

# PROSPECTS FOR ENGAGEMENT WITH RUSSIA

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## HEARING

BEFORE THE

### COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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## PROSPECTS FOR ENGAGEMENT WITH RUSSIA

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THURSDAY, MARCH 19, 2009

U.S. SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC.*

The committee met, pursuant to notice, at 10 a.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the committee) presiding.

Present: Senators Kerry, Cardin, Casey, Webb, Kaufman, Lugar, Corker, Isakson, and Barrasso.

### **OPENING STATEMENT OF HON. JOHN F. KERRY, U.S. SENATOR FROM MASSACHUSETTS**

The CHAIRMAN. Good morning. This hearing will come to order.

It's a pleasure to be here this morning with my colleague, Senator Lugar, to look at another country that has an enormous importance in its relationship with the United States and with the rest of the world.

Regrettably, in recent years America's relationship with Russia has arguably reached the lowest and least productive phase in two decades. President Obama has spoken, importantly, of the need to reset United States-Russia relations, and we agree wholeheartedly.

While it is not yet clear exactly what this new chapter in our relations can bring, it is clear that our common interests demand that we try to work together more constructively. Our differences are real, but so, too, is our potential to cooperate and particularly to lead together on important global challenges.

From Iran's nuclear program to human rights in Burma to our presence in Afghanistan, there is scarcely an issue of global importance which could not benefit from greater cooperation and participation from Russia. Our challenge is to ensure that, to the extent possible, we enlist Russia to act, not just as a great power individually, but as a global partner with us and with our European allies.

This hearing will explore what we can hope to accomplish through engagement, what motivates Russia at this moment in time, if that's different from other moments, how we can best respond to our continued disagreements, and how we can achieve greater cooperation on the issues where our interests clearly converge.

Nowhere is our shared challenge greater, or shared leadership more vital, than in confronting the threat posed by nuclear weapons and nuclear terrorism. Yesterday, we celebrated, on the Senate floor, the 12,000th vote of my colleague, Senator Lugar, which is

a milestone. I think he was telling us it places him as —the 13th in the record number of votes cast. And he is the senior Republican in the United States Senate. And obviously, Senator Lugar has been a leader in this field.

And together with Sam Nunn, he sounded the alarm, early on, that Russia's unsecured nuclear materials posed a major threat. The Nunn-Lugar initiative was the start of a visionary effort to dismantle excess weapons and secure dangerous materials. It sparked long-term cooperation with Russia that has paid major dividends for national and international security, alike. We need more of that kind of vision now to rebuild relations with Russia, and we actually need to continue to see that task to its completion.

Russia and the United States ushered in the Nuclear Age together. And now, together, America and Russia bear a special responsibility to dramatically reduce our arsenals. We have to make a serious joint effort to move the world in the direction of zero nuclear weapons, with recognition that, while the ultimate goal remains distant and complicated, every prudent step that we take to move in that direction makes us safer. In fact, America and Russia can accomplish a great deal together on arms control right now. We need to reach agreement on a legally binding successor to the START treaty, and President Obama has committed to pursuing these negotiations with the intensity that they deserve. With START set to expire in December, we need to make it a priority to strike a deal, or at least construct a bridge, before we lose the verification regime that has been vital to maintaining each country's understanding of the other's nuclear-force posture.

I'm convinced that we can go well below the levels established by the Moscow Treaty. We should personally—I think, personally, we should set a near-term goal of no more than 1,000 operationally deployed warheads, and I'm confident that this can be done in a way that increases our national security rather than diminishes it. Obviously, we have to pursue such a goal in close consultation with our allies and our military, but that level, in my view, is more than enough to deter aggression.

Vital to our efforts toward a nuclear-free world is a greater effort from Russia to prevent a nuclear-armed Iran. The President is right to open the door to direct engagement with Iran, but it's imperative that we back a strategy of engagement with a commitment to more effective multilateral sanctions if negotiations prove incapable of bringing progress. To do this effectively, we need Russia to be part of that process.

We must also think carefully about missile defense. I have serious reservations regarding the rapid deployment of a largely untested missile defense system in Poland and the Czech Republic, and I intend for this committee to examine that policy closely.

Many Russian leaders see these missile defense sites as somehow directed at Russia, at them. In fact, they are not. But, Russia can minimize our need for missile defense in Europe by helping to convince Iran to change its nuclear and missile policies. And both Russia and the United States could put more effort into jointly developing an effective defense against medium- and intermediate-range missiles.

