

COMPLEXITY OF RELATIONS: CHALLENGES AND OPPORTUNITIES IN THE CHINESE-RUSSIAN OIL AND GAS SECTOR

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This article examines the complex oil and gas cooperation between Russia and China, highlighting its significance for their bilateral relations. It addresses the opportunities and challenges stemming from political shifts, notably the annexation of Crimea and ensuing Western sanctions, which have strained Russia's ties with the West and prompted a shift towards Asian markets. Additionally, it discusses the impact of global economic crises on energy prices, which complicates negotiations and project implementation. The authors propose strengthening cooperation by developing alternative energy sources, enhancing the investment environment, and reinforcing the legal framework to navigate obstacles and bolster the strategic partnership between the two nations.

Keywords: Sino-Russian cooperation, oil and gas sector, economic obstacles, political factors, Western sanctions, energy security, investments in energy, interdependence, diversification of energy sources, price negotiation talks.

Chinese-Russian cooperation in the oil and gas sector represents a significant element of bilateral relations between the two countries, both of which possess substantial resources in the energy sector. Although there are favorable conditions for expanding cooperation between Russia and China in the oil and gas sphere, it is important to note that there are currently both political and economic obstacles that hinder its progressive development.

Political factors, such as Russia's unstable foreign policy position, particularly after the annexation of Crimea and the Ukrainian crisis, have complicated oil and gas cooperation between Russia and China. These events have worsened relations between Russia and the West, leading to Western sanctions that have undermined the Russian economy and decreased its attractiveness for investment in energy projects. The reduction in investment, exacerbated by the fall in oil prices, has led to the cancellation of many projects, including deep-water drilling. In response, Russia has strengthened its self-sufficiency processes in the energy sector and sought new partners in Asia, such as in China, India, and South Korea.¹

¹ Pagnamenta R. Glutted oil market faces new flood from Iran. The Times. 2016, Jan. 15



Russia's pivot to China carries its risks, as Beijing aims to use this strategy to achieve its goals. Russian experts note that Chinese support reflects not so much political solidarity as it does the protection of its business interests. China also plans to fill niches in the Russian economy that have been weakened by the withdrawal of Western investments.²

The economic crises of 2008 and 2014-2016 had a significant impact on the global economy, introducing instability and uncertainty, particularly in the energy sectors. This led to a reduction in demand and prices for energy resources, negatively affecting the economies of China and Russia, major producers and exporters of energy.³

After the Ukrainian crisis in 2014, political factors became key in Russian-European energy relations, leading to the imposition of sanctions against Russia. These sanctions, which restrict equipment supplies, have affected both the extraction of energy resources and infrastructure projects, including the construction of gas pipelines. Despite the obstacles created, the energy dialogue between Russia and the European Union continues, highlighting mutual dependency, especially in the context of exporting Russian energy resources to the European market.⁴

In 2023, despite the embargo on Russian oil and petroleum products, Russia continued to supply the European Union with hydrocarbons not covered by sanctions, amounting to over €29 billion. According to Eurostat data, the EU imported oil, gas, and other goods, including metals and chemical products. However, the share of Russian gas in EU imports decreased from 40% in 2021 to 8% in 2023, particularly after the halt of the Nord Stream project. The total volume of imported gaseous hydrocarbons from Russia dropped to €16.7 billion, nearly three times less compared to the previous year.⁵

China does not impose sanctions against Russia and plans to continue economic interaction. Leaders of both countries regularly emphasize the friendly nature of their relations. However, analysts express concerns that under international sanctions, Russia may become more dependent on China, and the duration of this partnership may be questionable if it ceases to benefit China. In 2023, Russia became

² Михеев В.В., Швыдко В.Г., Луконин С.А. Китай-Россия: когда эмоции уместны? // Мировая экономика и междунар. отношения. 2015. № 2. С. 10.

