

News Release

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RUSSIA HAS POTENTIAL TO BE WORLD ENERGY SUPERPOWER

Baker Institute/Petroleum Energy Center Study Notes Possible Barriers

HOUSTON — (Nov. 18, 2004) — Russia is entering a potentially historic moment of opportunity as a world energy superpower and has initiated high-level energy cooperation dialogues with important oil-consuming countries such as the United States, China, Japan and the E.U., according to a new study by the Baker Institute for Public Policy at Rice University and the Petroleum Energy Center of Japan.

However, the study cautions that the outcome of these efforts remains to be seen as political, bureaucratic, commercial and regulatory barriers continue to plague Moscow's ability "to deliver the goods."

Titled "The Energy Dimension in the Russian Global Strategy," the two-year study was presented at the institute October 25 to an audience of industry, media and government leaders and recently posted online.

The study concluded the following:

1. Russia has the potential to be a world energy superpower, and energy has become a key plank in Russia's diplomacy in Asia and the West.
2. The potential for strong Russian oil and gas production growth is real. Oil exports could rise by over 2 million barrels a day by 2008, based on known resources and existing cash flow.
3. The Kremlin's plans to reorganize the domestic industry could dampen the level of increase by disrupting speedy implementation of plans to remove infrastructure constraints if it causes a slowdown in capital expenditures and project development.
4. Sustainable export growth depends on removing major bottlenecks in Eastern Siberia, a Northern route to the Barents Sea for ocean-bound movements and a bypass to the Bosphorus Strait. The rapid shift to a global gas market will depend on creating the context in which investors will have confidence to deploy vast sums of financial capital.
5. A sea change is taking place that is likely to affect the business model for the Russian energy industry.

The Baker Institute study warned that the trend back to state intervention in the energy sector in Russia means that major consuming countries need to enhance the institutional mechanisms that favor markets over political intervention by government

and that the U.S. should work to bring the rules governing trade and investment in global oil into harmony with rules governing trade in manufactures and services. The study also concluded that a more measured and concerted effort is needed by oil-consuming nations to establish energy policies that do not depend on influencing the outcomes inside oil-producing countries like Russia.

The study was made possible through the support of the Petroleum Energy Center (PEC) of Japan, Renaissance Capital, Baker Botts L.L.P., Lehman Brothers and the Baker Institute Energy Forum.

A full copy of the joint Baker Institute-PEC study is available at www.rice.edu/energy.

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