Our former colleagues in the Senate, Gary Hart and Chuck Hagel, are the coauthors of an insightful new report from the Commission on U.S. Policy Towards Russia that explores, in depth, many of these same avenues for greater cooperation. This report warrants serious consideration as we look for the way forward with Russia.

Of course, we are going to continue to have some differences. Russia's neighbors have a right to choose their own destinies, and America and the world community will continue their support for sovereignty and for self-determination. Georgia has a right to its territorial integrity. I visited Georgia, just last December, and I shared the concern of many over the failure to fully implement the cease-fire agreement, as well as the continued lack of access for international monitors in South Ossetia and Abkhazia. Russia, in my judgment, was wrong to manipulate the flow of energy to Ukraine for political purposes, and we should support Ukraine's democratically elected government. We also have genuine concerns about Russia's troubling backsliding on democracy, human rights, and the rule of law.

As we consider the prospects for a new era in relations, we need to understand the dynamics that are at work in Russia. This includes Russia's politics and its economy, particularly the impact of the steep drop in the price of oil, the decline in Russia's foreign exchange reserves, and the 67-percent decline in Russia's stock market. I'm eager to hear the witnesses' thoughts on how prospects for better engagement.

Constructive relations and greater mutual confidence with Russia are undoubtedly a challenge, but the mutual benefits of doing this are clear, and they are compelling. In the 20th century, America and the Soviet Union expended unbelievable levels of resources, incalculable resources, and we expended them on our rivalry. The days when Moscow stood on the opposite site of our every single global crisis have passed. Now we need to enlist Moscow to be on the same side, whenever possible, in meeting the challenges of this new century.

We have three distinguished panelists today. Stephen Sestanovich negotiated directly with the Kremlin as ambassador at large and adviser to the Secretary of State during the Clinton administration. Andrew Kuchins, director of the Russia and Eurasia Program at CSIS, is the author of an interesting and timely report entitled "Pressing the Reset Button on U.S.-Russian Relations." And Ariel Cohen is a senior research fellow at The Heritage Foundation, and we look forward to the testimony from each of you. Thank you for being with us today.

Before you testify, let me turn to my distinguished colleague, Senator Lugar.

**OPENING STATEMENT OF HON. RICHARD G. LUGAR,  
U.S. SENATOR FROM INDIANA**

Senator LUGAR. Well, I join you, Mr. Chairman, in welcoming our distinguished witnesses. It's good to see each one of you here.

Russia represents significant challenges, as well as opportunities, for the Obama administration. Moscow is at the intersection of

many of the most important foreign policy issues facing the United States. We have common interests on a number of economic and security issues, including arms control, nonproliferation, anti-terrorism, and global economic recovery.

Russia is experiencing severe pain from the global economic downturn that would seem to increase incentives to cooperate on a range of issues. The ruble has plunged 50 percent against the dollar, the Moscow stock market has dropped as much as 80 percent at various points amidst a collapse in oil prices. Although these economic conditions and common interests may create openings, we should be realistic in assessing the prospects for cooperation.

Negotiating with Russia will be a far more complex and difficult proposition than simply appealing for a new relationship. Russian actions related to Iran, Afghanistan, and North Korea, for example, have exhibited a reflexive resistance to United States positions, even when we have substantial commonality of interests. Russia's repeated use of energy exports as a political weapon, and its treatment of Ukraine and Georgia, demonstrate an aggressiveness that has made comprehensive negotiations on regional problems impractical.

In this context, we should avoid ratcheting between excessive expectations and severe disappointment. Rather, we should recognize that United States-Russian relations are likely to be strained for some time. We should consider, carefully, what initiatives can be advanced in such an environment.

Our most time-sensitive agenda item with Russia is the preservation of the START treaty. In December 5, the verification regime that undergirds the START treaty will expire. The Moscow Treaty, which reduces deployed warheads to 1,700, would also be a casualty, because it utilizes the START process. In other words, the foundation of the United States-Russian strategic relationship is at risk of collapsing in less than 9 months.

The Bush administration made little progress on this issue prior to its departure. I know that President Obama and Vice President Biden understand the urgency of the problem. However, everyone involved should recognize that we are dealing with a timeline that leaves little room for error or delay. I support efforts to negotiate lower United States and Russian nuclear weapons levels, to reduce Russia's tactical nuclear weapon stockpile, to cooperate on missile defense, and solve the conventional weapons stalemate. But, with the December 5 deadline looming, we should carefully set priorities. Solidifying the START verification regime must be the primary focus. Both sides would benefit from a legally binding solution in which the common commitment to the START and Moscow treaties is retained.

