Prospects for Energy Cooperation in Northeast Asia

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Ji- Chul Ryu, Ph.D.
<jcryu53@gmail.com>
Seoul, KOREA

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Energy Profiles in NEA

- **Rapid Growth in Energy Demand/Imports**
  - Demand increases: 2.2 times from 1990 to 2017
  - Contribution by China: 98% of total regional increases.
  - Demand in DPRK and Russia decreased.

**Energy Demand in Northeast Asia (Unit: million toe)**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>683.9</td>
<td>1,010.9</td>
<td>2,491.3</td>
<td>2,690.1</td>
<td>3,132.2</td>
<td>4.6</td>
<td>98.2%</td>
</tr>
<tr>
<td>Japan</td>
<td>441.3</td>
<td>522.3</td>
<td>503.8</td>
<td>477.8</td>
<td>456.4</td>
<td>1.0</td>
<td>0.6%</td>
</tr>
<tr>
<td>ROK</td>
<td>90.9</td>
<td>193.6</td>
<td>259.7</td>
<td>273.0</td>
<td>295.9</td>
<td>3.3</td>
<td>8.2%</td>
</tr>
<tr>
<td>DPRK</td>
<td>24.0</td>
<td>15.7</td>
<td>15.7</td>
<td>12.6</td>
<td>9.9</td>
<td>0.4</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Russia</td>
<td>859.6</td>
<td>613.4</td>
<td>668.2</td>
<td>691.7</td>
<td>698.3</td>
<td>0.8</td>
<td>-6.5%</td>
</tr>
<tr>
<td>NEA Total</td>
<td>2,099.6</td>
<td>2,356.0</td>
<td>3,938.7</td>
<td>4,145.3</td>
<td>4,592.7</td>
<td>2.2</td>
<td>100.0%</td>
</tr>
<tr>
<td>NEA/World</td>
<td>25.9%</td>
<td>25.2%</td>
<td>32.5%</td>
<td>33.4%</td>
<td>34.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Source: BP World Energy Statistics 2018 and Energy Info Korea for DPR Korea
Energy Profiles in NEA

Diversity in the energy sector over the countries

- **Energy per capita**
  - High in ROK, Japan and Russia
  - Low in PRK and China → High potential to continue to increase in energy demand in future

- **Net energy import region**
  - Russia is only an exporting country of oil and gas in the region.
  - Japan and ROK highly depend on imports in energy supply due to the lack of indigenous energy sources
  - China rapidly increases energy imports to meet the demand increase.
  - DPRK exports coal to China in recent years.

- **Difference in energy efficiency**
  - Japan’s energy intensity is quite low compared with other countries in Northeast Asia, indicating a high energy efficiency in the country.
  - China, Russia, and DPRK show high energy intensity, less energy efficient structures.

- **Energy/Environmental diversity to the difference in energy mix.**
  - Due to significant dependence on coal in China and DPRK, carbon intensity to energy is high.
  - ROK and Russia show a relatively low carbon intensity, due to high shares of nuclear and natural gas in their energy mixes

<table>
<thead>
<tr>
<th>Major Energy Indicators in Northeast Asia</th>
<th>Unit</th>
<th>China</th>
<th>Japan</th>
<th>ROK</th>
<th>DPRK</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy per capita</td>
<td>toe</td>
<td>2.15</td>
<td>3.35</td>
<td>5.51</td>
<td>0.35</td>
<td>5.02</td>
</tr>
<tr>
<td>Import dependency</td>
<td>%</td>
<td>18.9</td>
<td>93.9</td>
<td>94.0</td>
<td>-70.7</td>
<td>-85.3</td>
</tr>
<tr>
<td>Energy Intensity</td>
<td>toe/2010 USD</td>
<td>0.31</td>
<td>0.07</td>
<td>0.22</td>
<td>0.33</td>
<td>0.45</td>
</tr>
<tr>
<td>Carbon Intensity</td>
<td>tCO₂/Energy</td>
<td>3.06</td>
<td>2.7</td>
<td>2.09</td>
<td>2.88</td>
<td>1.96</td>
</tr>
</tbody>
</table>

