

A blue silhouette map of Northeast Asia, showing the Korean Peninsula, Japan, and the Russian Far East, positioned in the upper right corner of the title box.

Geopolitics of the Russo-Korean Gas Pipeline Project and Energy Cooperation in Northeast Asia

Lee, Kihyun
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Telephone (82-2) 901-2685

Fax (82-2) 901-2572

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INTRODUCTION

1. Introduction

The Russo-Korean Gas Pipeline has raised much expectation but has not shown much progress to date. The initiative for a cooperative project connecting a gas pipeline with Russia has regularly attracted attention since the 1990s, while the signing of a memorandum of understanding (MOU) between South Korea and Russia in 2008 strengthened expectations of advances in the Russo-Korean gas pipeline project. However, North Korean risks stemming from the regime's instability and military adventurism have left pipeline project-related discussions at a standstill up to this day.

The Russo-Korean gas pipeline project has prompted not only the Korean government in pursuit of stable energy sources but also all related countries to anticipate tremendous economic profits and political ripple effects. Therefore, conventional research on the Russo-Korean gas pipeline has focused on the expected economic and political effects of the pipeline's completion.¹⁾ Numerous

1) Refer to the following for relevant research. Yun-sik Lee, *Effects, Controversies, and Assignments for the Russo-Korean Gas Pipeline* (Seoul: Korea Institute for National Unification). (in Korean); Sung-hak Yoon, "Research of the Economic Effects of the Russo-Korean gas Pipeline: Case of South Korea," *Russian Research*, Vol.22, No. 2 (Seoul National University Institute for Russian, East European and Eurasian Studies), pp. 259-280. (in Korean); Jong-man Han et al., *The Beginning of Inter-Korean Cooperation Projects: Gas Pipeline Project* (Seoul: Pureungil, 2012). (in Korean)

research reports optimistically suggested that the pipeline will, in the long term, solve South Korea's energy shortages as well as North Korea's political problem, and serve as infrastructure for Korean unification. However, the exacerbation of North Korea-related risks, the largest factor of concern, has stalled the project. Internal circumstances in North Korea rapidly shifted with Kim Jong-Il's death and Kim Jong-Un's emergence while the ensuing missiles and nuclear test provocations worsened relations between the two Koreas. Discussions of the pipeline project, perceived as a new attempt at reconciling the two Koreas, lost steam before it even began.

Some may perceive that this project ought to be viewed as a long term project due to the complications of the North Korean situation, while Russia's natural gas is here to stay for the foreseeable future. In other words, this opinion suggests that discussions on the pipeline can perhaps take place after inter-Korean relations improve. Nonetheless, this view may turn out to be a complacent one if warning signs indicate that "time is not on South Korea's side."

This is because other Northeast Asian states have put forth related alternative proposals as the Russo-Korean pipeline project reached a standstill. Most salient of those is China's Russo-Sino-Korean pipeline project which completely bypasses North Korea. This proposal rests on the argument that connecting Russian gas to South Korea through China and the Yellow Sea may be more cost

effective since the North Korean problem renders the Russo- Korean pipeline as unrealistic. Regardless of China's strategic intentions behind this proposal, the Chinese proposal was certainly very attractive for South Korea, faced with urgent demands for a stable energy source. Furthermore, certain players in Russia have recently begun to express skepticism towards the Russo-Korean pipeline. Criticism towards the Korean government's lukewarm attitude and their stance that Russia cannot rely on the Russo- Korean pipeline alone were expressed through affiliates of the Russian energy industry and experts.²⁾

More than anything, it is important to focus on the intensifying competition among neighboring countries for Russia's natural gas. Energy negotiations made headway during Russo-Chinese and Russo-Japanese summit talks which took place in March and April 2013, respectively. Previously, opinions towards heightened cooperation between Russia and China were met with pessimism due to difficulties over price negotiations. However, increasing political cooperation between the two governments and rise of China in the energy procurement field has made rapid progress of negotiations a possibility. Japan has also been showing initiative towards energy cooperation with Russia since the accident at the Fukushima Nuclear

2) Russian President Vladimir Putin revealed at the APEC conference in October 2013 that an undersea pipeline through the East Sea could be considered instead of the Russo-Korean pipeline through North Korea. "Putin, pipeline for Korean natural gas exports can be built under East Sea," *Yonhap News*, October 7, 2013. (in Korean)

Power Plant (NPP) to prepare for skyrocketing demand for natural gas. No specific agreements have been made, but Japanese and Chinese interests can overlap with those of the Russo-Korean pipeline as both countries are interested in the Russian Far East and Sakhalin.

The characteristics of energy resources make energy cooperation difficult. Energy is a strategic commodity which not only encompasses economic interests but also those of diplomacy and security. Diplomatic and security interests strongly apply to resources such as petroleum and natural gas despite their status as economic resources traded for economic needs. This is because their status as a limited public good indispensable to a nation's stable development makes it a target for inter-state competition. This characteristic often gives rise to frictions between concerned nations which strive to secure such resources under favorable terms.

Northeast Asia is a major arena for large energy consumers. In 2010, primary energy consumed by South Korea, Japan and China amounted to 27 per cent of the world total (the United States, the European Union and Russia respectively accounted for 19 per cent, 14 per cent and 6 per cent), and this share has steadily grown. Although economic dynamism has weakened in Korea and Japan since the 2000s, China has grown rapidly while the U.S. has carried out a strategy to expand its role in the region as the world's sole superpower. North Korea is threatening regional security by

concentrating its provocative actions in nuclear and energy issues which act to destabilize the region. As a result, Northeast Asian nations perceive energy supply as a key factor which may threaten their national security. In other words, energy is of more importance to Northeast Asia than to any other region, and Northeast Asia assigns much importance to energy security. In such circumstances, friction and competition will prevail over cooperation. Additionally, the absence of cooperative institutions in the region makes coordinative actions difficult during times of instability and friction surrounding energy supply and demand.

Competition for natural gas may especially intensify in Northeast Asia. The share of natural gas in the world's energy mix will increase to 25 per cent by 2035, and it is expected to overtake that of coal by 2030. Demand for natural gas has been increasing in China, the 'energy guzzler,' while Japanese demand for natural gas as a substitute for nuclear power has also exploded as a result of the Great East Japan Earthquake and the Fukushima NPP accident.³⁾

On the other hand, Russia as a natural gas supplier may well promote competition among energy importers in order to obtain economic and political gains. As a result, this may cause future conflicts over securing energy sources in Northeast Asia. In this

3) Hoon Baek, "Policy Approach to the Russo-Korean Gas Pipeline," *Northeast Asian Economic Research*, Vol.23, No. 4 (Northeast Asia Economic Association of Korea, 2011), pp. 96-97. (in Korean)

context, the stalling of the Russo-Korean gas pipeline project and the surrounding countries' actions for acquiring Russia's natural gas cannot be overlooked.

Then is energy cooperation in Northeast Asia impossible? From a realist perspective, energy cooperation in Northeast Asia is bound to fail because competition among mass consumers of energy as well as energy suppliers cannot but be intense. However, this does not preclude the realization of institutions and initiatives for energy cooperation in Northeast Asia, as various economic cooperatives and economic communities were formed under liberal perspectives. The Russo-Korean pipeline may especially contribute to the realization of a new initiative of energy cooperation in Northeast Asia as it involves multilateral cooperation between energy supplying Russia, energy mass consuming South Korea and security threatening but energy-poor North Korea. As a result, analysis of current geopolitical conditions in the region is crucial. More importantly, it is important to look beyond simple analyses of politico-economic effects of the Russo-Korean pipeline project and carry out research under larger frameworks. Energy cooperation and competition between various Northeast Asian countries, including the Russo-Korean gas pipeline cannot be understood through the market logic of supply and demand alone. Consequently, the pipeline project and neighboring states' actions surrounding it must be approached in a multi-level, holistic manner that encompasses geopolitical and geo-economic aspects.

Through such approaches, the meaning and role of the pipeline in Northeast Asia's energy geopolitics must be evaluated while seeking methods for the project's restart.

2

The Geopolitics of Competition and Conflict since the halt of the Russo-Korean Pipeline

2. The Geopolitics of Competition and Conflict since the halt of the Russo-Korean Pipeline

The Russo-Korean Gas Pipeline is a political project which moves in tandem with the North Korean nuclear problem and inter-Korean relations which are by default in a state of military confrontation.

This means that the advancement of denuclearization discussions such as the restart of the Six-Party Talks and trust-building between the two Koreas through economic dialogue are prerequisite for a successful execution of the project. In other words, ingrained in the Russo-Korean gas pipeline is the limitation that its success or failure hinges on Northeast Asian and inter-Korean relations.

