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Russia and USA: An Ambiguous Energy Partnership

Dr. Ioannis G.Koutroumpis

PhD in Russian Energy Diplomacy

Visiting Research Fellow in University of Peloponnese

Russia and the United States are two regional superpowers that have much in common, although they are constantly competing. At the level of energy diplomacy, the two countries need each other, as they are already cooperating in many areas. Many things have changed in the US foreign policy strategy since 9/11. One of them was the US expansion into Central Asia, a region strategically important to Russia. The US strategy is based on reducing the dependence of Central Asia countries from Russia. As for the projects developed in this area, the US quickly supported the Nabucco pipeline, while Russia supported the South Stream project. It is clear that in the long run the two great powers will continue to compete for dominance in the region.

Keywords: Russia, USA, Comparative analysis, energy cooperation, energy diplomacy

1. Russia's strategy to US after the dissolution of the Soviet Union

Russia's first strategic plan, published in 1993, acknowledged that the United States was the number one priority, and said that relations with the United States should be strengthened and expanded without harming Russian interests.¹

After 9/11, Russia decided to support the United States in their fight against al Qaeda. Russia wanted with that move to reap the benefits of such an alliance, as by using this assistance Russia could demand less intervention in internal affairs, starting with human rights.²

The best point of the Putin-Bush relationship came after 9/11 at the Moscow Summit on May 2002, when the United States needed bases in Central Asia for the war in Afghanistan, and Putin backed that demand. However, on 2003 things changed when France, Germany and Russia opposed US plans for a war with Iraq against Saddam Hussein.³

By the end of Putin's first term in office on May 2008, the question was whether US-Russian relations reflected a new Cold War agenda. At that time, the two countries were focusing on the balance of power in Europe, on NATO expansion, on US bases in Bulgaria and Romania, on US missile defense systems in Eastern Europe, and on Europe's energy dependence from Russian gas.

In any case, Russia is important to US foreign policy for many reasons. The United States needs Russia to solve many key global problems, including nuclear security, terrorism, energy, and climate change.

1.1. 2008 Russian Foreign Policy Document

On July 12, 2008, President Medvedev signed a new foreign policy plan. The new document described Russia as a major power with a significant role in the world order. On Euro-Atlantic security, the document cited Moscow's desire to create a different system of security and co-operation from that of the West.

¹Andrew MONAGHAN: (2006c) "Calmly Critical: Evolving Russian Views of US Hegemony", The Journal of Strategic Studies, Vol.29, No.6, p.990

²Riccardo ALCARO and Emilliano ALESSANDRI: (2009) "Re-Setting US-EU-Russia Relations, Moving Beyond Rhetoric", Paper presented at the conference on "Transatlantic Security Symposium 2009", Rome, June 22, p.3

³Anders ASLUND and Andrew KUCHINS: (2009) "Pressing the 'Reset Button' on US-Russia Relations", CSIS, Russia Balance Sheet, No. PB09-6, March, p.2

The document also denies further NATO expansion, especially regarding Ukraine and Georgia, which would mean that NATO is entering into the Black Sea area. Finally, it underlines Moscow's opposition to the planned US missile shield in Europe.⁴

"The need for the international community to develop a common vision has become increasingly necessary. This could only be done after open and honest discussions of the problems facing humanity. What is needed is to provide favorable conditions for scientists to carry out their professional work to consolidate the historical truth and prevent the involvement of history in a political game."⁵

1.2. The US-Russia trade balance

The US trade deficit with Russia was \$ 12.8 billion in 2009, down 1.6 billion from the corresponding deficit of 2008 (\$ 14.4 billion). US exports of goods in 2009 amounted to 5.4 billion dollars, down 42.3% from the previous year. US imports from Russia were \$ 18.2 billion, down 32%.

Russia is the 28th largest export market for US goods.⁶ The US exports automobile machinery and tools, including agricultural products, and imports raw materials such as petroleum and minerals.

Since there is no energy connection to refer to US interests to Russia, the interest is almost entirely strategic, starting with nuclear weapons and Russia's role in areas that are crucial to the US, especially in Central Asia and the Caucasus.⁷

Although USA is not dependent on imports of goods from Russia, Russia's role as a major supplier of gas to Europe, as well as the largest oil producer, makes it a key player in global energy markets and a factor in energy security and economic growth of the USA.

