



RESEARCH CENTRE FOR
ENERGY MANAGEMENT

@ ESCP Europe Business School

ESCP
EUROPE



PARIS LONDON BERLIN MADRID TORINO BUSINESS SCHOOL

RCEM Working Papers

RCEM 2014/05

RESEARCH CENTRE FOR ENERGY MANAGEMENT

AT ESCP EUROPE BUSINESS SCHOOL

TITLE:

Turning the Gaze towards Asia: Russia's Grand
Strategy to Neutralize Western Sanctions

Author Name:

Dr Mamdouh G. Salameh
Director

International Oil Economist
World Bank Consultant
UNIDO Technical Expert

World Bank, Washington DC / Oil Market
Consultancy Service
Spring Croft
Sturt Avenue
Haslemere
Surrey GU27 3SJ
United Kingdom

Tel: (01428) – 644137

Fax: (01428) – 656262

e-mail: mgsalameh@btconnect.com

affiliated to



ESCP Europe Business School,
527 Finchley Road, NW3 7BG, Hampstead, London, United Kingdom.

<http://www.escpeurope.eu>

Registered in England No. 1876779

Registered Charity No. 293027

Company limited by guarantee

Turning the Gaze towards Asia: Russia's Grand Strategy to Neutralize Western Sanctions

By

Dr Mamdouh G Salameh*

Abstract

Russia's intrusion into the Ukraine in February 2014 and the ensuing annexation of the Crimea have been prompted by energy and geopolitical factors. The energy factor is that 50% of Russia's gas and oil supplies to the European Union (EU) are piped through the Ukraine. It is in Russia's energy interests to make sure that the gas and oil pipelines transiting the Ukraine are well defended not only against sabotage but also against the Ukraine making use of the gas without paying for it. Ensuring that there is a pro-Russian government in the Ukraine becomes a very important Russian national interest. There is, however, a geopolitical dimension. The Ukraine has become a chess pawn in a grand chess game being played by the United States and the EU with Russia. At the heart of the Ukraine-Russia crisis is the EU's attempts incited and abetted by the United States to draw the Ukraine away from Russia into the EU and eventually into NATO, thus bringing NATO to the borders of Russia. Having failed to achieve their aim, the EU supported by the US instigated internal strife in the Ukraine which ended with the ousting of the legally-elected president and eventually the annexation of the Crimea. If the conflict between the West and Russia continues to escalate, an oil and gas embargo could be one of the sanctions that is considered against Russia. Even before the current tension with the West over the Ukraine, Russia was in the process of reorienting its energy posture to Asia in view of the growth in energy demand in that continent and the likely stagnation or decline of demand in Europe over the next few decades. This paper will argue that opportunities for the West to hurt the Russian economy are limited especially when it comes to natural gas since it will be hard to find alternatives for Russian gas supplies to the EU. It will also argue that if the US tries to manipulate oil prices to hurt the Russian economy, the dollar will suffer. The paper will conclude that sanctions against Russia will most probably fail as they mostly did against Iran whose economy is 18% of Russia's economy in size.

Key Words: Ukraine, sanctions, Crimea, gas supplies, oil, Europe.

Introduction

Even before the current tension with the West over the Ukraine, Russia was in the process of reorienting its energy posture to Asia in view of the growth in energy demand in that continent and the likely stagnation or decline of demand in Europe over the next few decades.

Russia's oil & gas industry is one of the largest in the world. Russia has the largest reserves and is the largest exporter of natural gas. It has the second largest coal reserves, the eight largest oil reserves and is the largest producer of oil. It is also the third largest energy user.

In 2013, Russian crude oil and condensate production reached 10.79 million barrels a day (mbd). Russian oil exports amounted to 7.48 mbd consisting of more than 5 mbd of crude and nearly 2.48 mbd of refined products, which go mainly to the Europe market (see Table 1).

Table 1
Russia's Current & Projected Crude Oil Production,
Consumption & Exports (2012-2035)
(mbd)

	2012	2013	2014	2015	2016	2017	2020	2025	2030	2035
Production	10.64	10.79	10.71	10.73	10.76	10.78	10.37	10.00	9.51	9.00
Consumption	3.17	3.31	3.35	3.45	3.55	3.65	3.70	3.70	3.70	3.80
Net Exports	7.47	7.48	7.36	7.28	7.21	7.13	6.67	6.30	5.81	5.20

Sources: BP Statistical Review of World Energy, June 2014 / OPEC World Oil Outlook 2013 / Energy Information Administration (EIA) / IEA Annual Energy Outlook 2013.