According to the “Long Term Roadmap for the Russo-Korean Pressurized Natural Gas Project” agreed on September 9, 2011, Russia and South Korea should have enacted a gas supply agreement by April 2012, begun pipeline construction from September 2013, and start supplying natural gas from 2017. However, this roadmap has remained a mere ‘plan’ on the drawing board. The Russo-Korean pipeline project, which Kim Jong-Il actively considered, has

ground to a halt due to the North Korea risk stemming from repeated provocations and crisis-fomenting tactics that have followed Kim’s death.

<Figure 1> Plans for Gas Pipelines from Russia through North Korea⁴⁾



An observation of the present situation evokes expectations that improvements in inter-Korean relations will allow an easy restart for the Russo-Korean pipeline project. However, potential for more

4) Reorganization of information from the Ministry of Knowledge Economy. Ministry of Knowledge Economy Website, "Advancing Russian PNG Imports through North Korea," <http://www.mke.go.kr/common/jsp/fileDownloadOrg.jsp?> (Accessed: June 17, 2013). (in Korean)

complex problems exist. Initiatives for energy cooperation are structurally limited because the energy game in Northeast Asia fundamentally operates along mechanisms of competition and conflict. The Russo-Korean pipeline may have been a win-win strategy through mutual cooperation between South Korea, Russia and North Korea, but North Korea's foreign policy and political decisions have put the possibility of such cooperation at the risk of unraveling.

More importantly, the materialization of neighboring states' moves aiming to utilize the Russo-Korean project's delay as an opportunity to actively enhance their own energy interests deserves attention. Missing a golden opportunity for energy cooperation due to North Korea's provocations and inter-Korean conflict has allowed surrounding states to renew strategic calculations, and has revived the energy geopolitics of competition and conflict in Northeast Asia.

A. Chinese proposal for Russo-Sino-Korean gas pipeline cooperation

1) China's gas strategy and Russia's natural gas

China is an 'energy guzzler,' an energy consumer requiring massive amounts to fuel its economic growth. China has historically relied heavily on coal and petroleum for energy supply, but natural

gas has recently been attracting more attention. China produced 94.5 billion cubic meters of natural gas in 2010, but consumed 110 billion cubic meters resulting in a shortfall of 15.5 billion cubic meters.⁵⁾ China is expected to consume 300-400 billion cubic meters of natural gas by 2020.

As a result, China is proceeding with multiple investments in Central Asia (Turkmenistan, Kazakhstan, and Uzbekistan), Russia and Myanmar in order to securely supply its domestic demand for natural gas.⁶⁾ Simultaneously, China conducted domestic natural gas pipelines through its “West to East Gas Transport” project which aims to build infrastructure for its domestic natural gas. Recently, domestic and Central Asian pipelines running through Turkmenistan, Uzbekistan and Kazakhstan were joined, partially accomplishing China’s energy strategy goals in the natural gas sector.⁷⁾ Connections with Russian pipelines still remain to be completed.

However, natural gas cooperation between Russia and China has

5) “Korea Gas Plan targets China,” *Radio Free Asia*, September 5, 2011.

6) Starting with the 188km portion in Turkmenistan in August 2007, the 530km Uzbekistan portion was begun in August 2007, and construction in Kazakhstan was started in July 2008 with phase 1 being completed in July 2009. In 2009, the 1,833 km route passing through Turkmenistan, Uzbekistan and Kazakhstan was fully opened.

7) China’s East to West Gas Transport Project’s Phase 1 is a 4,000km gas pipeline connecting Lun Nan in Xinjiang to Shanghai (Constructed 2002, Supply opened 2005, 12 billion cubic meters per year), scheduled to connect with the Kazakh-Sino gas pipeline. Phase 2 will be 9,102 km of pipeline connecting Huoerguosi, Xinjiang, - Ningxia – Guangzhou. Phase 3 will connect Xinjiang and Fujian Area. Phase 4 is scheduled to begin in the Tarim Basin or Sichuan. Gas cooperation between China and Central Asia outside this scope is going well as well. “Xi Qi Dong Shu” [West-East Natural Gas Transmission Project], Retrieved from <http://baike.baidu.com/view/15106.htm>. (Accessed: 2013.8.2). (in Chinese)

been historically rife with conflict, while results have been mediocre.⁸⁾ Russia has kept China in check during their cooperation over petroleum. Natural gas cooperation projects between the two states are said to be under the influence of Russia's tradition of countering China.

Russo-Chinese natural gas projects include the 3,000km Altai gas pipeline which connects Western Xinjiang Uighur Province and gas fields in Western Siberia which was agreed upon in 1996, and the Irkutsk Kovykta gas field project which was stranded in 2003.⁹⁾ The Altai gas pipeline has been stagnant over a long period of time, while the Kovykta project, in which South Korea also took part, was scrapped by Russia and replaced with projects aiming to connect the Sakhalin gas fields to South Korea and Japan. This shift was the result of Russia's eastern gas program strategies, but can also be regarded as the result of Russian and Japanese anti-Chinese checks aiming to avoid losing Siberian and Far Eastern natural gas to China.

Nonetheless, China was Russia's largest gas export and consumption market. Although the two countries may engage in cost haggling, China is undeniably a very important consumer for Russia. In

8) Yeon-gyu Kim, "Russo-Chinese Energy Alliance of Convenience and Energy Cooperation in Northeast Asia," *Green International Politics: Nuclear, Energy, Environment*, (The Korean Association of International Studies, Study meeting 2011, April 2011), pp. 66~67; On natural gas cooperation and conflict between Russia and China, refer to Chen, Jingquan and Yun, Shuming, "Zhongtianranqihezuoboyiyufazhanqushiyanjiu"[Study on the PRC-Russia Cooperative Game for Natural Gas and Developmental Trend], *Emosizhongyadongonyanjin [Study on Russia, Central Asia, and East Europe]* June 2011. (in Chinese)

9) Yeon-gyu Kim, *Ibid.*, p. 66; Jaewoo Joo, "Evaluations and Policy Recommendations for Russo-Chinese energy cooperation: Centered on Oil and Gas Pipelines," (Korea Institute for National Unification Advisory Council, May 2013). (in Korean)

October 2008, difficult negotiations for Russo-Chinese cooperation bore fruit. The two states concluded fifteen years of negotiations to ratify the treaty for crude oil pipeline construction and crude oil supply for China. Simultaneously, Russia decided to supply natural gas to China from 2015 through the ratification of the Natural Gas Pipeline Construction and Natural Gas Supply for China Agreement. Furthermore, Russia's Gazprom and China's CNPC agreed upon major working-level conditions for natural gas supply. The following were agreed upon.

- Western Supply Route (Western Siberia-Novosibirsk- Xinjiang, West to East gas transport, total length 2600km): Gas supply scheduled to begin in 2015 for thirty years, annual supply to be 30 billion cubic meters (currently experiencing delays)
- Eastern Supply Route (Eastern Siberia, Far East and Sakhalin): Undecided, centered on the Irkutsk Kovykta, Sakhalin and Yakutia Chayanda gas fields.

However, conflicts regarding supply costs are yet to be resolved. Russia has proposed its lowest price at 350 USD/1000 cubic meters while China demanded 235 USD, undercutting European prices, preventing an agreement from being reached.¹⁰⁾

10) Energy negotiations made progress during Russo-Chinese summit talks on March 22, 2013. With Chinese President Xi's visit to Russia, the two states agreed to accelerate gas cooperation between CNP and Gazprom and to agree on prices within the year. Of course, certain forecasts view progress on gas prices as difficult, but this did open a new window for gas cooperation which has been turbulent for the last 10 years. Kuho Eom, "Russia's East Siberian and Far Eastern Gas and Gas Competition in Northeast Asia," (Online Journal Russia · CIS FOCUS Issue 221, 2013.6.24).

<Figure 2> Russo-Chinese gas pipelines, Eastern and Western routes



2) China's new proposal: Russo-Sino-Korean pipeline cooperation without North Korea

China was dissatisfied with the summit talks Kim Jong-Il proceeded before his death. As North Korean concerns about its excessive reliance on China intensified, it is likely that China perceived such attempts as North Korean efforts to involve Russia as a new backer for the purpose of maintaining a political balance against China. Russia's enthusiastic reception of such efforts and

aggressive actions for gas pipeline cooperation including debt remissions appears to have made China very uncomfortable. Active expansions of Russian involvement on the Korean Peninsula is bad news for China, which may have assessed that it had secured geopolitical and geo-economic advantages needed to counter Russia's southward encroachments by acquiring the Rajin port as well as the upper hand in economic cooperation with North Korea.

