

# NEW REALITIES ON THE OIL MARKET AND RUSSIA'S ENERGY POLICY

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The current developments on the oil markets are evidence of not only a radically changing price context but of a novel situation in this vitally important sphere. Regrettably, the motto of Russian officials and the media: “Strike while the iron is hot” has nothing in common with a profound and professional analysis of what is going on.

## Prices

Skyrocketing oil prices are obvious. This happened in the past, too, but the record increase of the Storm in the Desert (1990) time remained outstanding. Today, however, the records have come back, for example, on 1 June, 2004 the futures prices at NYMEX reached the \$42.38 per barrel level and came up close to the highest level in 21 years, the July Brent futures nearly reached the \$40 per barrel level (see Fig. 1).

The events in Iraq and Middle Eastern instability they triggered are behind this. Recently, the “psychological factor” caused by an upsurge of terrorism in Saudi Arabia has come to the fore: the future of the Saudi ruling dynasty is at stake. This is the political background against which the world economy is growing at a fast pace sending energy consumption higher up. Analysts agree that China is coming to the fore as one of the leading oil importers; recording levels of power consumption have been registered in India and other Asian countries.



On the other hand, the fairly high level of oil supply should cause concern: it devalues the above explanations. In the last four years the world level of oil production increased by 4.1 percent and reached the level of 3,393m tonnes. This surplus came mainly from Saudi Arabia and Russia that in the last year were alternating as oil producing leaders. The expert community tends to believe that the high oil prices were caused by the structural shifts in oil production and consumption. In his interview with the *Ekspert* journal Graham Wille of Global Insight research center has said: “The significant shifts in the oil market structure have created short-term deficits, and even though worldwide oil demand and consumption are roughly balanced *the deficits are of a regional nature: oil is not always where it is most needed.*”<sup>1</sup>

The oil fields in the North Sea, the Gulf of Mexico and Indonesia (the closest to the main oil consumption zones) have been nearly exhausted; money should be poured into the oil-rich regions of West Africa, Central Asia and Russia so as, in several years’ time, to create new energy fuel sources. The regions of new development will need adequate infrastructure in order to deliver oil to the new large oil consumption centers, China and India in particular.

A new structure of the global oil market requires time and money. So far there is no clear idea about its future outlines; it is this vagueness that pushes the oil prices up. One thing has become clear, though: the prices depend on demand and supply. Manouchehr Takin, a senior petroleum upstream analyst with London’s Center for Global Energy Studies has pointed out: “The fact that demand affects the prices to a greater extent than supply indicates that we are moving toward a deficit market.” This has been confirmed by a decision of the OPEC oil ministers to increase daily production of oil by 2m barrels (and by 500 thousand barrels more in case of need) adopted on 3 June, 2004 in Beirut. This produced no lasting

<sup>1</sup> *Ekspert*, No. 1 (422), 24 May, 2004.

effect: price decrease was negligible, yet it became obvious that the OPEC could not control the prices to any noticeable degree.

The recent deficits are of a regional nature which forces the oil industry to close the gaps in haste; many of the mini-crises are of a *logistics* nature caused by a *physical* deficit of transportation and oil refining capacities.

The structure of demand is changing the structure of supply: in the last decade supply has become more diversified. New oil exporting centers appeared: Russia (that is exporting twice as much oil as under Soviet power), Central Asia, and West Africa. Oil production in some of the old oil centers is dwindling: the North Sea, the U.S. and Southeast Asia (Malaysia, Indonesia) passed the peak of production early in the 1990s.

Decreasing domestic supply means increasing oil import; in the last six months Indonesia, the current OPEC chairman, imported 20 percent more oil than it exported.

The rivalry between the two groups of countries is becoming more acute. On the one hand, there are Asian countries that need more oil to feed their growing economies; on the other, the U.S. and other developed countries, which have to keep oil consumption at the present level and to support reviving economies.

## Russia under the Conditions of a “Positive Oil Shock”

The unprecedented situation on the oil market affects to a great extent the nature and rates of economic growth in Russia: more than one-third of national income is supplied by oil and gas export. Recently Minister of Economic Development Gherman Gref confirmed that it was the high oil prices that were responsible for 5.4 percent increase in GDP (that is, three-quarters of its annual growth). I have no intention to analyze here the macroeconomic (monetary, in the first place) results of Russia's increased oil revenue, yet I should say that they are contradictory and fairly heterodromous. This has already caused a public discussion about the quality and model of economic growth, Russia's increasing raw material dependence and its aggravating “Dutch disease.”