In addition to having the world's largest proven reserves of natural gas, Russia is also likely to have the world's largest volume of still-undiscovered natural gas estimated at 6.7 trillion cubic meters. The USGS estimate of Russia's undiscovered oil is 22 billion barrels, second in the world only to those of Iraq. **1**

In 2013 Russia produced 604.8 billion cubic metres (bcm) of natural gas and exported 191 bcm the bulk of which went to the European Union (see Table 2).

Table 2
Russia's Current & Projected Natural Gas Production,
Consumption & Exports (2012-2030)
(bcm)

	2012	2013	2014	2015	2016	2017	2020	2025	2030	2035
Production	592.3	604.8	605.0	614.1	623.3	632.6	658.3	691.9	709.4	727.3
Consumption	416.2	413.5	413.8	415.9	418.0	420.1	426.4	436.8	447.8	459.1
Net Exports	176.1	191.3	191.2	198.2	205.3	212.5	231.9	255.1	261.6	268.2

Sources: BP Statistical Review of World Energy, June 2014 / IEA Annual Energy Outlook 2013 / Author's estimates.

Oil and gas revenues are a big contributor to the Russian budget. In 2013 more than 50% of the national budget was funded by gas and oil revenues. The main revenue comes from oil as last year's oil revenues reached \$191 billion, and gas \$28 billion. **2**

Amid tensions with the West over the annexation of Crimea, Russia has been trying to expand its energy exports to the Asia-Pacific region. The countries targeted for the Russian drive are India, China and South Korea and Japan.

When energy-starved India meets oil-rich Russia

India and Russia are genuine and natural strategic partners, and are the only two major powers in the entire annals of international relations which have never had any clash of interests. One of the most important elements of Indo-Russian strategic partnership is defence cooperation. 70%-85% of India's Air Force, Army and Navy are equipped with military hardware of Soviet or Russian origin. Another element of the partnership is energy.

As India and Russia try to diversify their energy focus – India as importer and Russia as exporter – both nations are at an interesting confluence with India's energy needs growing exponentially.

India is the fourth-largest crude oil consumer and the twelfth-largest natural gas consumer in the world. However, India is not endowed with great hydrocarbon resources. Its proven oil reserves amount to 5.7 billion barrels (bb) whilst its natural gas reserves amount to 47.8 trillion cubic feet (tcf). **3**

In 2013 oil consumption amounted to 3.73 mbd against a production of 0.89 mbd thus necessitating the importation of 2.84 mbd, mostly from the Middle East. Consumption is currently growing at 5% per annum and is projected to reach 5.36 mbd by 2020 rising to 7 mbd by 2025 (see Table 3).

Table 3
India's Current & Projected Oil Consumption & Production
(2010-2030)
(mbd)

	2010	2011	2012	2013	2014	2020	2025	2030
Production	0.87	0.90	0.89	0.89	0.87	0.82	0.78	0.74
Consumption	3.32	3.49	3.69	3.73	3.92	5.36	7.00	9.37
Net Imports	2.45	2.59	2.80	2.84	3.05	4.54	6.22	8.63

Source: BP Statistical Review of World Energy, June 2014 / OPEC Annual Statistical Bulletin 2013.

India is trying to reduce its dependence on oil imports from the volatile Middle East amounting currently to 78% and projected to grow to 89% by 2025 whilst Russia is trying to diversify its export outlets, partly to open new markets in the Asia-Pacific region and also to neutralize the impact of sanctions on its global trade. **4**

Excessive oil imports are impacting on India's current account deficit accounting for more than half of India's \$191 billion trade deficit in 2013-14. The country is looking at reducing its import dependence through collaboration with investors in various streams of the oil and gas industry. **5**

According to the International Energy Agency (IEA), India would be the third largest energy consumer in the world by 2025 after the US and China. Indo-Russian energy cooperation is expected to get a boost in the coming years.

While many countries have condemned Russia's actions in the ongoing Crimea crisis, India is the only Asian power that has backed Moscow. India's policy makers are trying to promote energy cooperation based on political understanding. The Indian side feels that there is a clear compatibility between India's needs and Russia's resources.

