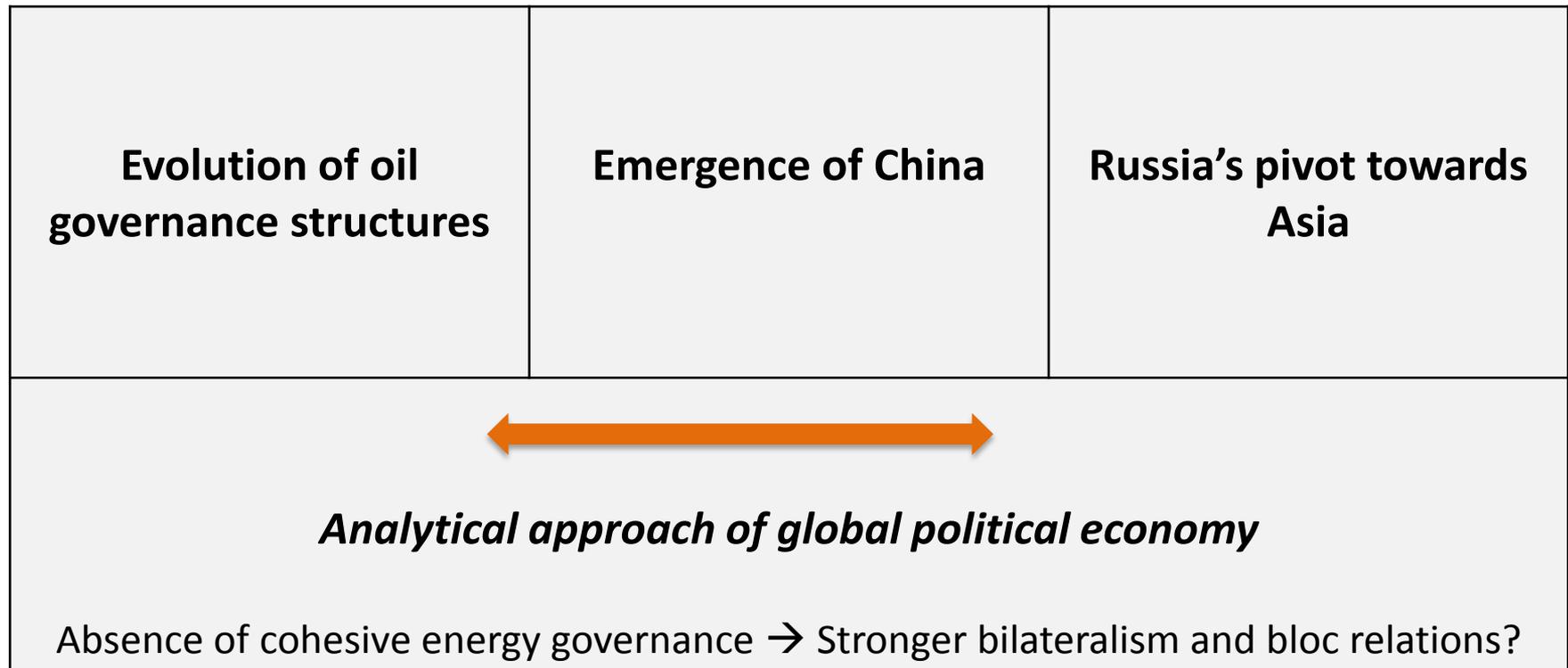


Russian-Chinese axis in oil governance

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



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

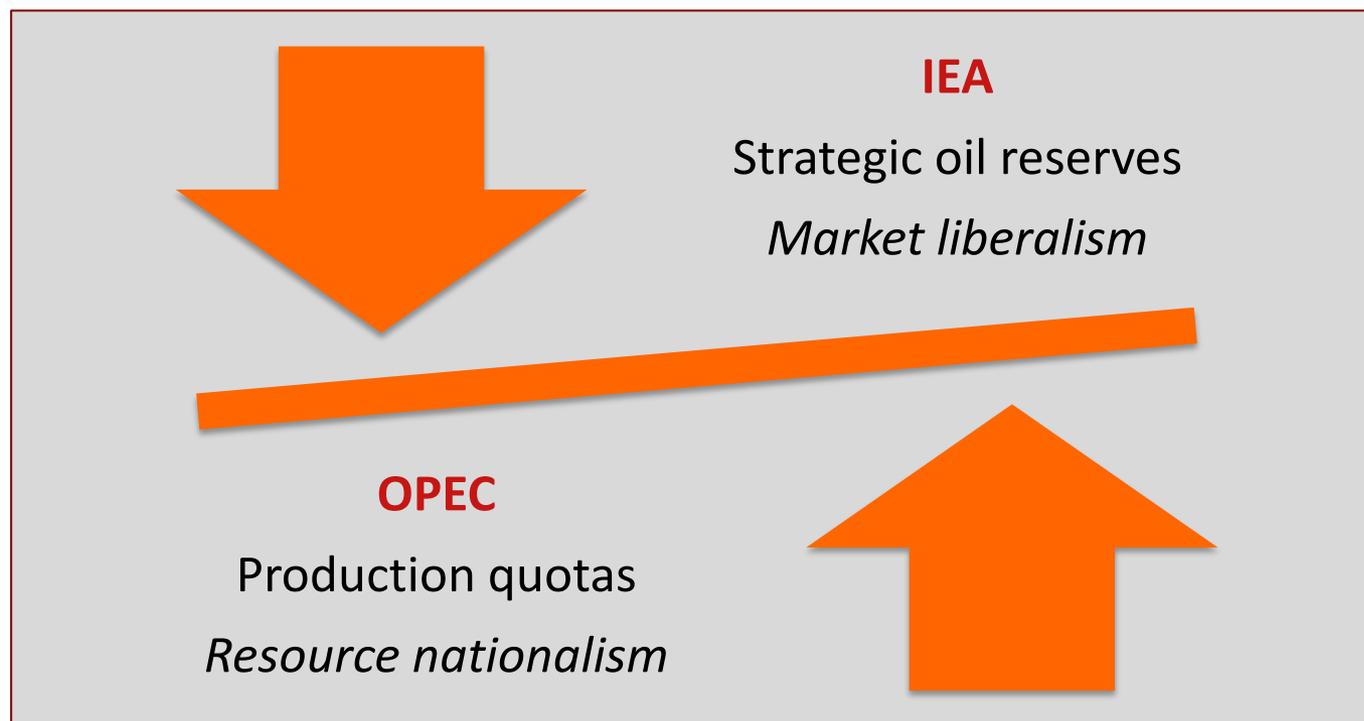
