Russia and South Korea: a Promising Partnership

The Republic of Korea (ROK) is one of Asian Dragons, i.e. the four nations in Asia whose economies, industrial sectors and research and technology spheres developed rapidly during the second half of the 20th century. Once the Cold War ended, the ROK launched its Northern Policy aimed at forging closer ties with North Korea (the DPRK), China and the USSR (later Russia). Since then the relationship between South Korea and the Russian Federation has been amicable and unmarred by any disputes or conflicts; this has resulted in favorable conditions for fostering economic cooperation between the two nations, which both sides intend to take to another level in the nearest future. And this is a crucial goal of the New Northern Policy introduced by South Korea in 2017.

The energy sector should play an important role for fostering cooperation between the two countries. South Korea, with its powerful industry and high standard of living, needs a lot of hydrocarbon fuels. In turn, the Russian Federation is one of the largest producers and suppliers of hydrocarbons. Deliveries by sea, and, in the future, by rail and via pipelines (to be laid) are and will be possible because of the geographic locations of these two nations. However, the two latter means of transportation could only be used once the relationship between the ROK and the DPRK is normalized.

Therefore, for now the Russian Federation and South Korea can focus only on the delivery of hydrocarbon fuels by sea. This option is viable for both sides, as the island of Sakhalin (where the Russian Federation is exploiting vast oil
and gas shelf deposits) is located near the Korean Peninsula. The Prigorodnoye Production Complex on Sakhalin Island is home to Russia’s liquefied natural gas (LNG) production plant with an annual capacity of 9.6 million tons (which is a part of the Sakhalin II project). And South Korea is primarily interested in LNG (out of all the other hydrocarbon fuels). Nowadays, natural gas is viewed as one of the most promising fuel sources because burning it produces noticeably less pollution than combustion of oil, and especially coal. Gas in its liquefied form can be transported by sea or by land to any destination irrespective of distance or location. The biggest consumers of hydrocarbon fuels are increasingly opting to import LNG, and demand for this product keeps growing. South Korea is the third largest importer of liquefied gas in the world after Japan and the PRC.

In 2018, the ROK purchased more than 44 million tons of LNG, which is 17% higher than its imports in 2017. The country bought most of its liquefied natural gas (i.e. more than 32%) from Qatar, which is the biggest supplier of LNG in the world followed by Australia and the United States. LNG supplies from the Russian Federation also accounted for a portion of all the liquefied gas imported by the ROK. However, despite the proximity of Sakhalin Island to South Korea, Russia is not among ROK’s key LNG suppliers. As mentioned earlier, the estimated manufacturing capacity of the Sakhalin plant is 9.6 million tons per year (but, in 2018, it produced 11.4 million tons). The Russian Federation also has an LNG plant in the Yamal Peninsula (i.e. the YAMAL LNG project) that has an annual production capacity of 16.5 million tons. However, for now most of Russia’s liquefied gas is purchased by its key buyer, Japan. In addition, the Russian Federation supplies LNG to a number of other nations, including China, as well as France, Belgium and Great Britain of the EU. Hence, Russia’s liquefied natural gas could not meet all of ROK’s needs.

Nonetheless, LNG production in Russia has been constantly increasing, and, in April 2019, a new LNG plant, Cryogas-Vysotsk in the Leningrad Region of the Russian Federation, began its operations. And preparations for the launch of the third stage of the Sakhalin project are ongoing. Moreover, the Russian Federation is getting ready for a full-scale exploration of known (and extractable), and unknown oil and gas deposits in its Arctic region (the Vostok Oil initiative). Hence, natural gas extraction and LNG production will only continue to increase in Russia, and soon the Russian Federation could become one of South Korea’s key suppliers of this fuel.

Clearly, it is very convenient to deliver LPG to the ROK from Sakhalin. However, it is also possible to increase supplies to South Korea using liquefied gas produced at the YAMAL plant. The Yamal Peninsula is much further from the Korean Peninsula than Sakhalin Island. But supplying the ROK with LNG from the former will still be profitable, as the Yamal Peninsula lies along the Northern Sea Route (NSR). The NSR traverses the seas of the Arctic Ocean along the northern coast of Eurasia to link the Pacific and Atlantic oceans together via a shorter route, in comparison to a more traditional one that follows the southern coast of Eurasia. Russia aims to transform this promising route into a shipping lane of comparable importance to those that pass through the Strait of Malacca, the Suez Canal and the Panama Canal. And in order to accomplish this, it is essential to build the necessary infrastructure (i.e. ports, ship repair and maintenance service centers, etc.) along the NSR and ensure it is used to its maximum capacity. For now, mainly Russian oil and gas companies use this route to ship necessary supplies and equipment to northern extraction sites, and to then deliver goods produced there to their destinations.

