

**Remarks by Dr. Togrul Bagirov at the XII Session,
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**NEW ROLE OF RUSSIA IN ENERGY SUPPLIES TO THE WORLD:
MYTHS AND REALITIES**

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Distinguished Colleagues!

First of all I would like to thank the organizers and initiators of this Seminar. Our Forum takes place at extraordinary times when the world has changed and when new threats and challenges to all world community are emerging. I believe it would be appropriate in this context to speak on a new role of Russia, Russian oil industry in modern day energy architectonics in the world and the system of global energy supplies. Quite a discussion has developed of late around Russian oil industry, its current state and potential, fortunately there are more truths in this discussion though there are myths too. I would try to substantiate obvious truths at the same time dispelling the myths.

First truth lies in the fact that the Russian oil industry having passed through a period of structural reforms and privatization, in conditions of basically favorable external factors has indeed started to dynamically develop these three recent years. We can register growth practically in all essential indicators for this industry.

The main phenomenon since mid-nineties has become appearance of private vertically integrated self-sufficient oil companies. Among them to be named first the leader of the Russian energy industry – LUKOIL which was the first to finalize the process of integration and consolidation of its assets. Within short time it has become indeed a transnational oil company of Russia. In the current year LUKOIL will produce almost 560 million barrels of oil!

Then goes YUKOS – a company which has reversed many of earlier existing notions of Russian oil industry and has become the second energy company in terms of volume of capitalization after Gazprom. In the list of major Russian energy companies next stands TNK which is one of most dynamic companies and which has chosen at that quite an aggressive internal and external strategy for its development. Then come Surgutneftegas, Tatneft, Sibneft, Rosneft and Slavneft. The last company will be sold next month to private owners with 74, 95 % of its stock being offered at the auction. By the way that would conclude the main stage in privatization of the Russian oil industry.

Second. I would like to draw your attention to the truth that now for the third year in a row Russia witnesses a steady, at 10-12 % annually grow of oil production and this trend will continue. By years 2003-2005 our country will be able by most conservative estimates to produce 350-370 million ton of oil at that by optimal prognosis – 400-450 million ton by 2005, taking into account already discovered deposits of hydrocarbons in new provinces.

Third. Still another truth is that Russia's oil export will steadily grow. By our estimates oil consumption in Europe will grow slowly: from 9,3 million barrels in 2003 to 9,6 million barrels in 2010. At the same time consumption of oil in the USA will radically increase and achieve the level of 12,3 million barrels per day in 2010. That will depend on creation of new export corridors and transportation routs particularly to USA, China and Asia Pacific Region countries, because the “old”, traditional for Russian export, European market (now that is more than 90 % of exports) will not be able to consume the growing additional volumes of oil.

However it is obvious that such global and very expensive projects as transportation and infrastructural ones can be realized only in conditions of favorable economic situation in the world and of effective cooperation with the world leaders in the oil business. Among most interesting projects of this kind could be cited creation in the Russia's North, in Murmansk, of a new oil exportation terminal and port, also the reconstruction and construction of Yaroslavl-Murmansk trunk pipeline

which will unite oil producing regions of the Russian Federation with this Northern port. Huge tankers of 250 thousand ton emplacement and more built to transport oil to the USA by the Artic Sea Rout will be able to call to this port.

Still another ambitious “breakthrough” project is one of construction of an oil pipeline to China. Two possible routs are under consideration. One of them may stretch from Angarsk (Irkutsk Region) and further on to Datsin. Great possibilities will be opened by the project of reconstruction and expansion of the Drujba oil pipeline with its integration with the Adria oil pipeline, coming down to the deepwater Croatian port Omishal on the Mediterranean Sea.

Forth. It is truth furthermore that the reserves of the Russian oil companies were underestimated in the past. If calculation is made by the world accepted classification of oil reserves then the Russian Federation and Russian companies possess explored reserves sufficient to produce oil at the above mentioned level for the next 30-40 years. In explored reserves of oil Russia holds second place in the world after Saudi Arabia. This is almost 17 % of world reserves (more than possessed by Iraq), which is 120-130 billion barrels by summary volume.