If Russia supplies the major markets with oil and gas, the US economy will be vulnerable to market movements. However, without Russian oil and gas, US economic interests will plummet as oil prices fluctuate at very high levels.⁸

2. US and Russia Relation in Energy sector

Although trade between the US and Russia is growing rapidly, it is still at a very low level. Since 2000, US exports to Russia have increased to 22% per year, while imports from Russia have increased by 19% per year.

In 2008 the percentage of US exports to Russia was limited to 0.7% while imports to 1.3%. On the contrary, the proportions of Russian exports to the USA were slightly higher (3.3%), but also were the Russian imports. (4.4%).⁹

For the United States, one of the major issues after the 1974 and 1978 oil crises is energy security. Still, the US economy depends on easy access to oil and gas.¹⁰ One reason that US direct trade with Russia is so low is because the country does not have a bilateral trade agreement with Russia. It is now common for Americans to invest in Russia through a European subsidiary, which is legally safer.¹¹

⁴Marcel de Haas: (2009) "Medvedev's Security policy: A Provisional Assessment", Russian Analytical Digest, No.62, 18 June, p.2

⁵The Foreign Policy Concept of the Russian Federation (2008) Available on site <http://www.mid.ru/ns-osndoc.nsf/0e9272befa34209743256c630042d1aa/cef95560654d4ca5c32574960026cddb?OpenDocument>

⁶2009 National Trade Estimate Report on Foreign Trade Barrier: Russia, Available on site http://www.ustr.gov/sites/default/files/uploads/reports/2010/NTE/2010_NTE_Russia_final.pdf (Accessed on 14 May 2019)

⁷Stephen F. SZABO: (2009) "Can Berlin and Washington Agree on Russia?", The Washington Quarterly, 32:4, October, 23-41p.30

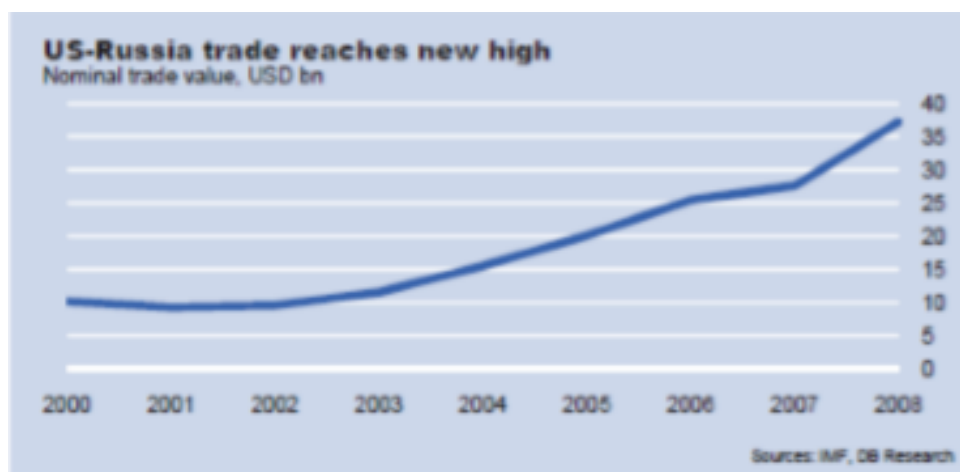
⁸Eugene B. RUMER and Angela E. STENT: (2009) "Repairing US-Russian Relations: A Long Road Ahead", INSS and CERES, April Available on site <http://www.amacad.org/russia/report.pdf> (Accessed On May 2019) p.21-22

⁹Thoster NESTMANN: (2009) "US-Russian Economic Relations", Deutsche Bank Research, Current Issues, July 6, p.2 Available on site http://www.dbresearch.com/PROD/DBR_INTERNET_ENPROD/PROD000000000243816.pdf

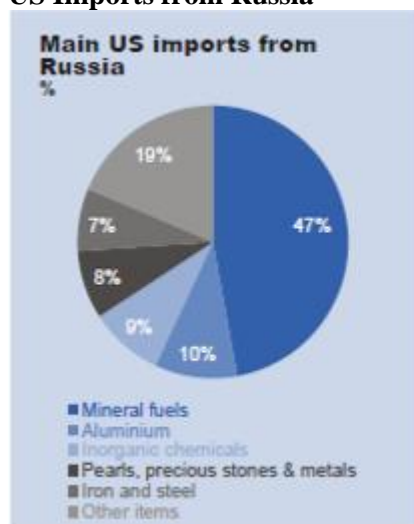
¹⁰Guri BONG: (2010) "Energy Security and Climate Change: Triggers For Energy Policy Change in the United States?", Energy Policy, 38, p1645-1646

