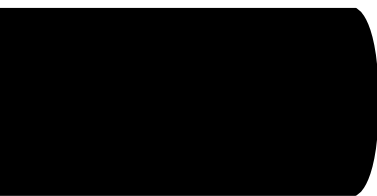


Russian East Siberia and the Far East:


**A basis for co-operation
with Northeast Asia
By Nodari Simonia**

For years, both in Soviet and post-Soviet times, Russian East Siberia and the Far Eastern regions were treated as an unloved stepchild.


The country's rulers delivered grand but hollow speeches about their importance to the development of Russia, and its integration into the fast growing Asia Pacific.



LONG-TERM development plans were drawn up, but until recently, they remained only on paper. The Western orientation of Russia's foreign economic policies dominated.



Lately, however, the winds of change have been felt. No Soviet or Russian leader has made as many visits to the Asia Pacific region as President Vladimir Putin. Moreover, he has devoted considerable attention to the eastern territories, recognizing that their development and the full-fledged integration of Russia into the Asia Pacific region are closely interconnected.



The key element in realizing these twin goals is large-scale development of the energy potential of the eastern regions, including building the necessary infrastructure. This requires harmonious state-private cooperation: the state must provide large-scale infrastructure investment (considerable funds are already available for this purpose), while domestic and foreign businesses will have to invest in prospecting, developing, producing and processing hydrocarbon fuel sources.

There are a number of signs that suggest 2006 will be a breakthrough year in the development of East Siberia and the Far East, and also one of considerable expansion in energy cooperation with Northeast Asian countries. For the first time, Russian businesses are turning to East Siberia and the Far East as a springboard for large investments. At an economic forum in Krasnoyarsk on May 12-13, 2006, private businesses announced their readiness to invest US\$200-230 billion in about 100 large projects in the region, about half of them in oil and gas. This is undoubtedly connected to the continuing depletion of West Siberian energy resources and the increase in Russia's export liabilities. The need to develop another large Russian oil and gas province in the east is becoming evident. There

NOTES

1 *Ezhenedelnik promyshlennogo rosta* (Industrial Growth Weekly) 15 (May 15-21, 2006): 3; *Expert* 16 (May 15-21, 2006): 70-71

2 See the details in my recent article, "Russia in the Asia Pacific: the Beginning of a New Era?" *Asia Pacific Review* 13, no. 1 (2006): 16-31

3 *Vremya novostei*, May 29, 2006

4 *Oil and Gas Journal*, Feb. 27, 2006, 10

are also plans to invest US\$45 billion in thermal power plants and hydropower projects.¹

President Putin has left no doubt he intends to promote and control the development of East Siberia and the Far East. In a speech in Yakutia in January 2006, he announced a systematic national program to develop the region and also to encourage large-scale energy exports to Asia.² The start of construction on the Taishet-Nakhodka main pipeline is an indication of the president's commitment to this process. Past efforts to realize the project, worth US\$11-16 billion, were delayed by never-ending intrigues involving former Prime Minister Mikhail Kasyanov, a number of other ministers and interested oil oligarchs, local authorities, and even certain Northeast Asian countries. Between 2003 and 2005, President Putin repeatedly intervened to press for acceleration of the project's implementation. As late as 2006, political opponents were once again trying to throw a spanner in the works using environmental arguments as a cover. It is curious that in this latest effort to stall the project, they were also joined by Kasyanov, who may have forgotten that in the past he once backed a different oil pipeline route proposed by imprisoned energy tycoon Mikhail Khodorkovsky without any second thoughts about environmental concerns.

On President Putin's initiative, a decision was made to route the pipeline over 400 kilometers to the north of Lake Baikal. Now the main pipeline will lie much closer to existing oil deposits and areas where there is the promise of future deposits. This will make exporting through the pipeline when it opens much easier. Some oil companies, including Surgutneftegaz and Rosneft, which had requested that the main pipeline be located nearer to oil developing regions, have expressed a readiness to participate in the

financing of access roads, the provision of electricity and other construction expenditures.³ For environmental reasons, there may also be changes in the location of the oil export terminal. In February 2006, Transneft President S. Vainshtok said Kozmino Bay, close to Nakhodka, is currently being considered instead of Perveznaya Bay.⁴

