

Energy dialogue between Russia and the US

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On a number of occasions the Russian President Putin has stated that the active involvement of his country into international and regional integration processes is one of the key instruments for modernization of national economy. This can be illustrated by the dialogue on energy issues between Russia and the US, which was activated in the last two years. In actual fact, the stability and predictability of world energy will depend largely upon the ability of diplomatic efforts on energy of both countries to find the sensible balance between various interests on global, regional and bilateral level.

US interests and abilities

Among all objective prerequisites for Russian-American cooperation in energy sphere, foremost comes the fact that the USA are the largest energy consumer in the world. American economy, which suffers from a permanent lack of balance between domestic demand levels and the offer levels at the world energy markets, accounts for over one-fourth of all energy costs on our planet. Since the 80s of last century there has been a continuous growth of overall energy costs of US consumers and currently they exceed 700 billion USD per year. Petroleum and petroleum products account for over 40% of national energy consumption, while natural gas – for 24 percent.

The gradual decline of available US petroleum reserves as well as of the relative share of national petroleum production in recent years resulted in quick dependence upon petroleum import, which now caters for almost 60% of US needs. The overall amount of petroleum, imported in 2004, exceeds one-third of the overall budget deficit and accounts for 22.4% of the annual deficit in US foreign trade. The assessment of Council of Economic Advisers of president Bush shows that each rise in the prices of imported petroleum by 10 USD automatically results in a decline of GDP by 0.5 – 0.5 percent. On the other hand, the fact that the USA are forced to rely upon the resources of states with unstable or anti-American regimes, brings forth more risks for them not only in economic but also in military terms.

The current complex international and domestic situation, which is further aggravated by unsuccessful attempts of neo-conservative administration for forceful stabilization of Iraq, it is particularly important for the USA to gain as much time as possible. Even in the circumstances of the most beneficial (from American point of view) turn of events, Washington can attract sufficient financial means and material resources or the implementation of its large-scale and capital-consuming energy programs only under the conditions of a consecutive cyclic stabilization of the domestic energy situation as well as of the prices of major energy resources. During this difficult transition period the USA urgently needs additional, permanent (and not coming from only one source) imports of energy resources, which explains the increasing interest of the White House in direct imports from Russia and CIS countries. Nevertheless, in the beginning of 2005 (taking into consideration the deliveries of processed oil products as well) Russia accounts for under 3% of the petroleum import of the USA, while Canada accounts for 18%, Saudi Arabia for 13.8% and Iraq for 4 percent.

According to the assessment of US experts, the available reserves of Russian petroleum amount to 10 – 12% of world reserves and Russian gas reserves amount to 35% of world

reserves and therefore Russia could cover 15% of US import. Washington is particularly interested in fields in Sahalin shelf, which can conveniently cover demand in the Western (Pacific) American states, as well as in potential petroleum and gas resources of Eastern Siberia and the Arctic shelf of Barents Sea, Pechorsk and Kara seas. As the import of Russian natural gas can be implemented only by the so called cryogen tankers, the Americans are already analyzing options for the construction of additional and sufficiently solid processing and transport infrastructure.

Ever stronger Russian positions

Due to active exploitation of the huge resource, production and intellect potential of its own energy complex, Russia has been playing a much more significant and independent role in world energy policy. Numerous parameters of the Russian positions in world and regional politics have obviously strengthened. Thus, the level of energy security in Europe (let alone post-Soviet zone) depends particularly upon on-going and fluent deliveries of Russian energy resources.

In parallel, the growing authority of Russia in international relations provokes not just vexation but open opposition among some of the political and economic elite of Western countries. Very indicative in this respect was the active information-propaganda campaign, launched in the eve of Bratislava meeting of the Russian and US Presidents in February this year. Certain circles at that time tried to exercise pressure upon Russian positions through the threat of a possible aggravation of relations between Moscow and Washington. Nevertheless, in the circumstances of growing energy deficit and the impossibility to control the increase of energy resource prices, as well as taking into consideration the huge costs for the war with opposition armed forces in Iraq, Bush and his advisers preferred the more sensible and pragmatic solution - to develop the economic partnership with Russia.

The new energy dialogue

The establishment of a working economic cooperation between USA and Russia went through two main phases. During the first phase (1991 – 2001) energy was not considered at all as a key element in Russian – American commercial and economic relations. Let alone the fact that due to high transport costs there was almost no direct trade with energy resources (excluding sporadic and relatively small deliveries of Russian crude oil and oil residue). In the 90s certain matters, concerning the deliveries of energy resources, were addressed by the Russian – American Gore – Chernomirdin Commission within which there was a special committee on energy policy.

The beginning of the second phase, which continues till the present moment, was marked by Russian initiatives for significant enhancement of petroleum and natural gas exports, aimed at stabilization of prices on the world energy market as well as at coordinated utilization of the available Russian capacities for optimum usage of processes nuclear fuel. These proposals were put forward by President Putin during his first meeting with George W. Bush in June 2001 in Ljubljana and in the years hereafter energy invariably was among the leading topics for discussion at Russian- American summits.

A quality leap in the relations between the two countries took place in May 2002 by means of the “Joint Declaration on the new strategic relationship between the Russian Federation and the United States of America”, as well as the special “Joint statement on the new Russian – American energy dialogue”, which took account of the interests and priorities of both parties. In result, a permanent Russian – American working group of

experts was established, as well as an energy business forum for cooperation. Both structures had to enhance the development of all aspects of bilateral cooperation in accordance with the objectives and goals of Russian and US energy policies.