Russia's energy strategy towards Asia clearly cites India as one of the important target countries along with Japan, China, and South Korea. India is carefully taking note of Russia's hydrocarbon vision as it now wants to have a strong presence in Russia's massive energy sector that can help ensure India's vital energy security. Amidst all these developments there is a hope that India-Russia energy cooperation will scale towards new heights.

Traditionally, the Indo-Russian strategic partnership has been built around defence and civil nuclear energy. However, in recent years the economic component has grown in importance with both countries setting a target for US\$20 billion in bilateral trade by 2015. Bilateral trade between both countries in 2012 grew by over 24% to \$11 bn.

The energy sector is an important area in Indo-Russian bilateral relations. In 2001, the Indian company ONGC acquired 20% stake in the Sakhalin-1 oil and gas project in the Russian Far East and has invested about US \$1.7 billion in the project. The Russian company Gazprom and Gas Authority of India have collaborated in joint development of a block in the Bay of Bengal.

However, it is the nuclear cooperation between the two countries that is showing more promise. The Kudankulam Nuclear Power Project with two units of 1000 MW each is a good example of Indo-Russian nuclear energy cooperation. At the end of March 2014 Moscow and Delhi signed the agreement for the construction of the 3d and 4th reactors. ⁶ During Russian president Vladimir Putin's visit to India for the 13th annual summit, a cooperative civilian nuclear energy road map was agreed. Running until 2030, sixteen to eighteen new reactors with installed capacity of 1000 MW each will be constructed at a total cost of \$45 bn.

There are a number of strategic reasons why India chose Russia for nuclear energy. Experts in New Delhi believe an overdependence on the US for nuclear energy might lead to interference and dominance by the latter. Russia, on the other hand, has always been viewed as a much more reliable strategic partner unlike the US and its allies. Another reason is India's belief in creating a more multi-polar world by giving prominence to strategic coalitions like the BRICS (Brazil, Russia, India, China and South Africa) nations where Russia is a key player.

Whether it is the building of additional nuclear power plant units, or the laying down of pipelines from Russia to India, or ideas to jointly explore energy resources, Indo-Russian cooperation in the energy sector will receive a fillip in 2014.⁷

Investment opportunities in Indian oil and gas fields are huge: only \$16 billion has been invested in the last 15 years. ⁸ As Russia impresses on the West its capability to exploit multiple trade options in case of harsher sanctions, India will certainly be a viable choice.

One of the major barriers to greater energy cooperation between India and Russia, particularly for crude oil, is the lack of infrastructure to transport the crude. That is why India and Russia had decided to set up a working group to explore building pipelines for that purpose.

Russian-Indian Crude Oil Pipeline across China

Russia is changing its energy export policy vector as strong demand for hydrocarbons in both China and India continues to grow. The recent unease in both the US and Europe over President Putin's March 17 annexation of Crimea has only added to Moscow's efforts to diversify its markets beyond Europe.

Now Russia and India are planning to construct a \$30 billion oil pipeline through China's Xinjiang province. ⁹ The groundwork for the project was laid on October 21, 2013, during former Indian Prime Minister Manmohan Singh's visit to Moscow for the 14th India-Russia Annual Summit.

The project has been on the drawing boards for nearly a decade, as Russia and India first began discussing it in 2005. Four years later, in 2009, the foreign ministers of Russia, India and China agreed to enhance energy cooperation.

Political support in Russia for the Xinjiang pipeline project has increased in the wake of worsening relations with the US and EU over Crimea. The pipeline also has political support in China as it would allow it to become an oil transit country in addition to its status as a recipient of Russian oil. The pipeline project will also strengthen India's intention to become a member of the Shanghai Cooperation Organization (SCO), of which Russia and China are charter members.

The pipeline still faces substantial hurdles, aside from its astronomical price tag. Up to 35% of its route runs through mountainous terrain, a factor that has set back completion schedules to 2020-2022.

A Gas Pipeline Connecting Russia's Sakhalin to South Korea

South Korea, much like Japan, is an energy-starved Asia-Pacific nation that is close enough to Russia's Far East to make stronger energy ties completely palatable. This is especially true if Moscow is able to get the two Koreas to agree to pipelines that would deliver Russian oil and natural gas to South Korea via North Korea.

