

The Emerging Global Oil Trade Axis: The Russian Connection

By Mamdouh G. Salameh*

Introduction

In the current transparent and increasingly globalized oil markets, oil commerce has come to be shaped by transport costs rather than political relationships. As a result, the world oil trade is moving from west to east, with demand growing most steeply in a region with few supplies. New oil balances are developing which will shape the oil market and change its geopolitics. Thus a two-forked global oil market is emerging: oil supplies from the Middle East gravitating to the Asia-Pacific region, while supplies to the Atlantic region projected to come mainly from Russia and Central Asia (see Map 1).

The Asia-Pacific region's phenomenal economic growth and its steadily rising energy demand lend urgency to the question of how the region would meet its considerable energy challenges. Oil production in the region has grown more slowly, supplying less than a third of consumption in 2008.¹ Since 1995, the Asia-Pacific oil deficit – the shortfall of production over consumption – has exceeded that of the rest of the world outside the exporting countries of Russia, Central Asia and the Middle East: the Atlantic region.²

The shift of the oil deficits to the east is massive and clear. By 2030 the Asia-Pacific region's oil deficit will be seven times that of the Atlantic region, where demand will grow more slowly, even without climate change targets. And also by 2030 the Asia-Pacific deficit will be around 83% of consumption, compared to 10% in the Atlantic (Table 1).

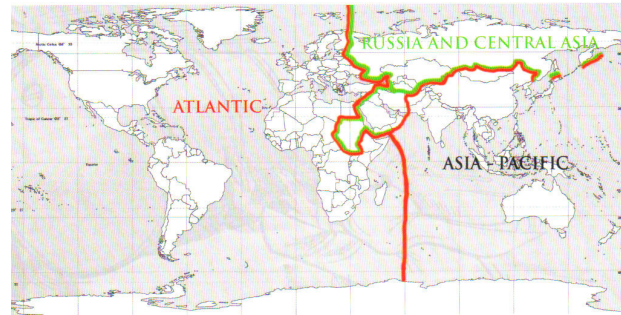
In 2008 the Atlantic region imported 54% of its needs from other countries in the region, 22.5% from Russia and Central Asia and 20% from the Middle East. This compares with 29.5%, 5% and 59.5% respectively for the Asia-Pacific region (see Table 2).

There were striking contrasts between the oil dependence of the two regions in 2008. As Table 2 shows clearly, the Atlantic region is far more self-sufficient than the Asia-Pacific region. More than half of the Atlantic region's imports are from other countries in the region, which includes North and West Africa. On the other hand, the Asia-Pacific region's oil supply depends far more on the Middle East than the Atlantic region does.

The Turning Point

In 2008, 70% of Middle East oil was actually exported to the Asia-Pacific, while only 30% came to the Atlantic. By around 2015, there will be an entirely new situation – a tipping point – because the oil deficit of the Asia-Pacific will outgrow the surplus of the Middle East.³ By 2030 a quarter of the Asia-Pacific deficit will be met from outside the Middle East – essentially from West Africa – with some supplies from Russia and Central Asia.

However, the Atlantic oil deficit will no longer depend on Middle East surpluses but on the surpluses of Russia and Central Asia. This shift will have strategic geopolitical and commercial consequences that could be reflected in the lessening of potential tensions between the biggest oil importers in the world: the United States and China.



Map 1

Source: Courtesy of the Royal Institute of International Affairs, London.

	Atlantic Region bb	Asia-Pacific Region bb
Projected oil production	43.38	7.10
Projected demand	48.18	41.30
Projected Imports (deficit)	4.80	34.20
% deficit to consumption	10%	83%

Table 1

Projected Oil Deficit in the Asia-Pacific Region & the Atlantic Region, 2030

(bb)

Source: BP Statistical Review of World Energy, June 2009 / Author's projections.

Oil Imports 2008

	% of Imports Into Asia-Pacific Region	% of Imports Into Atlantic Region
From other countries in the region	29.50	54.00
From other importing countries (cross trade)	6.00	3.50
From Russia & Central Asia	5.00	22.50
From the Middle East	59.50	20.00

Table 2

Origins of Oil Imports in 2008: The Atlantic Region Versus the Asia-Pacific Region

Source: BP Statistical Review of World Energy, June 2008 / US Department of Energy data / Author's calculations

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See footnotes at end of text.

Geopolitical Implications

At the start of the 21st century it looked as if growing dependence on Middle East oil by both the United States and the Asia-Pacific region coupled with tight global oil supplies, could increase tension between the U.S. and China and could at some point in the future lead to conflict.

However, as the Atlantic region's (primarily the United States') dependence on the Middle East declines, the fear of a major physical disruption of supplies also declines and with it the possibility, though remote, of the oil weapon ever being used against western countries implicated in the Israel-Palestine question.

Those involved in Middle East politics need to review their options. The Middle East's Asian customers need not worry: their governments have no history of involvement in the complex origins of Middle East conflicts, and no immediate role in their resolutions.

Though Middle East oil will always be pivotal to the global oil trade, it will have to share its limelight with Russia and Central Asia. Therefore, Atlantic importers need to focus on the interests of Russia and Central Asia, where global oil markets and oil security will balance in the future.

The Russian Connection

However, in order for Russia to become a major source of oil supplies to the Atlantic region, it has to expand very significantly its oil production and its export routes and capacity. This needs billions of dollars of investment.

