

Global Oil Forum discussion, August 12: Russian Sanctions

07:25:35 Florence Tan thomsonreuters.com *****
Oil Forum Discussion: Russian sanctions
Tom O'Sullivan, director of consultancy Mathyos Japan who advises clients on Asian energy strategy and energy policy, and Daisuke Harada, Economist, Deputy Director of Energy Research Division (Russia and CIS affairs) at JOGMEC will be in Reuters Global Oil Forum on Tuesday (Aug 12, 2014) from 0630 GMT (1530 JST, 1430 SGT) to discuss the impact of Russian sanctions on the global economy and the energy sector. Please join us.

07:27:31 Daisuke Harada jogmec.go.jp Hi there, Tom-san and everyone!

07:27:44 Aaron Sheldrick thomsonreuters.com Welcome Tom and Harada-san, everyone else.

07:27:53 Aaron Sheldrick thomsonreuters.com Thanks for joining us.

07:28:18 Tom O'Sullivan mathyos.com Hi Aaron Flo-thanks for the kind invitation today. It is an honor.

07:28:26 Aaron Sheldrick thomsonreuters.com One quick thing I'd like to point. We have some issues with formatting and the text seems to run on over the available screen space.

07:29:04 Aaron Sheldrick thomsonreuters.com So might I suggest that you try to hit go after each sentence for ease of viewing. We'll get the issue sorted as soon as we can.

07:29:11 Aaron Sheldrick thomsonreuters.com So to kick things off:

07:29:38 Daisuke Harada jogmec.go.jp OK, Aaron-san.

07:29:58 Aaron Sheldrick thomsonreuters.com Japan was recently omitted from the list of countries that Russia slapped sanctions on in response to the latest round of restrictions from the West, despite Tokyo joining them.

07:30:34 Aaron Sheldrick thomsonreuters.com What do you think was behind that? Abe has spent a lot of time trying to cultivate the Russians and boost energy ties.

07:30:45 Aaron Sheldrick thomsonreuters.com Was this behind the Russian move do you think?

07:31:13 Tom O'Sullivan mathyos.com Good point Aaron. I think Abe has held 5 summits with the Putin and there is a lot of political investment on both sides

07:31:50 Tom O'Sullivan mathyos.com I think the jury is still out on what may eventually transpire but there is now a huge q mark over Putin visit to Japan this fall

07:32:58 Tom O'Sullivan mathyos.com the sanctions on EU , US, Can, Oz were pork, beef, vegetables and fruit and I don't have Japanese exports for these commodities on me but I guess they are small

07:33:28 Aaron Sheldrick thomsonreuters.com Yeah that is true so an easy decision and one that doesn't rock the boat too much.

07:34:02 Florence Tan thomsonreuters.com Would Russia risk hurting ties with Japan?

07:34:29 Tom O'Sullivan mathyos.com agreed. Putin values his eastern flank now given most of the economic growth is in Asia...so he is proceeding slowly and methodically

07:34:54 Aaron Sheldrick thomsonreuters.com But do you think at some point there'll be more serious sanctions that Japan will have to follow through on? Say the oil sector. Gas seems to be off limits for now given the European reliance on Russian supplies.

07:35:21 Tom O'Sullivan mathyos.com two way trade between Russia and Japan is about 38 billion so there is still a lot at stake-this is larger than US-Russia trade

07:36:27 Tom O'Sullivan mathyos.com oil and gas flows have not yet been sanctioned and I would expect Japan would be follower there and not a leader

07:37:51 Aaron Sheldrick thomsonreuters.com There are a number of planned gas projects in eastern Russia that companies from Japan are either already involved in or has signed initial commitments to join.

07:37:57 Tom O'Sullivan mathyos.com Japan's Russian reliance is about 10% for NG, 5% for oil , and 10% for thermal coal

07:38:11 Daisuke Harada jogmec.go.jp As Tom-san mentioned, after 5 top meeting between Abe and Putin, especially Japan side would like to obtain results. This is the reason why the Japan's sanction is relatively little than other sanctions. I do not think that there will be more serious sanctions such as EU and US do such as technology restriction and export ban unless Russia would participate in the military campaign, and it is not likely.