In a swift move to conquer another square on its geopolitical chess board Russia has just written off 90% of North Korea's debt, a gesture estimated at \$10 billion, in exchange for Pyongyang's agreement to build a natural gas pipeline that would run from Sakhalin through North Korea to South Korea. The intention is to supply South Korea, the world's second largest importer of natural gas with 10 billion cubic meters of gas annually, potentially raising its dependence on Russian gas from 6% to 30%. Indeed, while the US invests a great deal of political capital on reducing Ukraine's gas dependence on Gazprom its key ally in Asia might soon be heading in the opposite direction. **10**

Moscow's sudden "act of generosity" toward North Korea indicates that Russia's diversification policy has kicked into higher gear. For the United States this might spell a new geopolitical setback.

Russia's gift to North Korea is much more than money. It will effectively usher North Korea into a prestigious club of energy transit countries --Turkey, Georgia, Kazakhstan, Colombia to name a few -- which serve as energy umbilical cords to economies larger than themselves. Keeping North Korea in a box is an important component of President Obama's Strategic Pivot in Asia-Pacific. Putin is throwing North Korea the key to the box. 11

There is also a commercial aspect. As the United States is gearing to become a major exporter of LNG by the end of the decade, South Korea, a country with which the United States has a free trade agreement, is looked upon as one of the prime destinations for America's gas. For the South Koreans, piped-gas from Russia will forever be more competitive than LNG from the United States. Russia's recent ploy could therefore pull the rug from under America's aspiring gas exporters and particularly those currently taking the multibillion dollar risk of building new LNG terminals in the U.S.

For now, the Russia-Korea pipeline is anything but a sure thing. Much needs to happen before the steel meets the ground. But Russia's new bargain with North Korea sheds light on what is likely to be its next set of moves.

Russia's Expanding Energy Cooperation with Japan

In March 2014, Igor Sechin, CEO of the Russian oil giant Rosneft visited Japan, India, South Korea and Vietnam.

While in Tokyo, Sechin sought to woo Japanese investors by stating that there was the potential for billions of dollars of economic deals between Japan and his company alone. "The prospects for bilateral co-operation expansion are huge," Sechin said, according to Russia's state media. "We are interested not only in attracting partners to certain projects. We are ready to look into joint investments into all the technological chain: in output, infrastructure, refining and transportation of energy." Notably, Sechin made his remarks in Tokyo even after Japan had announced that it was imposing some sanctions against Russia for its actions in the Ukraine.

Russia already has fairly substantial energy ties with Japan, which are almost certain to grow in the coming years due to Tokyo's greater needs and the fact that the warming of the Arctic will ease logistical constraints. According to *Russia Today*, last year Japan was Russia's seventh largest trading partner with bilateral trade reaching nearly \$33 billion. Energy makes up a substantial portion of this trade with Rosneft alone accounting for 10% of it.

Vietnam, on the other hand, is also attractive to Russia for a number of reasons. Vietnam's coast is accessible from ports in Russia's Far East. For this reason, Russia sees Vietnam as an attractive energy partner not only in its own right but also as a gateway for Russian exports to other Southeast Asian nations. Using Vietnam

as a corridor to Southeast Asia would allow Moscow to avoid becoming overly dependent on China for its energy export needs.

Why China and Russia Make a Perfect Energy Match

As the US pivot towards Asia pushes China and Russia closer together, the two countries seem like natural partners for a deal on energy supplies. "China is our reliable friend," Russian President Putin said on Monday 19 May 2014 in an interview before a conference in Shanghai. "To expand co-operation with China is undoubtedly Russia's diplomatic priority." **12**

In the energy sphere, the two countries are an almost perfect match: the world's largest net energy exporter and its second largest net energy importer with a long land border.

China is already Russia's largest single trading partner with bilateral trade flows of US\$90 billion in 2013, and the two neighbours aim to double the volume to US\$200 billion by the end of the decade. **13**

Warmer friendship in the pipeline



Russia's political disagreements with the United States and its allies over Ukraine and China's territorial disputes in the South China seas have left both of them isolated and searching for friends to counterbalance Washington's network of alliances in Europe and the Pacific. It is classic balance-of-power politics. My enemy's enemy is my friend.

There are no real obstacles to a diplomatic rapprochement between Beijing and Moscow. There are no significant territorial disputes between the two countries over their land border or at sea. China's disputes are all far to the south.

