

CIRCUMPOLAR OIL AND GAS PROSPECTS:  
THE ROLE OF THE COMMONS

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Massive efforts are underway in almost all parts of the Russian Federation to bring production of oil and gas in that country to levels well above those in the Soviet era, when it was the world's leading producer. In Canada and Alaska less vigorous efforts are underway, primarily focusing on natural gas. Offshore exploration in Greenland and Norway continues at a relatively low level.

The European Union and Japan are looking to the Russian efforts to lessen their dependence upon the Middle East, where more instability is expected by most nations. China and Korea have recently joined in this effort because of expressed concerns about the Middle East also. Western oil companies in the Russian Federation have made enormous investments in the past three years, once they had some assurance there would not be a repeat of the ruble crisis of 1998. Chinese, Korean and Japanese companies have also invested substantially and are increasing their stake in these ventures.

This development will take place under a very different regime from the great oil developments of the Soviet era, not only due to the major changes in governmental structure and economic philosophy in Russia, but also because of the involvement of foreign companies on a major scale. The oil industry, which developed in the past century largely on privately held lands in the United States and on lands governed by absolute rulers in the Middle East and elsewhere, has learned to deal with lands held in the commons in Alaska and Canada, although it was often a painful process. It has also learned something about dealing with rights of indigenous peoples in land as Alaska Natives and the First Nations of Canada secured their rights. It will need all the expertise it can muster as it deals with the mixture of races and governments that make up the Russian Federation now.

Sakhalin Island in the Russian Far East is probably the best-known effort at the moment. Here a population of 650,000 will see an investment of \$35 to \$50 billion over the next two decades with a pipeline running 700 kilometers, almost the length of the island and several new port facilities being built in support by Sakhalin Energy (Shell). Exxon is building another pipeline across the Tatar Strait to a port on the mainland. There are about 400 westerners working now in Sakhalin, a number expected to rise to about 5,000 in the next three years. Most oil production will take place on the ancestral lands of the Nivkh and the Oroch people in the northern part of the island and along the Tatar Straits. These groups along with a few hundred Ainu in the south give Sakhalin an indigenous population that is less than 1% of the total.

The major western companies in Sakhalin are Exxon, Shell and BP. They are joined by Mitsui and Mitsubishi from Japan along with several Russian partners. Their relationship is governed by production sharing agreements (PSAs).

Moving west, there are plans for two pipelines underway from the area around Lake Baikal, one to China and South Korea and one to a port on the Russian Coast near Vladivostok. Rusia Petroleum, a Russian venture led by BP, is expected to sign an agreement with China National Petroleum and Korea Gas to build a 4,900 km. gas pipeline expected to cost \$12 billion with another \$6 billion for field development of the Kovykta field. This field has estimated gas reserves of 1.8 trillion cubic meters worth more than \$100 million based on Russian price estimates. This is almost twice the known gas reserves of Alaska's North Slope. Both the Chinese and Korean companies are government owned. The line will skirt Mongolia and proceed through Manchuria to the Chinese coast at Daqing then across the Yellow Sea to South Korea. It is expected to provide 20 billion cubic meters to China and 10 billion to Korea annually for 20 years.

Originally, the pipeline to South Korea was planned to go through North Korea but U.S. opposition and the recent problems with North Korea made the government in Seoul reconsider in favor of the seabed route.

For several years, Transneft, the Russian government owned pipeline operator has planned an oil pipeline from Angarsk, just west of Lake Baikal, to the Pacific Coast of Russia. This 3,765 km line is planned for 1 million barrels per day and expected to cost \$4-5 billion. Vanino, Vostochny and Nakhodka are being considered as ports. There are also plans for a smaller pipeline from Angarsk to Datsin in China. This will carry about 400 thousand barrels per day initially increasing to 600 thousand eventually. It will be 2,400 km long and cost \$1.7 billion. The oil sources for these two lines are from Krasnoyarsk Krai and the Sakha Republic. The last notice on this was that instead of Transneft, the Yukos/BP group would build one or both of these pipelines.