³ Ли Пэйци, Юрьев Артем Романович (2022) Сравнительный анализ финансовых кризисов России и Китая, 139-146

⁴ Кинякин Андрей Алексеевич, Напара Алина Сергеевна, Копыл Мария Вадимовна, Перфилова Мария Игоревна, Костина Анастасия Александровна, & Сырыченко Катерина (2018). ЭНЕРГЕТИЧЕСКИЙ ДИАЛОГ РОССИИ И ЕС: СОТРУДНИЧЕСТВО ИЛИ КОНКУРЕНЦИЯ?. Наука Красноярья, 7 (2), 167-198

⁵ ЕС закупил у России почти на €30 млрд нефти и газа в прошлом году От каких российских товаров Европе сложно отказаться <https://www.rbc.ru/economics/16/02/2024/65ce0b359a79470ffd7493db>



the largest oil supplier to China, surpassing Saudi Arabia, according to Bloomberg, highlighting Russia's significance as a supplier of raw materials and energy resources for China.⁶

According to Bloomberg, China is considering increasing its stakes in Russian energy companies, including Gazprom and Rusal. These potential deals are primarily aimed at strengthening China's position. Negotiations between the parties are still at an early stage and may not conclude with specific agreements.⁷

While energy cooperation between China and Russia is active, many projects are developing slowly and facing public resistance in Russia due to environmental concerns and uncertainty about the economic benefits for the regions. For instance, the "Power of Siberia-2" project, which involves laying a pipeline across the Ukok Plateau, has raised concerns about potential damage to a UNESCO World Heritage site, as noted by the World Wildlife Fund (WWF) Russia.⁸

Many pipeline projects, including "Power of Siberia-2" from Gazprom, take a long time for detailing and calculations. This project is key for exporting gas to China, where Russia could become a leading supplier. However, even with successful launch, it will not replace losses in the European market, but will significantly support the business. Nonetheless, with alternatives available, China can set the terms of negotiations. According to The South China Morning Post, negotiations with Beijing are conducted "from a position of strength," which may delay the project due to ongoing compromise searches.⁹

In 2022, the demand for energy carriers in China fell for the first time in decades due to the pandemic, according to the International Energy Agency, as noted by The New York Times. Although demand has started to recover, it is still 6-7% below expected growth by the end of 2023.¹⁰

Despite low performance over the last two years, China maintains a strategy to increase the share of gas in its energy balance from 10% to 15% by 2030, which could increase consumption to 600 billion cubic meters per year. Neil Beveridge from

⁶ Russia Becomes Top China Oil Supplier for First Time Since 2018 <https://www.bloomberg.com/news/articles/2024-01-22/russia-becomes-top-china-oil-supplier-for-first-time-since-2018>

⁷ Bloomberg узнал о заинтересованности Китая в покупке долей российских компаний <https://www.forbes.ru/investicii/458301-bloomberg-uznal-o-zainteresovannosti-kitaa-v-pokupke-dolej-rossijskih-kompanij>

⁸ China Considers Buying Stakes in Russian Energy, Commodity Firms <https://www.bloomberg.com/news/articles/2022-03-08/china-considers-buying-stakes-in-russian-energy-commodity-firms?sref=Y0jVLcFo>

⁹ Exclusive | China wielding 'bargaining power' with Russia over Power of Siberia 2 natural gas pipeline <https://www.scmp.com/economy/global-economy/article/3242612/china-wielding-bargaining-power-russia-over-power-siberia-2-natural-gas-pipeline>

¹⁰ China's Oil and Gas Use Fell in 2022 for First Time in Decades <https://www.nytimes.com/2023/01/27/business/energy-environment/china-energy.html>



Bernstein Research expects that gas demand in China will continue to grow until 2040, reaching 700-800 billion cubic meters.¹¹

The "Line D" from Turkmenistan is considered the main competitor for "Power of Siberia — 2," as China, seeking to diversify energy sources, is unlikely to build both pipeline systems simultaneously. According to Reuters, although China may sign contracts with both Turkmenistan and Russia, preference in construction speed is given to "Line D."¹²

In 2023, important meetings between Xi Jinping and Vladimir Putin were expected in March and October, which could have led to a contract for the "Power of Siberia — 2" project, but agreements were not reached. In October, Russian Deputy Prime Minister Victoria Abramchenko stated that construction of the pipeline continuation through Mongolia might start in early 2024. However, as asserted by The South China Morning Post, issues regarding prices, tariffs, and taxes have not yet been resolved.¹³

In 2020, despite the COVID-19 pandemic, China increased its oil imports by 7.3%, reaching a record 542 million tons. Initially, at the peak of the pandemic, China reduced purchases, but after prices fell in March, it actively replenished stocks and ramped up oil refinery operations. By December, when prices began to recover, China reduced imports due to internal economic problems and pandemic effects, including strict lockdowns, which slowed economic growth and reduced the need for oil imports.¹⁴

