its transportation element, should be upgraded. It seems that something is being done—one can expect first results in two or three years' time.

¹⁵ See: *Vedomosti*, 17 September, 2003.

¹⁶ See: *K2K*, 15 September, 2003.