Fifth. It is also truth that Russian companies, their corporative strategy and management fit all modern standards of corporate governance, are staffed with highly qualified technical personnel and have new technologies and know-how.

Sixth. It is truth furthermore that the Russian state especially since Vladimir Putin has become President, in its actual foreign economic policy has become more mindful of the interests of the national oil companies. It is not by chance that the well-known phrase “what is good for General Motors is good for America” has received Russian wording: “what is good for LUKOIL is good for Russia”. And there is ground for that. Russian budget to the tune of almost 25 % is formed with the taxes from oil companies and these companies play an ever increasing role in social and public life of the country.

Seventh. Still another truth is that Russian oil now is more that a mere economic motion and is becoming a political factor, particularly in Russia’s relations

with countries of the West, first of all with the USA, EU nations. The new energy dialogue Russia and USA, Russia and EU is a live proof of that. In the Energy Plan by President George Bush approved in May 2001 a special section is dedicated to Russian oil companies and to oil industry of Russia as a whole to which along with the oil-rich Republics of Former Soviet Union, namely Kazakhstan, Azerbaijan, Uzbekistan and Turkmenistan, a special role is attributed in energy supplies and energy security of the United States.

Eighth. There is still another truth and it lies in the fact among Russian oil companies there is no unity in approach to prospects of energy cooperation on one part with the USA and on the other part with traditional oil producing countries – OPEC members. For instance question is raised “what will happen with the new energy partnership if suppose a war starts in the Persian Gulf which may result in overturning present-day concepts and in creating an entirely new situation in the world oil market? One of possible consequences of that could be a drastic fall in the price of oil - to limits unacceptable to Russia.

Commercial feasibility of Russian oil industry, prospects for developing new deposits in the Arctic North, on the shelf of Arctic Seas in new oil- and gas-bearing provinces requiring considerable investments to bring into life the abovementioned and other transportation projects, just as, say, commercially efficient shipments of oil to the USA – all that can be realized only if the oil price is not lower than \$ 20 per barrel. – And here myths and dangers start.

I will begin with myths, the main of which is that Russia notwithstanding its huge reserves and the new capacities which is partnership with West can provide will hardly be able to become an alternative to OPEC nations in supplying the USA and West Europe with energy. Provided everything goes well and the projects of which we have just spoken are realized, also with the price of oil being not lower than \$ 20 and situation in the world being favorable, Russia will be able to build up its export to the USA only to the level of one million barrels a day. That would be only 10 % of American market capacity by 2005-2008, of course counting on

continuing growth of energy consumption in the USA and the nation's coming out of the current economic recession. One can sooner speak of Russia and Former Soviet Union Republics of the Caspian Region (when oil pipeline Baku – Djeikhan is commissioned their oil export will considerably grow, say on the American direction) - being able by the end of this decade to play an important role in bringing energy supplies to the USA and Europe.

Development of the oil industry of Russia, including raising its export potential, is possible only if major foreign investments take place and a favorable taxation climate is created through legislation in the country. All the talks that our oil companies are able by themselves to finance their very costly infrastructural projects are groundless. This is among myths too.

Now in conclusion two words of the dangers which we can encounter on our way ahead. This is first of all a global economic crisis which is mercilessly advancing, this is utter instability in the Near East, chance of a large-scale war in Persian Gulf, and this is also a threat of total international terrorism aimed at undermining energy security in the world.

Lack of accord between of the producers and consumers of energy raw materials, ignoring ecological requirements, influence of a powerful antiglobalist movement – this is far from complete list of dangers which can substantially worsen the situation with energy supplies and hinder the process of international cooperation in energy.

At this, with your permission, I will finish my remarks. I will be glad, of course, to answer your questions if any.

Thank you.