So far, the economic entities, the oil producing companies in the first place, respond in an obvious and logical way: Russia's oil industry is rapidly accelerating. In 2003, the growth was 11.1 percent; in January-May 2004, production of oil and gas condensate (as compared with the same period in 2003) increased by 10.6 percent to reach 185,745m tonnes—8.9m barrels a day. So far, domestic consumption is fairly low: 110-120m tonnes (total 2003 production being 421m tonnes); there will be no considerable increase in the near future. Analysts believe that by 2010 export will double. In January-May 2004 Russia exported 73,316m tonnes (3.6 mbd) to the “far abroad”; 23 percent increase compared with the previous year.<sup>2</sup> The Russian Federation accounted for 10.97 percent of world oil production. According to the forecasts issued by the RF government, in 2004, the export of Russian oil will reach 242m tonnes; in 2005, 247m tonnes; in 2006, 253m tonnes; in 2007, 260m tonnes.<sup>3</sup> In 2003, for the first time in nearly 20 years Russia outstripped Saudi Arabia, the OPEC leader, where production and export of crude oil and petroleum products were concerned.

Table 1 shows that the shortage of export pipelines is the main stumbling block on the road toward increased oil export; all of the existing export pipelines go to the West (today 83 percent of exported Russian oil goes to Europe)—this explains why experts are insisting on diversified export flows.

<sup>2</sup> RIA “Novosti,” 2 June, 2004.

<sup>3</sup> See: *RosBusinessConsulting (RBC)*, 25 March, 2004.

Table 1

FORECAST OF THE GROWTH OF RUSSIA'S OIL EXPORT								
	2001	2002	2003	2004*	2005*	2006*	2007*	2008*
Total volume of production, m tonnes	349	379	421	457	486	514	542	568
Total volume of production, mbd	6.98	7.59	8.42	9.15	9.73	10.27	10.84	11.36
Oil export (transit included), tbd	3,161	3,489	4,259	4,862	5,331	5,673	6,182	6,648
Transneft "original" oil exporting capacities	3,040	3,040	3,040	3,040	3,040	3,040	3,040	3,040
Baltic Pipeline System (BPS) (Primorsk)	—	240	300	760	1,080	1,240	1,240	1,240
Klin-Kholmogory	—	—	140	200	200	200	200	200
Druzhba-Adria	—	—	—	100	200	300	300	300
Increased carrying capacity of Druzhba's northern branch	—	—	—	100	100	100	100	100
Oil pipeline from Eastern Siberia	—	—	—	—	—	—	—	200
"Private" ports	40	40	60	150	190	260	340	460
Railway transportation (except for deliveries to "private" ports)	168	392	751	718	606	620	440	400
Transportation by rivers, etc.	76	76	118	120	163	166	169	173
Oil pipeline to Murmansk	—	—	—	—	—	—	600	1,000
Total annual volume of production, %	—	8.7	11.0	8.7	6.3	5.6	5.5	4.8
Increase in oil export from Russia, as % of previous year	0	10	22	14	10	6	9	

\* Forecast

## Diversification of Oil Deliveries

The problem of new export routes is directly related to strengthening Russia's positions as the leading oil producing power; obviously none of the oil producers can affect the market situation while pump-

ing oil in one direction only. This creates numerous risks and a possibility of losing part of the market: in Europe energy fuel consumption is growing at a slower rate than in the rest of the world. On top of this, in 2003, the EU elaborated norms of diversification of energy sources. Political risks of exporting oil across territories of third countries are high (for example, Turkey limited the number of tankers passing through the Bosphorus).