Source: OECD-iLibrary
Energy Profiles in NEA - Oil

- Significant increases in oil demand/imports
  - Japan, Korea and DPRK:
    - No oil production → Supply totally depends on imports
    - High dependency on the Middle East in oil imports.
  - China: Largest importer of oil in the world
    - Incremental demand increases have met by imports.
  - Russia: Only net exporter of oil in the region
    - Largest oil exporter in the world
    - Export size: 8.6 million barrel/day in 2017 = 12.7% in world total oil exports
  - The share of Northeast Asia in world oil trade increased to 24.1% (2017)

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>Japan</th>
<th>ROK</th>
</tr>
</thead>
<tbody>
<tr>
<td>ME dependency in oil imports</td>
<td>43.6%</td>
<td>85.8%</td>
<td>85.9%</td>
</tr>
</tbody>
</table>

Energy Profiles in NEA –Natural gas

- Rapid increases in natural gas demand/imports
  - LNG imports by Japan, Korea
  - China imports natural gas by the type of LNG as well as by pipelines.
  - Russia is the largest producer and exporter of natural gas in the world.

<table>
<thead>
<tr>
<th>Natural Gas Imports/Exports (bcm, 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
</tr>
<tr>
<td>Japan</td>
</tr>
<tr>
<td>China</td>
</tr>
<tr>
<td>ROK</td>
</tr>
<tr>
<td>NE Share</td>
</tr>
<tr>
<td>Exports</td>
</tr>
<tr>
<td>Russia</td>
</tr>
</tbody>
</table>

Source: BP World Energy Statistics 2018
Energy Profiles in NEA - Coal

- Largest region to produce and consume coal in the world
  - Rapid coal imports increase in China due to the electricity demand increases
  - Continuous coal demand increase in Japan and ROK
    - Coal demand in power generation, steel and cement industry

<table>
<thead>
<tr>
<th>Rank</th>
<th>Producer</th>
<th>Size (mmtoe)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>1,747.2</td>
<td>46.4%</td>
</tr>
<tr>
<td>6</td>
<td>Russia</td>
<td>206.3</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rank</th>
<th>Consumer</th>
<th>Size (mmtoe)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>1,892.6</td>
<td>50.7%</td>
</tr>
<tr>
<td>4</td>
<td>Japan</td>
<td>120.5</td>
<td>3.2%</td>
</tr>
<tr>
<td>5</td>
<td>Russia</td>
<td>92.3</td>
<td>2.5%</td>
</tr>
<tr>
<td>6</td>
<td>ROK</td>
<td>86.3</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

Source: BP World Energy Statistics 2018

Source: U.S. Energy Information Administration

Energy Profiles in NEA – Energy Trades

- Limited Cross-border Energy Transportation Infrastructures
  - No active energy trading through pipeline nor electricity power grids systems among the countries in Northeast Asia
  - Inter-state energy trades in Northeast Asia (NEA) are limited
    - Russia’s share in oil imports: Japan 5.5%, China 14.2%, ROK 1.7%
    - Russia’s share in gas imports: Japan 8.7%, China 1.2%, ROK 5.1%

- No Institutionalized Framework to Implement Regional Energy Cooperation
  - Multilateral/Intra-regional level cooperation in Northeast Asia will be required.
Regional Energy Cooperation Opportunity in NE Asia

- **Trade and investment opportunity**
  - Facilitation of oil, gas, coal development in the region
    - Free and open investment policy
  - Construction/Development of cross-border energy transportation network infrastructure: Oil & Gas Pipelines, Power Grid, Railway & Port
    - <Russia – China>, <Russia- Japan>, and <Russia – DPRK – ROK>
  ⇒ Improvement of regional energy security capability & economics and efficiency + Common regional energy market + Enhancing intra-regional trades/investments

- **Technology cooperation opportunity**
  - Energy conservation/efficiency improvement
  - Renewable energy for green growth
  - Nuclear safety (Korea, China, Japan, Russia)
  - Non-conventional energy sources: Shale gas, CBM, Oil sand

- **Solving Energy Poverty Problems**
  - Commercial energy accessibility problem in DPRK