Reaching common ground on START would provide a foundation for continuing United States-Russian cooperation on reducing the nuclear, chemical, and biological dangers facing the world.

Next year, nearly every nation will participate in a review conference on the Non-Proliferation Treaty. The NPT is under stress from the actions of Iran and North Korea and the concerns of neighboring countries. The treaty is also contending with the complications that arise out of an expansion of global interests in nu-



clear power. The national security of both Russia and the United States will suffer if the world experiences a breakdown of the non-proliferation regime.

Before the review conference, Moscow and Washington should strive to achieve bilateral arms-control progress, as well as strengthen cooperation on nonproliferation issues. One important element of such cooperation is the establishment of an International Nuclear Fuel Bank. A nuclear fuel bank would help keep nuclear power safe, prevent proliferation, and solve energy problems by providing nuclear fuel and fuel services at reasonable prices to those countries that forgo enrichment and reprocessing. Unless the United States and Russia provide strong leadership in this area, the coming surge in demand for nuclear power will lead more and more nations to seek their own enrichment facilities, and that would pose unacceptable risk to the security of both Russia and the United States.

If nonnuclear-weapon states opt for major nuclear power programs and their own fuel-making capabilities, it would produce enough nuclear material for tens of thousands of nuclear weapons every year. This could generate a raft of new nuclear-weapon states, exponentially increase the threat of nuclear terrorism, and provoke highly destabilizing arms races.

The Obama administration must plan and carry out a realistic strategy that promotes United States interests while engaging with Russia in areas where we have common objectives. I look forward to the insights of our witnesses on the prospects for engagement with Russia and the priorities that we should be pursuing.

And I thank the Chair and—very well, I'm advised that the Chair would like for me to recognize Steve Sestanovich as our opening witness, and I so do.

**STATEMENT OF HON. STEPHEN R. SESTANOVICH, SENIOR FELLOW, COUNCIL ON FOREIGN RELATIONS, WASHINGTON, DC**

Ambassador SESTANOVICH. Thank you very much, Senator Lugar, other members of the committee. I appreciate the opportunity to discuss American policy toward Russia with you at this very timely hearing.

I've prepared somewhat fuller remarks that I hope can be entered into the record.

Senator LUGAR [presiding]. They will be entered in the record in full.

Ambassador SESTANOVICH. Of all the world's major states, Russia is the only one whose relations with the United States have deteriorated in the past 5 years. The worsening of relations—of Russian-American relations has involved real clashes of policy and perspective and angry rhetoric on both sides.

Against this backdrop, the Obama administration's aim to press the reset button—we're probably going to hear a lot of that tired metaphor today—is welcome and needed. But, the question is, Are we talking about a smooth process of improvement, or a contentious one?

There are some reasons to hope that, despite years of testiness, the resetting of relations between Russia—between Moscow and Washington can be a relatively smooth process. Leaders and policy-

makers in both countries seem, in general terms, to want more productive relations. They regularly speak, as you have, Senator Lugar, of a number of common interests, from nuclear nonproliferation to counterterrorism to stable international energy markets that ought to make it possible for Russia and the United States to cooperate. Today, not surprisingly, economic growth and recovery should be added to this list. As Senator Kerry noted, no problem ranks higher on the to-do list in both Moscow and Washington.

If President Obama and President Medvedev want to show that Russian-American relations are rebooting nicely, it will be easy for them to do so when they meet on the margins of the G-20 summit in London in 2 weeks. They should, at that time, be able to announce the prompt opening of talks on the extension of the START I treaty, or, even better, on a successor agreement that further reduces strategic arsenals. They could also recommit themselves to practical measures to discourage Iran from acquiring nuclear weapons, including diplomatic and military cooperation, and, if the threat requires, missile defense. They might further renew their determination to support a successful counterinsurgency effort in Afghanistan and encourage other states in the region and beyond to join them. They can announce an agenda of steps to address the concerns of both sides on issues of European security, including strengthening the OSCE, reviving the CFE Treaty, and consultations on Russia's proposals to enhance Europe's security architecture. This is a very substantial, but hardly exhaustive, list. It's not difficult to spell out comparable measures in other areas, whether it's trade and investment, energy cooperation, climate change, or the work of the NATO-Russia Council.

Members of Congress, I might add, can do their part to support the two Presidents. As you noted, Mr. Chairman, the Congress has been a source of leadership in this area in the past, especially in the visionary threat-reduction initiative sponsored by Senators Lugar and Nunn.

Congress can, for one thing, indicate its reference—readiness to graduate Russia and other states of the former Soviet Union from the provisions of the Jackson-Vanik amendment as soon as possible and without further conditions.