Transporting liquefied natural gas from the YAMAL LNG plant to the ROK will also facilitate the development of the NSR. It is advantageous to make deliveries by such means because the route from the Yamal Peninsula to the Korean Peninsula through the NSR is shorter than that from the Middle East via the Strait of Malacca. Success of the Vostok Oil project, mentioned earlier, also depends on the extent of development of the Northern Sea Route. After all, the installation of gas pipelines to link Russia’s Far East and East Siberian regions (where deposits are found) to the Korean Peninsula or even Japan (separated form the continent by the sea) is a very complex and prohibitively expensive initiative. It is expected that, as part of the Vostok Oil project, hydrocarbon fuels from oil and gas fields will be transported to existing ports (and those that have not been built as yet) along the NSR, and from there will be delivered to their destinations by tankers. Using road networks and shipping lanes is a much faster and far more convenient means of delivering fuels than doing so via pipelines. Still, far more hydrocarbons will have to be extracted in order to recover the cost of building the new ports and to maximize the use of the NSR. In addition, more LNG will have to be produced (as it is more convenient to transport gas in its liquefied form using tankers), and perhaps new LNG plants will need to be built.

In order to realize these plans, Russia will, therefore, benefit from increasing its LNG exports to Japan, China and South Korea, and these three nations will, in turn, import more liquefied gas from the Russian Federation. Another reason why it is advantageous for the ROK to cooperate with Russia in the LNG sector is that the transportation of larger volumes of liquefied gas from the Russian Federation to South Korea along the NSR will require more vessels, i.e. tankers and icebreakers. The Republic of Korea is one of the leaders in the shipbuilding sphere, and its...
companies specializing in the sector will benefit from larger orders.

At the beginning of September 2019, the 5th Eastern Economic Forum (EEF) was held in Vladivostok. It is an annual event where the Russian Federation has an opportunity to discuss topical issues with its partners in the Asia Pacific region. A number of announcements regarding the cooperation between Russia and South Korea were made during the forum. ROK’s ex officio Deputy Prime Minister and the head of the South Korean delegation to the EEF, Hong Nam-ki, stated that his country was keen on cooperating with the Russian Federation in quite a number of sectors, and was getting ready to sign the Russia-South Korea agreement on free trade. In turn, President of the Russian Federation Vladimir Putin (who also took part in the event) said that Russia and the ROK were preparing for increased trade in LNG, and that South Korea was planning to build a batch of tankers for this purpose.

On 14 September 2019, oil processing sites in Saudi Arabia were attacked by unmanned aerial vehicles. Despite the fact that the country was able to quickly restore production levels, the attack itself compelled the nations that import hydrocarbon fuels from the Middle East to think about diversifying their imports so as not to depend on the complex and unpredictable situation in this unstable region. And according to reports, South Korea has decided to import less LNG from the Middle East and more from the United States and the Russian Federation.

Hong Nam-ki took part in the session of the Russian-South Korean intergovernmental commission held on 24 September 2019. There, he said that the future outlook for cooperation between the Russian Federation and the ROK in the LNG and icebreaker /tanker building sectors was promising, thus confirming his statements at the EEF.

South Korea’s demand for liquefied natural gas and Russia’s increased production of this fuel, the geographic location of both nations and the development of the NSR all make cooperation between the Russian Federation and the ROK in the LNG sphere beneficial for both sides. In addition, this collaboration can become a significant impetus for the development of the NSR. Russia’s LNG, South Korean tankers and the Northern Sea Route can create a powerful synergy that will ensure the ROK can purchase fuel at a reasonable price, and the Russian Federation can become a leader in the global natural gas market, which could completely transform the world economy.

*Dmitry Bokarev, political observer, exclusively for the online magazine “New Eastern Outlook.”*