Despite the back-and-forth over these issues, construction of the oil pipeline started exactly on time – April 28, 2006. Another factor providing additional stimulus for Russia to accelerate plans to develop East Siberia and the Far East was the position taken by Western powers ahead of this year's Group of Eight (G-8) Summit in Moscow. Energy issues were a top priority. Many Western governments, especially the European Commission in Brussels, apparently decided to use the summit preparation to put intense and open pressure on Russia, trying to achieve unilateral concessions. For Russia to yield would have meant its transformation into a raw materials appendage of the European Union. In the course of negotiations ahead of the G-8 Summit, Western representatives persistently rejected Russian proposals, which I viewed as fair, to accompany guarantees the West sought for stable energy supplies to Europe (first and foremost gas) with reciprocal European guarantees of secure demand for Russian hydrocarbons. Ironically, for a decade the European Commission had doggedly sought to demolish the established system of long-term contracts in favor of free competition and spot market prices. The European Commission openly intimidated European Union (EU) countries by warning about a "Russian monopoly" on energy supplies (a position that was supported the U.S.) and recommending they diversify their hydrocarbon import sources, even if this was more expensive. A graphic example of this approach was the

NOTES

- 5 Kommersant and Vedomosti, March 22, 2006; Ezhenedelnik promyshlennogo rosta (Industrial Growth Weekly) 15 (May 15-21, 2006): 1
- 6 Kommersant, May 11, 2006; Vedomosti, May 11, 2006; and Vremya novostei, May 12, 2006
- 7 International Oil Daily, March 22, 2006
- 8 Neft i kapital (Oil and Capital), IV (2006): 6-7; International Oil Daily, March 22, 2006; Vedomosti, March 23, 2006

According to memoranda signed during that visit, over the next 15 years Russia could well become the largest energy supplier to China.

The memoranda envisage long-term contracts for the delivery of gas, oil, and electricity.

construction of the Baku-Jeikhan oil pipeline. In other words, the EU and the U.S. were doing exactly what they so often accused Russia of doing – politicizing energy cooperation issues. While Western countries want access to develop, extract and transport Russian hydrocarbons, they oppose access by Russian corporations to Western distribution networks and consumers.

Quite naturally, this attitude has encouraged Russia, in turn, to consider seriously diversifying its hydrocarbon export routes. President Putin’s visit to China in March 2006 is confirmation of this reaction. According to memoranda signed during that visit, over the next 15 years Russia could well become the largest energy supplier to China. The memoranda envisage long-term contracts for the delivery of gas, oil, and electricity. Russia will build two gas pipelines to China with a capacity of 60-80 billion cubic meters a year. The first pipeline, “Altai,” will be 2,800 kilometers long and pass through the western part of the Russian-Chinese border. Around 30-40 billion cubic meters a year of gas will transit the pipeline beginning in 2011. A considerable portion of the pipeline will go along the existing

corridor from Yamal to Altaiskii krai. In China, it will join the “West-East” gas pipeline built in 2004-2005. An eastern pipeline of similar capacity will be filled, most probably, from three main sources – Sakhalin (around 8-10 billion cubic meters), the Chayandinski deposit (which has not yet been developed), and the large Kovyktinski deposit (up to 40 billion cubic meters)⁵. Gazprom and China National Petroleum Company (CNPC) have signed a protocol on the timing, volumes, and routes of gas deliveries, as well as the principles for pricing. The two companies have already completed feasibility studies, and hope to complete negotiations on commercial prices by the end of 2006.⁶

Another successful outcome of the talks between President Putin and Chinese President Hu Jintao was discussion of a possible spur line off the East Siberia – Pacific Ocean oil pipeline, loading directly to China. The two agreed to a feasibility study. CNPC will finance the study, which will be conducted jointly with Transneft. CNPC also agreed to extend a grant of US\$400 million to Transneft for construction of a branch pipeline from Skovorodino to the Chinese border, though the pipe itself will be the property of the Russian company.⁷ In addition, CNPC and Rosneft signed an agreement on deliveries of 48 million tons of oil to China up to 2010, with Rosneft receiving an upfront payment of US\$6 billion. They also agreed to create two Russian-Chinese joint ventures by the end of 2006 – one for development of deposits and oil in Russia, and the other for oil refining and the retail sale of oil products in China. Reuters, meanwhile, has reported that Rosneft is ready to spend as much as US\$2 billion on investments in refineries and in Chinese gasoline stations.⁸ Rosneft currently delivers oil to China along the East Siberian railway via the Zabaikalsk border crossing. The Russian railroads