07:38:35 Aaron Sheldrick thomsonreuters.com I'm thinking of Vladivostok LNG, Sakhalin 1 LNG, Sakhalin 2 LNG extension.

07:38:58 Aaron Sheldrick thomsonreuters.com Is there any sense do you think that Japanese companies are easing off their interest to wait and see how things pan out?

07:39:35 Tom O'Sullivan mathyos.com I don't envisage any changes to those projects at this juncture but complicated because of Exxon and Shell involvement in S-1 and S-2

07:39:57 Aaron Sheldrick thomsonreuters.com BP for instance warned at the end of July that Russian sanctions may start to bite. Here:
[Click here for the Reuters story](#)

07:40:29 Tom O'Sullivan mathyos.com The Japanese business community including banks will proceed very cautiously-they will also watch institutions like EBRD for guidance

07:41:29 Florence Tan thomsonreuters.com have Japanese banks stopped issuing LCs for refiners to buy Russian ESPO crude?

07:41:40 Tom O'Sullivan mathyos.com 20% of BP's profits in Q2 came from Russia and their Rosneft stake. they have significant exposure. we do not see similar exposures in Japan

07:42:26 Tom O'Sullivan mathyos.com Flo-I do not believe so but Daisuke may know more. JBIC have said they will proceed very cautiously on all Russian -related financings

07:42:56 Daisuke Harada jogmec.go.jp At this moment and circumstances, Japanese entities are very worried and more cautious than ever. But if the Putin's visit would be achieved, and before that Minister of MOFA's visit to Russia and related events to prepare the president's visit would ease the anxiety to some extent.

07:43:27 Florence Tan thomsonreuters.com Daisuke san, how are the Russian sanctions affecting ESPO crude exports to Japan?

07:44:00 Aaron Sheldrick thomsonreuters.com That's a very good point I think Harada-san. We've seen the same sort of caution with Iranian oil imports in Japan.

07:44:11 Tom O'Sullivan mathyos.com Daisuke-I think Putin's visit is unlikely in calendar 2014

07:44:18 Daisuke Harada jogmec.go.jp So far I've not heard about stop of issuing LCs for ESPO crude. Japan has not set any sanctions on trade between Russia and Japan.

07:44:52 Florence Tan thomsonreuters.com thanks

07:44:59 Aaron Sheldrick thomsonreuters.com Is the sense of caution also made easier by the fact that we aren't too far away from U.S. shale gas starting to flow to Japan.

07:45:42 Tom O'Sullivan mathyos.com Aaron , Flo, is it also important for the record to keep in mind the island dispute between J-R and the continued absence of post WWII peace treaty

07:46:11 Aaron Sheldrick thomsonreuters.com And Tom mentioned JBIC, which has signed up to significant commitment to the Cameron LNG project.
[As in here](#)

07:46:12 Daisuke Harada jogmec.go.jp The visit of Putin is now floating and changeable, but I presume that it has not been canceled yet. The sanctions from Japan on 28th July, and response of Russia's sanctions excluding Japan show the some 'hope'.

07:46:51 Tom O'Sullivan mathyos.com Yes Japan is building its diversity, PNG, Gulf of M, Oz, Qatar, East Africa

07:47:03 Tom O'Sullivan mathyos.com and of course Canada

07:48:14 Florence Tan thomsonreuters.com hi forum members, please feel free to put in questions for our guest speakers today - Tom O'Sullivan, director of consultancy Mathyos Japan who advises clients on Asian energy strategy and energy policy, and Daisuke Harada, Economist, Deputy Director of Energy Research Division (Russia and CIS affairs) at JOGMEC

07:49:56 Aaron Sheldrick thomsonreuters.com You mentioned Canada, Tom.