¹¹ ASLUND and KUSHINS, p.10

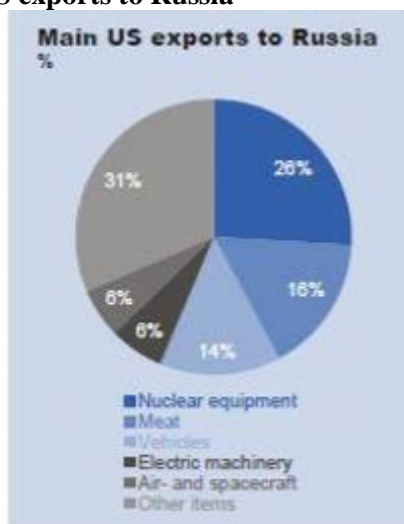
Table 1: US – Russia trade reaches a new high¹²



US Imports from Russia



US exports to Russia



More than \$ 229 million worth of oil and gas was exported by the United States to Russia between January and September 2009. On 2008, these exports showed an annual increase of 4% and a total value of \$ 422 million, after the increase of 33% on 2007 and 50% on 2004-2006.

Between January and September 2009, the United States imported more than 165 million barrels of crude oil from Russia, an increase of 25%.

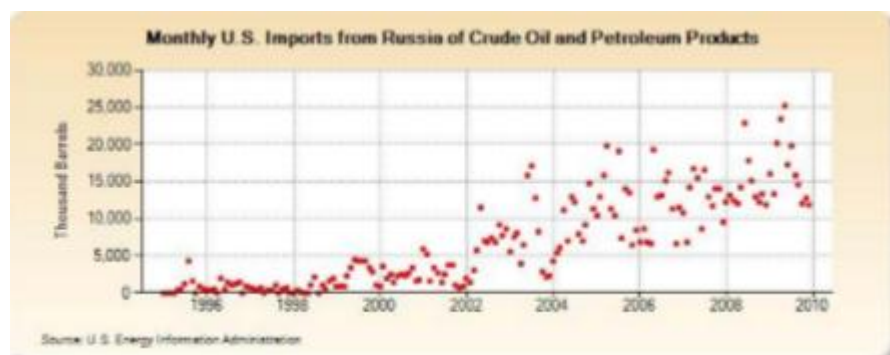
On 2008, imports increased by 13% per year, which means that 170 million barrels were imported instead of the 135 million barrels been imported on 2007.¹³

Monthly US Imports from Russia of Crude Oil and Petroleum Products¹⁴

¹²Thoster NESTMANN: (2009) “US-Russia Economic Relations”, Deutsche Bank Research, Current Issues, July 6, p.1 Available on site http://www.dbresearch.com/PROD/DBR_INTERNET_ENPROD/PROD0000000000243816.pdf

¹³The Russian Market: opportunities For The US Energy Sector (2010), Coalition for US-Russia Trade, September Available on site <http://www.usrussiatrade.org/documents/Energy.pdf>

¹⁴ U.S. Energy Information Administration Διαθέσιμα στην ιστοσελίδα http://tonto.eia.doe.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MTTIM_NUS-NRS_1&f=M



US Imports from Russia of Crude Oil and other Petroleum Products

Year	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
2000	898	3,485	1,952	2,481	1,359	2,242	2,412	2,276	2,655	3,427	1,485	1,710
2001	5,904	5,126	1,641	3,438	2,716	1,423	2,520	3,652	3,725	1,044	663	931
2002	1,877	1,420	2,956	5,750	11,487	6,944	6,814	7,305	6,763	9,153	7,663	8,558
2003	5,609	7,581	7,981	3,961	6,455	15,809	17,063	12,751	8,244	2,894	2,124	2,239
2004	4,227	5,347	6,027	11,155	7,016	12,963	12,293	7,938	7,029	9,143	14,711	11,302
2005	10,451	12,979	15,799	19,797	11,324	10,487	19,032	7,344	13,973	13,486	6,497	8,512
2006	6,776	8,524	6,805	6,589	19,248	12,904	13,164	15,049	16,103	11,332	6,702	11,450
2007	10,768	6,767	14,109	16,682	15,462	8,558	16,542	12,909	11,671	14,022	14,103	9,481
2008	12,155	13,083	12,466	12,053	14,268	22,914	17,740	15,185	12,999	12,214	13,343	11,844
2009	15,983	13,377	20,138	23,361	25,200	17,345	19,735	15,882	14,579	11,945	12,748	11,923
2010	14,353	11,850	15,115	17,604	22,293	22,791	22,295	24,371	19,427	20,298	16,579	

During recent years, energy consumption has risen sharply mainly due to economic development, while for the time being, oil and gas production in the US is unstable and cannot be synchronized to the demand needs.