All three of the pipelines from near Lake Baikal will cross the Buryat Republic, which has an indigenous population of 420,000 Buryat Mongols in a total population of 1,100,000. There are scattered groups of Evenks and Evens in the pipeline corridors.

The Sakha Republic (formerly Yakutia) is the largest republic in the Russian Federation with 1,188,493 square miles occupied by a population of 1,062,000, of which 408,000 are Sakhas, 492,000 Russian and 60,000 Ukrainians; the rest being composed of small groups of Evenks, Evens, Avans and some 80 other different ethnic groups. It has become used to

securing a good share of the diamonds and gold mined in the Republic. The oil reserves are estimated at 140 billion barrels but little exploration has taken place thus far. It is also estimated to have very large natural gas reserves.

Krasnoyarsk Krai has an area of 843,000 sq. mi. and a population of 3.5 million. There are small groups of Nenets, Evenks, Evens and Enets living along the Yenisey River and the far northern areas of the Krai. These probably are not 1% of the population.

TotalFinaElf, the French major oil company, has been working with Russian partners in the Vankorskoye and Severo-Vankorskoye oil fields in Krasnoyarsk Krai. An investment of \$2.5 billion is planned to develop the 900 million barrels of oil and 2.6 tcf of gas in these fields.

Plans were recently revealed for a major oil terminal at Murmansk; about the same size as Valdez, Alaska, which would give it a capacity of 2 million barrels per day. The west Siberian fields in Tyumen Oblast and Khanti-Mansiysky Autonomous Region, plus others in the Komi Republic and Yamalo-Nenetskiy Autonomous Region that may become available will feed this pipeline. This project will be financed by a consortium of western and Russian companies, substantially the same as those in Sakhalin.

Tyumen Oblast is the third largest oblast in area in Russia. It includes the Yamalo-Nenetskiy and Khanti-Mansiyskiy Autonomous Okrugs, both of which have independent subjects of the Russian Federation. Tyumen has an area of 1.4 million sq. km. and a population of 3.2 million, a tiny percentage of which are indigenous people. It contains over 8 billion in proven oil reserves and until new fields come on line has 91% of the Federation's gas reserves. There ten major oil companies presently operating in the Oblast.

Khanti-Mansiysky has an area of 523,100 sq. km. and as population of 1,380,000, of which 22,520 are Khanty and 8,470 are Mansi, some 2.2% of the population. The Russian population increased dramatically with the development of the Tyumen oil province in the 1960s.

Yamalo-Nenetskiy has an area of 750,300 sq. km. and a population of 506,000 of which about 7,500 are Nenets with a very few Khants and Mansi. The Nenets here have seen the Russian population soar from 69,000 in 1970 to the present population of 500,000 due to the development of the Yamal Peninsula's great gas reserves.

The Komi Republic has an area of 415,900 sq. km. and a population of 1.2 million of whom 276,000 are Komi. There are reported to be some 100

different ethnic groups in the Republic of whom about 400 are Nenets. Komi is famous for its oil spill of 1994. Present oil production is about 85 million barrels per year.

Archangelsk Oblast has an area of 587,420 sq. km.. and a population of 1,506,400. It includes the Nenets Autonomous Area of 176,700 sq. km. and a population of 55,000 of which 6,600 (12%) are Nenets. The Nenets total population in the Russian Federation is 34,500, so some 20,000 are scattered throughout the other areas, mainly in the Taymyr-Nenets Autonomous Area.

Murmansk Oblast has an area of 144,900 sq. km. and a population of 1,600,000 of which about 1,500 are Sami (Lapps). It offers an ice free port to provide access to tankers for the great reserves of western Siberia and European Russia. In the Soviet period, almost all exports were overland via pipeline to eastern and western Europe. There are plans to rebuild parts of the old pipeline system as financing becomes available and also to open two oil terminals on the Baltic Coast, one near Saint Petersburg and another in Estonia.