At the same time, the carrying capacity of available infrastructure is curbing energy exports in new and highly promising directions. Today, it can carry 150 to 160m tonnes a year with a potential demand for 210-240m. This is especially true of Russia's eastern regions where no infrastructure has been created so far. The quality of the available pipelines leaves much to be desired: only 7 percent of the main oil pipelines are under 10 years old; 25 percent have been in operation from 10 to 20 years; 34 percent, from 20 to 30 years; 34 percent, over 30 years. Sixty-eight percent of the oil pipelines have reached the critical age of "over 20," while the service wear of the main pipelines is over 70 percent.<sup>4</sup>

According to A. Gaydamak who heads the administration of investment analysis and relations with investors at LUKoil, in the last three years Russia has been paying 2.5 times more for oil transportation: the shortage of pipeline capacities forces the oil companies to use alternative, and more expensive, transportation means. Russia is the only country in the world that has to carry its oil from continental heartland to the nearest ports thousands of kilometers away and to ship it by tankers to consumers. In the Russian Federation the average operational cost of oil is \$2.5-2.7 per barrel as compared with Saudi Arabia's cost of under \$1. A. Gaydamak has said that according to various assessments Russia exports about 70m tonnes of oil (about one-third of its export) along alternative routes (railways, smaller tankers, etc.).<sup>5</sup>

In 2003, YUKOS sent 3m tonnes of oil to China by railways; in the future the figure will be even greater (in March 2004 it signed an agreement of annual supplies of 15m tonnes in the next seven years). According to S. Prisiazhniuk, Director of the YUKOS office in China, the cost of transporting one barrel of oil from Angarsk to Zabaikalsk is about \$7 (three times more expensive than moving oil along pipelines).

## Promises of Asian Routes

In 2003, oil demand in Asia hit the absolute maximum of 21.6 mbd; the share of import reached 64 percent, another record figure. The continent's fast growth rates and considerable power and material intensity of the local economies were behind these figures. The FACTS Inc company (the U.S.) wrote about this in its report.<sup>6</sup> Experts believe that by 2005 the continent will need 38m barrels of oil a day, while local production will hardly top 8m barrels, according to the U.S. Energy Ministry.<sup>7</sup>

The May 2004 summit of the Asia Cooperation Dialog (ACD)<sup>8</sup> decided to create a regional oil reserve to cushion the effect of price fluctuations caused by terrorism or global cataclysms.

Northeast Asia is the most promising oil market: industrial development and improved living standards will considerably increase oil demand. According to the Asia Pacific Energy Research Center in Tokyo increased oil consumption and oil imports (that increased by 2.5 times) will make the local countries nearly

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<sup>4</sup> The figures of the Institute of Strategic Development of the Fuel and Energy Complex.

<sup>5</sup> See: *RBC*, 27 February, 2004.

<sup>6</sup> Reuters, 19 April, 2004.

<sup>7</sup> See: *The Wall Street Journal*, 23 March, 2004.

<sup>8</sup> The following countries are its members: Bahrain, Bangladesh, Brunei, China, Cambodia, India, Indonesia, Japan, Kazakhstan, South Korea, Kuwait, Laos, Malaysia, Myanmar, Oman, Pakistan, the Philippines, Qatar, Singapore, Sri Lanka, Thailand, and Vietnam.

Table 2

	Production		Consumption		Import		Import dependency, %	
	1999	2020	1999	2020	1999	2020	1999	2020
<b>China</b>	<b>159.9</b>	<b>151.9</b>	<b>204.3</b>	<b>497.5</b>	<b>44.4</b>	<b>345.4</b>	<b>21.7</b>	<b>69.5</b>
<b>Hong Kong</b>	<b>0.0</b>	<b>0.0</b>	<b>11.2</b>	<b>23.9</b>	<b>11.2</b>	<b>23.9</b>	<b>100.0</b>	<b>100.0</b>
<b>Taiwan</b>	<b>0.4</b>	<b>0.0</b>	<b>38.2</b>	<b>51.1</b>	<b>38.2</b>	<b>51.1</b>	<b>99.9</b>	<b>100.0</b>
<b>Japan</b>	<b>0.7</b>	<b>0.0</b>	<b>266.4</b>	<b>288.4</b>	<b>265.7</b>	<b>288.4</b>	<b>100.0</b>	<b>100.0</b>
<b>South Korea</b>	<b>0.4</b>	<b>0.4</b>	<b>99.9</b>	<b>163.0</b>	<b>99.5</b>	<b>162.6</b>	<b>99.6</b>	<b>99.7</b>
<b>Russia</b>	<b>304.9</b>	<b>377.7</b>	<b>377.7</b>	<b>197.8</b>	<b>-177.9</b>	<b>-179.9</b>	<b>-139.5</b>	<b>-91.0</b>
<b>Total</b>	<b>466.3</b>	<b>530.0</b>	<b>997.7</b>	<b>1,221.7</b>	<b>281.1</b>	<b>691.5</b>		

*Source:* APEC Energy Demand and Supply Outlook 2002, APERC, Tokyo, 2002, p. 56.