Stable gas supplies could have encountered trouble even when geopolitical security issues were excluded. The connection of the Russo-Korean pipeline could have made the acquisition of sufficient quantities of Russian gas difficult. Natural gas for South Korea was closely intertwined with the Sakhalin fields and the Yakutsk (Chayanda gas fields) - Khabarovsk-Vladivostok gas pipeline scheduled for completion in 2016. This was bound to overlap with Chinese acquisition strategies for Russia's natural gas. As China held ambitions to gain a competitive advantage over Russian gas outside of the established gas cooperation agreed upon with Russia, China feared that the activation of the Russo-Korean pipeline would bring harm.

Furthermore, China has plans to become the hub for Northeast Asian natural gas supplies. Firstly, China has drafted plans to make energy plants around Daqing in Heilongjiang Province, and is attempting to transform its domestic gas prices into a system based on market competition. China's final goal is to establish a natural gas spot market in Shanghai, and has figured that price leadership,

currently held by gas suppliers, can thus be transferred to Northeast Asian importers. For such a scheme to work, gas pipelines from Russia must be concentrated in China. Such intentions rose to the surface shortly after the Russo-Korean pipeline came to a standstill.

China proposed a Russo-Sino (Shandong Peninsula) – Yellow Sea route as an alternative to the Russo-Korean pipeline project. The distance between Weihai, the terminus for this pipeline, and Baengnyeong Island is 174km. The distance to Seoul is 380km, making it shorter than 700km the North Korean portion of the Russo-Korean pipeline.¹¹⁾

This proposal was made during a meeting between chairman Jiang Jiemin of the China National Petroleum Corporation (CNPC) and Korea National Oil Corporation CEO Kang Young- Won in August 2011. Chairman Jiang, despite his position as a corporate head, was one of the top 200 members of the Chinese Communist Party and an alternate member of the Central Committee of the Communist Party of China as well as the chief of Petro China, the leading energy firm in China at the time. This implies that this proposal to a certain degree reflects the Chinese government's energy strategy.¹²⁾ Chairman Jiang, appointed to the head of State-owned Assets Supervision and Administration Commission

11) "China makes Radical Proposal excluding North Korea from Russo-Korean Gas Pipeline," *JoongangIlbo*, March 23, 2012. (in Korean)

12) "A Chinese Pipeline in Korea," *JoongangIlbo*, March 29, 2013. (in Korean)

(ministerial level) charged with overseeing large state enterprises under the Xi Jinping regime, has recently reaffirmed the Yellow Sea route.¹³⁾ Moreover, the Chinese proposal's high connectivity with the 'Eastern Route,' planned to become the major pipeline for Russo-Chinese gas cooperation, indicates its shared roots with China's Northeast Asian natural gas hub strategy. Such examples indicate that Chinese interests are not favorable for advancing the Russo-Korean gas pipeline.

<Figure 3> Russo-Sino-Korean pipeline proposed by China¹⁴⁾



13) "The Russo-Chinese Natural Gas Pipeline Game in the Korean Peninsula," *JoongAngIlbo*, May 11, 2013. (in Korean)

14) Reorganized from *CNPC* and *JoongAngIlbo*'s article on March 23, 2012.

B. Likelihood of changes in Russia's position

A considerable amount of time has elapsed since the Russo-Korean pipeline cooperation project came to a halt. Has Russia, which has shown enthusiasm towards the project, not changed its position? In other words, is the project still important for Russia? Even though the expansion of Russian energy supplies to Northeast Asia has been confirmed, the fact that the contents of the expansion can always change must not be overlooked.

First, South Korea and Russia are at odds as supplier and consumer. Russia enjoys an advantageous position as a supplier with its state power, natural resources and relations with North Korea, while South Korea does not. Moreover, South Korea must compete with neighboring China and Japan for gas acquisition, while Russia has the option to choose. Sadly, the structure of this relationship is a frightening and critical one to South Korea. The Russo-Korean pipeline project may be pressing and inevitable for South Korea while being a mere option for selection lacking any pressure for Russia.

Russia still prefers a competitive structure for gas importers similar to that of the Eastern Siberian-Pacific Ocean (ESPO) pipeline decision which took place in the early 2000s in order to create an advantageous situation. Russia, as it proposed respectively favorable routes to both China and Japan to engender competition at the time,

put forth the Russo-Korean pipeline to Korea and the Vladivostok LNG project to Japan to foster competition between the two states. In this regard, the Russo- Korean pipeline project may be nothing more than one of many options for Russia.

<Table> Comparative Energy Strategy Relationships between South Korea and Russia¹⁵⁾

Factor	South Korea (Demand)	Russia (Supply)
National Power	Relatively Weak	Relatively Strong
Natural Resources	Poor	Rich
Relations with North Korea	Hostile or unfriendly	Relatively good
Relations with neighboring states regarding energy	Competition	Selection (alternatives)

Secondly, it is questionable whether the Russo-Korean pipeline still provides utility to Russia today. As North Korean risk and suspicions towards Korean capital escalate, the likelihood of Russia selecting a negative response to the Russo-Korean PNG project is increasing. The issue of securing the stability of natural gas running through North Korea, essential to the success of this project,¹⁶⁾ has already been brought up multiple times during discussions. As uncertainty surrounding North Korea has become clearer through North Korea’s third nuclear test and attempts to sabotage the

15) Source: Jongman Han et al., *The Beginning of Inter-Korean Cooperation Projects: Gas Pipeline Project* (Seoul: Pureungil, 2012), p. 88. (in Korean)

16) Namil Kim, “Issue of the Gas Pipeline Project and the Possibility of Stable Energy Supplies,” *Russo-DPRK-ROK Cooperation and the Political Environment in the Korean Peninsula: Centered on the Gas Pipeline Project* (Korea Council for Reconciliation and Cooperation Forum for Reconciliation and Co-prosperity 2011, November 15, 2011), p. 62. (in Korean)

Kaesong Industrial Complex, Russia will inevitably have to reevaluate the North Korea risk while its enthusiasm for active involvement enervates.

The third factor is Russia's changing interests surrounding the Russo-Korean pipeline. Russia, when enthusiastically pushing for the pipeline, had to quickly decide on a future export route as the Sakhalin-II field's gas production was being supplied to Vladivostok since 2012. Russia's enthusiasm towards the pipeline partly rose from its inability to defer the decision any longer. Moreover, additional construction and upkeep costs that LNG would entail over PNG would have been burdensome for Russia.¹⁷⁾ However, a project agreement was reached between Gazprom and a Japanese energy consortium in October 2012 while the Russo-Korean pipeline stalled. If the construction of a natural gas liquefaction plant is confirmed on the premise that a prompt restart of the Russo-Korean PNG project was unrealistic due to North Korean risk, Russia will lose the incentive to restart the PNG project.¹⁸⁾ Such concerns are easy to come across among Russian energy experts. As the political nature of the Russo-Korean pipeline is strong while North Korean risk remains high, negative evaluations from major energy firms such as Gazprom are inevitable.

17) Sung-hak Yoon, *Ibid.*, p. 263

18) Russia on October 29, 2012, decided to supply LNG by constructing 3200km of pipeline in the Eastern Siberian Gas Route (Yakutsk-Khabarovsk-Vladivostok) and liquefaction facilities by investing 45 billion USD. (Reuters, October 29, 2012).

Of course, if past Russian energy strategies, aimed to maintain competition among major Northeast Asian gas consumers, are considered, the Russo-Korean PNG project is likely to be advanced alongside the Vladivostok LNG project which Japan. Nevertheless, if early materialization of the Russo-Korean pipeline project fails and sufficient gas supplies are not acquired, Russia may prioritize the Japanese project as a realistic alternative. In this case, South Korea will have to expect considerable losses in investment negotiations with Russia.¹⁹⁾

Fourthly, changes in Russian strategy according to the natural gas market's landscape must be considered. Pressures on Russia are on the rise as various suppliers such as the United States enter the world energy market thanks to the boom in shale gas. This is especially the case since Russia is a minor player in the LNG sector despite its status as the world's top exporter of PNG. Furthermore, Russia is concerned with falling profits since it faces downward price pressures from Europe as shale gas development progresses and the European economy struggles in recession. This has strengthened Russian incentives to take on an active strategy for LNG exports.²⁰⁾

19) Compared to planned supplies of 7.5 million tons through the Russo-Korea gas pipeline, the capacity of LNG facilities in Vladivostok reach 10 million ton. Russia at the present states is incapable of supplying both by 2017. Ik-Joong Yoon, "Energy Cooperation and Conflict in Northeast Asia: New Circumstances for Russian Gas Supplies and the Russo-Korean PNG Project" (Korea Institute for National Unification Advisory Council, May 2013). (in Korean)

20) Refer to "Influence of U.S. Shale Gas Development on Asian Natural Gas Markets," *Energy Economic News*, January 9, 2013.

