

Russia-China Joint Projects Stonewalled By Economic Troubles

By [The Moscow Times](#)

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A growing economic crisis in Russia and a growth slowdown in China that has rattled world markets mean about \$113 billion worth of joint projects ranging from gas pipelines to power grids have been stalled or delayed.

With a major crackdown on corruption also in progress in China, and Russia hit by sanctions, falling oil prices and a collapsing currency, some joint Russian-Chinese projects may be delayed indefinitely, industry sources and analysts say.

The developments represent a major challenge to President Vladimir Putin's strategy of a pivot to Asia, spurred last year by the imposition of Western sanctions on Moscow for its role in the Ukraine crisis.

"Chinese investors have simply taken a break to see where the ruble is heading because since December all Russian ministerial forecasts have been wrong. I believe this is the main reason why large investment projects have been postponed," said Sergei Sanakoyev, head of the Russian-Chinese Analytical Centre, a Moscow-based think-tank.

The ruble has dived to as much as 70 to a dollar from just 33 a year ago as the collapse in oil prices, Russia's main export, has been compounded by sanctions that made it impossible for Russian companies to raise Western funds.

Russian officials and businessmen have said they are counting on Asia and especially China to help fund projects, with Putin tasking one of his closest friends, billionaire Gennady Timchenko, to foster business ties with Beijing.

But real money is proving slow to arrive.

Take as an example Novatek, Russia's No. 2 gas producer co-owned by Timchenko.

Together with France's Total and China's CNPC it is building the \$27 billion Yamal LNG project but was shut out from Western financing as soon as the United States imposed sanctions on Timchenko.

Timchenko said China would lend up to \$20 billion to the project in 2014 but by August 2015 the money has yet to be disbursed while the sum in question has shrunk to \$15 billion.

While the giant Yamal project will most likely get its financing in the end, the future of other projects is less certain.

Gazprom has over the past year abandoned hopes of receiving a \$25 billion pre-payment from China to build its \$55 billion Power of Siberia gas pipeline to China.

Back in 2006, Russia planned to start gas supplies to China from 2011. Today, Power of Siberia is not expected to start before the end of 2018 while the time frame for another route — Altai — which was initially planned to come on line first, is not clear.

"I have no doubt the gas projects will be ultimately built. China needs a lot of gas as they are desperate to cut pollution. Are there delays? Sure there are," said a Russian government source citing tough Chinese negotiating tactics as well as corruption probes as the factors behind the delays.

Chinese President Xi Jinping has vowed to go after powerful "tigers" as well as lowly "flies" in his struggle against corruption, with authorities investigating top Chinese energy firms and detaining several senior former and current officials.

A Gazprom source said talks, particularly on the Altai project, have been slowed by the Chinese probe as well as by the Russian crisis and a lack of financing options.

Of the dozens of joint projects with China that have been discussed during 15 years of Putin's presidency, only a handful have been implemented, including a mid-sized oil pipeline for which Beijing had pre-paid \$25 billion to state oil giant Rosneft and pipeline monopoly Transneft.

China's Sinopec has stakes in several oil fields in the Volga river region, CIC has a stake in the world's largest potash maker Uralkali and modest power supplies go from Russia's Far East to China.

Putin will visit China next week to attend celebrations of the 70th anniversary of the end of World War II, but expectations for any new deals are low.

Russian news agencies quoted the director of the Department of Eurasian Affairs at the Chinese Ministry of Commerce, Ling Ji, as saying last week that weak oil prices had complicated talks over the Altai gas project and that the ruble's volatility was generally bringing extra risks to Russia-China cooperation.

Other projects that have been repeatedly discussed but seen delays or little progress include Rosneft's plans to sell stakes in East Siberian oil fields to China's CNPC and construction of joint refining facilities in Russia and China.

Rosneft spokesman Mikhail Leontyev said the firm was fully committed to expanding cooperation with China but some projects had been slowed by financial difficulties.

"China is not in the best situation right now," he said.

Alexei Kokin, an analyst with Moscow-based bank UralSib, said China could be just waiting to get the best negotiation position with Rosneft, Russia's most indebted company.

"China is, of course, interested in getting control of resources but not at any price ... China is well aware that now is the best moment to buy," he said.

Going beyond oil and gas, other stalled project include a plan to supply China with as much as \$1.5 billion worth of electric power a year, which has not made much progress over the past decade.

Besides energy, hopes for Chinese investments included a \$1 billion timber plant in the Siberian city of Tomsk; a big bridge connecting Russia with Crimea; a high-speed railway between Moscow and Kazan for the 2018 soccer World Cup and even ideas for a joint station on the moon, aired this week by Deputy Prime Minister Dmitry Rogozin.

"Not every project will be built but Russia just has to be patient because this is how China operates," said the Russian government source.

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