100 percent dependent on oil exports by 2020. Table 2 shows the figures of production and consumption of oil (in ktonnes) in some of the Asian countries in 1999-2020.<sup>9</sup>

In 2003, China became the world's second largest (after the U.S.) oil consumer; it was responsible for about half of increase in oil consumption in the world (see Fig. 2). In 2004, oil demand will increase by 13%, while the GDP will grow by 8-9%. (In four months of 2004 oil import increased by 33.3% as against the same period in 2003 to reach 40.14m tonnes.) By 2020, China will have to import 75% of oil it will consume. Today, up to 40% of exported oil comes from the Gulf countries, which means that worsened relations with Taiwan will endanger China's oil supply. "Oil security" and diversification of oil supplies are one of Beijing's priorities; the country is building up a strategic oil reserve of 16m tonnes. According to Wang Tao, Chairman of the Chinese National Committee of the World Petroleum Congress, this is not enough by far: his country needs a strategic reserve of 60-day consumption (about 40m tonnes; the level of annual consumption being 240m tonnes in 2003).<sup>10</sup>

Recently, India has joined the ranks of the largest oil importers: its consumption is annually increasing by 10 percent. Today, Asia accounts for 90 percent of the world increase in oil consumption, which makes the continent the main consumer market of energy resources. Indonesia has stopped being one of the largest oil exporters—today it is a net-importer; this and the gap between demand and local supply has made the competition within the APR even fiercer.

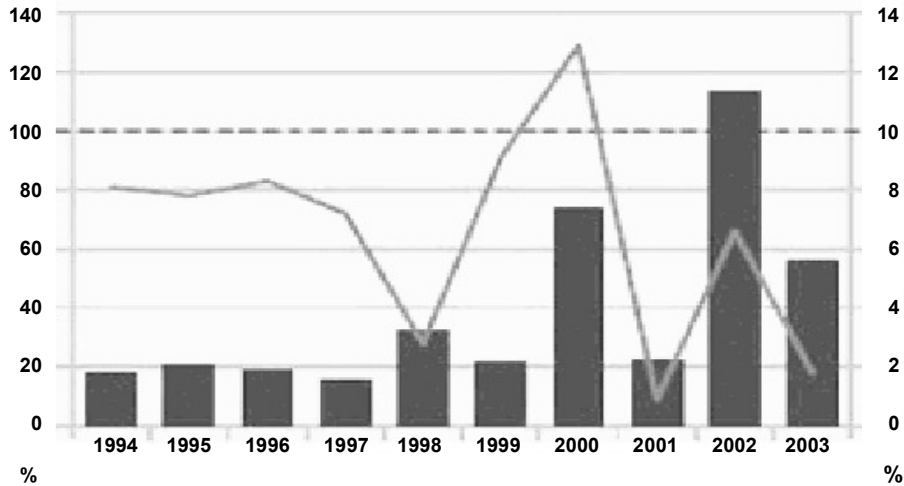
Japan has made its contribution to the race for alternative oil sources. If the prices continue climbing the country may face another grave crisis (this happened earlier, in the 1970s). This is what experts of the Institute of Power Industry of Japan think. The government is likewise convinced that expensive oil is a great hazard and intends to diversify oil sources. It seems that Russia will profit from this: in the past the Japanese limited their interest to the Tayshet-Nakhodka pipeline; in the near future we can expect a lot of interest in geological prospecting and oil and gas projects, especially in the Irkutsk Region. There

<sup>9</sup> See: V. Yakubovskiy, *Perspektivy stanovleniya mnogostoronnengo energeticheskogo sotrudnichestva v Severo-Vostochnoy Azii: rol Rossii. Publikatsii Tsentra Carnegie.*

<sup>10</sup> See: *Neft i kapital*, 11 May, 2004.