Finally, Russia may take a friendlier approach towards China. Russia's energy strategy in the Far East has always been mindful of China's movements. This is evidenced by its shift of plans amidst the rise of China on the world stage. It has first planned to supply Eastern Siberia's Irkutsk natural gas to China and South Korea from 1994 to 2002 but altered its plan to supply and develop Sakhalin natural gas for South Korea and Japan. Such policy reversals reflect Russia's willingness to launch countermeasures against China through gas supplies. However, the possibility of Russian natural gas supply strategy shifting in favor of China, similar to the outcome for Russian petroleum supply routes, cannot be excluded.

This is because Russia's energy strategy of expanding exports to the East Asian natural gas market, over which China clearly maintains suzerainty is a *fait accompli*. As Japan is still viewed as lacking enthusiasm towards Russian energy development, China's capital, technology and massive consumer market are important for Russia. In one aspect, Russia has pushed for cooperation for the Russo-Korean pipeline to increase its geopolitical and geo-economic leverage in gas negotiations against China. Consequently, Russia will have to maintain interest in China's market and capital, and a rational analysis implies that Russo-Japanese and Russo-Korean relations, from the Russian perspective, serve as leverage to maximize profits in Russo-Chinese relations.²¹⁾

However, Chinese demand for Russian gas has diminished with

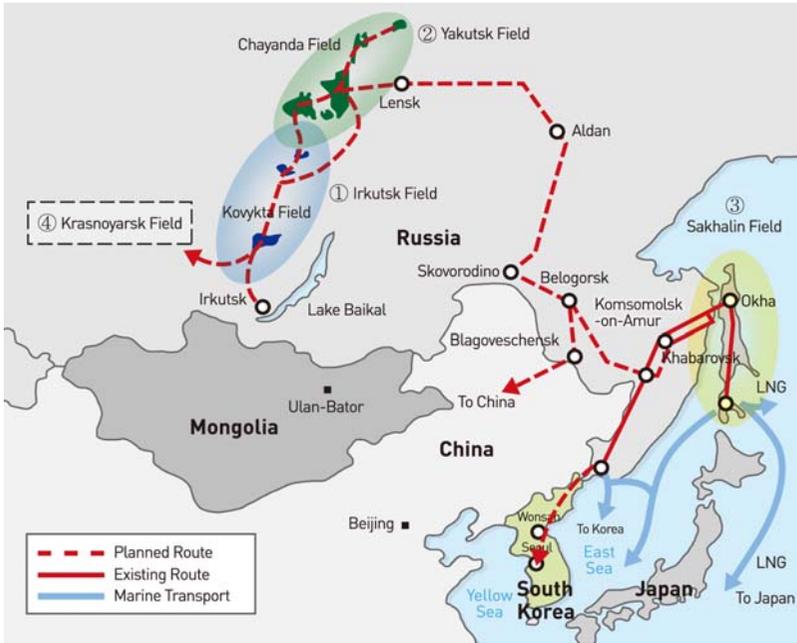
the advent of new energy sources such as shale gas. In addition, China's strategy of diversifying energy sources to Central Asia and Africa has reduced its reliance on Russian energy. If Korean and Japanese supply routes intended to serve as a leverage for setting up countermeasures against China lose their influence, they lose all meaning as well. Then the only scenario left is for Russia, the supplier, to surrender or yield to China, its major customer. This is an option which still cannot be excluded from the list of potential outcomes.

Furthermore, shifts in the Northeast Asian political environment caused by the U.S. "pivot to Asia," may catalyze a strengthening of strategic cooperation and progress in energy cooperation between Russia and China. In the 1990s, Russia promised China radical crude oil and natural gas supplies while rejecting Japanese calls for East Siberian and Far Eastern energy development to build a Russo-Chinese united front against the strengthening U.S.-Japanese alliance in Northeast Asia.²²⁾ Rapid changes to the international order in Northeast Asia including the U.S. pivot to Asia and the strengthening of the U.S.-Japanese alliance may certainly prompt Russia to choose to return to the 1990s system.

21) Stephen Blank, "Partnership of Convenience: Understanding Russo-Chinese Relations," June 2009, Retrieved from <http://www.criticalthreats.org/russia>. (Accessed: 2013.7.20); Robert Culter, "Russo-Chinese Energy Ties Structure Strategic Cooperation," October 28, 2010. Retrieved from <http://www.isn.ethz.ch/Digital-Library>. (Accessed: 2013.7.20).

22) Yeon-gyu Kim, *Ibid.*, p. 61. (in Korean)

<Figure 4> Map of Russian Eastern Gas Program Routes²³⁾



C. Expansion of the Japanese factor

Japan has increased petroleum and LNG imports as alternatives to nuclear power since the Fukushima earthquake in 2011. Japan imports most of its LNG from Indonesia, Malaysia and Australia, but has been promoting the development of gas fields around Sakhalin

23) Reorganized from Gazprom's information. Gazprom, "Eastern Gas Program," Retrieved from <http://www.gazprom.com/about/production/projects/east-program>. (Accessed: 2013. 10.22).

by cooperating with Russia as part of a supply diversification policy.²⁴⁾

Japan has a complex stance towards the Russo-Korean gas pipeline project. When viewed as part of Far East/Siberian development cooperation, the pipeline's importance is low. On the other hand, the pipeline is preferred over the Russo-Sino-Korean pipeline when viewed as a countermeasure against China and a means for natural gas supply route diversification. The first reason for the pipeline's low priority is Japan's focus on Far East/Siberian development. The pipeline is irrelevant to Far East/Siberian development cooperation because the said development cooperation strongly includes a means for setting the stage for resolving territorial disputes. Japan has abandoned its policy of politico-economic inseparability towards the Soviet Union since the mid-1980s in favor of a policy of separating politics and economy, and has strengthened economic cooperation since the 1990s in order to resolve the Northern Territories dispute.²⁵⁾ Especially noteworthy was the two states' adoption of the "Joint Statement on the Development of Japan-Russia Partnership" during bilateral summit talks in April 2013, through which Russia and Japan agreed to restart negotiations to solve the Kuril Islands dispute and ratify a peace treaty based on

24) Fujiyama Mitsuo, "Task for Financing the Cost of LNG Thermal Power Fuel," *Business & Economic Review*, September 2012, p.22. (in Japanese)

25) Rajan Menon, "Russo-Japanese Relations: Implications for Northeast Asian Security," in Stephen J. Blank and Alvin Z. Rubinstein, (eds.), *Imperial Decline Russia's Changing Role in Asia* (Durham: Duke University Press, 1997).

expanded economic cooperation in the fields of resources, energy, agriculture, healthcare, and infrastructure. There appears to be an alignment of interests between the two states which aim to resolve political issues through increased cooperation and the development of the Russian Far East and Siberia is emphasized as the means for such cooperation.

Secondly, development of the Russian Far East and Siberia serve as an opportunity to revive Japan's economy. This factor has become more evident since the advent of the Liberal Democratic Party's Prime Minister Abe cabinet in 2012. The Abe government aims to intertwine domestic economic revival with enhanced economic ties with Russia centered on the Far East region. This has been actively promoted as part of the Abe Regime's growth strategy called "Japan Revitalization Strategy – Japan is Back."²⁶⁾

Investment expansion such as increased cooperation in infrastructure, agriculture, healthcare technology is especially a core component in the "Strategy of International Outreach," a part of the Japan Revitalization Strategy.²⁷⁾ In addition, Japan has agreed with Russia to construct an investment platform centered on the Japan Bank for International Cooperation (JBIC) to support Japanese enterprises entering Russia, and expects to outlay 100 billion JPY in loans and

26) *The Asahi Shimbun*, April 29, 2013.

27) *New Growth Strategy: Japan is Back*, Retrieved from http://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/saikou_jpn.pdf. (Accessed: 2013.7.20)

investments in state-of-the-art healthcare technology and expand natural resource development.²⁸⁾ Embedded in this is Japan's intent to intertwine domestic economic vitalization with strengthening Russo-Japanese economic ties centered on the Russian Far East.