Russia and China both have territorial disputes that pit them against Japan, over the Kurile and Senkaku/Diaoyu islands respectively, giving them an element of common interest. Both have reason to be wary of the active foreign policy of Japan's rightist prime minister Shinzo Abe's administration.

On energy, there is a clear convergence of interests. Russia needs to diversify the markets for its oil and gas, while China needs energy supplies that do not have to pass through transit choke-points like the Strait of Malacca (see Figure 1).

Figure 1
The Malacca Strait



Source: Courtesy of Newsweek, March 28, 2005.

In other parts of the world including Africa, the Middle East and Latin America, there are no significant issues on which they are on opposite sides. For the most part their interests coincide or are in different areas, which makes it easy to maintain cordial relations. By contrast, there are plenty of issues on which they find themselves on the opposite side from the United States.

Even without the crisis over Ukraine, Russia has been depending too heavily on oil and gas exports to Europe, leaving it vulnerable to pricing disputes with customers, pipeline disputes with transit countries, falling European demand and shifts in European energy policy.

Europe accounted for 80% of Russian oil exports in 2012, while just 18% went to Asia, according to the US Energy Information Administration. Most of Russia's gas exports went to European countries in 2012, with just 19% delivered elsewhere.

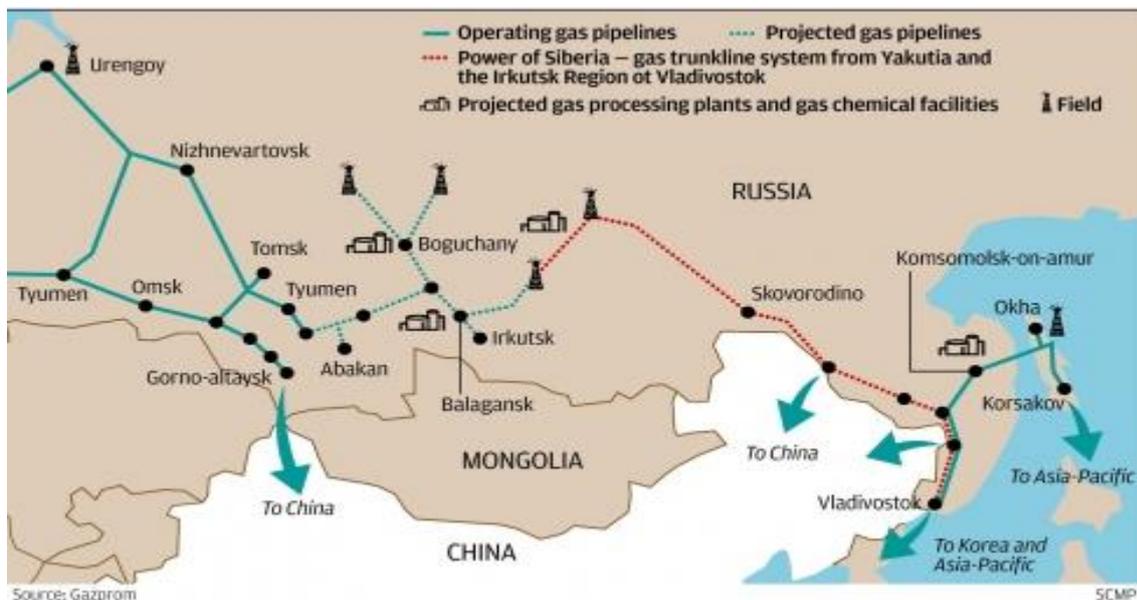
Relying so heavily on customers in Europe makes no sense strategically or commercially. Just as consumers need a diverse source of suppliers, producers need the security that comes from having multiple customers.

Given Russia's strategic location between Europe and Asia, the two major energy-importing regions in the 21st century, there is a strong strategic case for it to develop a more balanced approach, increasing the proportion of oil and gas that it exports to fast-growing markets in Asia.

China too has reasons to increase energy imports from Russia, especially gas. At the moment, China's economy relies heavily on domestic coal and imported oil. But coal-fired power generation is causing severe pollution and boosting greenhouse emissions, while almost all oil imports transit through the Strait of Malacca and across the South and East China seas. China's navy cannot guarantee to keep the sea lanes open in the event of conflict with the US and its allies.