**In the near future China will account for the larger part of increase in oil import and consumption**

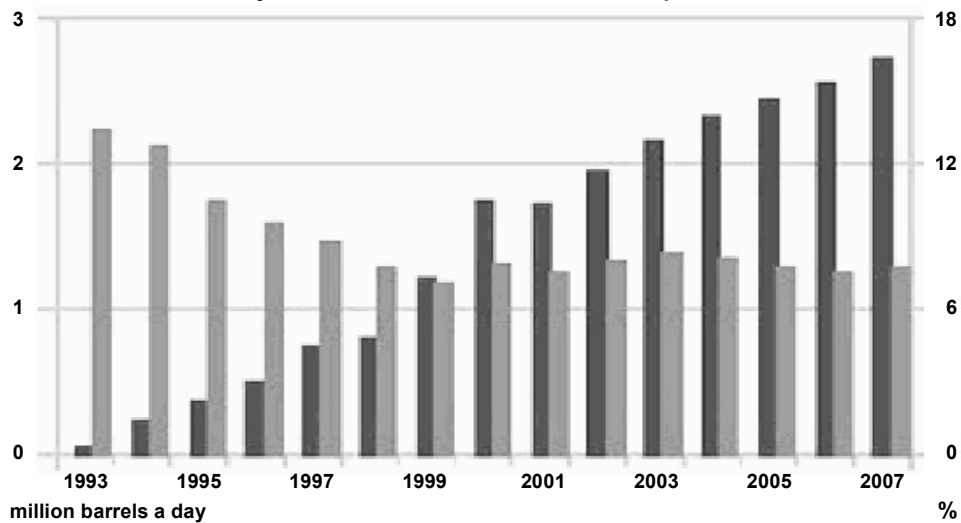
**An increase in oil consumption and the country's share in world increase**



■ Share in worldwide consumption increase  
 ■ Consumption increase (right scale)

Source: BP; assessment by Brunswick UBS.

**Dynamics of Growth of GDP and Oil Import**



■ Import  
 ■ Growth of GDP (right scale)

Source: BP, World Bank; assessment by Brunswick UBS; Economist Intelligence Unit.

Fig. 2

is information that Tokyo is prepared to invest in a construction of a pipeline that will reach Nakhodka (the project's estimate cost is \$5 billion) and offer \$7.5 billion to develop the Verkhnechonskoe oil field in the Irkutsk Region. The money will come as direct investments, as well as government-guaranteed soft credits.<sup>11</sup>

Consumption of oil in South Korea grew from 308m barrels in 1990 to 859m in 2001—an average annual growth being 9.8 percent. Due to deliberate efforts to diversify oil supplies the country's dependence on the Middle East dropped from 98.8 percent in 1980 to 57 percent in 1985; it later increased to reach 77 percent in 2001.<sup>12</sup>

I have already written that India is another large oil consumer in the APR. According to well-informed world agencies, the rate of oil consumption growth will outstrip India's GDP increase by 1-2 percent, the figure for gas being up to 4 percent. It means that in ten-year time the country will need twice as much oil (the figure being 3.1 mbd), while its domestic reserves are poor and oil production limited (see Table 3). The production continues to contract because the largest Bombay High oil and gas field is depleting. Today the country needs 1.3 mbd (the shortage being covered by crude oil imports). According to local analysts, the rapid population growth and dynamic economic development will force the country that has already nearly exhausted its domestic energy source potential to spend over \$20 billion on imported oil and gas every year.

Table 3

<b>India's Basic Economic Indices</b>	
<b>Population</b>	<b>980 million</b>
<b>GDP</b>	<b>\$378 billion</b>
<b>GDP growth in 1997-1998</b>	<b>5%</b>
<b>External debt</b>	<b>\$100 billion</b>
<b>Inflation (1998)</b>	<b>8%</b>
<b>Oil reserves</b>	<b>5.4 billion barrels</b>
<b>Oil production</b>	<b>675 tbd</b>
<b>Oil refining capacities</b>	<b>1.35 mbd</b>
<i>Source:</i> Petroleum Argus Ltd.	

This shows that the growing AP economies may prove to be the key market for Russia's energy resources, yet it was only recently that the RF has been demonstrating more eagerness to develop oil exports in eastern direction.

<sup>11</sup> See: *Nezavisimaia gazeta*, 22 August, 2003.

<sup>12</sup> See: G. Belokurova, *Osnovnye napravleniia energeticheskoy politiki Respubliki Korea. Publikatsia Tsentra Carnegie*.