Congress can also make it clear that it's ready to support the so-called 123 Agreement on civil nuclear cooperation that the Bush administration sent up to the Hill last summer, only to withdraw it when Russia invaded Georgia.

Mr. Chairman, the steps I've described for improving Russian-American relations would amount to a textbook reset. But, what if the process isn't so smooth? Perhaps, instead of merely switching things off and starting over, we have to inquire into the relationship's deeper underlying problems.

Some thoughtful observers argue that we need to pay closer attention to the way in which Russia defines its interests, and I completely agree. Moscow's actions and statements over the past several months have given us a feel for its thinking and suggests that its approach to security may actually complicate the rebooting of Russian-American relations.

Consider, for example, the criticism of President Obama's suggestion that if the problem posed by Iranian nuclear and missile pro-

grams went away, so, too, would the need for American radars and interceptors to counter them. Or, consider the fact that, for 4 years, Russian policy has called for the curtailment of Western access to Central Asian airfields to transport men and materiel to Afghanistan, despite the negative impact this would have on our counter-insurgency campaign in that country.

Other Russian policies demonstrate the same approach to security. We see it in the regularly repeated demand that Ukraine give up ownership of gas pipelines on its territory. It shows up in the suggestion that Europe needs new security institutions to limit NATO's ability to carry out the agreed policies of its members.

What ties all these policies together, from missile defense to energy to Afghanistan, is a seeming conviction that Russian interests and those of other states, especially the U.S. and its European allies, are inevitably in conflict. Russian security continues to be viewed in unusually prickly zero-sum terms. The result is that real cooperation with other states is often considered risky and undesirable, even dangerous. This Russian outlook does not mean that a new American approach cannot succeed, and it certainly does not mean that we should not make the effort.

As both Senator Kerry and Senator Lugar have noted, our interest in expanded cooperation with Russia is real, and it calls for sustained diplomacy to create a more productive relationship. Yet, the mismatch between our strategic outlook and Russia's does have implications for the way we think about this effort. Our goal is not simply the mundane mutual accommodation of interests that our diplomats pursue on a daily basis with other states. Alone among the great powers, Russia presents us with the challenge of trying to get its leaders to conceive of their interests in a fundamentally different, less confrontational way.

Expanded cooperation with Russia is possible even within its current conception of its interests, but far more would be possible if its leaders viewed security in ways more congruent with the outlook of other European states.

Is such a transformation possible? Of course. Nothing is more contrary to historical experience, or, for that matter, more insulting to Russia, than to suggest that it alone among the world's major states must remain permanently hostage to outdated, counter-productive conceptions of its interests, goals, and identity.

American policy, then, should pursue practical opportunities for cooperation with Russia. That means advancing its interests into multilateral institutions of international life, where it's ready to contribute to them. Right now, Russia's accession to the World Trade Organization is the most important unexploited opportunity.

We should do better in expanding bilateral cooperation, as well. Here, as Senators have noted, arms-limitation talks offer significant possibilities.

And we should not miss openings to address the connection between the country's internal transformation and its play in the world. On this point, there's no more tantalizing invitation than President Medvedev's observation that whether Russia enjoys respect abroad depends on whether it observes the rule of law at home.

In pursuing these cooperative steps, we should not forget the larger goal of our engagement with Russia—that is a relationship not limited to refighting battles of the last decade or the last century. That reset button remains to be pushed.

Thank you, Mr. Chairman.

[The prepared statement of Ambassador Sestanovich follows:]

PREPARED STATEMENT OF HON. STEPHEN SESTANOVICH, SENIOR FELLOW, COUNCIL ON FOREIGN RELATIONS/COLUMBIA UNIVERSITY, WASHINGTON, DC

Mr. Chairman, I appreciate the opportunity to discuss American policy toward Russia with you and your colleagues at this very timely hearing.

Of all the world's major states, Russia is the only one whose relations with the United States have deteriorated in the past 5 years. It's not a case, moreover, of what the child development specialists call a "failure to thrive"—sickly underperformance without specific ailments. Nor is the problem simply the result of inattention by leaders in both Washington and Moscow who have other pressing things to worry about. The worsening of Russian-American relations has involved real clashes of policy and perspective—and active involvement by policymakers on both sides.

