



# The Heritage Foundation Executive Memorandum

No. 865

March 14, 2003

## A PRIVATE RUSSIAN OIL PIPELINE IS GOOD FOR U.S. ENERGY SECURITY

*ARIEL COHEN, PH.D.*

With the winds of war blowing over the Middle East and Venezuela's oil production down by over 30 percent due to labor protests against President Hugo Chávez, the United States is considering diversifying its sources of oil away from politically unstable regions. To achieve this, the U.S. should support development of a privately owned oil pipeline from Western Siberia to Murmansk, Russia. The U.S. government should make this project a top priority in bilateral security, economic policy, and business frameworks.

**A Top Priority.** In their November 2002 Joint Statement on Development of U.S.–Russian Energy Dialogue, Presidents George W. Bush and Vladimir Putin designated energy cooperation as a major bilateral priority. They launched the Energy Dialogue—a forum run by energy industry leaders from the two countries with their respective governmental energy and trade counterparts—to “strengthen the overall relationship” between the U.S. and Russia and “enhance global energy security, international strategic stability, and regional cooperation.” As part of this effort, President Putin has agreed in principle to supply the U.S. with Russian oil.

Russia, which produces over 7 million barrels of oil per day, could easily supply 10–13 percent of U.S. oil imports, approximately the amount imported from Saudi Arabia. However, Russian infrastructure, including ports and pipelines, must

be upgraded and expanded. First, a private pipeline should be built from the oil fields in Western Siberia to Murmansk—an Arctic port that is ice-free year-round—along with a deepwater oil terminal in Murmansk capable of servicing tankers with deadweight capacities of 500,000 tons. Through the Murmansk terminal alone, Russia could export 1–2 million barrels per day. Russia could also export oil to the U.S. through several Baltic Sea terminals or from Sakhalin Island (near Japan) via Nakhodka, a port on the Pacific Ocean.

A private consortium could build a Siberia–Murmansk pipeline and oil terminal faster—within three to four years—and would serve U.S. and Russian interests better than pipelines developed by the government. The pipeline would also be far from hot spots of ethnic and religious conflict, and the ocean route from Murmansk to Houston is half the length of the route from the Persian Gulf, making transport less expensive.

---

Produced by the  
Kathryn and Shelby Cullom Davis  
Institute for International Studies

Published by  
The Heritage Foundation  
214 Massachusetts Ave., NE  
Washington, D.C.  
20002-4999  
(202) 546-4400  
<http://www.heritage.org>



This paper, in its entirety, can be  
found at: [www.heritage.org/  
research/russiaandeurasia/  
em865.cfm](http://www.heritage.org/research/russiaandeurasia/em865.cfm)

---

**Industry Leaders Threatened by the State.** In an unprecedented display of unity, four private Russian oil companies—LUKoil, Yukos, Sibneft, and TNK–Sidanko (half of which was acquired by British Petroleum–Amoco in December 2002)—have agreed to form a consortium to build a private Siberia–Murmansk pipeline. However, to maintain government control of the lucrative oil infrastructure, the Russian Cabinet, including Prime Minister Mikhail Kasyanov and the powerful state bureaucracy, have opposed private ownership of the pipeline. The state-owned Transneft pipeline monopoly will likely interfere—as it has with the pipeline from the Tengiz oil field in Kazakhstan to the Russian port of Novorossiysk, owned and operated by the private Caspian Pipeline Consortium, which includes Chevron–Texaco and LUKoil—by attempting to impose harsh regulations and tariffs. Transneft has also attempted to repudiate contracts signed before the Tengiz–Novorossiysk pipeline became operational.

The U.S. has a strategic interest in maintaining a robust Russian private sector, especially in energy. The private sector both disperses political power and drives economic growth. Private oil companies represent the most dynamic sector of Russia's economy, with annual growth rates of 7–12 percent for the past four years. They enjoy high capitalization growth and have infused Russia with state-of-the-art technology and imported Western expertise. The post-communist state ownership and management is incapable of providing the necessary investment and growth rates in capital-intensive sectors, such as the energy infrastructure.

There are broader strategic implications as well: If Russia successfully implements a large, privately driven pipeline project, it will demonstrate yet again that the OPEC model of state-owned oil production is anachronistic and should be replaced by private ownership.

**U.S. Energy Policy and a Russian Oil Pipeline.** As President Bush declared in his State of the Union address, the U.S. government has an interest in increasing energy independence. This includes diversifying sources of oil and securing the oil supply. Top U.S. and Russian trade and energy officials and bilateral business councils should cooperate

with the Russian oil company consortium to secure government authorization and expedite construction of the pipeline. Specifically, they should:

- **Place** the pipeline issue on the agenda for the May G-8 bilateral Bush–Putin meeting in St. Petersburg, Russia, and prepare a memorandum of understanding for the two presidents to sign, outlining the concept and timetable of the Siberia–Murmansk pipeline and oil terminal project.
- **Make** government authorization of a privately built pipeline a top priority in talks between U.S. Secretary of Energy Spencer Abraham and Russian Minister of Energy Igor Yusufov and between U.S. Secretary of Commerce Donald Evans and Russian Minister of Economic Development German Gref.
- **Focus** on the pipeline in the U.S.–Russian Energy Dialogue with the participation of the U.S.–Russian Business Council.
- **Provide** partial financing and political risk insurance for the project under the auspices of the Overseas Private Investment Corporation and the Export–Import Bank as suggested in the November 2002 Joint Statement.
- **Offer** technical assistance in the operation of private pipelines through the U.S.–Russian Commercial Energy Working Group, established under the U.S.–Russian Energy Dialogue.
- **Share** environmental technologies and model environmental regulation under the auspices of the intergovernmental American–Russian Working Group on Energy Cooperation as part of its broader mandate to promote the best technical and managerial practices.

**Conclusion.** Russia should become a major exporter of oil to the U.S. The political commitment is already in place. The best way to accomplish this goal is by harnessing private-sector expertise and financing to build the Siberia–Murmansk pipeline and the oil terminal in Murmansk.

—Ariel Cohen, Ph.D., is Research Fellow in Russian and Eurasian Studies in the Kathryn and Shelby Cullom Davis Institute for International Studies at The Heritage Foundation.