The will of both countries to continue this course of actions was confirmed during negotiations between Putin and Bush in Saint Petersburg in June 2003. The two agreed upon the establishment of a more favorable investment environment in Russia as well as upon the repeal by the US party of the notorious Jackson – Vanik amendment (adopted at the time of the Cold War), which hinders the normal evolution of commercial and economic relations and restricts the chances for long-term deliveries of Russian energy equipment to the US market in particular.

The first results

In September 2003 the energy ministries of Russia and the USA signed a Protocol for the prevention and elimination of consequences from oil spills. Within that Protocol the US experience, concerning state guarantees for the security of energy storage facilities and pipelines can be utilized by Russia, which is highly topical by the way if we bear in mind the speedy outdateding and depreciation of Russian transport infrastructure.

Earlier that year (in March 2003) the two countries signed an agreement to reduce the threat from weapons of mass destruction. This agreement envisaged the stopping of plutonium production by the shutdown of three Russian reactors under U.S.-Russia Elimination of Weapons-Grade Plutonium Production Program. In 2004 started the implementation of the agreement between the two governments, concerning the return to Russia (for processing and storage) of the already used fuel from highly enriched uranium. In result of this agreement, 17 countries received American financial and technical aid for the transfer to Russia of Russian-made used nuclear fuel from their nuclear power plants as well as for the implementation of non-enriched uranium in the power plants, as it would be less dangerous in the hands of terrorists.

On corporate level s worth mentioning the credit agreement between Lukoil and the US Overseas Private Investment Corporation, under which the private investment fund HBK Fund loaned 225 million USD for a twelve-year period to the ad-hoc Visotsk – Lukoil II for the construction of a port terminal in the Finnish bay. In its turn, the Russian consortium Stroitransgaz signed an agreement for personnel exchange and cooperation in the construction of pipelines on US territory with the US corporation Key Energy Services. Another joint project of the same Russian company with foundation Systems envisages the construction of a gas pipeline from Eastern Siberia to South Korea for 400 – 500 million dollars.

Meanwhile, in 2000 Lukoil bought out for 71 million USD the American company Getty Petroleum Marketing, which controls a network of 1 300 petrol stations and oil bases in the Eastern states of the USA. Expanding its US business, in 2004 Lukoil bought about 800 other petrol stations in New Jersey and Pennsylvania from Conoco Phillips for 375 million dollars. Thus, the Russian giant controls 8% of the petroleum product retail market in the East Coast of the USA. Apart from that, Lukoil leased a large sea terminal near New York, where it will import petroleum products from Visotsk and the Bulgarian port of Burgas, where, as is widely known, are located the largest processing facilities of Lukoil. In its turn, Conoco Phillips bought 7.6% of the state-owned shares in Lukoil for 1.9 billion dollars. The importance of this deal can hardly be re-evaluated because it provides Lukoil with the necessary legal argument to step back in Iraq and launch

deliveries of crude oil from the oil fields, developed by the Russians even in Saddam times, to the oil processing facilities of Conoco Phillips in the Eastern USA.

The future of Russian-American energy cooperation

The US – Russian energy cooperation Statement, pledged by Bush and Putin in Bratislava, not only fully confirmed the current directions of development of bilateral relations (*to enhance energy security, diversify energy supplies, improve the transparency of the business and investment environment, reduce obstacles to increased commercial energy partnerships, and develop resources in an environmentally safe manner*) but also outlined five additional priorities: *to further intensify and develop energy dialogue, to extend Russia's pipeline system for increasing deliveries of oil and gas export to US market, to increase US investment in the production of Russian natural gas for the USA, to unify tax, legal, and administrative rules for the private companies from the energy sector in both countries and to initiate concrete joint projects no later than 2008.*

Admitting the growing importance of the issues of nuclear energy related risks, Russia and the USA established an additional Senior Interagency Group on nuclear security issues. This group is chaired by Secretary of Energy, Samuel Bodman, and Rosatom chief, Alexander Rumiantsev. Furthermore, Presidents Bush and Putin undertook the commitment to make sure that the implementation of the planned series of joint projects in the energy sector and the increase of Russian energy resource deliveries to the USA get started no later than 2008.

Geopolitical consequences

When assessing the prospects for US – Russian energy dialogue, as well as its geopolitical consequences, one should not forget that today (as well as in the 90s) US priorities aim neither at the promotion of a differentiated Russian economic growth, nor at the implementation of any ambitious and high-tech joint energy projects. The most important task for the USA remains the reduction of nuclear risk and military threat levels, which is confirmed by the structure of US budget expenses.

In its turn, the Russian energy complex requires more funds (excluding state subsidies) both for its successful inner development as well as for the continuation and extension of the economic reforms in Russia in general. According to leading Russian analysts like Andrei Korneev (Head of Energy Research Sector in the institute for the USA and Canada within the Russian Academy of Sciences), Russian energy needs investments of about 700 billion USD by 2020 (of which 500 billion – for the implementation of energy projects, and the remaining 200 billion – for the modernization of energy machine construction and energy servicing sectors). Therefore, the country will have to adopt radical measures for enhancement and stabilization of investment environment, which will not only ensure the attraction of additional foreign investments but will also limit the transfer of Russian capital abroad. In this connection, the stabilization and further development of Russian – US relations in the energy sphere is of vital importance for both countries. Among other things, it is a serious guarantee that in the foreseeable future Moscow and Washington will act more like geopolitical partners and not as rivals as is still falsely considered by certain circles, including ones in Bulgaria.

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