07:50:02 Tom O'Sullivan mathyos.com One development I would like to bring everyone's attention to also is the decision by the Permanent Court for Arbitration in Holland to secure damages of 50 billion from the Russian state on behalf of Yukos shareholders-that increases trade uncertainties

07:51:01 Tom O'Sullivan mathyos.com Yes Mitsubishi, INPEX, and JAPEX all look as if they may lock down fields over the next 12 months -- huge pressure from BC to do this also

07:51:13 Tom O'Sullivan mathyos.com on Canada i meant

07:51:45 Aaron Sheldrick thomsonreuters.com How likely are these projects to get off the ground? Especially after the big mine spill in British Columbia.
[story here](#)

07:52:48 Tom O'Sullivan mathyos.com On food sanctions i though a statement by the governor of Primorsk in Vladivostok last week to build food self sufficiency was instructive.. the Russians look like they are getting to play a very long game

07:53:48 Tom O'Sullivan mathyos.com The BC projects must move in the next 12 months -otherwise window may be lost- at least three expected to proceed-huge political capital invested in this at state and federal level in Canada

07:55:05 Aaron Sheldrick thomsonreuters.com All other things being equal, can Japan play a role in helping Russia develop food security do you think Tom?

07:55:59 Tom O'Sullivan mathyos.com Yes I think so but Japan also needs to consider its own food security so there is mutual benefit there. Russia is Japan 's closest neighbour

07:56:39 Aaron Sheldrick thomsonreuters.com Perhaps we can change the subject slightly. An even closer neighbour is China (to Russia).

07:56:56 Tom O'Sullivan mathyos.com a statistical point worth noting is that Russia' energy exports are almost equal to Japan's energy imports-circa \$350 billion

07:57:21 Aaron Sheldrick thomsonreuters.com And there's a matter of the huge gas deal that Russia/China signed earlier this year.

07:57:44 Aaron Sheldrick thomsonreuters.com Harada-san, how do think this has changed the dynamics for Japan (again all other things being equal).

07:59:08 Daisuke Harada jogmec.go.jp Yes, the pipeline deal between Russia and China will have an influence upon Japan's thought, why we have not imported natural gas by pipeline.

07:59:49 Tom O'Sullivan mathyos.com Agreed Aaron. 38 bcm/annum about 40% of Russia's current gas exports

08:00:10 Daisuke Harada jogmec.go.jp It is said that pipeline gas is cheaper than LNG, and as Tom-san mentioned, Russia is the closest and largest supply of natural gas in the world.

08:00:21 Tom O'Sullivan mathyos.com the thing about R-C deal is focus is on east Siberia. Russia has plans to develop that area and will Japanese technology to do so

08:00:58 Tom O'Sullivan mathyos.com Development of east Siberia fields is key

08:01:28 Daisuke Harada jogmec.go.jp The question is the deal between Russia and China would be executed in 2018, what kind of conditions, price and volume, how long Chayanda development would take, and how much China want to import.

08:01:47 Tom O'Sullivan mathyos.com R-C gas deal also impacts pricing and creates another non-JCC linked pricing structure

08:02:12 Aaron Sheldrick thomsonreuters.com Given that, I guess both sides (J-R) must be hoping that all the efforts since Abe returned to power won't go to waste so to speak. I think the U.S. and Europe will obviously have a big say in how things pan out vis-à-vis a significant energy sanctions.

08:02:34 Aaron Sheldrick thomsonreuters.com Those are good points on pricing Tom/Harada-san.

08:02:45 Aaron Sheldrick thomsonreuters.com On that note I think we have run out of time.

08:03:11 Tom O'Sullivan mathyos.com The thing to keep in mind is that the oil and gas sector does not appreciate Ukraine's instability. They think it has been corrupt.

08:03:38 Tom O'Sullivan mathyos.com thank You Aaron, Flo

08:04:04 Aaron Sheldrick thomsonreuters.com Thank you very much for insights today, Tom and Harada-san. I hope you'll be able to come back and join us again.

08:04:06 Daisuke Harada jogmec.go.jp Thank you, Aaron-san, Tom-san and Florence-san.

08:04:11 Florence Tan thomsonreuters.com Many thanks Tom and Harada san for joining us on the Global Oil Forum