In this regard, the Russo-Korean gas pipeline project, viewed from a practical Japanese perspective, can be treated as a secondary issue. However, it still may be preferable to the Russo-Sino-Korean pipeline project with consideration to energy supply route diversification and anti-Chinese countermeasures. The first reason is that Japan puts much meaning to its plans for Russian gas supply route diversification. Japan has pushed for Russian natural gas development and imports to secure a stable energy supply route. The crude oil and natural gas reserves of Sakhalin offshore fields hold particularly large benefits for Japan, which holds an advantage in market entry based on geographic proximity over China or other multinational corporations. Russo- Japanese natural gas development cooperation began with the Sakhalin-I project. Sakhalin-I, with 485 billion cubic meters in gas reserves and overseen by the U.S. Exxon-Mobil (30 per cent share), began oil and gas production in October 2005. A 13-firm Japanese consortium called Sakhalin Oil and Gas Development Company (SODECO), India's national Oil and Natural Gas Corporation Ltd. (ONGC) and Russia's Rosneft respectively hold 30

28) *The Asahi Shimbun*, April 30, 2013. (in Japanese)

per cent, 20 per cent, and 20 per cent shares of the project. As for Sakhalin-II, Russia's Gazprom, Royal Dutch Shell, Japan's Mitsui Bussan and Mitsubishi respectively hold 50 per cent+1, 27.5 per cent, 12.5 per cent and 10 per cent shares. 60 per cent of production is supplied to Japan, which account for 7 per cent of Japanese total LNG consumption.

It is notable that the Russo-Korean gas pipeline project is meaningful to Japan as a supply route for Russian natural gas. Japan is planning a pipeline project to connect Russian LNG from Sakhalin to mainland Japan, while receiving LNG supplies via sea from Vladivostok and Sakhalin. In this respect, the Russo-Korean pipeline can be viewed as beneficial for Japan as a means of supply route diversification.

Second is the need to be watchful of ties between Russia and China.²⁹⁾ Competition between Japan and China for Russian mineral resources has been accelerating. China's CNPC has signed a contract to purchase 743,000 barrels of crude oil per day with Rosneft, Russian national refining company. Russian gas exporter Gazprom is planning to construct gas pipelines capable of transporting 38 billion cubic meters by 2018 once price negotiations with China are concluded.

In particular, energy cooperation was strengthened as Chinese

29) *Nihon Keizai Shimbun*, March 23, 2013. (in Japanese)

firms and banks decided to participate in coal development in Eastern Russia before the Russo-Chinese summit talks in 2013, while Rosneft agreed to expand petroleum exports to China by a threefold. Of the agreements Presidents Putin and Xi Jinping reached, Chinese loans to Rosneft in exchange for long term petroleum supplies stood out as it allowed China to overtake Germany as the top importer of Russian oil. However, more important than China's position as the largest importer of Russia's oil was that the two nations progressed beyond a resource supply relationship as Russia opened its upstream sector to China and agreed to jointly develop the arctic region with CNPC.³⁰⁾

In response, Japan has assumed the 'Chinese threat' perspective and has emphasized cooperation with Russia to counter China. To acquire energy by countering China, it can be understood that the Russo-Korean pipeline is preferred over the Russo-Sino-Korean pipeline project.

It would be problematic if Japanese efforts to expand energy cooperation with Russia accelerate. Japanese enthusiasm for energy development with Russia, which has become especially salient since the Fukushima accident is alarming to the 'time is on our side' view of the Russo-Korean gas pipeline. Japan may prefer the Russo-Korean route over the Chinese one to counter China. However, if territorial

30) Energy Economic News, April 24, 2013.

disputes are resolved to a certain extent and pipeline connections between Japan and Sakhalin materialize, South Korea may lose its leading position to Japan as the Russo-Korean pipeline faces considerable delays. There seem to be movements that suggest that the Russo-Japanese pipeline should be of primary concern within Gazprom, which holds a monopoly over Russian gas exports.³¹⁾ If Russo-Japanese cooperation expands, a rise in Japanese competitiveness in the natural gas sector will be inevitable. South Korea will fall behind Japan in the competition for cheap and stable long term energy supplies from Russian gas, resulting in severe challenges for Korean industrial competitiveness. Even worse, the momentum for the Russo-Korean pipeline may be lost as well.

D. Internal conflicts in South Korea and the U.S. negative viewpoint

Even when rosy expectations of the Russo-Korean pipeline project were abundant, skepticism was considerable. The largest concern for skeptics was the North Korea risk. Even if a PNG route materializes, possible risks are as follows. First is the pipeline's passage through North Korea. After the pipeline's completion, the possibility of North Korea shutting down the pipeline when

31) Suk-hwan Kim, "Policy Recommendations on the Russo-Korean Gas Pipeline," (Korea Institute for National Unification Advisory Council, September 2013). (in Korean)

inter-Korean relations sour will still exist. This view gained ground as the Kaesong Industrial Complex crisis erupted after tours of Mt. Geumgang were halted. Second is the opposition from the North Korean military and the possibility that income from the pipeline is appropriated for military use. This implies the view that the pipeline may pass through North Korean military areas, which the military will never allow. Even if this plan is accepted, the worry that various construction incomes and passage fees will be utilized as the elites' or military's governing budget will persist. Third is a more fundamental skepticism of whether the cooperation project itself is reasonable, as inter-Korean relations have worsened with the sinking of the Cheonan, the shelling of Yeonpyeong-do and North Korea's third nuclear test.³²⁾

On the other hand, opposite arguments which assert that the North Korea risk is not a big worry exist as well. First, as explained above, this project provides gains without much loss for North Korea. Next is the assumption that North Korea will not take rash actions such as halting or stealing gas running through a pipeline constructed by an international consortium including Russia. This is because this project, unlike other inter-Korean cooperation projects, is of international cooperative nature. These opinions argue that once

32) For detailed analyses, refer to: Woo-taek Hong, "Calculations for the Russo-Korean Gas Pipeline Project," Korea Institute for National Unification Online Series 11-23, (September 6, 2011) (in Korean); Yun-sik Lee, *Ibid.* pp. 55-62. (in Korean)

the pipeline is put in place, the North Korea risk may lose significance.

Despite such arguments, advancing the Russo-Korean pipeline project without inter-Korean trust-building is expected to be a difficult task. Furthermore, an easy resolution of the conflicting opinions on this project within South Korea seems difficult. In this situation, arguments for accepting a pipeline through China as a realistic alternative are being pitted against those insisting that the pipeline must pass through North Korea.

The former argument is based on the pipeline's contribution to a peaceful unification of the Korean Peninsula, role as counter-measure against China in the energy market, utilization of Russia in maintaining a balance of power in Northeast Asia, and the assumption that the North Korea risk is not enough to warrant concern.³³⁾ On the flipside, the opposition argues that the Chinese route should be strategically considered as a realistic alternative instead of excessively attempting to push forth the Russo-Korean pipeline plagued by the North Korea risk when inter-Korean trust has not been established. This argument champions the view that a stable energy supply route should first be secured for energy security reasons. In order to do so, the Chinese route should first realize the Northeast Asian natural gas hub plan, which will be followed by

33) "Why the Gas Pipeline Should Pass North Korea," *JoongAngIlbo*, July 3, 2012. (in Korean)

considerations of the Russo-Korean pipeline as a second resort while North Korean risk is eliminated.³⁴⁾

An additional consideration outside South Korea is the United States' interests surrounding the Russo-Korean pipeline. The U.S. possesses unmatched technology and capital in the global oil and gas pipeline sector, not to mention the fact that major energy corporations are American. As a result, the U.S. has taken a holistic approach comprising domestic and international politics as well as geopolitical factors over one of simple economic cooperation.

Originally, the U.S. did not embrace the rapid progress made in the Russo-Korean pipeline project. The first reason for this was its links with the North Korean nuclear problem. The U.S. has made various efforts to resolve this problem. The U.S. surely would not welcome a gas pipeline which delivers benefits to North Korea without achieving clear results such as the termination or abandonment of nuclear development. The South Korean government has hoped for a gas pipeline from the Sakhalin-I fields of the Sakhalin projects running through North Korea since the Kovykta project foundered, but the Bush Administration and U.S. energy giant Exxon Mobil expressed their opposition to projects that would benefit North Korea.³⁵⁾

Secondly, the pipeline may upset the balance of U.S. geopolitical

34) "If the Russian Gas Pipeline Runs through China," *JoongangIlbo*, April 4, 2012. (in Korean)

35) "The Sakhalin Project, a Bane for the U.S.," *Hangyeorae*, October 11, 2004. (in Korean)

strategy. Connecting Russia with North Korea with a pipeline poses no problems to the U.S. strategy, but South Korea's inclusion fragments the U.S. Northeast Asian alliance centered on South Korea and Japan. Past U.S. opposition to petroleum and gas pipeline connections between Europe and the Soviet Union during the Cold War reflects this superbly.