- **Creation of Multilateral Framework for Regional Energy Cooperation**

### Projects for Energy Cooperation in Northeast Asia

<table>
<thead>
<tr>
<th></th>
<th>Oil</th>
<th>Natural Gas</th>
<th>Coal</th>
<th>Electricity</th>
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</thead>
<tbody>
<tr>
<td><strong>Upstream (E&amp;P)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Joint oil</td>
<td>Joint gas development /</td>
<td>Joint coal development</td>
<td>Joint construction of electricity supply facility (e.g. power plant and</td>
</tr>
<tr>
<td></td>
<td>development/</td>
<td>Equity participation</td>
<td>in the Russian Far East</td>
<td>transmission grid)</td>
</tr>
<tr>
<td></td>
<td>Equity participation</td>
<td></td>
<td>and in Mongolia</td>
<td></td>
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<tr>
<td></td>
<td>Unconventional gas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Midstream</strong></td>
<td></td>
<td>Construction of inter-state</td>
<td>Construction/</td>
<td>Asian Super Grid (China-Russia, Japan-Russia, China-Russia-Mongolia,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>gas pipeline networks</td>
<td>upgrade of</td>
<td>ROK-Japan, China-Mongolia)</td>
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<tr>
<td></td>
<td></td>
<td>(China-Russia, Japan-Russia,</td>
<td>railway/ports for</td>
<td></td>
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<td></td>
<td></td>
<td>Russia-China- ROK, Russia-</td>
<td>transporting coal</td>
<td></td>
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<td></td>
<td></td>
<td>DPRK-ROK)</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Construction/</td>
<td>Participation in liquefaction</td>
<td>Railway connection</td>
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<tr>
<td></td>
<td>expansion of oil</td>
<td>facility in Russia</td>
<td>between Russia and</td>
<td></td>
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<tr>
<td></td>
<td>pipeline between</td>
<td></td>
<td>two Koreas.</td>
<td></td>
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<tr>
<td></td>
<td>Russia – China – DPRK</td>
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<td></td>
<td>Commercial use of</td>
<td>Commercial use of the</td>
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<td></td>
<td>the Arctic Route</td>
<td>Arctic LNG</td>
<td></td>
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<tr>
<td><strong>Downstream</strong></td>
<td></td>
<td>Enter the market of city gas</td>
<td>Clean coal, CTL</td>
<td>Power end-use efficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>business</td>
<td>technology</td>
<td></td>
</tr>
</tbody>
</table>

Source: Lee, Sung-kyu, 2014. Challenges and Opportunities of NEA Energy Integration: Korea’s Perspective
Opportunity for Russia’s Regional Energy Cooperation

- Oil, Gas and Coal Development Projects
  - Oil, Gas (Sakhalin-III, Chayanda, Yamal), and Coal (Yakutia)
- Gas Pipeline Networks for Export
  - Power of Siberia Projects to export natural gas to NE Asian countries.
  - Potential exceeds 150 Bcm/y: 76 Bcm/y by pipe to China and 76 Bcm/y of LNG exports by 2030.
  - Power of Siberia (PS) Pipeline will begin supplying gas on 20 Dec. 2019.
- Completion of the ESPO Oil Pipeline Construction
- Development of Oil & Gas in Arctic Ocean Area (Yamal region)
  - Natural gas exports to Asia-Pacific Region by pipelines or LNG

⇒ Russia’s Diversification of the Energy Export Market to the Asia-Pacific

Cross-border Energy Trading Infrastructure Projects in NE Asia

ESPO Oil Pipeline

UGSS

Asian Super Grid

NEA Power Interconnection: HVTL

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Slow Progress of Regional Energy Projects: Why?

- **Geopolitics: Historical inertia + Security concerns**
  - Sino-Japan, Japan-Russia relations: Territorial disputes
  - Korean Peninsular Security Issues: Political uncertainty and Nuclear issue in North Korea
  - **Critical necessary condition for project security**
  - Limited cross-border energy transportation networks

- **High capital requirement for energy development projects**
  - Resource-rich countries (Russia) ≠ Capital-rich countries (China, Japan, Korea)

- **Project/Market uncertainty for energy exporting countries**
  - Sanction on Russia and Resource Nationalism: Political barrier against foreign investment

- **Rivalry in energy diplomacy and energy hegemony competition**
  - Conflict between multilateral vs bilateral relationships

- **Differences in market compatibility**

- **Lack of multilateral mechanism for regional energy cooperation**

- **Competitiveness of Russian pipeline gas ↓ w.r.t other LNG sources**
  - Shale gas production in North America ↑
  - LNG exports from Australia, Middle East & Yamal ↑

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Energy Cooperation Project with DPRK

- **Gas Supply from Russia to DPRK and ROK**
  - Gas pipeline to supply of 10bcm (7.5 million ton) to ROK via DPRK
  - Agreed in 2008
  - Suspended in 2011 after the death of Kim Jong Il

- **Power Interconnection between Russia, DPRK & ROK**
  - Feasibility study (2009 ~)
  - Suspended due to the UN sanction on DPRK after the nuclear test.

