

## **The ROK-DPRK-Russia Gas Pipeline Project: The Truths and Myths behind the Project**

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The ROK-DPRK-Russia gas pipeline project to supply Russian gas into the Korean peninsula is a hot topic. On the surface, the three states and the neighboring countries appear to be working cooperatively to make this project a reality. Beginning with Kim Jong Il's visit to Russia in August 2011 and subsequent summit meetings between ROK-Russia and DPRK-Russia, the once forgotten trilateral gas cooperation project came alive again and with optimistic prospects.

Since the launch of Lee Myung-bak administration, almost all economic cooperation projects between the two Koreas halted. Hence, the positive signal sent from all three states regarding this project is drawing much attention.

However, there is still a long road ahead. Except for old agreements signed in the past, there has not been much progress with new agreements or contracts. Besides the basic agreement reached between South Korea and Russia to supply 7.5 million tons of natural gas from Russia from 2015, no substantial contract has been completed yet. This is the next step, and a very important step to say the least. The people in charge of this project must act with firm determination and with a clear national plan in mind. For South Korea, not only North Korea policy but foreign policy toward neighboring countries must be considered; but it must also be linked and orchestrated with energy and other related policies. However, South Korea is still ill-prepared in dealing with all these issues. Of course, the newly resurrected interest in the gas project in itself is meaningful. More importantly, currently revived interest must serve as a dynamic force in pushing the plan forward. To do so, not only hard work but meticulous planning will be required. Otherwise, the discussion will wither and be buried once again, as an unrealistic dream.

Certainly, the talk of a ROK-DPRK-Russia gas pipeline project is not a novelty. Since the normalization of relations with the former Soviet Union, this has been a regular agenda item that appeared and reappeared during the Kim Dae-jung and Roh Moo-hyun administrations vis-à-vis discussions of Northeast Asian community building and Russian natural gas import agreement. This was believed to serve as an impetus as the new corridor of cooperation with energy as the medium to ease the regional tension and tie it to creation of new and diverse markets including roads, railways, and power networks. Despite these attractive conditions and benefits, practical progress in actualizing the project has not yet been made. After years of repeated on-and-off interest in the project, the three countries have yet to form a trilateral cooperation committee.

The discussion of cooperation and creation of a common market with a hostile nation is an intriguing selling point. Creation of energy market and reorganization of regional order through combining both geopolitics and geoeconomics are also intriguing factors. Yet, why has progress on the project not been made?

From the international perspective, the trilateral gas project between Russia and South and North Korea is similar to the gas pipeline project that exported gas from Central Asia to

Pakistan via Afghanistan. But this project was always impeded by numerous factors including the domestic politics of Afghanistan, pro-Chinese Pakistani policies, and so-called “rogue states” that destabilized and thwarted the project. The ROK-DPRK-Russia gas pipeline project is no different. Putting technical and economic difficulties aside, political realities and hostile experiences of the past are hindering the advancement of this project.

Transnational economic cooperation, especially economic cooperation dealing with energy and strategic resources, is difficult to accomplish without the presence of actual pragmatic need that can overcome the geopolitical and geoeconomical challenges. The Soviet Union and Europe was able to overcome the gas cooperation during the Cold War only because they had the diplomatic capacities to actualize the project that could overcome the geopolitical and geoeconomical conundrums.

At the time, European countries were in dire need to revitalize their economies and elevate competitiveness in the world market through securing cheap energy. Especially after the war, France, Germany, and Great Britain were desperate for cheap energy. Algeria and the Soviet Union were the two countries able to provide this source and eventually gas agreements were signed with these two countries, which continue until today. Even for the Soviets, it was imperative to secure hard currency in the long-term and cooperate with the West to realize their goal of building a modern nation and socialist economy. Despite the domestic opposition, the Soviets pursued long-term energy cooperation with the West. This also met the obligation to provide assistance to East European communist states under the Marshall Plan.