Third, the pipeline contradicts the U.S. energy strategy. The U.S. is conducting energy diplomacy as a counter against Russia, a potential competitor. U.S. energy export expansion strategies, including shale gas development, can deliver a blow to Russia's economy which relies on energy exports for 60 per cent of national income. Therefore, the Russo-Korean pipeline project conflicts with U.S. strategy's attempt to isolate Russia.³⁶⁾ This is another reason the U.S. does not welcome the project.

Fourthly, this project does not conform to U.S. economic interests either. The U.S. seeks to expand LNG exports to Asia due to its shale gas boom. Increased shale gas production will stabilize U.S. natural gas at lower prices, which means that the imports of major Asian gas consumers such as China, Japan and South Korea will stabilize and expand.³⁷⁾ The fact that U.S. shale gas prices move with U.S. spot market prices unlike their Middle Eastern counterparts

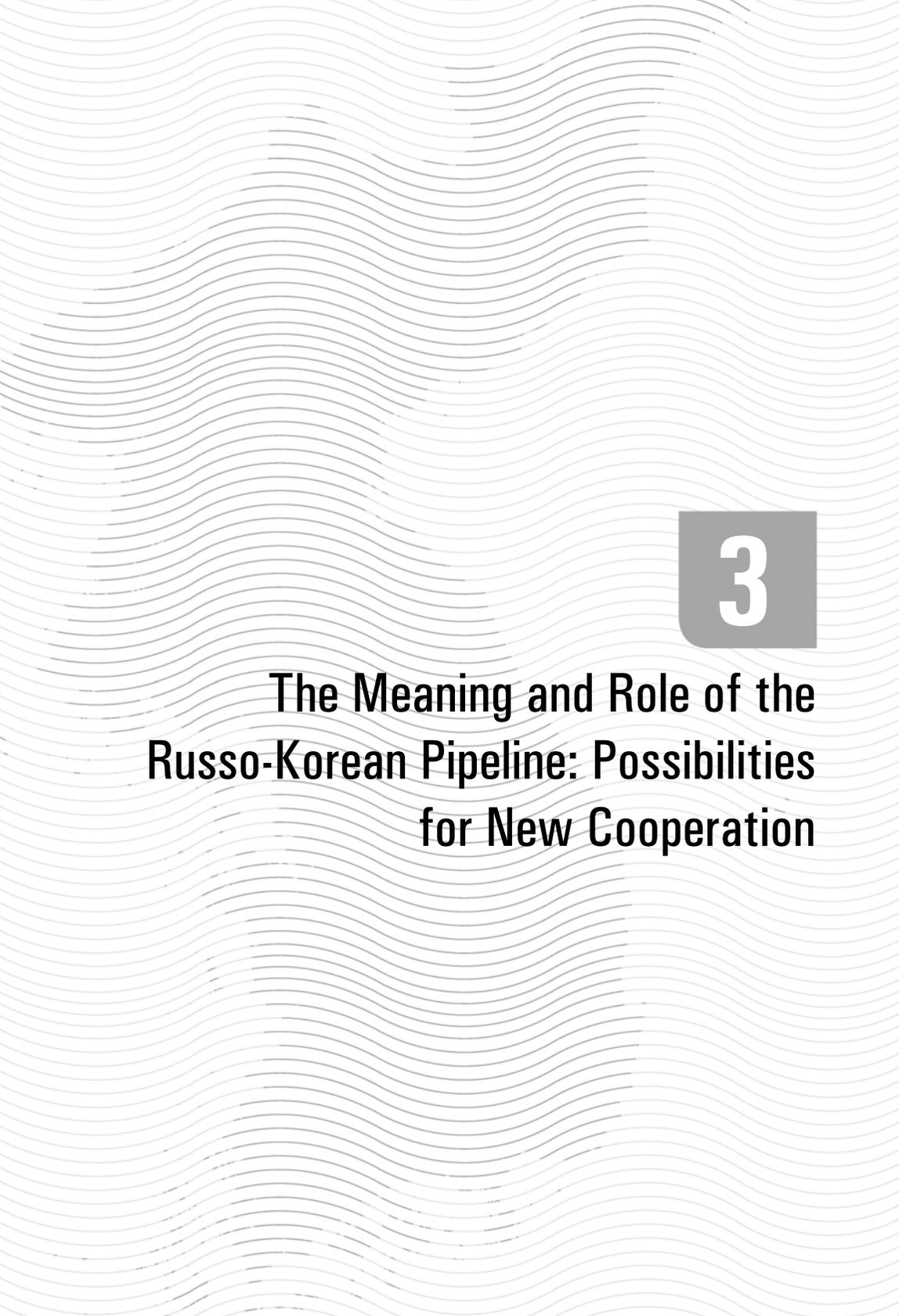
36) Sung-hoon Kim, "U.S. Intentions behind Inflating the Economic Effects of Shale Gas," Retrieved from <http://urisociety.kr/sub.php?board=C1&id=310>. (Accessed: 2013.7.20). (in Korean)

37) U.S. production of shale gas in 2011 was 6.4 trillion cubic feet, comprising 28 per cent of total natural gas production. This share is expected to grow to 50 per cent by 2035.

which move with crude oil prices makes U.S. LNG a very attractive resource. As a result, China, Japan and South Korea are expected to actively compete amongst each other to import North American LNG. As the Russo-Korean project becomes more obscure, the South Korean government arranged a long term contract to import U.S. LNG. In this situation, the U.S. will not positively evaluate expanding cooperation between Russia and South Korea which may encroach its market.³⁸⁾

The final factor is the project's links with the U.S. security interests in Northeast Asia. Since China's rise, American security strategy has made evident its intention to keep an eye on China. In such circumstances, the U.S. is likely to prefer Japanese expansions in energy cooperation with Russia as a counter against China because an energy cooperation structure favorable to China can become a driver for Chinese expansion. U.S. security strategy interest can be understood as the backdrop behind the recent agreement between Russia and Japan to regularize 2+2 Foreign and Defense ministerial talks as well as the heightened possibility of cooperation on resolving the Kuril Islands dispute. In this regard, the U.S. has to be more welcoming to Russo-Japanese natural gas cooperation than to the Russo-Korean pipeline project which includes the North Korea risk.

38) In January 2012, the Korea Gas Corporation signed a long term contract to annually import 3.5 million tons of LNG for 20 years starting 2017. Ik-joong Yoon, "Energy Cooperation and Conflict in Northeast Asia: New Circumstances for Russian Gas Supplies and the Russo-Korean PNG Project" (Korea Institute for National Unification Advisory Council, May 2013) (in Korean)



3

**The Meaning and Role of the
Russo-Korean Pipeline: Possibilities
for New Cooperation**

3. The Meaning and Role of the Russo-Korean Pipeline: Possibilities for New Cooperation

A. Catalyst for Northeast Asian energy cooperation

The supplier's oligopoly structure in Northeast Asia's energy market makes excessive competition among buyers and the resulting conflicts inevitable. Therefore, this situation can only be overcome through regional energy cooperation. However, a mechanism for multilateral energy cooperation is nonexistent in Northeast Asia despite high reliance on outside energy and growth in energy demand. Furthermore, Northeast Asian countries face an additional handicap called the Asian Premium.

Despite these issues, Northeast Asia has several conditions favorable for regional multilateral energy cooperation. First, suppliers and consumers are geographically close, enabling the acquisition of reliable long term supply routes like gas pipelines. More encouraging is Russia's endeavors to develop energy resources and expand infrastructure while it shifts its attention to Northeast Asia as its new energy export market. Secondly, energy demand in

the region is steadily increasing. This trend will continue as China follows South Korea and Japan in sustained economic growth. Third, the region's high reliance on Middle Eastern energy heightens the need and possibility for joint responses. Experts are of the opinion that Russia's natural gas, despite not being very cheap, can surely become an alternative for supply diversification purposes because it is still price-competitive enough in short-supplied international natural gas markets.³⁹⁾ Fourth, because South Korea and Japan have similar energy supply and consumption structures, the chances for market integration is high from the perspective of harmonization requirements.⁴⁰⁾ Market integration in this sense is the state where market participants from two states experience the effects of being in a single market through government and business harmonization.⁴¹⁾ When considering the factors listed above, the three Northeast Asian states can at the very least strengthen their status and improve their negotiating power through importer-centric solidarity in international energy markets. Furthermore, states may attempt to integrate mutually connected energy networks and construct a common energy

39) Sung-gyu Lee, "The Russo-Korean PNG Project and Directions of Response," (Korea Institute for National Unification Advisory Council, September 2013). (in Korean)

40) Hoon Baek, "Lessons from the European Union for a Northeast Asian body for Energy Cooperation," *Journal of Industrial Management*, Vol. 13, No. 1. (Chung-Ang University Center for Industrial Management Research, 2004), p. 60. (in Korean)

41) Hashimoto Michio, "Japan-Korea Energy Market Integration: Possibility and Effects," *Journal of Industrial Management*, Vol. 12, No. 1. (Chung-Ang University Center for Industrial Management Research, 2004): re-cited by Hyung-gook Kim, Hoon Baek, "Plans for An Energy Cooperation Institution: Cases of Northeast Asia and Europe," *Journal of North-East Asian Studies*, Issue 37, (Northeast Asia Economic Association of Korea, 2005), p. 452.

market.