- Although contemporary scholars of international relations believe that our time is marked by an absence of fundamental antagonisms among the great powers, Russian officials are saying, in effect, that they disagree. For them, security—and what they insist is an American drive to weaken them—is still the core problem of Russian-American relations.
- In his famous speech in Munich 2 years ago, then-President Putin also complained that the United States "imposes itself on other states, in the economy, in politics, and in the human rights sphere." On another occasion, he compared American policies to those of the Third Reich.
- Here in Washington, Russia's image has suffered very severe damage as well. Moscow's frictions with its neighbors are widely seen to reflect neoimperialist aspirations—and are, yes, sometimes compared to the policies of the Third Reich.

Against this backdrop, the Obama administration's aim to press the "reset" button is welcome and needed. Many opportunities are available for refashioning the relationship in ways that benefit both countries. But it should probably be said at the outset that neither in coping with modern gadgetry nor in diplomacy is pressing a "reset" button a guarantee of improved performance. In my experience, the "reset" button is something you press when you don't really know what went wrong in the first place—what caused your computer to freeze up, or your daughter's hair-dryer to shut down, or the lights in part of your house to go off.

Sometimes, of course, you don't need to understand what your gadget's problem is in order to fix it. If you're lucky, all it takes to get a computer running smoothly again is to reboot: Turn it off, wait a minute, then turn it on again. At other times, however, you may reset a fuse only to find that it immediately blows again. At that point, you need an expert who can tell you what the trouble is—and how big the repair bill is likely to be.

There are some reasons to hope that, despite several years of testiness, the resetting of relations between Moscow and Washington can be a relatively smooth process, certainly smoother than many people expect.

- Leaders and policymakers in both countries seem, in general terms, to want warmer, more productive relations.
- They regularly speak of a number of common interests—from nuclear non-proliferation to counterterrorism to stable international energy markets—that ought to make it possible for Russia and the United States to cooperate.
- Today, not surprisingly, economic recovery and growth also make the list of goals that could, and should, unite Russian and American policy.

If President Obama and President Medvedev want to show that Russian-American relations are rebooting nicely, it will be easy enough to do so when they meet on the margins of the G-20 summit in London in 2 weeks.

- They should at that time be able to announce the prompt opening of talks on the extension of the START I treaty—or, even better, on a successor agreement that further reduces strategic arsenals.

- They could also recommit themselves to practical measures that will discourage Iran from acquiring nuclear weapons, including diplomatic and military cooperation—and (if the threat requires) missile defense.
- They might further renew their determination to support a successful counterinsurgency effort in Afghanistan, and encourage other states to join them.
- They can announce an agenda of steps to address the concerns of both sides on issues of European security, including strengthening the OSCE, revival of the CFE Treaty, and consultations on Russia’s proposals to enhance Europe’s “security architecture.”

This is a very substantial but hardly exhaustive list. It’s not difficult to spell out comparable measures in other areas, whether it’s trade and investment, energy cooperation, climate change, or the work of the NATO-Russia Council.

Members of Congress, I might add, can do their part to support the two Presidents.

- They should, for one thing, indicate their readiness to graduate Russia and other states of the former Soviet Union from the provisions of the Jackson-Vanik amendment—as soon as possible and without further conditions. In the past this legislation played an extremely honorable and effective role in strengthening American policy toward the U.S. S.R. It plays no positive role in our policy toward Russia today.
- Congress can also make clear that it is ready to support the so-called “123” Agreement on civil nuclear cooperation that the Bush administration sent up to the Hill last summer, only to withdraw it when Russia invaded Georgia. The U.S. definitely needs more tools to provide support for Georgian sovereignty. Among the instruments available for achieving this goal, however, the 123 Agreement is not a useful one.

Mr. Chairman, the steps I have described for improving Russian-American relations would amount to a textbook “reset.” But what if the process isn’t so smooth? Perhaps, instead of merely switching things off and starting over, we actually have to inquire into the relationship’s deeper underlying problems? Some thoughtful observers argue that we need to pay closer attention to the way in which Russia views its interests. The Commission on U.S. Policy Toward Russia, chaired by former Senators Hart and Hagel, made this point just days ago, and I completely agree with it.

To get a feel for Russian thinking, it’s not necessary to explore the dark recesses of relations with the Bush administration over the past 8 years. Even in the past few months, Moscow’s actions and statements have provided ample evidence of an approach to security that is likely to complicate the rebooting of Russian-American relations.