Returning to the issue of the ROK-DPRK-Russia gas pipeline project, the critical question to ask is this: Is there the same desperation and urgency as Europe and the Soviets had at that time? At least between the experts, three mega projects (railways, electricity, and energy) affect all three states have become a familiar and popular issue among its domestic politics. For the railways project, the research is already in the advanced stages with only a political decision left to wrap up the deal. However, the talk of this project has disappeared once again.

What lessons does this teach us? It demonstrates that involved countries are using different systems of calculation in determining the implications and importance of this project. Even domestically, the people and the leaders of South Korea are applying different measurement standards with segmented views regarding this project. This is because many tend to focus only on the political aspects or economic benefits, not both.

Politically, the Russian gas pipeline project is attractive for all three countries. However, economically, both the exporter and the importers do not have practical urgency. The former Soviet Union and now Russia’s major client for its natural gas is Europe. Of course, it is also exerting efforts to decrease its dependence on the European market and searching for alternative markets such as Asia. But Russia still does not have the capacity to fully immerse itself in the Asian market, since the cost of exploration and development in the gas business requires immense sums of money. Therefore, precautions must be taken with careful consideration, with long-term demands corroborated before delving into the business. This is the take-or-pay method, where the interested party must be willing and capable of paying. Of course from the consumer’s point of view, if there is an alternative, the provider is put at a disadvantage. Therefore, prices and other variables are determined only after supply and demand is carefully considered and after strategies are well-calculated. This goes for LNG and PNG as well. In order to establish a supply and demand chain, a huge investment must be

secured prior to any other step.

Taking this into consideration, for Russia to provide gas to the Northeast Asian region, at least a 20-year commitment will be necessary. For Russia, what is more important than a pipeline or supply is a guaranteed and long-term demand. From the provider's standpoint, there is no need to rush without this fully established.

Currently, there are three countries able to provide such long-term pledge: China, Japan, and South Korea. After the two ROK-Russian summits, South Korea has already made a promise to import 7.5 million tons of natural gas from Russia from 2015 -- although follow-up contracts or agreements have not been reached yet. China also has a long-term need for oil and Russian gas to meet the domestic demand for energy; however, China has not reached consensus with Russia over price. From the Russian side, they believe they suffered losses from the Eastern Siberia-Pacific Ocean (ESPO) line with the price of crude oil sold to China. Clearly, this is a trial of strength between China and Russia. For Japan, political and territorial disputes are still ongoing with Russia, but this has not discouraged the two states from forming and maintaining energy cooperation. Since the Soviet era, Japan-Russia energy cooperation prevailed, centered around Sakhalin, and is entering a new phase with Sakhalin I and Sakhalin II projects already underway. Japan is quickly picking up speed with LNG cooperation projects with Russia, overcoming the political difficulties of the past.

For Russia, in establishing Northeast Asian energy supply and demand mechanism, the prime consideration is China. Korea and Japan are only subordinate concerns. But unlike South Korea, Japan and China have already established autonomous energy development capacities and diversified energy supply for inexpensive energy supply. On top of that, China already has an advantage of sharing borders with many Central Asian countries -- newly emerging energy supply providers. Therefore, it will become a challenging undertaking for Russia to negotiate a desired price with China.

In this respect, South Korea is a valuable card for Russia. Conversely, Russia is also an important card for South Korea. By establishing energy cooperation with Russia, it will provide a critical leverage for South Korea in constructing a Northeast Asia energy mechanism and also serve the larger goal of promoting comprehensive strategy. Korea borders China, and new attractive markets can be constructed by building additional energy lines or developing small-scale gas fields. In addition, if PNG is set up in Korea, it can provoke competition with Japan, with a possibility of South Korea becoming the next energy export hub for Russia.

The gas industrial environment in Northeast Asian region is moving forward with investment from Russia already secured in building infrastructure (in Sakhalin and Irkutsk regions for gas field development). The plan is moving as planned along with building integrated gas pipeline to transport gases extracted from these areas. Recently, the gas pipeline network connecting Sakhalin and Maritime Province areas have been completed. However, discussions about long-term negotiations regarding additional demand remain unfinished. Thus, Russia can place itself in an advantageous position in the geopolitical game in negotiating with China by building a gas pipeline through the Korean peninsula. In addition, by providing East Siberian gas to South Korea in the form of PNG, a new lead in bargaining can be found with Japan, who is only engaged with LNG projects thus far. Politically, it can also deter China's increasing influence in the Korean peninsula with increasing economic power.