Under such circumstances, the Russo-Korean gas pipeline can become a catalyst for Northeast Asian energy cooperation instead of another means to compete for energy security. Currently, China is negotiating the construction of a pipeline for PNG imports, and Japan is considering pipeline construction while pushing forward LNG plant construction. South Korea is also pushing for the Russo-Korean pipeline to secure a stable supply route for Russian natural gas. This will provide all three Northeast Asian states with a means to receive Russian gas in the long term, forming a common interest in supply stability and price drops. Therefore, the construction of the Russo-Korean pipeline will provide another advantageous condition for Northeast Asian energy cooperation.

If one country faces energy supply uncertainty, competition will intensify to make price hikes inevitable. On the other hand, if all states in the region acquire a stable supply route through the construction of the Russo-Korean pipeline, multilateral energy cooperation such as the following will become more likely. First, the influence of China, Japan and South Korea over Russia in long term supply and price negotiations can be increased through the formation of a cooperative demand oligopoly and the prevention of a competitive demand oligopoly leading to price hikes.⁴²⁾ Recently,

42) Sung-gyu Ju, "Study on Cooperative Measures for Northeast Asia's Energy," *Journal of Global Politics*, Vol. 3, No. 1. (Hankuk University of Foreign Studies Institute of Global Politics, 2010), pp. 134-135. (in Korean)

European energy corporations, in response to the rise of shale gas, managed to amend long term supply contracts to achieve natural gas price discounts. This is attributable to a power balance between supply and demand sides arising from market growth which occurred as more states purchased Russian PNG. Thus, if multilateral energy cooperation were achieved through the construction of the Russo-Korean pipeline, negotiating power against an economic profit-maximizing Russia will be enhanced.

In addition, multilateral energy cooperation(a sort of Northeast Asian natural gas belt) through the Russo-Korean pipeline will in effect provide bypass routes to participating states, countering Russian attempts to exert political and economic influence by weaponizing gas supplies to certain states.

Second, it will be possible to construct a system to trade some natural gas procured through long term contracts in LNG form according to seasonal and temporal demand. Such transaction can develop into the creation of an emergency swap mechanism, and will at the very least allow each state to refrain from expanding large scale gas reserve facilities. Also, China, Japan and South Korea may jointly participate with Russia in Far East/Siberian gas field development to acquire gas supplies. In the long run, it will be possible to envision a Northeast Asian pipeline connection project similar to ASEAN's form of energy cooperation.

Russia must participate in such Northeast Asian energy

cooperation, and this will benefit Russia as well. If the Northeast Asian energy market grows and stabilizes, Russia will obtain a massive and stable export market. Europe is still Russia's largest energy export market, but energy consumption growth trends indicate that the chances of Northeast Asia rivaling Europe are not low. The Russian government and Gazprom are facing threats of price cut demands from European energy corporations and falling European gas demand with consideration to the recent boom in shale gas development. As a result, expanding the Northeast Asian market and infrastructure will contribute to realizing Russia's economic profit.

The Russo-Korean pipeline can also become a means for South Korea to lead Northeast Asian energy cooperation. South Korea has made efforts to create a regional energy cooperation mechanism by leading the formation of a Northeast Asian intergovernmental consultative group for energy cooperation at the First Senior Officials Committee on Energy Cooperation in Northeast Asia hosted by UNESCAP in Ulaanbaatar in November 2005. However, one of the reasons such efforts have not borne fruit is because South Korea lags behind China and Japan in acquiring energy sources. Thus, if South Korea constructs the Russo-Korean gas pipeline and complements it by acquiring a long term supply contract with Russia, it could play a positive role in creating a regional energy cooperation mechanism. With the Korean Peninsula's (through which the pipeline will run) central location in the region, South Korea as an importer of both

PNG and LNG from Russia could play a central role in expanding the Northeast Asian market, excess supply trades, and swap regimes.⁴³⁾

As South Korea already possesses world-class natural gas supply infrastructure and technology, the odds of becoming the Northeast Asian energy hub is high if it can acquire abundant supplies. To begin, South Korea, compared to China and Japan, owns a relatively well organized national gas pipeline system and adequate port facilities for LNG transport. China itself is a giant energy market, but pipeline systems are limited. Japanese pipelines are decentralized due to frequent earthquakes and mountainous terrain, while plans for a pipeline between Sakhalin and Japan remain on the drawing board due to earthquake concerns and opposition from fishermen.

Next, South Korea possesses world-class technology in natural gas liquefaction, transportation and related shipbuilding. In Russia's case, gas pipeline centered PNG technologies are at an advanced level while LNG technology levels remain low. Furthermore, China, despite its rapid rise in demand, is lacking in downstream technology such as refining and stockpiling.

Experts currently view that in terms of regional energy cooperation, the changes of Korean and Japanese energy market integration are highest.⁴⁴⁾ Not only are the two states large enough

43) Suk-sang Yoon, "Japan's stance on Russian Gas Pipelines," (Korea Institute for National Unification Advisory Council, September 2013). (in Korean)

44) Hoon Baek, "Northeast Asian Energy Cooperation and Market Integration: Implications for Europe's Experience" *Comparative Economic Review*, Vol. 13, No. 1. (Korea Association for Comparative Economics, 2006), pp. 146-149. (in Korean)

importers to sway the Asian LNG market, but also highly reliant on foreign energy with similar energy consumption structures. Therefore, were the Russo-Korean gas pipeline built, energy cooperation with Japan can first be pushed forward. In the future, South Korea will mainly receive PNG from Russia through pipelines and Japan will receive LNG from LNG plants in Vladivostok. Therefore South Korea and Japan can proceed with various mutually complementary cooperative activities such as excess supply trading through which they can strengthen their negotiating power against Russia. Such experience with energy cooperation will become the foundation for building a Northeast Asian multilateral energy cooperation mechanism in which Russia, the supplier, and China, North Korea, etc., the consumers, participate.

B. Beyond energy cooperation: Catalyst for Northeast Asian Peace and Cooperation Initiative and the Trust-building Process on the Korean Peninsula

Since the end of the Cold War, Northeast Asia has become one of the centers of the global economy through dynamic economic development and deepening mutual reliance, but limited energy resources have threaten sustained economic development. Also, the challenges of globalization and close mutual reliance among regional

countries requires the institutionalization of economic cooperation, but economic integration encompassing all of Northeast Asia still has not materialized. In addition, Northeast Asia has maintained a strategic ‘unstable stability’ due to potential sources of discord and conflict among states despite close geo-economic reliance upon one another, and at the same time is becoming the stage for strategic competition between China and the U.S. Long confrontations on the Korean Peninsula and the Taiwan Straits, territorial disputes, North Korea’s nuclear and missile development programs, accelerating arms races and history issues are constantly heightening strategic tensions in Northeast Asia. Also, the U.S. and Japan are strengthening their alliance to counter China’s increasing influence, and geopolitical factors for conflict lie within the strategic solidarity that Russia and China currently boast. In other words, Russia must adapt to Northeast Asia’s new geopolitical structure in which China is no longer Russia’s ‘subordinate partner,’ or find a different method to maintain a geopolitical balance. In this viewpoint,⁴⁵⁾ the Russo-Chinese relations can be labeled as an “Axis of Convenience.”⁴⁶⁾

45) Sunghoon Jae, “The Medvedev Regime’s new Foreign Policy Stance: Focus on Policy Statements, Origins of Change, Execution Processes,” *International Area Studies*, Volume 15, No. 1. (Hankuk University of Foreign Studies Center for International Area Studies, 2002), p. 48. (in Korean)

46) According to Bobo Lo, the Russo-Chinese relationship is one merely an axis of convenience. He argues that the two are not in a strategic companionship but a limited companionship and the two states face limits such as mutual countermeasures and differing perceptions of each other’s roles in Northeast Asia. Bobo Lo, *Axis of Convenience: Moscow, Beijing and the New Geopolitics* (London: Chatham House, 2008).