US dependence on oil imports has increased from 0 on 1950 to 50% on 1980, while according to forecasts for 2025 it is expected to reach 70%.¹⁵ The energy and trade ministers of the United States and Russia, in meetings on energy issues, discussed the possibilities of bilateral relations. After this, a new dialogue on energy began, which did not end anywhere.

On November 2002, four Russian companies (Yukos, Lukoil, TNK and Sibneft) formed a consortium to build a \$ 3.5 billion 100m / t oil pipeline from Western Siberia to Murmansk, which launched on 2007.

¹⁵ A. BAGIROV: (2008) "Russia-US Cooperation and Global Energy Security", International Affairs, No.1, Vol.54, p.107

On 2003, more than 250 US oil industry officials gathered in St. Petersburg for the second energy trade summit on September 22 & 23.¹⁶ Shortly afterwards, the companies signed a memorandum of understanding to build a pipeline system to transport crude oil through a submarine station near Murmansk, valued at \$ 300 million.¹⁷

Following the nationalization of Yukos, for the state to gain control over strategic sectors of the industry, many American energy companies began to leave the country. Mc Dermott quit Sakhalin II and sold its shares to Shell. Exxon Mobil lost its Sakhalin III license, while Chevron ran into problems with the Caspian pipeline consortium and the Sakhalin V project.

Also, American companies were no longer able to participate in the development of the Shtokman gas field located at the Barents Sea.¹⁸ In essence, the Kremlin, in pursuing this policy, wanted to make it clear that without its permission, no one could think of a pipeline.

Nevertheless, Russian companies showed strong interest in entering the American market. Gazprom, Rosatom, Russian Aluminium, Lukoil and Rosneft all wanted to enter the US market but this was not easy.

On July 2006, the G-8 Summit was held, symbolizing Russia's return to the international stage. At the Summit the members signed a declaration on energy. The following passage is of particular importance:¹⁹

"Energy is needed to improve the quality of life and opportunities in developed and developing countries. Therefore, ensuring an adequate, reliable and environmentally responsible supply of energy at prices that reflect the fundamental size of the market is a challenge for our countries and for all of humanity."

On August 2006, the Russian government announced that it wanted to review the three major PSAs signed between Western and Japanese energy companies on early 1990s.

But the three deals were signed when the value of oil was at \$ 15 a barrel, and the \$ 10 billion investment on oil and gas exports to Sakhalin was one of the largest foreign investments in Russia.²⁰

At the same time, the cost of the Sakhalin pipeline, for which Exxon was responsible, rose from an initial cost of \$ 12 billion to \$ 17 billion. Of course, the Russian government had warned the company that it would not approve additional costs for this project.

3. Russia and US game for the control of Central Asia

Since 9/11, much has changed in the way the US conducts its foreign policy. One of them was the expansion of US military forces into Central Asia, the Caucasus and the Caspian Sea, areas that Russia considered to be under its own influence.²¹

According to Halford Mackinder's geopolitical theory, control of the Eurasian Heartland, with its central strategic location (Heartland), was key to world leadership.²²

¹⁶ Edward C. CHOW: (2003) "US-Russia Energy Dialogue: Policy, Projects, or Photo Op?", *Foreign Service Journal*, December, p.31-32

¹⁷ Kristian AATLAND: (2007) "Russia's Northern Fleet and the Oil Industry – Rivals or Partners? A Study of Civil-Military Relations in the Post-Cold War Arctic", Paper prepared for the 48th Annual Convention of the International Studies Association, Chicago, February 28-March 3, p.11.

¹⁸ A. BAGIROV: (2008) "Russia-US Cooperation and Global Energy Security", *International Affairs*, No.1, Vol.54, p.107

¹⁹ Joseph FERGUSON: (2006) "US-Russia: Energy and Strategy", *Comparative Connections, A Quarterly Europe-Journal on East Asian Bilateral Relations*, Vol.8, No.3, p.55-56

²⁰ Peter RUTLAND: (2006) "Russia's Economic Role in Asia: Toward Deeper Integration", in Ashley J. Jellis and Micheal Wills (ed.) "Strategic Asia 2006-07, Trade, Interdependence and Security", *The National Bureau of Asian Research*, p.185

²¹ Özden Zeynep OKTAV: (2005) "American Policies Towards the Caspian Sea and The Baku-Tbilisi-Ceyhan Pipeline", *Perceptions*, Spring, p.30.