Bringing oil and gas via pipelines from Russia would strengthen China's energy security. It would cut the amount of oil and gas that must arrive along vulnerable transit routes (see Map 1).

Map 1



So far, China and Russia have struggled to reach agreement on the most important aspect of the negotiations: price. The two countries have been struggling to reach a deal over gas exports for more than 10 years.

But recent events have probably softened up both sides to make a deal. Russia badly needs to demonstrate it has other export options as European ministers contemplate cutting gas imports. China needs to develop new allies as its relations with US allies in Asia worsen rapidly.

Closer relations between President Xi Jinping and Putin, as well as the broader strategic context, suggest the time is ripe to do a gas deal.

Crimea Crisis Pushes Russian Energy to China from Europe

The Crimean crisis is poised to reshape the politics of oil by accelerating Russia's drive to send more barrels to China, leaving Europe with pricier imports and boosting US dependence on fuel from the Middle East.

China already has agreed to buy more than \$350 billion worth of Russian crude in coming years. ¹⁴ The ties are likely to deepen as the U.S. and Europe impose sanctions on Russia as a punishment for the invasion of Ukraine.

Such shifts will be hard to overcome. Europe, which gets about 30% of its natural gas from Russia, has few immediate viable alternatives. The US, even after the shale boom, must still import 40% of its crude oil, 7.6 mbd that leaves the country vulnerable to global markets.

China imported a record amount of Russian crude in April, 2014, 20 million barrels. The total more than tripled in a decade, and Russia now represents 12% of China's crude imports, among the highest levels in the past seven years.

As the world's largest oil producer, Russia exported about \$160 billion worth of crude, fuels and gas-based industrial feedstock to Europe and the US in 2012, according to the International Trade Centre's Trade Map, which is sponsored by the World Trade Organization and the United Nations.

European members of the Paris-based International Energy Agency (IEA) imported 32% of their crude oil, fuels and gas-based chemical feedstock from Russia in 2012. Europe will face higher gas prices if Russia successfully curtails pipeline supplies and diverts volumes to Asia, as more expensive shipments of the heating- and power-plant fuel arrive by tanker at European ports, said Peter Morici, an economist and professor at the University of Maryland. The US will turn to the Middle East to replace any barrels it loses from Russia, he said. **15**

China National Petroleum Corp (CNPC) paid in 2013 the first \$20 billion advance of an estimated \$70 billion prepayment to Rosneft. The payment was part of a \$270 billion, 25-year oil supply agreement, which would make China Russia's biggest market for its oil. In October 2014, Rosneft also agreed to an \$85 billion, 10-year deal with China Petrochemical Corp.

Under agreements signed in March 2013, China may double oil imports from Rosneft to more than 620,000 barrels a day (b/d), challenging Germany as the biggest buyer of Russian crude. In return, Rosneft allowed the Chinese oil giant, CNPC, to join it in exploring three offshore Arctic areas for oil, the first such deal Russia has signed with an Asian company. The ocean north of Russia is considered one of the world's largest unexplored oil provinces.

Russia & China Sign the Biggest Energy Deal in History

Russia's state-controlled Gazprom signed on May 21, 2014 what may be described as the world's biggest energy deal in history, to supply gas to China.

Under the terms of the deal, Gazprom—the world's largest producer of natural gas would supply 38 bcm of gas to China annually for 30 years under a contract valued in excess of \$400 bn. **16**

Although neither party has revealed at what price the Russia-China gas deal was struck, industry sources estimate the price between \$10 and \$10.50/mn Btu, an international pricing standard which stands well below the current level of LNG cargo spot prices in Asia, which is typically \$14-18/mn Btu. **17**

A Reuters report suggests that 'piping Russian gas to China could create a

new price benchmark that could cut prices for Asian LNG buyers as well as providing new gas sources'. **18**

Can Sanctions against Russia Succeed?

Opportunities for the West to hurt the Russian economy are limited, Russian President Vladimir Putin said in a TV interview on 17 April, 2014. **19** Europe cannot stop buying Russian gas without inflicting pain on itself, and if the US tries to manipulate oil prices, the dollar will suffer.

The international community is isolating Russia for annexing Crimea. But Germany is treading carefully in putting pressure on Moscow. When it comes to energy supplies, Germany is extremely vulnerable to Russia's whims.