## Kazakhstan's Challenge

During the Beijing visit of President of Kazakhstan Nazarbaev that took place on 18 May, 2004 the two countries signed an agreement on building an oil pipeline from the town of Atasu (Northeastern Kazakhstan) to Alashankou in the Chinese province of Xinjiang with a design capacity of 20m tonnes of oil a year, length, 1,240 km, estimated cost, \$800m. The work will be finished in December 2005. At the meeting with Chinese leader Hu Jintao President Nazarbaev said that Russia could use the same pipeline to move more of its oil to China. He referred to the Omsk-Chardzhou (Turkmenistan) pipeline built back in the late 1980s that crossed Kazakhstan and Uzbekistan. In Kazakhstan it goes through Atasu where the future Chinese pipeline will start.

It was not his first invitation; in fact the Omsk-Chardzhou line moves only about 2.7m tonnes of oil a year (its annual capacity being about 30m tonnes), therefore Moscow will profit from this initiative. S. Grigoriev, Vice President of Transneft, a Russian company, said that his company had not yet studied the Kazakh initiative in detail. "We have not yet received official documents but we are convinced that we have no technical potential to do this," said he. It seems that he is not quite sincere: the question of Russia's eastern oil pipelines was revived as soon as China and Kazakhstan signed their agreement. On 21 May, 2004 Transneft President Semyon Vainstok said that the first 10m tonnes of oil could be sent to the Tayshet-Nakhodka pipeline in the middle of 2006.<sup>13</sup>

In his annual address to the Federal Assembly of 26 May, 2004 President Putin expressed an official point of view when he said: "It is for several years now that the government has not been able to identify the priorities—the long overdue issue. Decision-making should proceed from state priorities rather than from interests of individual companies." This can be interpreted as a direct instruction for the government to speed up the discussion of the eastern oil pipelines issue so as to reach the stage of concrete decisions.

Two days after that, on 28 May, at a press conference in Moscow Viktor Khristenko, head of the Ministry of Energy, announced that the first feasibility study for investments in the oil pipeline system in the east of the country would be completed in July; this would make it possible to start discussing concrete routes. "Everything is clear with respect to the eastern direction," said he. "The feasibility study is conducted with specific volumes in mind. If we select the Nakhodka direction then we shall be talking about 80m tonnes a year."

It has become more or less clear how much oil will be moved along the pipeline. In February 2004, at a meeting in Khabarovsk that discussed the future of transportation infrastructure of the Far East and the Trans-Baikal area President of Sakha-Iakutia V. Shtyrov announced that his republic was ready to send to the Angarsk-Nakhodka pipeline 30m tonnes of oil, to bring up the figure to 50m tonnes in a year's time and to 80m tonnes in two years.<sup>14</sup> On the eve of the meeting President Putin had instructed the government to draw up all the necessary documents related to the development of a pipeline transportation system in the east of Russia and to summarize them.

It seems that the Russian leaders have been spurred to action by Kazakhstan's decision to build an oil pipeline to China. Experts have highly assessed the invitation Russia received from Kazakhstan: it will add a new dimension to the "oil" relationships between Astana, Beijing and Moscow.<sup>15</sup> This is an answer to those who were saying that Moscow might not look favorably at a pipeline between Kazakhstan and China for economic and geopolitical reasons. President Nazarbaev, however, offered an elegant solution—one of those that could not be refused.

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<sup>13</sup> See: *Finansovye izvestia*, 21 May, 2004.

<sup>14</sup> See: *Strana.ru*, 26 February, 2004.

<sup>15</sup> See: *Opec.ru*, 19 May, 2004.

## The Eastern Oil Pipeline is Acquiring Clear Outlines

In his interview with the *Truboprovodniy transport nefiti* (Oil Pipeline Transport) journal (No. 2, 2004) President of Transneft Semyon Vainstok ended prolonged silence by commenting on the prospects of an export oil pipeline from Eastern Siberia to the Far East. He clarified that a new project is under discussion according to which this line will not start at Angarsk as earlier planned but at Tayshet, some 500 km to the northwest, and will go 152 km to the north of Baikal.

His interview revealed the general outline of the oil transportation to the Pacific coast his company favors. It seems that this project will be realized. Obviously, the company being aware that the experts of the Ministry of Natural Resources buried two previous variants that ran too close to Lake Baikal cannot but be too cautious. The new route runs far from the lake and natural reserves; the very fact that it starts at Tayshet rather than at Angarsk makes the pipeline shorter and cheaper. The pipeline will reach the coast at the Privoznaia Bay in the Maritime area, not in Nakhodka as earlier planned.