Pricing is a key factor slowing energy cooperation between Russia and China. As a supplier, Russia faces uncertainties due to increasing global competition in the energy market. Previously successful negotiations between Gazprom and CNPC in 2009 and 2015 laid the groundwork for cooperation. However, with the onset of the shale revolution in the USA and declining interest in European markets, China began to press for significantly lower gas prices than those established in the market. This created tension in negotiations, although both sides have shown willingness to compromise to maintain cooperation.¹⁵

Insiders from S&P Global report that China is pushing for lower prices on Russian gas in negotiations, considering internal regulatory restrictions on final prices

¹¹ Taking Stock of China and the Geopolitics of Energy [OEF-137.pdf \(oxfordenergy.org\)](#)

¹² China prioritising Turkmenistan over Russia in next big pipeline project <https://www.reuters.com/markets/commodities/china-prioritising-turkmenistan-over-russia-next-big-pipeline-project-2023-05-24/>

¹³ Exclusive | China wielding 'bargaining power' with Russia over Power of Siberia 2 natural gas pipeline | South China Morning Post (scmp.com)

¹⁴ China Economy Faces Worst Slowdown Since Pandemic, Nomura Says - Bloomberg

¹⁵ Битва России и Китая за газ: текущий счет \$350 на \$250 <https://iz.ru/news/492436>



for consumers, especially during winter consumption peaks.¹⁶ Despite the attractiveness of low prices, this puts China in a dilemma of moving away from a policy of diversifying energy carriers and may slow the transition to renewable energy sources, believes expert Sergey Vakulenko. The new "Power of Siberia — 2" pipeline is also important for China in terms of energy security, especially amid potential tensions around Taiwan, which could lead to the blocking of sea routes for LNG. Vakulenko believes that the contract with Russia also plays a role as insurance for the anti-Western regime, increasing China's dependence on Russia.¹⁷

For Russia, China is not only a market for products and resources but also a partner in developing alternative energy. According to Yagyi Talii Saidovna, pricing for energy resources between the countries is complicated due to significant coal reserves in China and successes in alternative energy. China can also meet its gas needs through domestic sources, reducing dependence on Russian gas, especially with the discovery of new deposits on its territory.¹⁸

Reducing oil consumption in China due to the transition to ecological technologies may negatively affect the economy of both countries.¹⁹ China's energy policy, based on centralized management, shapes the national understanding of energy security and affects its energy partnership with Russia. Such cooperation has both potential and contradictions, the resolution of which is seen in deepening interaction and understanding, contributing to political, strategic, and economic benefits for both countries, despite the fact that economic relations between the countries remain at a lower level compared to political ties.

To improve oil and gas cooperation between Russia and China, it is worth considering the following: developing alternative energy sources to reduce dependence on hydrocarbons, strengthening trade relations through dialogue, stimulating investments for sector modernization, joint projects in extraction and processing technologies, increasing transparency to avoid conflicts, and strengthening the legal basis to prevent disputes. This will help strengthen strategic partnerships and the sustainability of relations, ensuring ongoing dialogue on energy issues to strengthen ties.

In conclusion, to strengthen energy cooperation and the sustainability of relations, it is important to develop alternative energy sources, stimulate joint

¹⁶ [China's CNPC drives hard bargain for impending Power of Siberia 2 gas deal with Russia | S&P Global Commodity Insights \(spglobal.com\)](https://www.spglobal.com/commodityinsights)

¹⁷ [OEF-137.pdf \(oxfordenergy.org\)](https://www.oxfordenergy.org/energy-views/2020/04/16/137)

¹⁸ Ягья Талие Саидовна (2020). ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ ЭНЕРГЕТИЧЕСКОГО СОТРУДНИЧЕСТВА РОССИИ И КИТАЯ. Россия в глобальном мире, (16-17 (39-40)), 192-207.

¹⁹ China's green leap forward is a nightmare for Saudi Arabia and Russia

<https://www.telegraph.co.uk/business/2023/04/07/chinas-green-leap-forward-is-a-nightmare-for-saudi-arabia/>



investments and technological projects, strengthen the legal basis for resolving potential conflicts, and increase transparency in interactions. These measures contribute to a more effective and mutually beneficial partnership between the two countries.

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