A glance at the facts, however, shows that it will be hard for Europe to turn its back on Russian energy - at least in the short term: 30% of the EU's natural gas imports are currently from Russia. When it comes to oil, 35% of the European Union's supplies are of Russian origin. **20** And Germany's dependence on Moscow is even higher: the country sources 36% of its natural gas imports and 39% of its oil imports from Russian energy suppliers. **21** Since the biggest transport route for Europe for Russian gas runs through Ukraine, a halt of exports to there would also have consequences for Western Europe.

If Russia were to halt exports to Ukraine, the EU could survive for three months on reserves within its borders. There are also other transport routes. One of these is the Nord Stream gas pipeline through which 55 billion cubic meters of Russian gas reach Germany. Another is the Yamal-Europe pipeline which brings about 33 billion cubic meters of gas to Germany, the Baltic states and Poland via Belarus. The Blue Stream pipeline transports 16 billion cubic meters of Russian gas into Turkey and to Southern Europe.

The Bruegel Institute, a Brussels-based think tank, did rough calculations that show it would be a huge technical and economic endeavour to find an alternative source for the 130 billion cubic meters of natural gas that reach the EU from Russia. Germany alone uses 90 billion cubic meters of the gas.

Vladimir Putin has dismissed speculation that US gas supplies to Europe will impact on Russia's gas revenues. "In order to set up exports of Liquefied Natural Gas (LNG), infrastructure has to be created either side of the Atlantic, and everyone understands that. This will take both, time and money," the Russian president told energy company executives during an industry panel in St. Petersburg, which hosted the annual International Economic Forum. **22**

Following the hydraulic fracturing boom in the US, which has seen it overtake Russia as the world's biggest gas producer, Washington has reversed a long-standing restriction on gas exports. Seven companies have been given permission to export so far, and multiple LNG terminals, necessary for transporting gas overseas, are being built, with dozens more awaiting the go-ahead from regulators.

Despite the significance of the trend, it does not appear likely the US will replace Russia in the intermediate term. "Can Europe stop buying Russian gas? I think it's impossible. Will they make themselves bleed? That's hard to imagine," the Russian president said.

To replace Russian gas supplies to Europe, the US would have to divert a quarter of its gas to Europe. Meanwhile, its first LNG facility does not even open until late next year, with the majority of the first wave of LNG terminals scheduled to come online between 2017 and 2020.

"If the West tries to damage Russia's influence in the world energy market, efforts will likely backfire", the Russian President said during his twelfth annual televised question and answer session. "To really influence the world oil market a country would need to increase production and cut prices, which currently only Saudi Arabia could afford", Putin said.

Putin added he didn't expect Saudi Arabia will choose to cut prices that could also damage its own economy. If world oil production increases significantly, the price could go down to about \$85 a barrel. While for Russia a price fall from \$100/barrel to \$85/barrel isn't critical, for Saudi Arabia it would be more sensitive. Saudi needs a price of \$100/barrel to balance its budget. **23** And being a member of OPEC, Saudi Arabia would need to coordinate its action with other members of the organization.

Since oil is sold internationally on global markets, cutting the price would mean lower dollar circulation, diminishing its value in the global currency market.

"If oil prices decrease in the global market, the emerging shale industry will die," Putin said. The US shale industry has boosted domestic production, but President Putin said that the so-called "shale revolution" was expensive and not quick to come.

Conclusions

Sanctions against Russia will most probably fail as they mostly failed against Iran whose economy is 18% of Russia's economy in size.

It would be a huge technical and economic endeavour to find an alternative source for Russia's gas and oil supplies to the EU with Germany being most vulnerable to Russia's whims.

And whilst some oil supplies could partially replace Russian oil supplies to the EU, it will impact on the global oil price since replacement could only come from the Arab Gulf suppliers whose production is virtually committed to the Asia-Pacific region.

The Russian president Putin succinctly dismissed the impact of any Western sanctions targeting his country by saying that opportunities for the West to hurt the Russian economy are limited and if the West tries to damage Russia's influence in the world energy market, efforts will likely backfire.

* Dr Mamdouh G. Salameh is an international oil economist, a consultant to the World Bank in Washington DC on oil & energy and a technical expert of the United Nations Industrial Development Organization (UNIDO) in Vienna. He is director of the Oil Market Consultancy Service in the UK and a member of both the International Institute for Strategic Studies in London and the Royal Institute of International Affairs. He is also a member of the Energy Institute in London.