In 2008 Russia produced 9.89 million barrels of crude oil and exported almost 4.0 mbd of it and over 2 mbd of oil products. Roughly 1.5 mbd were exported via the new port of Primorsk, a port on the Gulf of Finland.

Russia has plans to raise the country's crude oil production from 9.89 mbd in 2008 to 11.23 mbd by 2015 and 11.94 mbd by 2020.⁴ But to achieve these targets, the International Energy Agency (IEA) estimates that Russia will need \$550-\$700 billion of investment in energy infrastructure by 2020.⁵ According to a study by the French oil major Total, Russia needs to spend about \$9 bn a year, or \$7 bn more than it spends now, just to replace oil that is now being produced.⁶

Russia's export routes are reaching capacity as production rises, creating an imminent need to build several major pipelines, ports and storage terminals to break the deadlock. Russia needs at least a 6 mbd of port and pipeline capacity.

Current capacity is estimated at 3.6-4.0 mbd while proposed capacity is estimated at 3.6-4.4 mbd.⁷

The port of Primorsk gives Russia a direct outlet to northern European markets, reducing dependence on routes through the Baltic countries. But the waterways through which tankers must travel, leaving from Primorsk and most other Russian export ports, limit tanker size and, therefore, the price competitiveness of their cargoes.

Proposed pipelines would carry oil from Russia's West Siberian and Tyumen-Pechora basins west and north to a deepwater terminal at Murmansk on the Barents Sea. This would enable up to 3 mbd of Russian oil to reach the United States via tankers in only nine days, much quicker than from the Middle East or Africa.⁸

The North Atlantic drift allows the port of Murmansk to operate at full capacity 12 months a year. Direct access to North America would turn Murmansk into a geo-strategic lynchpin.

Russian Energy Policy

Russian energy trends and policies have possible implications for U.S. energy security. An increase in Russia's energy production and its ability to export that energy westward and eastward may tend to ease the supply situation in energy markets in the Atlantic and Pacific basins. In the Atlantic region, more Russian oil could be available to the United States. In the Pacific area, there would tend to be more supply available to countries such as China and Japan. This may ease the global competition for oil from the Middle East.

The United States has an interest in Russia's large role as a supplier to world energy markets in general, in Russia's role as a possible major exporter of energy to the United States, and in the changed patterns of world energy flows that could result from the completion of new Russian oil and natural gas export pipelines and related facilities. But it is also aware of the geopolitical implications of Russia's quest to emerge as an energy superpower.

Conclusions

New oil balances are developing which will shape the global oil market and change its geopolitics. As

a result, a two-forked global oil market is emerging: oil supplies from the Middle East gravitating to the Asia-Pacific region, while supplies to the Atlantic region are projected to come mainly from Russia and Central Asia and also from the Atlantic basin.

In 2008 the Atlantic region imported 54% of its needs from other countries in the region, 22.5% from Russia and Central Asia and 20% from the Middle East. This compares with 29.5%, 5% and 59.50% respectively for the Asia-Pacific region.

By 2030 the Asia-Pacific region's oil deficit will be seven times that of the Atlantic. And also by 2030 the Asia-Pacific deficit will be around 83% of consumption, compared to 10% in the Atlantic. However, the Atlantic oil deficit will no longer depend on Middle East surpluses but on the surpluses of Russia and Central Asia. This shift will have strategic geopolitical and commercial consequences that could be reflected in the lessening of potential tensions between the biggest oil importers in the world: the United States and China.

Though Middle East oil will always be pivotal to the global oil trade, it will have to share its limelight with Russia, Central Asia and West Africa. Therefore, Atlantic importers need to focus on the interests of Russia and Central Asia, where global oil markets and oil security will balance in future.

Footnotes

- ¹ BP Statistical Review of World Energy, June 2009, pp. 8 & 11.
- ² John Mitchell, New Oil Axis, the World Today, March 2010, p. 9.
- ³ Ibid., pp. 10-11.
- ⁴ Sergei Blagov, Will Russia Be Able to Sustain Its Oil Production at Current Levels? Eurasia Daily Monitor, May 9, 2008.
- ⁵ Commodity online, 3 October, 2008.
- ⁶ Newsweek, Dec. 31/Jan. 7, 2007, p. 54.
- ⁷ Mamdouh G Salameh, Russia: An Aspiring Energy Superpower With Feet of Clay (a paper to be presented at the 29th USAEE/IAEE North American Conference at Calgary, Canada, 14-16 October 2010).
- ⁸ Ibid., p.14.

Report from the Nigerian Association for Energy Economics Student Chapter

The Students affiliate of NAEI was officially inaugurated on the 20th April, 2010, during the 3rd annual NAEI/IAEE international conference held between 19th and 20th April, 2010 at New Chelsea hotel, Abuja, Nigeria.

The inauguration programme was conducted by Professors Akin Iwayemi and Adeola Adenikinju- the NAEI President and Vice President respectively. There were over sixty (60) students from Nigerian Universities at the conference apart from the important dignitaries from all walks of life who came to grace the occasion.

The executives of the students affiliate held their first meeting on the 11th June, 2010, and recorded a huge turn-out. The meeting was conveyed by the president. Critical issues that relate to the activities of the students and general administration of the students wing were articulated and discussed. Minutes of the meeting was later presented to Professor Adeola Adenikinju by the president for further scrutiny and approval.

The names and posts of the officers are listed below:

Joseph Ayoola Omojolaibi	President	omojo_laibi@yahoo.com
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