- **KEDO (Korean Peninsular Energy Development Organization)**
  - Established based on US-DPRK’s agreement in 1995
  - To construction of two LWR nuclear power plants of 2 GW and supply HFO to DPRK for the compensation of denuclearization of the DPRK
  - Stopped construction of 2 LWR in 2003: Construction process of 34 % with investment of US$ 1.14 billion by ROK, US$ 0.41 billion by Japan

- **Energy agenda in the Six party Talk**
  - Joint Statement (Sep, 2005): Proposal of power supply of 2 GW by Korean government to replace the KEDO’s two LWRs
Feasible Energy Projects after Denuclearization in DPRK

- **Energy Assistance:** Humanitarian aids for supply of energy products for civilian use
  - Oil products: LPG, kerosene, diesel, gasoline
  - Heavy fuel oil and coal for power generation
  - Power supply to a limited area (eg, Gaesung)

- **Power Interconnection with ROK, Russia and China**
  - Russia’s proposal to supply of power to DPRK: Size 500 MW, Distance 380 km, Capital cost US$ 180 million

- **Natural gas pipeline projects from Russia**
  - Multilateral cross-border projects with Russia, DPRK, and ROK subject to the availability of resource in Russia

- **Renovation/re-construction of existing energy production facilities:**
  - Coal mines, refineries, power plants, transmission/distribution systems
  - Technical, financial and experts assistances

- **Capacity building:** to provide with training/education programs for energy planning/implementation

- **Resuming the construction of two LWRs of the KEDO?**

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Creation of Environment for Energy Cooperation with DPRK

- **DPRK should accept demand from the international community for security concerns transparently**
  - Dismantling nuclear weapon programs
  - De-coupling the energy issues from the politics

- **DPRK’s Access to the membership of the IFO**
  - International Monetary Fund (IMF), other international financing organizations (WB, ADB), and multilateral energy cooperation bodies

- **Multilateral approach with the countries in Northeast Asia and other developed countries in reconstructing the energy system in DPRK**
  - Promoting active regional/international cooperation for
    - rehabilitation of the existing energy facilities
    - expansion of energy system, and
    - accommodating foreign investments.
Promoting Regional Energy Cooperation in NEA

- **Roadmaps towards for multilateral energy cooperation in NEA**
  - The short term agenda, to be implemented urgently as soft policy agenda in non-binding manners, include:
    - Establishment of policy dialogues channel between governments in the NEA region for creating confidence building environment
    - Promotion of information/data exchange and sharing mechanisms
    - Joint research/study with identification of possible cooperative energy projects: Natural gas pipelines, power interconnection, oil stockpiling
    - Capacity building projects for developing countries in the region
    - Encourage energy expert/business dialogues & participation
    - Assistance to/cooperation with the DPR Korea for resolution of energy shortage problem
  - The long term agenda, which require a consensus as well as more preparatory joint efforts between the countries in NEA, include:
    - Creation of institutionalized frameworks for multilateral regional energy cooperation by enacting a treaty, charter, regional energy community at the regional basis
    - Introduction of policy coordination functions with the established institutional arrangement
    - Development of joint policy agenda for common goals/task sharing
    - Address on an intra-regional energy financing mechanisms
Conclusion

- Denuclearization of the DPRK will enhance opportunity to facilitate energy cooperation in Northeast Asia at the regional level;
  - It will significantly reduce or remove political/project risks impeding investments to cross-border energy transportation infrastructures in the region.
  - Feasible energy projects after DPRK’s denuclearization include;
    - Power interconnection with Russia – China – DPRK – ROK – Japan,
    - Inter-state networks to transport/trade natural gas among the countries in the region.

- DPRK will also be able to gain the benefit to recover from the energy supply crisis by participating regional energy cooperation projects;
  - Multilateral approach will be required at the regional level to implement the energy project assistance to the DPRK.
  - Reconstruction of the energy system in DPRK as well as in the Korean peninsula.

⇒ Regional energy cooperation will eventually contribute to the establishment of peace mechanism in Northeast Asia.

Thank you very much
- End -