

# FINANCIAL TIMES

Wednesday October 2 2002

## Russian oil becomes more attractive

Instability in the Middle East and South America is making the US look to its former cold war enemy, writes **Sheila McNulty**

When Howard Cooper, chief executive officer of Teton Petroleum, encourages other oil executives to follow his Colorado-based company into Russia, they inevitably tell him it is too risky.

These are the same people who complain about operating in places such as Colombia, where oil fields are sometimes surrounded by guerrillas and executives can get kidnapped.

Nonetheless, US companies continue to choose Colombia, as well as Nigeria, Venezuela and Indonesia over Russia. "All these places are imploding, and people say Russia is risky," Mr. Cooper says. "That is just not the case."

Mr. Cooper, whose public company has 100 per cent of its operations and assets in Russia, has been asked to speak about the success of his seven years there at this week's US-Russia commercial energy summit in Houston.

The summit marks the most high-level meeting between US and Russian energy and commerce secre-

aries under the Bush administration. Coming amid escalating tensions between the US and the Iraq, the summit underlines the importance for the US to reduce its dependence on oil imports from the Middle East by tapping into Russia.

"At the highest levels of government, there is tremendous willingness to make oil and gas a major component of the relationship," says Amy Myers Jaffe, energy policy analyst at Rice University. But the difficulty for both sides is that the companies who must build that relationship are private and, therefore, have their own interests.

Analysts say Russian companies would like their US counterparts to enter into joint ventures in which the US companies hold minority positions in Russia. US companies would like to develop Russia on their own terms.

Yet both sides know it is in their best interest to work out a compromise: the Russian companies need US technology

and experience, and the US companies cannot afford to be sidelined in such a potentially profitable market as Russia.

"At this moment in history, we have a better chance than ever to get something worked out," Ms Jaffe said.

The terrorist attacks on the US last year forced policymakers to make tapping into Russia's vast reserves a priority. The momentum began building in July, when the US received the first direct shipment of oil from Russia. Yukos Oil, Russia's largest fully privatized Russian integrated oil company, began the shipments on an experimental basis to determine profitability, and US policymakers have urged the company on.

"Russia is, and will continue to be, a growing important supplier of world crude," says Donald Evans, US commerce secretary. "It is important Russia play a strategic role in diversity of the supply of world oil." Mr. Evans is attending the summit with German



Howard Cooper: others find his overseas exploits too risky

Gref, Russia's minister of economic development and trade.

Despite the high-level backing, analysts note that challenges remain in making regular direct shipments to the US, including pricing and transport costs, given the distance between the two countries.

Nonetheless, Lukoil, another big Russian oil company that already owns the Getty service station chain in the US, has said that the sea terminal it plans to build for its Tieman-Pechora oilfield in the Arctic will give a natural transport advantage in shipping oil to the US.

Getting more US companies to look past the distance and see Russia as worth the investment is the next step.

Not only is Russia

more stable than the Middle East, Mr. Cooper says, but it is stable, has not disrupted supplies to Europe in decades, will allow 100 per cent ownership of a Russian company, and is willing to give US companies 25-year, renewable licenses to operate.

As for the cost issue, Mr. Cooper believes it pales in comparison to what the US has spent over the years defending supplies in the Middle East. He points, for example, to the high costs of bombing Iraq, and of going into Kuwait after Iraq attacked it to ensure oil still flowed. An all-out US war with Iraq would also be costly.

If the summit is successful in moving the US-Russia relationship forward, Ms Jaffe says it would be a "hugely successful political moment".

Five years from now, Russian production could be up, with numerous US companies firmly entrenched in the oil industry of the former cold war enemy, thereby heightening US energy security. "The historic potential is really there," Ms Jaffe says.