
The Siberian–Northeast Asian Gas Pipeline Network: Major Problems To Solve, Hard Choices To Make

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In only a few years, discussions about the natural gas resources in Northeast Asia have gained a strong momentum. These exchanges are taking place both through intergovernmental channels and a number of multilateral expert-level meetings. In those exchanges, Russia's large resources of natural gas in its eastern provinces have been at the center of attention. It seems, however, that there are many problems that need to be closely examined before the expectations become reality. The most important among these problems is that a long-term and comprehensive strategy for the development of these resources has yet to be designed. Although ideally this gap needs to be bridged collectively, Russia's own role will be central in this process.

This strategy must accommodate various issues and interests, including a resource-base enlargement, markets to be covered, delivery options, sources and mechanisms of financing the projects, and the cost-effectiveness and policy-sustainable 'geography' of the proposed gas pipeline network. All these issues will be difficult to solve in a bilateral manner between Russia and neighboring countries. Therefore, opportunities for a multilateral approach must be closely examined.

In foreign policy, Russia has traditionally favored an inclusive multilateral approach to major international issues such as the stability of the Korean peninsula. A similar approach in the economic realm would also seem to be acceptable—multiple participants are already involved in the oil and gas projects in Sakhalin. A feasibility study of the giant Kovykta gas field near Irkutsk also involves, in addition to Russia and China, representatives from Japan, the Republic of Korea, and Mongolia.

Local energy needs and domestic politics are also major components of this process. The development of Sakhalin's oil and gas resources serves as an example. Although the administrations of Sakhalinskaya Oblast and of Khabarovskiy and Primorskiy Krai agreed on a gas pipeline project linking the island and these two most populous and industrialized provinces in Far Eastern Russia, some commercial and logistic problems remain unsolved. The sources of financing for this project are among them. The federal government supports the plan, but has neither investment funds nor sufficient influence to streamline unsettled problems. It is likely, therefore, that this project could be a part of only a larger export pipeline to supply natural gas to eastern China.

Obviously a multilateral approach in developing, distributing, and delivering Russian natural gas to the end users in Russia and beyond its borders is not only desirable, but also inevitable, if Russia really wants to utilize these resources within the next five to ten years. The size of the market for natural gas in eastern Russia is not necessarily small, but it is perhaps not big enough to justify the construction of major pipeline infrastructure. A more serious problem is that the multi-billion-dollar funds needed for such a large-scale project are simply not available inside Russia and must be borrowed from or mobilized through a major involvement of foreign investors.

A multilateral approach therefore promises a practical solution to both these problems. There will be a much larger market for natural gas transmitted through pipelines, and this larger market will help to mobilize external funding. A regionwide development, investment, and marketing strategy therefore is likely to serve not only Russia's own economic interests but also broader ones—as well as regional environmental needs—at a lower cost, within a shorter time span, and with greater efficiency.

The financial burden and risk sharing could be much easier if all participants benefit from the project (or projects) and if the whole natural gas pipeline initiative is perceived as “neutral” with regard to major users. This, however, could be problematic because, at the moment, there are not enough known resources in Eastern Siberia and Far Eastern Russia in the first place. Therefore, first of all, more resources of natural gas must be mobilized and, secondly, the hard choices with regard to the infrastructure design must integrate diverse domestic and external interests, technical and geographical realities, and financial and political constraints.

A debate along these lines took place at the Fifth International Conference of the Northeast Asian Gas and Pipeline Forum in Yakutsk, Far Eastern Russia, in July 1999. Some Russian participants suggested that large resources of natural gas could be delivered to the markets in Northeast Asia from the Nadym-Purtazovskiy region in the northeast corner of Western Siberia. The following ideas and practical suggestions emerged from this conference:

- A transcontinental gas pipeline linking Western Siberia with the Pacific coast could be seen as the core of the Northeast Asian gas pipeline network currently under discussion.
- If chosen, the Trans-Siberian railway corridor, with its infrastructure and known geological conditions, should allow a pipeline to be constructed faster and at competitive costs compared with other options.
- This project will create additional incentives for the development of natural gas deposits in Krasnoyarskiy Krai and Yakutia, providing

- these projects with a delivery infrastructure and integrating them in a larger regional scenario of development and use of natural gas.
- A Trans-Siberian pipeline could cover all major cities and industrial zones in eastern Russia, while the long-term needs of international users will be assured, including those who prefer to import liquefied natural gas (LNG) instead of pipeline natural gas (PNG). Therefore, both domestic and international constituencies in support of these projects will be strengthened.
 - This approach could also better serve the funding of the project, particularly if ‘an open access pipeline’ scheme is adopted (see endnote).
 - The main advantage of such a system is the possibility to combine the multiple sources of natural gas in the northwest areas of the Asian landmass with the multiple users located in the southeast areas and in Japan.
 - When completed, the entire system not only will allow the management of the resources of natural gas on a regionwide basis, but also will optimize energy use through substitution and combination of natural gas, hydropower, thermal power, and other sources of electricity and heat.

The question is how to promote such a complex strategy that could eventually provide Northeast Asia with a regional gas pipeline network supported by local constituencies, political leaders, major business groups, international lenders, and the final users. Yet another complication is that the governmental policies should incorporate not only national but also regional and local perspectives on the development, utilization, and cross-border transmission of energy resources.

Note

It has been argued that an “open-access” transportation system could solve at least one problem: The result of “the great lobbying dance over which company shall win the right to build a pipeline to serve a new market” could easily be that no infrastructure gets built. Each and every candidate, many of whom are gas producers, fears being severely disadvantaged (if not shut out of the gas game entirely) by failing to win the right to build the delivery infrastructure. See Robin Baldwin, Geoffrey Roberts, and Terrence H. Thorn, “If You Build It, They Will Come: Strategies for Implementing APEC’s Natural Gas Initiative,” in Dona K. Lehr, ed., *Natural Gas in Asia: Facts and Fiction* (Singapore: PECC Energy Forum, 1998), pp. 70–73.