- Consider, for example, the Russian response to President Obama’s suggestion that if the problem posed by Iranian nuclear and missile programs went away, so too would the need for American radars and interceptors to counter them. For many Americans, this linkage is no more than a statement of the obvious—and a constructive, commonsense place to start discussion. Yet Russian spokesmen, including President Medvedev himself, have rejected it.
- Or consider the use of Central Asian airfields by the United States and NATO to transport men and materiel to Afghanistan. For 4 years, Russian policy has called for the curtailment of such access, despite the negative impact it would have on our counterinsurgency campaign in that country. It’s possible that President Medvedev did not actually demand that Kyrgyzstan shut its base at Manas to Western troops before receiving increased economic assistance. But he did not have to. In deciding to take this step, the Government of Kyrgyzstan knew that it was granting an openly articulated goal of Russian foreign policy.
- Other Russian policies demonstrate the same approach to security. We see it in the regularly repeated demand that Ukraine give up ownership of the gas pipelines on its territory. It shows up in the suggestion that Europe needs new security institutions so as to limit NATO’s ability to carry out the policies of its members.

What ties all these policies together—from missile defense to energy to Afghanistan—is a seeming conviction that Russian interests and those of other states, especially the U.S. and its European allies, are inevitably in conflict.

- This is why, when Russian officials propose to work with us on countering a possible missile threat from Iran, their proposals always involve reliance on Russian radars, usually on Russian territory.

- And it's why, for more than a decade, Russian policy has sought to block the construction of pipelines that would bring oil and gas from Central Asia and the Caucasus to international markets without crossing Russian territory.
- For the same reason, Russia has not tried to block the flow of supplies to Western forces in Afghanistan, except when that flow leads to closer relations between the United States and other post-Soviet states.
- We saw the same pattern this week when President Medvedev addressed the Defense Ministry, explaining his proposals for military reform as a response to the growing threat from NATO.

Russian security, in short, continues to be viewed in unusually prickly zero-sum terms. The result is that real cooperation with other states is generally considered risky and undesirable, even dangerous.

This Russian outlook hardly means that a new American approach cannot succeed. And it certainly does not mean we should not make the effort. Our interests in expanded cooperation with Russia are real, and they call for sustained diplomacy to create a more productive relationship.

Yet the mismatch between our strategic outlook and Russia's does have implications for the way in which we think about this effort. Our goal is not simply the mundane mutual accommodation of interests that our diplomats pursue on a daily basis with other states. Alone among the great powers, Russia presents us with the challenge of trying to get it to conceive its interests in a fundamentally different, less confrontational way.

Some commentators deride this idea, suggesting instead that we can do all the business we need with Russia as we find it (better this, they say, than obsessing about the Russia we wish for). And in any case, they believe, the interests reflected in Russian policy are largely immutable.

Neither of these propositions is correct. Expanded cooperation with Russia is possible even within the prevailing conception of its interests, but far more would be possible if its leaders viewed security in ways more congruent with the outlook of other European states. Is such a transformation possible? Of course. Nothing is more contrary to historical experience—or for that matter, insulting to Russia—than to suggest that it alone among the world's major states must remain permanently hostage to outdated, counterproductive conceptions of its interests, goals, and identity.

American policy, then, should pursue practical opportunities for cooperation with Russia. That means advancing its integration into the multilateral institutions of international life where it is ready to contribute to them. (Right now, Russia's accession to the World Trade Organization is the most important unexploited opportunity.) We should do better in expanding bilateral cooperation as well. (Here, arms limitation talks offer significant possibilities.) And, particularly where Russia's leaders have themselves acknowledged the legitimacy of the enterprise, we should not miss openings to address the connection between the country's internal transformation and its place in the world. (On this point, there is no more tantalizing invitation than President Medvedev's observation that whether Russia enjoys respect abroad depends on whether it observes the rule of law at home.)

In pursuing these cooperative steps, we should not forget the larger goal of our engagement with Russia—a relationship not limited to refighting battles of the last decade, or of the last century. That “reset” button remains to be pushed.

Thank you, Mr. Chairman.

The CHAIRMAN [presiding]. Thank you very much, Mr. Sestanovich, I appreciate it.

Mr. Cohen, you can be next. If I could ask you, also, the next two witnesses, to do as Mr. Sestanovich with a good summary like that; your full testimonies will be placed in the record as if stated in full, but that'll give the committee more time to engage, and we appreciate it.

Mr. Cohen.

**STATEMENT OF ARIEL COHEN, SENIOR RESEARCH FELLOW,  
RUSSIAN AND EURASIAN STUDIES AND INTERNATIONAL EN-  
ERGY SECURITY, THE HERITAGE FOUNDATION, WASH-  
INGTON, DC**

Mr. COHEN. Thank you, Mr. Chairman, Senator Lugar. You've contributed so much for the improvement of United States-Russian relations. Unfortunately, they're not in best shape today. Thank you, Senators, I am delighted to be here and will request that my full remarks will be entered into the record. I would also to append a forthcoming report coming out this week that The Heritage Foundation is publishing, "Russia and Eurasia: A Realistic Policy Agenda for the Obama Administration."

