

The Russian Market: Opportunities for the U.S. Energy Sector

Russia Is a Major Player in Global Energy Markets

With the world's largest natural gas reserves, 2nd largest coal reserves and 7th largest oil reserves¹, **Russia is the world's largest exporter of energy.**² It is the world's largest exporter of natural gas, and, as the world's second-largest oil exporter³, Russia is the largest source of non-OPEC oil. The U.S., as the world's 2nd largest energy consumer⁴, has numerous opportunities to collaborate with Russia in areas ranging from the use of cutting edge exploration technologies to advancing global energy security.

Russia's Energy Sector Holds Opportunities for U.S. Manufacturers and Service Providers

Russia needs modern techniques, equipment and infrastructure to extract its sizable energy deposits and bring them to market, creating demand for the equipment and expertise of U.S. firms.

- Illinois-based **Caterpillar** is the **leading retailer in Russia** of machines used for both onshore and offshore drilling, gas compression, production and well services.⁵
- Connecticut-based **General Electric (GE)** saw its revenue from energy sales in Russia **more than double** in 2009. In June 2010, GE and Russian electricity company Inter RAO announced plans to form a joint venture that will produce gas turbines for power generation in Russia.⁶
- With a **\$15 billion** oil services market⁷ and 60% of the world's electrical submersible pumping (ESP) installations, Russia is an attractive market for U.S. companies like Texas-based **Baker Hughes**, which is positioning itself to provide ESP services in Russia.⁸
- The U.S. exported nearly \$135 million worth of oil and gas field equipment and parts to Russia in 1H 2010, following full-year 2009 exports of \$309 million. These exports to Russia had grown an average of 21% annually between 2005 and 2008, reaching more than \$422 million in 2008.⁹

U.S. Companies Play a Key Role in Russia's Energy Sector through Direct Investments

Russia's energy sector still depends on foreign investment to realize its potential.

- In June 2010, **Chevron** and Rosneft, Russia's largest oil company, formed a joint venture to explore for oil and natural gas in the eastern Black Sea. Chevron controls a 33% stake in the project.¹⁰ Additionally, Chevron sells lubricants in Russia through two wholly-owned subsidiaries.¹¹
- **ExxonMobil's** Russian subsidiary is the lead operator of the \$12 billion Sakhalin-1 oil and gas field project, in which the company holds a 30% share.¹² Between 2004 and 2008, ExxonMobil's spending on capital and oil and gas exploration in Russia and the Caspian Sea averaged \$2 billion per year.¹³
- **ConocoPhillips** owns 30% of NarynmarNeftegas and 50% of Polar Lights Company, two joint ventures focused on developing oil fields in the Nenets region of Russia.¹⁴
- **BP** owns a 50% stake in the joint venture TNK-BP, Russia's third largest oil company by production and reserves of crude oil. BP's initial investment in the venture totaled \$7.1 billion.¹⁵
- Russia's WTO commitments will permit 100% foreign-owned subsidiaries in various energy services, including mining, energy distribution and technical consulting services.¹⁶

The U.S. and Russia are Partners in the International Energy Arena

Russia is a major supplier of oil to the U.S. and a key partner in addressing global energy issues.

- As U.S. innovators develop new energy solutions, Russia continues to supply the U.S. with needed fuels. Russia is the 6th largest source of oil imported by the U.S.¹⁷
- Through the Megatons to Megawatts program, the U.S. and Russia have partnered to recycle fissile material from Russian nuclear warheads into low enriched uranium that is used to generate electricity for one in ten U.S. homes, businesses, schools, and hospitals.¹⁸

¹ BP Statistical Review of World Energy 2010, BP p.l.c., June 2010.

² Maria Bartiromo, "Oil Remains King in Russia, But for How Long?" CNBC.com, June 22, 2010, http://www.cnbc.com/id/37851013/Oil_Remains_King_in_Russia_But_for_How_Long, (accessed August 6, 2010).

³ "Russia," *World Factbook*, Central Intelligence Agency, June 24, 2010, <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>, (accessed July 22, 2010)

⁴ "China Overtakes the United States to Become World's Largest Energy Consumer," International Energy Agency Press Release, July 20, 2010.

⁵ Pat Davis Szymczak, "Caterpillar Stakes Its Claim in Power Sales Through a Coordinated Dealer Network," *Oil & Gas Eurasia*, № 6, June 2010.

⁶ "GE, Inter RAO to Form Venture," Bloomberg, July 27, 2010; "GE, Inter RAO Plan Joint Venture for Gas Turbines," *The Moscow Times*, July 26, 2010.

⁷ "Russian Oil Field Service Companies Expect Quick Economic Improvement to See Oil Prices Rise," *Neftegaz.ru*, March 24, 2010.

⁸ "Baker Hughes Acquires Russian ESP Service Provider," Baker Hughes Press Release, June 1, 2010.

⁹ U.S. International Trade Commission Interactive Tariff and Trade DataWeb, Total U.S. Exports to Russia (HTS-8413500010, HTS-8413600050, HTS-8428900020, HTS-8428908020, HTS-8430498010, HTS-8430498020, HTS-8431398050, HTS-8431398050, HTS-8431340000, HTS-8431438010, HTS-8479899550, HTS-8479899750, HTS-8479899850, HTS-8485900040, and HTS-8487900040), 2003-2009 and 1H 2010 YTD, by FAS Value.

¹⁰ "Rosneft and Chevron Agree Key Principles of Joint Black Sea Exploration Activities," Rosneft Press Release, June 17, 2010; Stephen Bierman, "Chevron, Rosneft's Black Sea Oil Project Dependent on Tax Relief Request," Bloomberg, July 8, 2010.

¹¹ "Russia Fact Sheet," Chevron Corporation, March 2009, <http://www.chevron.com/documents/pdf/russiafactsheet.pdf>, (accessed August 19, 2009).

¹² "Проект «Сахалин-1»," ExxonMobil Website, May 2009, http://www.exxonmobil.ru/Russia-Russian/PA/news_info_project.aspx, (accessed August 20, 2009); "Russia's Sakhalin-1 2009 Budget Totals \$2 bln", Reuters, April 16, 2009.

¹³ "2008 Financial & Operating Review," ExxonMobil Corporation, http://www.exxonmobil.com/Corporate/Files/news_pub_fo_2008.pdf, (accessed November 3, 2009).

¹⁴ "NarynmarNeftegas JV" and "Polar Lights Company," ConocoPhillips Russia Website, <http://www.conocophillips.ru/EN/project-russia/narynmarneftegas/Pages/Index.aspx>, (accessed July 28, 2010).

¹⁵ "Pumping Up BP," *BusinessWeek*, February 24, 2003.

¹⁶ "Principal Results of Russia's WTO Market Access Negotiations," Press Release, Ministry of Economic Development and Trade of the Russian Federation, November 24, 2006.

¹⁷ "U.S. Total Crude Oil and Products Imports," U.S. Energy Information Administration, July 29, 2010, http://www.eia.gov/dnav/pet/pet_move_impccus_a2_nus_ep00_im0_mbl_a.htm, (accessed August 13, 2010).

¹⁸ "USEC Inc. - Nuclear Nonproliferation - Megatons to Megawatts," USEC Inc. Website, <http://www.usec.com/megatonstomegawatts.htm>, (accessed September 23, 2010).