



# THE EUROPEAN GEOPOLITICAL FORUM

## The EU-Russia Energy Partnership: Overcoming the Challenges

Summary of Panel II: Russia's Arctic Uncertainty

## PARTICIPANTS

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# THE EUROPEAN GEOPOLITICAL FORUM

## Introduction

The discussion in the second panel of the online session, which focused on the future of upstream energy exploration projects in the Russian Arctic, brought out the following messages for European policy makers and was supported by the ensuing extended commentary:

### Key points for policy makers:

- The absence of a clear policy towards development of Arctic resources combined with recent breakthrough in shale gas technology, continuous developments in heavy oil production methods and steady growth of new global gas supply centres may have an irreversible impact on the Shtokman project, in particular, and on the Russian Arctic resources, in general.
- There is significant uncertainty and unpredictability within the Russian Arctic upstream energy strategy context, undermining investor confidence and weakening Gazprom's capacity to translate potential resources into proven reserves.

### Extended commentary:

#### **Uncertain prospects for the development of Russian Arctic offshore gas fields**

A shortage of long term supply agreements and, moreover, lack of clear understanding of potential markets for Russian gas makes prospects for the development of the Russian Arctic offshore gas fields uncertain. Recent achievements in technology of shale gas production and plans of fast growth of new LNG trains in Qatar, Indonesia and Australia make these prospects even more uncertain, if not illusive. Investments into development of the hydrocarbons sector in the Russian Arctic until 2050, according to different estimates, vary from 3 to 6 trillion US dollars. Approximately 25-30% of that amount will need to be invested into exploration projects.

Clearly, Russia cannot pull this weight alone. These massive investment requirements into future Russian gas exploration projects will undoubtedly require international collaboration, from the perspective of both technology and investment. However, involvement of foreign participants in such projects requires stability, transparency and predictability of Russian law:



# THE EUROPEAN GEOPOLITICAL FORUM

huge and long-term investments into Russian Arctic offshore are alluring prospects but should be secured.

Russian Arctic gas is presently too expensive to compete with gas produced in low latitudes. However, the resource base of the Russian Arctic is huge and technology can soon make it attractive for investors. Russia's Arctic exploration program should be started as soon as practically possible. In this context the word "exploration" is implied in the broader sense, embracing in addition to seismic and exploration drilling evaluation of new potential markets, supply routes and ways of delivery (piped gas, LNG, CNG, gas hydrates, gas-to-wire, etc.) Transfer of potential resources into [proven] reserves allocated for potential markets (including Europe) will enable Gazprom to secure its position and role on the global energy scene.

**Given the prevailing uncertainty about new (gas) fields, need for clarity and transparency, as well as questions of the introduction of new energy technologies, can Gazprom take the lead in transferring potential resources into proven reserves for potential markets to not just secure, but expand, its role in the global energy scene ?**

Transfer of potential resources into proven reserves in the Russian Arctic gas fields is first the responsibility of the Russian state, not Gazprom. Nevertheless, as it stands at the moment, both Gazprom and Rosneft are set to become responsible for the development of the Russian Arctic offshore. Such responsibility needs to be adequately regulated by the state – in order to make the right decisions regarding conceptual development of resources, investments proposals, ability to select partners that bring environmental, technological and financial security to the project. At the present time, the lack of a clear strategy towards development and utilization of Arctic resources creates uncertainty and even doubts about the future of Russian petroleum resources.

The absence of a clear policy towards development of Arctic resources combined with recent breakthrough in shale gas technology, continuous developments in heavy oil production methods and steady growth of new global gas supply centres may have an irreversible impact on the Shtokman project, in particular, and on the Russian Arctic resources, in general. Thus we are left with much uncertainty and unpredictability within the Russian upstream energy strategy



# THE EUROPEAN GEOPOLITICAL FORUM

context, which in essence undermines investor confidence in the realisation of some of the major upstream energy projects, and, in the end, likewise undermines Gazprom's capacity to translate potential resources into proven reserves. This rather pessimistic medium term scenario is particularly applicable to the Russian Arctic offshore.

**To view the entire forum or selective passages of commentary, please use the following links:**

[Full Commentary](#)