Global economic governance

“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

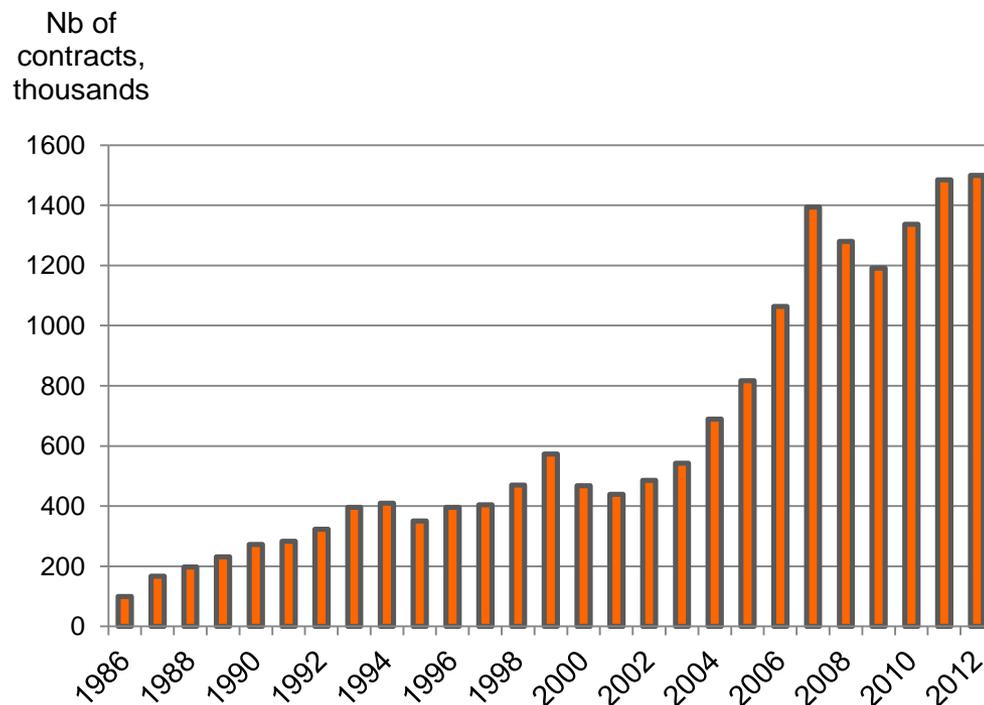
Physical and paper market segments

- 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)



