

# Prospects

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## The point of view

### Russia: “The taps are open”

Thus said Alexey Miller, CEO of Gazprom, at the **2 December official opening of the Power of Siberia gas pipeline, which, when it reaches full capacity in 2025, is set to deliver 38 billion cubic metres of gas to China.** Gas today accounts for a mere 7-8% of China's energy mix; but this percentage is rising. And, above all, this is a critical geo-economic signal in a world in which the deck is in the process of being reshuffled.

**On the Chinese side, China's gas relationship with Russia is aligned with Beijing's strategic goal of diversifying its supply sources** – a goal it had already begun to pursue by taking delivery of gas from Turkmenistan and Myanmar. The gas pipeline from Turkmenistan was one of the Belt and Road Initiative's points of entry into Central Asia. This policy of diversification also explains the increase in liquefied natural gas (LNG) contracts with Australia, Indonesia and Qatar. Lastly, it is also this key principle of diversification that guides – as far as possible – oil imports. Remember that China, unlike the United States, is far from energy self-sufficiency.

It's true that the Middle East region remains the number one source of China's oil supplies and, generally speaking, imports are still fairly concentrated (five countries account for two thirds of China's oil imports: Saudi Arabia, Angola, Iran, Russia and Oman). However, the proportion of its energy Beijing buys from the Middle East is declining. Conversely, relations between China and Iraq have developed, not only as regards imports but also as regards Chinese investment in Iraq. Imports from Latin America are also increasing. And this need to diversify is clearly pushing China into Russia's arms.

In a world where nothing is stable any more, all of this inevitably has a political impact. Indeed, the expectation a few years ago was that China's state of energy dependency since the 1980s (when the country became a net importer) would prompt Beijing to flex its geopolitical muscles in the Middle East. However, the situation is not so clear: here again, **Chinese policy is focused on diversifying its partners.**

It's true that the Middle East is increasingly important to Beijing's international policy, and is one of the regions where investment under the “Belt and Road Initiative” has been growing fast over the past few years (though, by total amount, the Middle East is still a secondary investment region). It has also long been known that China and Saudi Arabia have shaped a win-win relationship of the kind that Beijing is keen to promote as a new international standard. Chinese construction firms play an important role in the Kingdom, in exchange for which the latter builds refineries in China, without human rights issues getting in the way of negotiations. And this relationship has not stopped Beijing working with Iran...

Port access is also a key issue in the Middle East, as it is in all regions targeted by Chinese investment. For example, the port of Dubai has become a major logistical hub for China, with over 200,000 Chinese nationals reportedly living in the Emirates. And as for Egypt, President Sisi has travelled to Beijing more times than he has to Washington. Not to mention Israel, which is also discreetly playing China's game, with Beijing involved in redeveloping the ports of Ashdod and Haifa.

However, **the issue of strategic diversification is also pertinent to Russia's energy policy, with a critical geo-economic dimension.** Although Russian trade is dominated by Gazprom's exports to Europe, with Europe itself keen to reduce its dependence on Moscow, the Kremlin is looking to diversify. It is from this perspective that the Power of Siberia pipeline matters – a pipeline which, it should be noted, was constructed on schedule by a country that usually struggles to complete major infrastructure projects on time...

Meanwhile, the question of LNG as a source of diversification is just as relevant to Russia, half of whose output is already exported to Japan and South Korea. Last April, Russia's Energy Minister said the country's market share in this sector could rise from 6% in 2018 to almost 20% within 15 years. Furthermore, it is this ambitious target that prompted the government to partly deregulate exports in 2013, allowing Novatek to secure a key position (and, of course, to get itself on the US sanctions list!). For Russia, LNG brings in less currency than other energy sources but promises local development for the Murmansk, Yamal and Yakutsk regions. It is also a powerful lever for developing economic and diplomatic relationships.

**The opening of this pipeline is thus about much more than the start of a new gas trading relationship.** It is an important geo-economic signal aligned with both Chinese and Russian policy on energy diversification and, more broadly, marks **the advent of a new geo-economics of energy in the region.** ■

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