NOTES

9 Oil and Gas Journal, Feb. 27, 2006, 10; Neft i kapital (Oil and Capital), March 14, 2006, 114

10 All the twists and turns of the struggle for redistribution of RP shares up to 2004 I have described in detail in "Russian Energy Policy in East Siberia and the Far East," The Energy Dimension in Russian Global Strategy (Houston: The James A. Baker III Institute for Policy at Rice University, Houston, 2004): 4-14

11 When RP was formed, Kovykta reserves were estimated on the basis of old Soviet era data as 600-800 billion m³. New investigations brought this estimate to 2.1 trillion m³. Experts believe general reserves, taking into consideration the zone around Kovykta, may even exceed 3 trillion m³. See TEC (Fuel and Energy Complex), no. 3-4 (2005): 66. We can confidently assume similar increases in estimated reserves of oil and gas at a majority of other deposits as soon as their industrial development begins.

administration has said it plans to upgrade the East Siberian and Zabaikals railways, which will allow an increase in total oil export volumes to 30 million tons from the current 15 million tons. Elsewhere, Rosneft has begun negotiations with Kazakhstan's KazMunaiGaz and KazTransOil, CNPC, and Russia's Transneft on using the 1,000-kilometer Atasu-AlaskhanKou pipeline to supply China with crude oil.⁹

At the Beijing meeting, Russia and China signed another memorandum agreeing to conduct a feasibility study over the next six months for the annual delivery of up to 60 billion kilowatt-hours of electricity to China. Implementation will require construction of the powerful Turukhanskaya hydroelectric power plant, with a capacity of 12 thousand megawatts, plus a number of hydroelectric and gas- and coal-fired power plants. The agreement was made possible because China dropped its demand to fix electricity prices at a level a bit higher than prime cost at Siberian hydroelectric power plants. Instead, the two sides have agreed to tie the base export price to the purchase price at electricity stations in Chinese regions with scarce energy resources.

The agreements reached in Beijing on Russian gas sales to China, meanwhile, could help create momentum that could lead to compromise settlement of a longstanding controversy between Gazprom and British-American BP Corp. over plans to develop Kovykta natural gas and condensate deposits. In April 1992, the license for development of this and the nearby Verkhnechonsk oil-gas-condensate deposits was granted to Russia Petroleum Ltd. (RP), which was created at the initiative of the Irkutsk regional administration and several local enterprises and organizations. Control of RP soon fell into the hands of the Siberian Far Eastern Oil Company

(Sidanko), formed at the behest of the Russian government and controlled by UNEXIM Bank. Over the next several years, however, numerous changes in shareholdings took place, so that today RP's shareholders are TNK-BP (62.42%), Interros (25.82%) and the regional administration (10.78%).¹⁰ RP faces the real threat of losing the license for Kovykta, because it has failed to meet one of the license's main terms – to provide 9.6 billion m³ of gas for the Irkutsk region in 2006. TNK-BP, for its part, said the reason RP did not meet that requirement is that regional home demand for gas only amounts to approximately 2.5 billion m³, with near-term maximum demand being put at 4 billion m³. The underlying problem is that development of such a large deposit as that at Kovykta, with its more than 2 trillion m³ of explored reserves, only makes economic sense if there are large-scale exports to China and South Korea.¹¹

This is exactly why, in recent years, RP has been trying so aggressively to forge a relationship with Gazprom, which possesses a virtual monopoly on the export of Russian gas. Gazprom, however, has consistently rejected all proposals by TNK-BP, RP's dominant shareholder. According to many experts, Gazprom believes time is on its side, and that RP will probably lose its license, which would mean Kovykta would then be put up for auction as a strategically important deposit. Gazprom would be able to lay claim to it, or at least to a controlling block of shares, perhaps with TNK-BP's participation as a junior partner. This would result in a "state-private partnership" along the lines of the formula recently described

NOTES

12 Vedomosti, December 1 and 22, 2005;
Kommersant, December 29, 2005

13 Vremya novostei, November 9, 2005; Kommersant,
November 11 and December 17, 2005

by RP's Executive Director, Viktor Vekselberg, but with a somewhat changed order of ownership.