President Obama expressed a desire to constructively engage Russia, and these concerns, of course, are valid. However, when we are looking at Russia's behavior over the last several years, especially with regards to its neighbors and the rhetoric that, frankly, is quite disconcerting with regards to the revision of the global security and economic architecture, questions arise what Russia is really trying to accomplish. Russia's opposition to missile defense in Central Europe, only 10 interceptors, Russia's efforts, together with China, to push United States bases out of Central Asia; 2005 they accomplished our eviction from the K2 base in Uzbekistan, and this year the announcement about the Manas base in Kyrgyzstan.

Russia is using European increased dependence on gas, natural gas, and energy in general, as a political tool. It's not just Ukraine, Mr. Chairman, it's also a country as significant as Germany.

After the Georgian war, Russia does not respect the terms of the Medvedev-Sarkozy agreement and is planting five bases, military bases, in Abkhazia and South Ossetia, three in Abkhazia, the naval base in Ochamchire, the Bombora air base near Gudauta, and alpine Special Forces base in the Kodori Gorge, and two bases in South Ossetia.

NATO's desire to cooperate with Russia on bringing under control the Iranian nuclear program is understandable; however, Russia not only supplied a civilian reactor to Iran, the Bushehr reactor, it also trained hundreds of scientists and engineers from Russia to work in dual-use technology fields, both nuclear and ballistic missiles. Russia has multibillion-dollar interests in Iran, and is using Iran as a battering ram for its interests in the Middle East.

The relationship between Russian and Iran is strong, and unless the great bargain is really achieved between our countries and—when I—I'm talking about the "great bargain," I would caution that giving up the missile defense in Europe is probably a price too high to pay to enact it, but, overall, I am pessimistic in looking at the chances of achieving Russia's disengagement from Iran or getting Russia on our side.

So, if we're looking at the complexity of Russian foreign policy, including the renewed patrols of Russian strategic bombers along the Atlantic and Arctic coastlines and into the Caribbean, when we're hearing the announcement that Russia may renew its basing for the strategic bombers in Venezuela and Cuba, the question arises, What can we accomplish?

Looking internally in Russia, what President Medvedev himself called “legal nihilism” is dangerous for the flow of investment, both foreign and domestic, for protection of property rights and for defense of human rights. The notorious cases of murder of journalists such as Anna Politkovskaya, a murder in which two of the accused co-conspirators were acquitted by a Russian court, by a jury, the murder in which the people who ordered the murder, the killing, and the triggermen were not even put on trial, the killing of human rights attorney Markelov—and the list is long. One of the more media-exposed cases, a case of the two YUKOS trials, the YUKOS company was raided and dismantled by the law enforcement in 2003–2004, its assets were auctioned off at prices under the going market prices, and today the second trial in which the partners in YUKOS, Khodorkovsky and Lebedev, are facing very long sentences that effectively may be the life sentences, whereas justice is not applied equally to other oligarchs who may have been involved in alleged crimes as bad or worse than these two.

So, the Obama administration is facing tough policy changes. What can it do? It can certainly explore the ways to cooperate with Russia on Afghanistan. The threat of the Taliban is significant for Russia’s allies in Central Asia. Taliban was the only country that recognized the secessionist Chechen regime in Chechnya. Russia would benefit from cooperation with NATO on Afghanistan, and Russia would benefit, in cooperation with us, to prevent Iran from becoming a nuclear power on its borders.

However, on some of other issues that were mentioned here, such as the 123 Agreement, we need reciprocity from Russia. We need to stop Russian cooperation on Iran. We would like to see adequate liability protection for United States companies doing business in Russia, and provision of two-way market access to American companies in the Russian nuclear market.

The Obama administration should communicate in the current negotiations that Russia’s close ties with Venezuela, Cuba, Iran, and even Hamas and Hezbollah, are counterproductive. Russian embrace of Iran and Syria—I did not mention that Russia is planning to put two naval bases in Syria, is considering return to an anchorage in Libya, and is considering replanting its base, as it used to have during the cold war, at the Sokotra Island, near the entrance to the strategic Babel-Mandeb Strait between the Red Sea and the Indian Ocean.

So, when we’re talking about pushing the reset button, we have to undertake a full assessment of our goals, vis-à-vis Russia, and formulate the policy, just as in the nuclear field we need to undertake the reassessment of our nuclear policy and targets. Unfortunately, this reassessment was not taken before the rhetoric about pushing the reset button began.