In the middle of February 2004, while working on the feasibility study of the Tayshet route, the company got permission from the administration of the Amur Region to start prospecting along the part of the route that ran across the region's territory. It was at that time that the company signed a declaration of intentions with the administration of the Khabarovsk Territory on building an oil pipeline system Eastern Siberia-the Pacific; under the current project the pipeline will cross four regions of the Khabarovsk Territory. The pipeline will be 4,130 km long, of which 1,403 km will cross the Amur Region. It will take entire 2004 to specify the feasibility study; public hearings in the regions and ecological assessments are planned for later periods. Only after that the government will be ready to pass a decision on the project as a whole.

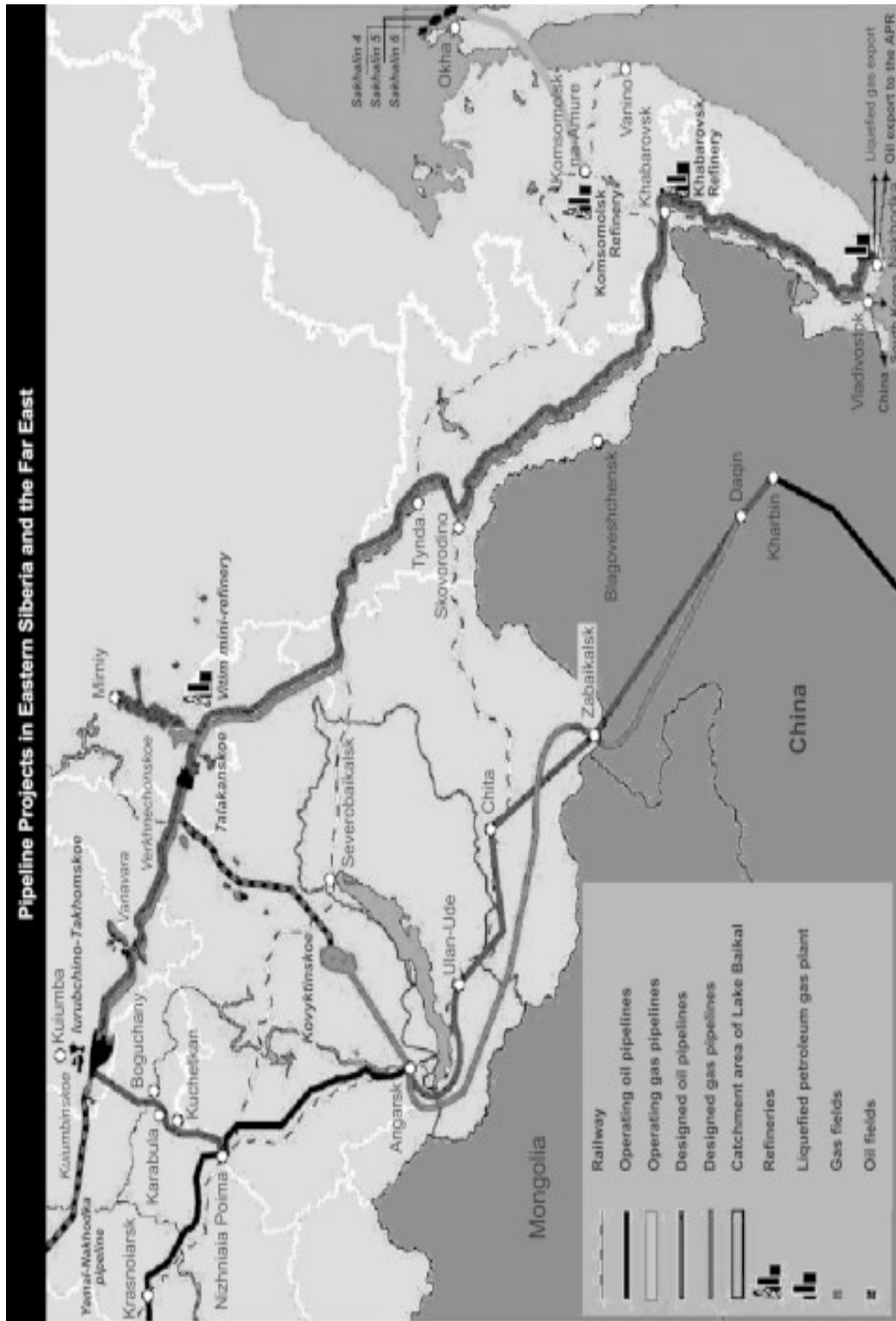
Experts are still looking for several alternatives designed to send enough oil to the pipeline.