To avoid such a scenario, RP is now making feverish efforts to at least partially develop the Kovykta and Verkhnechonsk deposits. Through the East Siberian Gas Company (ESGC), which it runs on a parity basis with the Irkutsk regional administration, it announced that gas deliveries to industrial parts in the south of the region would start in late 2006, and that it would build the Kovykta-Irkutsk to Zhigalovo gas pipeline, with the aim of completing the whole gas-transport system by the third quarter of 2007. TNK-BP is ready to invest US\$1.1 billion. Elsewhere, Vekselberg has expressed a readiness to organize the processing of helium from Kovykta, whose gas deposits are notable for their high concentration of this strategic raw material. But, with an annual extraction of 4 billion m³ of gas necessary to build helium storage, this will not happen earlier than 2015.¹²

To counterbalance these moves, Gazprom concluded a gasification agreement with Irkutsk region Governor Alexandr Tishanin on the basis of 11 small- and medium-sized deposits in the

north of the region. This will increase the cost of gas and demand considerable subsidies from municipal and regional budgets. Meanwhile, Kovykta gas will either be "frozen" at least up to 2010 or even 2014, or be directed to the country's joint gas network. According to Gazprom, gas exports should come from Sakhalin (where, by the way, Gazprom does not yet have any stake, though negotiations on its participation through asset exchanges are under way), or from Chayanda (which has not yet been put up for an auction).¹³

Not everyone in Moscow supports Gazprom's approach. Deputy Head of the Ministry of Economic Development, Kirill Androsov, as early as December 2005 expressed the view that in 25-30 years, the deposits at Kovykta might become the basis for East Siberia's development, as well as the source of large-scale natural gas exports to China and South Korea. Moreover, development of another large deposit at Yakutia – the Chayandinski – is reasonable only in conjunction with the development of Kovykta.

To be sure, Gazprom will retain its monopoly on gas exports, and its supporters in Moscow are

NOTES

14 Vremya novostei, December 15, 2005; ;
Kommersant, May 12, 2006

15 The International Herald Tribune, March 22, 2006.

16 Vedomosti, June 21, 2006

17 Petroleum Economist, April 2006, 36

still quite strong.¹⁴ One of the most important reasons for this lies in the nature of the steps taken by management at TNK and BP in recent years. The “friendly takeover” of Russian TNK by British-American BP was hailed in the press at the time as the largest investment in Russia. But that deal should not be viewed as a traditional direct foreign investment. TNK’s management just pocketed US\$6 billion, while BP considerably increased its oil and gas reserves,

and held several consultative meetings and consultations on a contract began. As for the Verkhnechonski oil and gas field, which has estimated oil reserves of 201.6 million tons and natural gas reserves of 129.2 billion m³, another battle for redistribution of assets is unfolding. Up until the autumn of 2005, the shareholders of Verkhnechonskneftegaz were TNK-BP (62.71%), Interros (25.94%), and ESGC, a joint venture between TNK-BP and the regional administration (11.29%). But in

The “friendly takeover” of Russian TNK by British-American BP was hailed in the press at the time as the largest investment in Russia.

But that deal should not be viewed as a traditional direct foreign investment.

from then on becoming almost the only oil major that ended every year with substantial profits. The Ministry of Nature Management, meanwhile, has reproached TNK-BP for more than a decade for its failure to begin development of Kovykta, which is essential to the gasification of the Irkutsk region.

Following the signing of the gas agreements on President Putin’s Beijing visit, Gazprom head, Alexei Miller, said on March 21 that “one of the pipelines agreed to Tuesday would take gas from Russia’s traditional energy region of Western Siberia, and the other would use Sakhalin Island off Russia’s Pacific coast and possibly TNK-BP’s Kovykta field”.¹⁵ Since then, Gazprom officials have begun to speak of the need to divide implementation of the gas agreements into two stages. First, Gazprom intends to concentrate on the Western gas pipeline, “Altai.” Immediately after the Beijing meeting, both sides created working groups, and inten-

October 2005, another active player appeared on the scene – Rosneft. The company bought out Interros’ stake for US\$230 million. In June 2006, ESGC put up its stake for sale. The main favorites for the tender are Rosneft and TNK-BP, though, strictly speaking, this purchase will not change the status of either company: neither will be able to accumulate a controlling stake in Verkhnechonskneftegaz (75%+one share).¹⁶ Nevertheless, for Rosneft, this acquisition would further its strategy of acquiring the maximum number of deposits in nearby regions. According to “Petroleum Economist,” Rosneft will likely become the driving force in oil development in the northern part of the Irkutsk region.¹⁷ This is part of Rosneft’s strategic aspiration to become the principle claimant to fill the future Taishet-Nakhodka main pipeline.