²² Craig R. NATION: (2007b) "US Interests In The New Eurasia", *Russian Security Strategy Under Putin: US and Russian Perspectives*, *Strategic Studies Institution*, November, p.1.

Both Russia and the United States pioneered the transition to Central Asia after the Cold War and during the 1990s.²³ According to Culler, Central Asia has gone through many phases. The period between 1989-1994 represents the bipolar system in the region, the period 1995-2000 this bipolar system is destroyed due to the reorganization of international relations and finally between 2001-2006 it returns to the bipolarity of the two superpowers.

The US is the largest consumer of energy, that's why access to global energy supplies is more than a national interest. It does not depend on Eurasian hydrocarbon sources, but Eurasia's role in the global energy market is quite important.

Following the break-up of the Soviet Union, one of Washington's strategic goals was to secure access to the Caspian Sea. During the post-Soviet era, US policy has focused on building multiple pipelines to secure access that is not subject to Russian control.

The US strategy was based on reducing the Central Asian countries' dependence from Russia and encouraging them to build a dependent relationship with the US as an alternative power in the region.

During the second half of the 1990s, difficulties in US-Russian relations began as the United States and the West sought to penetrate Central Asia. At the time that Moscow was facing serious economic problems, Azerbaijan signed a historic oil deal with Western companies. (BP, Exxon, Amaco, Pezoi, Statoil, Unocal, Ramco)

This agreement was called the Contract of the Century, as it was an exclusive contract, according to which Azeri oil would be directed directly to the western markets.²⁴

The full conflict between Russia and Western powers over Caspian oil arose through the construction of the pipeline. The countries involved to this project formed a consortium called the Caspian Pipeline Consortium (CPC) and began construction of the pipeline.

In addition, Russia has proposed a pipeline to transport oil from the Caspian Sea to the Black Sea port of Novorossiysk to secure a control position within the consortium.

The Baku-Tbilisi-Ceyhan (BTC) pipeline was first proposed by Turkey on 1992 and gained strong US support on the late 1990s. The pipeline was completed on 2005 and was designed to bypass Russia and the Straits. of Bosphorus to deliver crude oil from the Caspian to Europe.²⁵

Although the deal to build the BTC pipeline was large enough for US interests to such an extent that President Clinton recognized it as the greatest achievement of US foreign policy on 1999, in Russia it was a huge diplomatic loss and a reduced Russian influence in the Caspian Sea region.

Another US-backed project is the Nabucco pipeline, which is designed to transport Caspian gas to European markets via Turkey and the Balkans. Although the United States will not take gas from the Nabucco pipeline, it remains a major supporter of the project.

There are three reasons behind this strategy: First, the reduction of the EU's dependence on Russian gas. Second, if Central Asian gas can be transported through non-Russian pipelines, that would be another way for them to become independent. Finally, it is a way to spread the message of support to Central Asia.

Russia is aware of all these US efforts and therefore came up with the South Stream project, which was designed to end the Nabucco project, leaving Europe without direct access to Caspian gas or to this of Central Asia, if Russia had not been involved.

As a result, after the success of the BTC pipeline, Russia learned lessons and, with the rise of Putin, updated its energy strategy to confront the United States, especially in the countries close to it. So far, Russia has developed relations with the countries of Central Asia as well as with Georgia.

²³ Robert M. CULLER: (2006) "US-Russian Strategic Relations and the Structuration of Central Asia", Perspectives on Global Development and Technology, 21 August, p.10.

²⁴Fariz ISMAILZADE and Kevin ROSNER: (2006) Russia's Energy Interest in Azerbaijan, GMB Pub., p.9

²⁵ Keith C. SMITH: (2010b) "Russia –Europe Energy Relations Implications for US Policy", CSIS, February, p.10 Available on site http://csis.org/files/publication/100218_Smith_RussiaEuropeEnergy_Web.pdf (Accessed on 17 September 2019).

Although the United States has developed new pipeline projects for the region, Russia has so far signed contracts with resource-rich countries. However, this does not mean that the US is leaving the region in the hands at of the Kremlin. It is clear that in the long run the two great powers will continue to compete for dominance on the region.