In this situation, President Park Geun-hye's Northeast Asia Peace and Cooperation Initiative aims to soften Northeast Asia's bilateral conflict structure to one of multilateral mutual cooperation and to intertwine this with Eurasian cooperation to push forth trust building and economic cooperation on the Korean Peninsula and Northeast Asia. To this end, the initiative plan is to begin with non-conventional security areas such as terrorism and narcotics, energy, logistics and environment, and humanitarian disaster response. It then seeks to host a 'senior level conference for peace and cooperation in Northeast Asia' and promote the institutionalization of peace and cooperation in Northeast Asia.⁴⁷⁾

In the process of realizing this initiative, energy cooperation is especially meaningful. This is particularly because the Russo-Korean pipeline project involves North Korea, the key factor of tensions in Northeast Asia. After the Second World War, it was the European Coal and Steel Community (ECSC) which resolved conflicts between European powers and established a new mechanism for cooperation. Founded in July 1952, the European Coal and Steel Community aimed not for simple energy cooperation but for putting coal and steel, the most important munitions for war, under pan-European, supranational control. It was also the first step

47) The 18th Presidential Transition Committee, "The 18th Presidential Transition Committee's Recommended Policy Goals for the Park Geun-hye Administration." (February 2013), p. 197. (in Korean)

in forming a community including Germany, France and all of Europe which had repeated conflicts and disputes for centuries.⁴⁸⁾

Energy resources are indispensable for economic development while also crucial for carrying out war. Therefore, energy cooperation is a political and apolitical as well as conventional and non-conventional security issue. The first lesson to be learnt from the European experience is that deepening mutual economic reliance can be a useful means for securing political and military cooperation in the long term. Second is that cooperation can expand from some states to an entire region and from specific subjects to comprehensive ones. The Park Administration's Northeast Asia Peace and Cooperation Initiative starts with the assumption that if states in the region accumulate the habit of cooperation in areas prone to compromise, this can serve as the foundation for trust between states which will make cooperation in areas harder to compromise on.⁴⁹⁾ Therefore, the Russo-Korean gas pipeline, an international energy cooperation project involving the two Koreas and Russia, can serve as a catalyst for realizing President Park's Northeast Asia Peace and Cooperation Initiative.

48) Géard Bossuat, *Les fondateurs de l'Europe* (Paris: Belin, 1994), p. 162; Seung-ryeol Kim, "Production Solidarity for Peace and Co-Prosperty?, - The origins and meanings of the European Coal and Steel Community Plan (the Schuman Plan) (1945-1950)," *French History Research*, No. 6 (Korea Society for French History, 2002), p. 47.

49) Jae-Jeok Park, "Northeast Asia Peace and Cooperation Initiative," Jin-wook Choi et al. "Directions of the Park Administration's North Korea Policy," (Seoul: Korea Institute for National Unification, 2013), p. 71. (in Korean)

President Park, when still presidential candidate, pointed out through an article in the Wall Street Journal that a lasting peace on the Korean Peninsula achieved through the resolution of inter-Korean distrust and confrontation is important to relieve tensions in Northeast Asia. She especially emphasized the need to persuade North Korean leadership to strategically choose to realize denuclearization, improve the quality of life of residents and to push for economic development.⁵⁰⁾ Also, President Park's Administration is advancing the 'Trust-building Process on the Korean Peninsula' as laying the foundation for normalization of inter-Korean relations and peaceful unification, which will "improve inter-Korean relations by building trust based on watertight security, settle peace on the Korean Peninsula, and progress to form a foundation for unification."⁵¹⁾ Normalization of inter-Korean relations through trust-building, the goal of the process, is set as an objective of the 'Vision Korea Project.' In this dimension, North Korean infrastructure to improve North Korea's self-sufficient growth is planned to progress as trust is built and the North Korean nuclear problem is resolved.⁵²⁾ The Russo- Korean gas pipeline, a unified energy infrastructure work

50) Park Geun-hye, "A Plan for Peace in North Asia: Cooperation among Korea, China and Japan needs a correct understanding of history," The Wall Street Journal, November 12, 2013.

51) Ministry of Unification, *Policy Explanation of Trust-Building Process on the Korean Peninsula* Retrieved from http://www.trustprocess.kr/sub/learn_text.asp. (Accessed: 2013.10.01). (in Korean)

52) Ministry of Unification, *Trust-Building Process on the Korean Peninsula* (August 2013). (in Korean)

founding the material base for Korean unification and a stimulus for North Korean economic development, can become a key project for the ‘Vision Korea Project,’ and further act as the economic means of realizing the Trust-building Process.

The pipeline can also be utilized as a political means for the Trust-Building Process. Currently, the largest threat to Northeast Asian and Korean security is the ‘North Korean factor,’ which is exacerbated by the lack of a means of control. American military pressure, Chinese influence, South Korean soft or hard line policy, Six-Party Talks, UNSC sanctions have all turned out to be ineffective. The pipeline, the construction of which is currently stalled by the North Korea risk, will paradoxically be difficult to imperil once it is built because of the economic benefits North Korea will reap from passage fees and Russia’s leadership role in the project. In particular, if ample substitute LNG supplies are guaranteed from Russia to prepare for North Korea shutting off the pipeline, North Korea will have nothing to gain from its political use. Contrarily, shutting off the pipeline will mean economic losses to Russia with which North Korea maintains a friendly relationship that is second only to that with China making military adventurism difficult to attempt. Therefore, the pipeline, can be a political means of effectively controlling the North Korean factor.

Currently, North Korea remains an isolated state due to its closed system, only pursuing limited economic cooperation with certain

states such as China. The Russo-Korean pipeline can ultimately draw North Korea out to regional economic cooperation. If North Korea reaps economic benefits from participating in the construction and operation of the Russo-Korean pipeline, it may reevaluate the potential of other deferred tripartite economic cooperation projects (railway connection, power grid connection) and utilize its geopolitical location to participate in regional economic cooperation. In other words, North Korea will reappraise the need to change its current foreign economic policy pattern of Chinese reliance. Therefore, the Russo-Korean gas pipeline construction project can be viewed as a useful means to prod North Korea into becoming a responsible member of the international community, as well as a pilot program for North Korea to test the possibility of economic cooperation with Northeast Asian states.

On the other hand, energy cooperation between South Korea and Russia will be the driving force behind realizing the Northeast Asia Peace and Cooperation Initiative through middle power diplomacy. Russia can discuss security issues as an equal to the U.S. in Europe and on the global stage, but is a middle power with a similarly limited status and role and to South Korea in Northeast Asia. There are concerns that competition between the U.S. and China will lead the Northeast Asian geopolitics to a confrontation between two triangular relationships (ROK-U.S.-Japan, North Korea-China-Russia). The Russo-Korean pipeline construction project can prevent the

formation of this geopolitical structure. Thus, North-South (longitudinal) cooperation with Russia through the Russo-Korean pipeline will be a force for withstanding East-West (latitudinal) pressure between the U.S. and China, while simultaneously and naturally including North Korea into Northeast Asia's regional integration to relieve regional security risk.⁵³⁾

Moreover, the pipeline's construction provides a new opportunity for North Korea which is stricken with a 'permanent siege mentality,'⁵⁴⁾ to make a new decision. If North Korea leaves its current policy of economic subordination to China and politico-economic confrontation with the U.S. to attempt geopolitical cooperation with the ROK and Russia, the structures of conflict in Northeast Asia cannot but abate.

If this opportunity for energy cooperation is lost while political and military conflicts remain unresolved among regional states, peace and prosperity in Northeast Asia will become a far-off objective. As a non-conventional security issue and a medium for multilateral economic cooperation, the pipeline is a catalyst for the Northeast Asia Peace and Cooperation Initiative and the Trust-Building Process on the Korean Peninsula which will serve as a realistic means for departing from the past and present as well as

53) Suk-hwan Kim, "The Russo-Korean Gas Pipeline and Northeast Asian Energy Cooperation Initiative" (Korea Institute for National Unification Advisory Council, July 2013). (in Korean)

54) Selig Harrison, *Korean Endgame* (Seoul: Samin, 2003).

opening a new future for Northeast Asia and the Korean Peninsula. This is why the Russo-Korean pipeline project should not be given up easily.

Geopolitics of the Russo-Korean Gas Pipeline Project and Energy Cooperation in Northeast Asia

The Russo-Korean Gas Pipeline has raised much expectation but has not shown much progress to date. The initiative for a cooperative project connecting a gas pipeline with Russia has regularly attracted attention since the 1990s, while the signing of a memorandum of understanding (MOU) between South Korea and Russia in 2008 strengthened expectations of advances in the Russo-Korean gas pipeline project. However, North Korean risks stemming from the regime's instability and military adventurism have left pipeline project-related discussions at a standstill up to this day. This paper will analyze the geopolitics of competition and conflict regarding the Russo-Korean Gas Pipeline and its implication for energy cooperation in Northeast Asia.