Footnotes

- 1 Christopher J. Schenk, “**An Estimate of Undiscovered Conventional Oil and Gas Resources of the World**”, 2012, US Geological Survey, Fact Sheet 2012-3042.
- 2 That is what the Russian President Vladimir Putin’s disclosed in his interview on 17 April, 2014 with RT TV.
- 3 BP Statistical Review of World Energy, June 2014.
- 4 Jhinuk Cchowdhury, “**When Energy-starved India Meets Oil-rich Russia**” Posted on RT on May 14, 2014.
- 5 Ibid.,
- 6 Russia outdoes the West in terms of nuclear cooperation with India, Voice of Russia, 26 March, 2014, http://voiceofrussia.com/2014_03_26/Russia-outdoes-the-West-in-terms-of-nuclear-cooperation-with-India-9910/
- 7 DebidattaAurobinda Mahapatra, Russia & India Report, January 8, 2014.
- 8 Jhinuk Cchowdhury, “**When Energy-starved India Meets Oil-rich Russia**”.
- 9 Nivedita Das Kundu, Russia & India Report, October 11, 2012.
- 10 Gal Luft, **Will Korea be the Next Ukraine?** The Institute for the Analysis of Global Security (IAGS).
- 11 Ibid.,
- 12 John Daly, Oilprice.com Energy Intelligence Report, 23 April, 2014.
- 13 An article published by the South China Morning Post on 20 May, 2014 under the title “Warmer Friendship in the Pipeline”.
- 14 Ibid.,
- 15 Rakteem Katakey, “**Crimea Crisis Pushes Russian Energy to China From Europe**”, posted by Bloomberg on Mar 25, 2014.
- 16 Katy Barnato, “**China & Russia’s Gazprom Sign Key Gas Agreement**”, broadcast by CNBC on 21 May, 2014.
- 17 Petroleum Review, July 2014, p. 9.
- 18 Ibid., p. 9.
- 19 That is what the Russian President Vladimir Putin’s disclosed in his interview on 17 April, 2014 with RT TV.
- 20 According to the European Union Commissions as reported in Petroleum Review, June 2014, p. 18.
- 21 Petroleum Review, June 2014, p.18.
- 22 That is what Russian president Putin told energy company executives during an industry panel in St. Petersburg, which is hosting the annual International Economic Forum, which was published by RT on 24 May, 2014.
- 23 Mamdouh G Salameh, “**The Impact of US Shale Oil Revolution on the Global Oil Market, the Price of Oil & Peak Oil**” (a paper given at the Symposium on Peak Oil, 2-4 April 2013, Doha, Qatar).

About the Author

Dr Mamdouh G. Salameh is an international oil economist, a consultant for the World Bank in Washington D.C. on oil and energy and also a technical expert with the United Nations Industrial Development Organization (UNIDO) in Vienna. He holds a PhD in Economics specializing in the economics & geopolitics of oil and energy. Dr Salameh is also a visiting professor of energy economics at the ESCP Europe University in London.

Dr Salameh has presented papers to numerous international energy conferences on the economics and geopolitics of oil and energy and has been frequently invited to lecture on these topics at universities around the world. He has written three books on oil: **“Is a Third Oil Crisis Inevitable?”** (published in London in April 1990), **“Jordan’s Energy Prospects & Needs to the Year 2010: The Economic Viability of Extracting Oil from Shale”** (published in London in October 1998) and **“Over a Barrel”** (Published in the UK in June 2004) as well as numerous research papers published in international Oil and Energy Journals. Dr Salameh has undertaken research assignments for the US Department of Energy, the World Bank, the Institute of Energy Economics in Japan, the Indian Government, OPEC, the Canadian Energy Research Institute, Boston University working on the Encyclopedia of Energy and also the Handbook of Energy and the government of Jordan among others. He regularly appears on TV to discuss oil prices and other developments in the global oil market.

Dr Salameh is a member of many International Institutes and Associations including the International Association for Energy Economics (IAEE) in the US, the British Institute of Energy Economics, the International Energy Foundation in Canada, the International Institute for Strategic Studies (IISS) in London, and the Royal Institute of International Affairs (RIIA) in London. He is also an advisor to the Oil Depletion Analysis Centre (ODAC), London.