In addition to the above, Conoco-Phillips and Rosneft are working on plans to ship gas condensate from the eastern Barents Sea to the United States. Offshore interest in the eastern Barents continues with plans to bring oil via offshore loaded small tankers to Murmansk and then loading to large tankers for transportation to market.

Most of the projects that have been discussed thus far will begin to come on line in 2005 but the great majority not until 2007 and after. The important decisions with the major players in the United States, the United Kingdom, the Netherlands, China, Japan and Korea have been largely made although some fine-tuning will obviously be required.

Only the Buryat Republic, the Sakha Republic and the Komi Republic have large enough indigenous populations to influence development in the manner in which Alaska Natives and Canada's First Nations have influenced oil and gas development in their nations. The First Nations efforts on Canadian gas lines from the Arctic is an example of what three decades of political development can accomplish.

The slowdown on investments in North America gas been noted for the past several years. Whether this is due to Russian investments using up available capital or whether it is simply long term strategy by major oil companies is difficult to say. It is probably due to the latter. While this may work out in the long run, it does little for the present generation in

Alaska and Canada who were looking forward to the same economic prosperity enjoyed by their parent's generation.

There will probably be some high paying jobs available for top engineers and scientists in applying what they learned in the North American Arctic and sub-Arctic. However, the profit sharing agreements, for those projects having them, emphasize employment of Russians and Russian companies. The western and Japanese companies involved make a strong point of this in their announcements. Western companies, including sub-contractors, will have a Russian workforce to the maximum degree possible.

In Alaska, Canada and Norway, we have great examples of how the commons can influence distribution of wealth from oil and gas, including indigenous people. Alaskan oil was found either on state lands or in state waters, ensuring that the public would be the maximum beneficiary after agreements were reached with the private oil companies. After the passage of the Alaska Native Claims Settlement Act, Alaska Natives could benefit from oil discovered on the lands they gained title to in the Act. Since the pipeline corridor crossed federal, state and Alaska Native lands, all could be at the table as pipeline concerns were worked out. Alaska chose to spend much of its oil wealth on future generations through its permanent fund, but some monies were spent on the present generation through the permanent fund dividends. Alaska used its wealth also to eliminate the state income tax and to minimize corporate taxes.

In Canada, early oil development in Alberta resulted in the province being able to upgrade its universities, research centers, medical services, schools and infrastructure. It adopted a permanent fund after catching up on important public service areas. At present, the First Nations are playing an important role in the development of the Arctic gas province because of their rights to the commons gained from claims settlements.

Norway was able to treat its oil as common property because it was located at sea. Norway followed the Canadian model, spending its monies on infrastructure, universities, research and generally upgrading services. Since for a large part of its history as an oil country, public corporations were used as well as private, there were more avenues available to maximize oil wealth. Norway saved enough to establish a permanent fund also, The dividends are in the increased services provided by the government.

The situation in the Russian Federation is very different in that while the resources are largely common property, the relationship within the Federation between the center and the various regional governments is very different from any of the above countries. Privatization of the government resources, after the breakup of the Soviet Union, is still being

worked out to some degree. However, the breakthrough, since 1999, in the long debate between the federal administration and the Duma over profit sharing agreements and the general regularization of commerce is the chief factor that has led to the dramatic increase in international investments. Insuring that regional and local governments benefit from this investment to the same degree as the privately held companies is the key to a successful future in the oil and gas industry in the Russian Federation.

It appears for now that Canada and Alaska will be tied primarily to the U.S. markets, but there is nothing new in that. Norway is a relatively eager participant in the new Russia and several other areas. It has laid the groundwork through its universities and research centers to know what it is doing, as has Canada. Alaska has minimal intellectual resources to play in this great game and must develop them rapidly or, at a minimum, be extremely careful.