With these points considered, some argue that South Korea should not rush the trilateral gas project. They argue cost and benefit must be thoroughly examined in order to maximize economic profits. However, this is also met with opposition that such argument is based on extremely optimistic views about supply and demand of natural gas which only reflects the interest of privileged groups.

This logic simply considers the import of Russian gas into the Korean peninsula only from the economic standpoint. However, the ROK-DPRK-Russia gas pipeline project is a much more intricate and complex project, with benefits beyond the economy. It is related to several issues: the North Korean nuclear issue; managing China's power expansion into North Korea; and alleviating post-unification expenditures involving the rebuilding of North Korea after unification; and assuaging energy investment problems beforehand to prepare for South Korean companies full entrance into the North Korean market. Once the PNG is completed, it cannot be easily substituted. It will make it that much more path-dependent. Thus, on the flip side of the trilateral gas project lies more than just the economics, but involves deeper issues and implications -- as seen in the Europe-Soviet cooperation of the past.

If the ROK-DPRK-Russia gas pipeline project is put into operation successfully, many positive results can be expected. First, politically it can: 1) alleviate tension on the Korean peninsula; 2) establish a new order in Northeast Asia; 3) prevent Chinese excessive influence on North Korea; and 4) solidify the systematic cooperation framework between Russia, South and North Korea. Secondly, economically it can: 1) diversify gas import for South Korea; 2) establish long-term safety network for clean energy supply; 3) create new market in economic cooperation with North Korea in the process of building the gas pipeline; and 4) reduce the cost in transporting gas. Of course there are many variables in this formula that could have negative effect, such as changes in international gas and energy market. More importantly, as seen from the Fukushima nuclear incident, there is growing interest worldwide about the mounting non-traditional security threats. Therefore, it will be imperative to consider the issue of preserving the environment through promotion of safe and more environmentally friendly energy sources, including natural gas.

For South Korea, the mid- to long-term goal after 2011 is to explore what the ROK's best options are to secure safe and inexpensive energy to supply its industries while improving national security. When China and Japan are successfully expanding energy cooperation with Russia, it is crucial that South Korea do the same in order to stay in the game and not fall behind. There is no time to waste with domestic political scuffles discussing whether PNG should bypass North Korea. Rather than separating the project into ROK-Russia and ROK-DPRK-Russia gas pipeline projects, it may be wiser to consider it in a larger framework as a part of a Northeast Asian energy mechanism process. This will be a more favorable direction to take, to increase the leverage of South Korea.

The idea of creating an economic cooperation space connecting the Korean peninsula to the Russian Far East and Siberia has been around for decades. Politically, this is significant, as it demonstrates that cooperation is possible between three disparate countries with very different political ideologies and systems. But more importantly, this is an opportunity to build an area of growth in Northeast Asia including far eastern Russia, which requires cooperation from all the neighboring states. In order to establish such cooperative mechanism, there must be a firm determination from all the involved parties and internally those in charge must pursue the project with concrete understanding and direction of its national plan. This

includes North Korea policy and foreign policy toward its neighbors and energy and other related policies. This is an area that still requires more effort and improvement.

Currently, the whole world is experiencing a resource war. Every country around the globe is competing to secure resources. It is likely the taxes for exports and development of resources will continue to rise. The cost to preserve energy is also likely to increase with the continuous development of energy. In this atmosphere, South Korea, which is poor in natural resources, must be able to safely secure resources from overseas to support the sustainable development of the nation. The indispensable condition to promote both continuous economic growth and national security is to strengthen diplomacy and leadership of the nation, with flexible and high-level negotiation capabilities along with new resource strategy based on a multifaceted approach.