



Harvard Kennedy School Energy Policy Seminar Series, Spring 2015 Sino-Russian Cooperation in Natural Gas

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In a talk that examined the implications of a major gas deal announced in 2014 between Russia and China, Geopolitics of Energy Post-doctoral Research Fellow Morena Skalamera examined the reasons for the deal and its likely future implications for gas markets and for relations between Russia and China, drawing on the results of interviews with key players in Russia and China.

The deal, Skalamera explained, was presented as a major step in the Chinese-Russian relationship. In Skalamera's analysis, however, while a logical step in the interests of both countries, it does not seem to herald a major change in power dynamics for the region.

As Skalamera explained, Russia has a natural interest in selling gas to China. Natural gas sales represent a significant source of income for the Russian economy. These sales have been focused on Europe, but a number of recent developments (including Europe's economic recession, increasing competition or potential competition from shale gas, and tensions in the Ukraine) have raised Russian interest in finding alternative markets. At the same time, plans for the development of the far eastern portion of Russia have already led to plans for the development of additional pipelines to carry natural gas to that area, which is also convenient for exports to China.

China, for its part, has an interest in natural gas motivated by concerns about air pollution and a desire to develop sources of natural gas invulnerable to the US dominance of sea lanes. While estimates suggest vast potential reserves of shale gas in China, existing institutional barriers to development, Skalamera said, make it unlikely these resources will be significantly developed in the near future.

Although the terms of the 2014 Russia-China gas deal have not been fully disclosed, it appears that China was able to negotiate very favorable terms (a price lower than the price paid by Europe), in part by providing equity to support gas pipeline development.

The main likely consequence of the deal is increased Asian gas supplies and lower natural gas prices in Asia, Skalamera argued. The deal itself is not, Skalamera believes, a sign the Russia and China are beginning a broader program of political cooperation. Rather, it is best understood as a primarily economic deal with advantages for both sides.

The seminar was part of the Kennedy School's Energy Policy Seminar Series, which is jointly sponsored by the Energy Technology Innovation Policy research group of the Belfer Center for Science and International Affairs and by the Consortium for Energy Policy Research of the Mossavar-Rahmani Center on Business and Government.