In Sakhalin, meanwhile, considerable shifts are taking place. Separate investments to the tune of US\$12.8 billion and US\$11.5 billion have

NOTES

18 Vedomosti, June 19, 2006

19 *Rossia v ATR (Russia in AP)*, no. 1 (November, 2005): 15

been made in the existing oil and gas projects at “Sakhalin-1” and “Sakhalin-2.” Both these projects are based on production-sharing principles. “Sakhalin-3, -4 and -5” are already on the way, each of them requiring investments of not less than US\$10-15 billion. They have reservoirs of oil and gas considerably exceeding the first Sakhalin projects. In addition, Japan’s Mitsui has expressed a desire to join in the construction of a petrochemical complex on the island.¹⁸ The first project to start operations was “Sakhalin-2.” The license belongs to Sakhalin Energy, whose shareholders are Royal Dutch Shell (55%), Mitsui (25%) and Mitsubishi (20%). Oil has been extracted here since 1999, and almost all of it is sold to Japan. However, the greatest attention today is on the natural gas condensation plant constructed within the project’s framework. From 2008, 9.6 million tons a year of liquefied natural gas (LNG) will be produced from two production lines at this plant. The lion’s share has already been contracted by large Japanese consumers. The rest will probably be sold to South Korea and China. Already, construction of an additional production line is being considered, which would increase the plant’s aggregate output to 12 million tons. It is possible that a feed from “Sakhalin-1” will also come to this new line along the new gas pipeline.

With regard to “Sakhalin-1,” I should say that according to some sources, Exxon’s initial delays in developing this deposit may have been due to management’s view that Exxon’s license was secure, and “Sakhalin-1” could wait until the company’s African expansion plans were further along. Lately, however, the company seems to have realized that the new Russian leadership might revoke the license due to the delays. Both Exxon and Chevron felt the reality of such a threat when the Ministry of Nature

Management revoked their license on “Sakhalin-3” due to nearly a decade of delays in developing those deposits. Exxon Neftegas Limited (ENL), which holds 30% of the share capital in the “Sakhalin-1” project, started industrial output at the Chaivo field in October 2005. Perhaps the appearance of a new shareholder in the project contributed to accelerating the process. Rosneft sold its 20% stake to India’s ONGC Videsh Ltd.¹⁹

Of course, Exxon is not only the largest among the oil majors, it also possesses the most advanced oil production technologies, and so plays the leading role in the project. At “Sakhalin-1,” it is employing unique directional drilling technologies, drilling from the shore under the seabed up to 12 kilometers. By the end of 2006, the volume of oil produced will increase to 32,000 tons a day, that of gas to 7.1 million m³. Initially, gas will be delivered to Khabarovsk krai at commercial prices under a 20-year contract. The annual volume of deliveries will grow from 1 billion m³ to 3 billion m³ by the end of the decade. At first, oil deliveries to Khabarovsk krai and Komsomolsk-on-Amur will be carried along Rosneft’s pipeline system. The company’s oil-processing plant in Komsomolsk-on-Amur is under modernization, with capacity expected to increase to 7 million tons a year. The plant’s production will be exported to Japan.

Oil exports to Asia Pacific from “Sakhalin-1” will reach large-scale levels after October 2006, following the completion of a terminal at De-Kastri on Khabarovsk krai’s coast. To meet this need, five oil tankers have already been ordered from South Korea, each with a capacity of 100,000 tons. Meanwhile, from January 2008, Exxon Neftegas Ltd. intends to begin development of the Odoptu and Arkutun-Daginskoe gas fields, with deliveries intended for China and South

NOTES

- 20 *Rossia v ATR* (Russia in AP), no. 1 (November, 2005): 38-39
- 21 *Rossia v ATR* (Russia in AP), no. 1 (November, 2005): 43; *Rossia v ATR* (Russia in AP), no. 2 (May, 2006): 16-17
- 22 *Business Week*, Russia, December 12, 2005, 15.
- 23 *Neftegazovaya vertical* (Oil and Gas Verical), no. 17 (2005): 46
- 24 *Vremya novostei*, October 19, 2004. *Vedomosti*, February 6, 2006

Korea. Most probably, gas will go to China and South Korea along two channels: from Khabarovsk, a pipeline branch is already under construction to the border with China; in the south of Sakhalin, an LNG plant is being expanded, and from there, LNG can be exported to all Northeast Asian countries.²⁰