- First, they take into account that Japan will be involved in developing the oil resources of Eastern Siberia. I have already written that recently Tokyo has been displaying a lot of interest not only in the Nakhodka pipeline—it is prepared to heavily invest in the development of Eastern Siberia and the Far East if Russia drops the Chinese variant of a pipeline.
- Second, the Sakha-Iakutia government is prepared to connect the Transneft East Siberian pipelines to the oil fields currently developed in the republic in order to reach the Pacific coast (the republic's President Shtyrov confirmed this in Khabarovsk).
- Finally, it is technically possible to send West Siberian oil along the Tayshet-Nakhodka line (see map).

The Tayshet project has become too costly—this cannot but cause doubts about its future. According to Vice President of Transneft S. Grigoriev, the price may go up to \$12 billion as against the previous estimate of \$6 billion. The *Financial Times* wrote that the Japanese government that had earlier been prepared to finance the project according to its previous cost might be unpleasantly shocked.

## There Is No Alternatives to the Emergence on the Asian Markets

So far, all expectations that Russia might become a leader on the world oil market remain groundless. I have already written that it has become a leader where the volumes of extracted and exported oil are concerned, yet even these huge volumes do not allow Moscow to influence the oil prices.



In the context of the changing world's financial order (that looks like a mere reform of the Bretton Woods financial institutions to a superficial observer) one can say that the system of price formation, especially oil prices, will be inevitably transformed. This explains, and justifies, Russia's desire to play one of the leading roles in the emerging system—yet this role cannot be obtained automatically.

While concentrating on the West European markets (highly competitive ones) it is impossible to influence the prices in other regions. In other words, the absence of energy fuel transportation facilities leading to the Asia Pacific and American markets deprives Russia of any significant role in price formation on the world market.

Russia that extracts the high grade Siberian Light oil (equal to the Arabian analogues) has to transport it through the only mainline that belongs to Transneft where it is mixed with oil from other regions into a cheaper Urals grade. The cost is not the only problem: not all oil refineries can use it without readjusting to a great extent their equipment. No wonder, the talks about the need to set up an "oil quality bank" are growing louder: the transportation companies are expected to increase their responsibility for the quality of oil they deliver to their customers.

There is one more "strange" fact directly related to the prices on Russian oil: the Russian export blend (Urals) futures are quoted at the London International Petroleum Exchange, not in Moscow. Russia has no financial infrastructure able to help the Russian oil producers and exporters to participate in price formation, at least for their own oil.

Nazarbaev's invitation to use the Kazakh pipe going to China to move Russian oil was not welcome with the Transneft heads—a natural response to the monopolists. One wonders why the RF government has not responded: even the slightest evidence of a cartel agreement among former Soviet republics will cause grave concerns on the world markets: this strengthens the positions of exporters and makes importers more flexible. It seems that the potential of economic cooperation within the CIS remains underestimated.

When talking about diversification of Russia's oil export one should say that not only the price and logistics elements are changing; the geopolitical architecture of the global oil market is being rebuilt. The main trends and new projects are being formed in the Asia Pacific countries neighboring on the Russian Far East. They will serve as the core of multilateral cooperation in the energy sphere impossible without Russia. This will help the Russian Federation join the integration fields of the Asia-Pacific Region.

For objective reasons—its geopolitical situation, the fast growing demand for energy fuels in the APR and the region's dependence on fuels delivered from the unstable Middle East—Moscow can play a structure-forming role in creating multisided energy cooperation in the Asia-Pacific area. The growing involvement in the energy sphere of certain other CIS republics (Kazakhstan, Turkmenistan and Uzbekistan) and their activity will play an important role in this process. The old Soviet ties may prove useful: I have in mind not only the infrastructure (pipelines) inherited from the Soviet Union but also the technological and historical closeness of the former Soviet states and nations.

This cannot be resolved automatically; it is necessary to identify strategies with due account of the current political, economic and energy situation in the region, the relevant global factors, as well as to demonstrate political will to translate these projects into reality.