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Comments and Discussion

○ Thanks for Mr. Saenko's excellent presentation. I am very impressive about the continuous efforts of The Russian Government to develop Oil and Gas Fields in East Siberia and the Far East Region. Since I am in charge of Korean gas industry, I would like to focus on the area of natural gas in making comments on Mr. Saenko's presentation.

○ Northeast Asian countries, especially Korea, China and Japan takes about 5% of total world natural gas consumption. The total volume of the gas consumption of these Northeast Asian countries is about 143bcm, among which Korea consumes 32bcm, China takes 39bcm, and Japan takes 53bcm. By 2025, Korea alone, is expected to consume about 50bcm of natural gas per year.

○ About 680bcm of natural gas is traded in the world either in the form of pipeline gas or LNG. Among these, 26% is traded in the form of LNG, which is imported largely by Northeast Asian countries especially Korea and Japan. At present no pipeline gas is imported to Korea, so all the natural gas import in the form of LNG. Korea's share in the world LNG trade is about 16.8% and Korea has now become the second largest LNG importer and the world's 6th largest natural gas importer in the world.

○ If I focus more on Korean gas market, the average annual growth rate until 2017 would be about 4% mainly promoted by the increase in demand for city gas. The LNG demand in 2005 was 22 million tons per annum, which will grow to 36 million tons per annum by 2025. Although the growth rate will be smaller as the gas market matures, still it will hold a strong growing trend during the coming decades.

○ Korea imports LNG from 6 foreign countries and one domestic gas field. About 47% of LNG comes from Middle East countries such as Oman, Qatar, Brunei and 45% comes from Southeast Asia such as Indonesia and Malaysia. Therefore, there is a significant need for import source diversification. In its domestic supply, KOGAS is the unique body to import and sell LNG to 29 city-gas companies and 10 power companies. City-gas companies have their own boundaries to supply city-gas through their pipelines and facilities. However, by law, import of LNG for self-consumption is allowed under certain conditions, and POSCO and SK are already importing LNG for their own use. KEPCO's generation companies also strongly intend to import LNG directly from abroad.

LNG demand from generation sector takes around 30% of the total LNG consumption, and this generation sector would be the first part to use PNG if the pipeline gas can be imported from Russia.

○ The necessity for energy diversification comes twofold. As Japan and China Korea heavily depends on oil consumption. Although the share of oil decreases from 61% in 1980 to 45% in 2004, still there is a strong needs to move from oil to other fuel sources especially natural gas.

And as I mentioned, the need for regional diversification is also a key concern for all the Northeast Asian big consumer countries.

○ In this regard, I would like to male some suggestions for the better cooperation in the gas sector among Northeast Asian and Russia.

The first important issue is the time-frame to implement the project. Korea has made efforts to import pipeline gas from Russia since in 1995. We tried to import the first delivery of PNG from the Kovycta Gas Field in East Siberia in 2008. Unfortunately, it did not come true. Therefore Korea took LNG Contracts last year with 3 sellers- Malaysia, Yemen and Sakhalin- to meet our urgent gas demand of 5.5 million tons per year from 2008. This year we, Korea also requires the additional Natural Gas Contract to meet Gas Demand in 2010.

Three year has already passed since the Russian Federation to prepare the UGSS without the final comprehensive conclusion. Therefore, Korea had to change their gas import plan from PNG to LNG.

- China, one of potential importers also altered its energy to LNG and tries to import from Kazakhstan or Turkmenistan instead of the Russian PNG.

The international gas markets are very dynamic. Hence, to meet Gas Demand in North East Asian markets on a timely manner, the Russian Federation need to expedite the implementation of the cross border pipeline project as soon as possible. Korea is ready to discuss the Pipeline projects with Russia as soon as Russia's ongoing study on UGSS are finalized.

Second, another important issue to an importing country would be the security of supply in long term period and economic terms against competency fuels. Although Russia has the right to select the priority to develop gas fields, mutual cooperation and discussion between exporter and importer and are indispensable to gain the common goals between Exporter and Importer.

Hence, it would be nicer if exporter and importer have an opportunity to discuss together how to implement the project in advance before the Russian Government makes a final decision.

○ Third, I totally agree with Mr. Saenko in that integrated statewide approach is quite important and useful to develop East Russian region. However, I may suggest that in line with the integrated approach, stand-alone project approach is also reasonable, if it feasible. We have witnessed in European Gas Pipeline Projects, in a sense that each stand-alone project has resulted in Current Sustainable UGSS in West Siberia. Therefore, it could be possible that we can realize the first feasible

cross-border project whether it could be Irkutsk project, UGSS or Pacific oil pipeline project, and then the implementation of second and third projects will be activated. This, if it is considered, would serve to the stable import and export of natural gas in Northeast Asian region, and even to the relaxation of political tension through such a economic and substantial cooperation.

○ Thank you very much for your listening.