As in East Siberia, Rosneft is proving to be the most active player in the Far East. In addition to its involvement in “Sakhalin-1,” it concluded an agreement in 2005 with China’s Sinopec to cooperate on “Sakhalin-3,” in particular the Veninski block. Rosneft also plans projects in the Western-Shmidt section of “Sakhalin-4” and the East-Shmidt and Kaigansko-Vasyukanski sections of “Sakhalin-5.” Elsewhere, the company agreed in December 2005 with Korea National Oil Corporation (KNOC) to create a joint management structure for prospecting on the Western-Kamchatski shelf section. According to the agreement, KNOC will buy a 40% stake in Rosneft’s West Kamchatka Holding BV.²¹

It should also be noted that Exxon and Chevron have not lost interest in the “Sakhalin-3” project, and are ready to participate in another auction if one is held. India’s ONGC, meanwhile, has expressed serious interest in expanding its participation on Sakhalin.

I have mentioned above only some of the most important examples that illustrate the beginning of a breakthrough in the development of East Siberia and the Far East, which will form the basis for a considerable expansion of Russia’s energy and economic cooperation with countries of the Asia Pacific. There are other examples, such as plans by Surgutneftegaz to develop the important Talakeanski oil field in Yakutia, with its reserves of 124 million tons of oil and 47 billion m³ of natural gas; or Rosneft’s development of the Vankorsk deposit in Evenkiya in the north

of Krasnoyarski krai; or the large oil and gas reserves in Urubcheno-Takhomski zone.²²

Today, no serious expert doubts Russia’s ability to use the energy resources of East Siberia and the Far East to foster large-scale cooperation with Northeast Asia. Discussions are already underway about the timing of development and the scale of the investments needed. The problem is that the potential of this region’s enormous energy resources has so far been poorly investigated. For instance, it is known that initial aggregate gas resources of East Siberia and the Far East amount to 44.9 trillion m³, while those of the sea shelf are thought to be 15 trillion m³. However, this is only an estimate. A mere 8.6% of the land and 5.8% of the sea shelf has been explored in detail.²³ I suspect that in the near future we will hear about new, large discoveries. It was not so long ago, for example, that another large natural gas field in Irkutsk region, named Levoberezhnoe (Left-Bank), was discovered. It is located on the left bank of the Angara river, north of Sayansk city. The government estimates the field’s reserves at 1.63 trillion m³, comparable to those at Kovykta.²⁴

The main problem for Moscow is to adopt, and implement, the right formula for state-private cooperation. The government recognizes the need to attract foreign capital, especially new technologies, and to create special preferential conditions, including tax breaks. Industry and Energy Minister Viktor Khristenko, in an article earlier this year in *Vedomosti*, outlined a series of incentives to attract investors, among them five-to seven-year tax holidays. “A zero tax rate on development of minerals combined with priority rights for use of the mineral resources for developers of the deposits ... is the optimal approach to attract companies to high-risk development of East Siberian and the Far Eastern resources, and

NOTES

25 Vedomosti, February 6, 2006

26 TEC (Fuel and Energy Complex), no. 3-4 (2005): 58

shelf water areas,” Khristenko wrote. He predicted that Asia’s share of total Russian oil exports will increase from today’s 3% to 30% by 2020, and that natural gas exports will grow from 5% to 25%.²⁵ China, South Korea, Japan and Taiwan are all expected to see their share of Russian energy exports increase significantly.²⁶

While some people may view such forecasts as too optimistic, I remember perfectly well the sharp polemics in the USSR that attended the discovery and development of oil deposits in West Siberia. Many experts and state officials found plenty of arguments then to dismiss the importance of this oil and gas province. But it took only 20-odd years for West Siberia to turn into the main base for the Soviet Union’s oil industry. In the last 15 years, the region has given birth to a powerful gas industry, as well. Given this experience, and the need to accelerate the development of energy resources to meet the world’s rapidly growing demand, it is clear that East Siberia and the Far Eastern region will quickly become another large oil and gas province. This, in turn, will provide a solid basis for large-scale cooperation between Russia and the countries of Northeast Asia.

Nodari Simonia is Director of the Center for Energy Studies at the Institute of World Economy & International Relations in Moscow, and Head of the International Section of the Russian Academy of Sciences. He is also a member of the Editorial Board of *Global Asia*.

The main problem for Moscow is to adopt, and implement, the right formula for state-private cooperation.