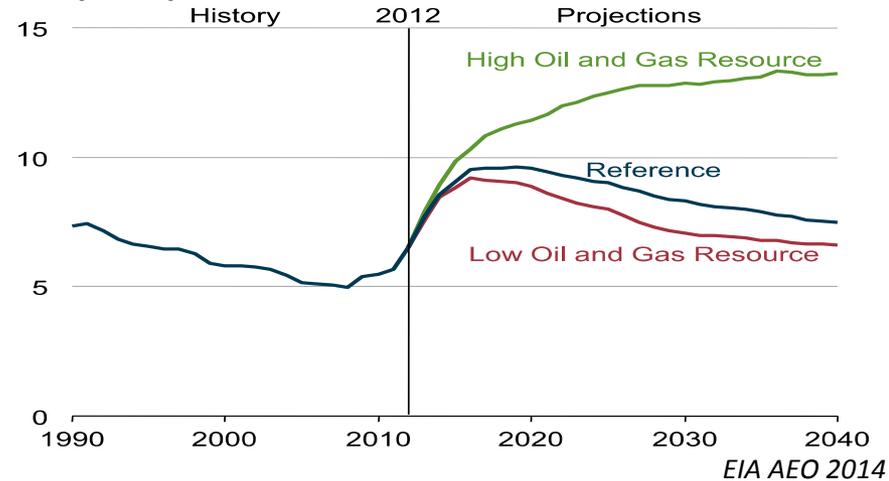
Data: U.S. Commodity Futures Trading Commission

«Shale revolution» in the US

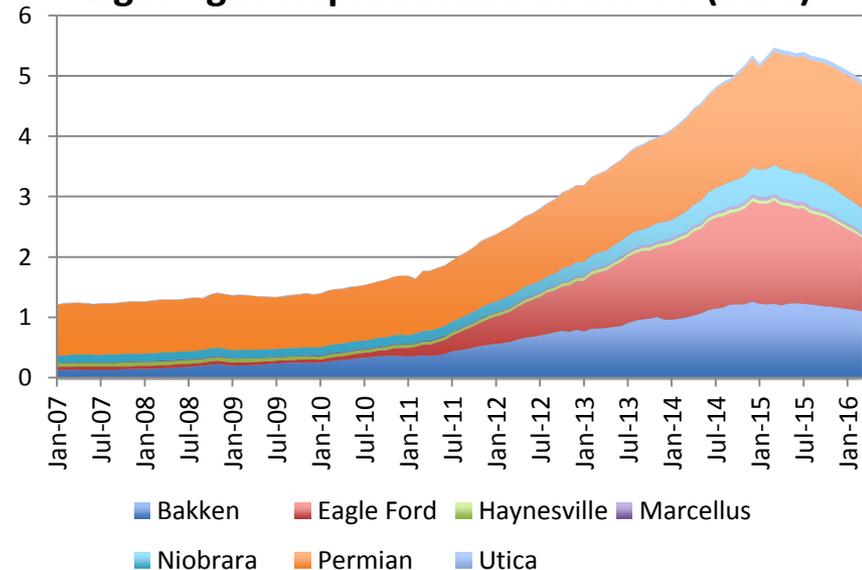
- Return of US leadership is operated by medium-sized oil companies
- US as a new 'swing' producer?

→ leadership in physical and 'paper' market segments

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



Light tight oil production in the US (mbd)



EIA Drilling Productivity Report, Feb. 2016

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

Agreement	Contents	Status
Joint venture between Sinopec and Rosneft – Udmurtneft (2006)	Annual production of around 0.13 mbd	In force
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)	A joint venture based on developing the Srednebotuobinskoye field in Yakutia, controlled at 51% by Rosneft and 49% by CNPC	Not finalised
Framework agreement between Rosneft and CNPC (2014)	Acquisition by CNPC of a 10% stake in Vankor field	Not finalised
Memorandum of understanding between Rosneft and Sinopec (2015)	Joint development of Yurubcheno-Tokhomszkoye and Russkoye fields, where Sinopec could obtain 49%	Not finalised

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!