Russian-Chinese axis in oil governance

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Russian - Chinese relations in oil industry
through the lenses of global governance theories

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<th>Evolution of oil governance structures</th>
<th>Emergence of China</th>
<th>Russia’s pivot towards Asia</th>
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**Analytical approach of global political economy**

Absence of cohesive energy governance → Stronger bilateralism and bloc relations?
Structure

1. Introduction

2. Main features of oil governance
   Stato-centric approach: towards a double-sided regime in oil
   US leadership in oil governance: recent trends

3. From global anarchy to strategic alliances at regional level: Russia-China case
   Russia-China oil deals in strategic context
   Privileged access to Russian oil upstream
   Contesting the US leadership

4. Conclusion
Oil governance

Global economic governance

“International rules-based framework through which economic actors (be they states, firms, institutionalized agencies, organized groups or individuals) seek to resolve collective action problems and promote cross-border co-ordination and co-operation in the provision or exchange of goods, money, services and technical expertise in defined issue areas of the world economy” (Weaver & Moschella, 2013)

Global political economy and energy governance

• No global common energy security concern despite evidence of interdependency between producers’ and consumers’ security

• Stato-centered approach; energy security of the consumer and access to petroleum upstream (Klare, 2012; Kalicki & Goldwyn, 2013)

• Absence of global formal institutional agreement; ad hoc governance; multiple public and private actors (Florini & Sovacool, 2009; Colgan, Keohane, & Van de Graaf, 2011; Hirst & Froggatt, 2012; Belyi, 2014; Leal-Arcas, 2015)

• Bilateralism (Belyi, 2014)
Double-sided and incomplete nature of oil governance

- Participation of BRICS?
Oil governance: recent trends

Financialisation of oil markets & role of private actors

Physical and paper market segments
• Coexistence of physical and ‘paper’ markets

‘Shared’ leadership:
• Saudi Arabia (oil reserves, exports, spare capacities...) → physical market
• US (dominant weight in world economy and international financial system → ‘paper’ market)

WTI crude oil futures
(average volume of open positions, 1983-2012)

Data: U.S. Commodity Futures Trading Commission
«Shale revolution» in the US

- Return of US leadership is operated by medium-sized oil companies

- US as a new ‘swing’ producer?

→ leadership in physical and ‘paper’ market segments

Oil production in the US, 1990-2040 (mbd)

Light tight oil production in the US (mbd)
Russia’s pivot to Asia

“In the 21st century, the vector of Russia’s development will be the development of the East. Siberia and the Far East represent our enormous potential. And now we must realise our potential. We have the opportunity to assume a worthy place in the Asia-Pacific region, the most dynamic region in the world.” V. Putin, 2012

Russia-China partnership would produce ‘a more just world order’. V. Putin, 2013

- China to become the major beneficiary of economic sanctions imposed on Russia by the EU and the US in 2014?
  - Sanctions deprive selected Russian companies of access to long-term loans (over 30 days) in occidental capital markets (Rosneft, Gazprom neft and Transneft)
  - Sanctions prohibit supplies of oil and gas technologies for developing tight oil and offshore fields
Expansion of exports

• Increasing share of Asia in Russian oil exports according to Russia’s Energy Strategy 2030
  – 22-25% in 2030, to compare to 8% in 2008

• Eastern Siberia-Pacific Ocean (ESPO) pipeline, 2012

• Major export contracts signed by Rosneft with China in 2013
  – The agreement to triple the deliveries to China from 0.3 mbd up to 1 mbd
  – The agreement to deliver around 0.2 mbd for ten years starting from 2014 with Sinopec
Towards a strategic alliance between Russia and China?

• Prior to 2013, selective opening of Russian oil & gas upstream was operated predominantly to the benefit of IOCs
  — increased State control Russian over oil and gas industry since 2000
  — according to Russian strategic investment law, an approval by a Governmental commission is required to allow a buyout of 10% or more in Russian upstream

• Accelerated opening towards Asia as a result of western sanctions?

... Russia views China as the most obvious investor, and no political barriers prevent Chinese majority control of strategic assets in Russia, except for offshore fields

Vice premier Ministre A. Dvorkovich, Krasnoyarsk Forum, 27.02.2015
Several MoUs signed between Russian and Chinese companies

<table>
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<tr>
<th>Agreement</th>
<th>Contents</th>
<th>Status</th>
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<tr>
<td>Joint venture between Sinopec and Rosneft – Udmurtneft (2006)</td>
<td>Annual production of around 0.13 mbd</td>
<td>In force</td>
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<tr>
<td>Memorandum signed between Rosneft and CNPC on the extension of cooperation in the field of exploration and production in Eastern Siberia (2013, before the sanctions)</td>
<td>A joint venture based on developing the Srednebotuobinskoye field in Yakutia, controlled at 51% by Rosneft and 49% by CNPC</td>
<td>Not finalised</td>
</tr>
<tr>
<td>Framework agreement between Rosneft and CNPC (2014)</td>
<td>Acquisition by CNPC of a 10% stake in Vankor field</td>
<td>Not finalised</td>
</tr>
<tr>
<td>Memorandum of understanding between Rosneft and Sinopec (2015)</td>
<td>Joint development of Yurubchono-Tokhomskoye and Russkoye fields, where Sinopec could obtain 49%</td>
<td>Not finalised</td>
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Low oil prices & sanctions → bargaining positions

- Oil and gas sector provides more than 50% of Russian budget revenues and over 60% of exports
China in oil governance: contesting the US leadership?

- Renminbi as regional currency

- Renminbi is increasingly used in oil trade
  - In June 2015, Gazprom neft announced the switch to RNB in oil exports with Chinese partners

- Start of oil futures trading at Shanghai International Energy Exchange (SIEE) expected in 2016
  - RNB denominated contracts, participation of foreign investors
  - Alternative oil benchmark
Conclusion

• Increasing role of China in oil pricing

• China’s strategy is articulated around three objectives
  – Security of oil supplies
  – Internationalization of renminbi
  – Development of alternative methods of oil pricing

• Economic diversification challenges for Russia
Thank you for your attention!