Furthermore, we need to make clear to Russia that a new military venture against Georgia will not be tolerated. We need to boost our presence in the Arctic, because the Russians are talking about territorial claims in the Arctic the size of almost all of Western Europe, and the Arctic is very rich with hydrocarbons and strategic mineral reserves

To conclude, Russia is, and will remain, one of the most significant foreign policy challenges for the Obama administration for



years to come. Despite the recent toned-down rhetoric stemming from the economic downturn—and the economic downturn in Russia, relatively speaking, is worse than here—there are rumblings in the Russian military, now, that the Medvedev-Putin administration is trying to calm down by talking about a massive bailout, a rearmament package that'll kick in, in 2011. But, the global—the importance of Russian policy in the global Obama agenda needs to be high and needs to be given a lot of attention. Unfortunately, the key officials to deal with that have not been nominated yet.

Last, we should not forgo a core American foreign policy objective with regards to Russia—promoting democracy, good governance, transparency, and the rule of law. History has shown that the most dangerous times are ones when new powers—or, in this case, a resurgent one—is attempting to challenge the status quo. The United States and our allies must remain vigilant and willing to defend freedom and prevent Russia from engendering shifts in the global power structures detrimental to our national security interests.

Thank you.

[The prepared statement of Mr. Cohen follows:]

PREPARED STATEMENT OF ARIEL COHEN, PH.D., SENIOR RESEARCH FELLOW, RUSSIAN AND EURASIAN STUDIES AND INTERNATIONAL ENERGY SECURITY, THE HERITAGE FOUNDATION, WASHINGTON, DC

HOW THE OBAMA ADMINISTRATION SHOULD ENGAGE RUSSIA

*“Barack Obama and Joe Biden will address the challenge posed by an increasingly autocratic and bellicose Russia by pursuing a new, comprehensive strategy that advances American national interests without compromising our enduring principles.”*

—“Meeting the Challenges of a Resurgent Russia” <http://www.barackobama.com>.

President Barack Obama has expressed a desire to constructively engage Russia and has also expressed concerns over Russia’s increasingly truculent behavior and the threat it poses to the current international system. These concerns are valid and the threat of a resurgent Russia is palpable.<sup>1</sup> Moscow’s efforts at carving out a “sphere of privileged interests” in Eurasia and rewrite the rules of European security have negative implications for United States-Russia relations, international security, the autonomy of the independent former Soviet states, and Europe’s independence.

Despite these circumstances, the Obama administration seems to be rushing ahead with a “carrots-and-cakes” approach to the Kremlin, judging by Vice President Joe Biden’s recent speech at the annual Munich international security conference. In this speech, the Vice President outlined the Obama administration’s foreign policy vision for the first time on the world stage and suggested that America push “the reset button” on relations with Russia.<sup>2</sup> Notably absent from this speech was any mention of any recent events in Eurasia.

While in Moscow, U.S. Under Secretary of State for Political Affairs William Burns mirrored this approach. Burns stated that the U.S. was willing to review “the pace of development” of its missile defense shield in Europe in exchange for Russian cooperation on dissuading Iran from pursuing a nuclear weapon, and downplayed the importance of a U.S. air base in Kyrgyzstan from which the U.S. military has just received an eviction notice.<sup>3</sup> Other diplomatic efforts to thaw United States-Russian relations are underway as well.

According to The New York Times, President Obama sent a “secret,” hand-delivered letter to President Dmitry Medvedev 1 month ago. The letter reportedly suggests that if Russia cooperated with the United States in preventing Iran from developing long-range nuclear-missile capabilities, the need for a new missile defense system in Europe would be eliminated—a quid pro quo that President Obama has denied. The letter proposes a “united front” to achieve this goal.<sup>4</sup> Responding to the letter, Medvedev appeared to reject the offer and stated that the Kremlin was “working very closely with our U.S. colleagues on the issue of Iran’s nuclear program,” but not in the context of the new missile defense system in Europe. He stated that “no one links these issues to any exchange, especially on the Iran issue.”

Nevertheless, Medvedev welcomed the overture as a positive signal from the Obama administration.<sup>5</sup>

Secretary of State Hillary Clinton met with Sergei Lavrov, Russia's Foreign Minister, in Geneva on March 6, following a gathering of NATO Foreign Ministers in Brussels.<sup>6</sup> As a token, Secretary Clinton brought a yellow box with a button and the words "reset" on both sides in English and Russian. Apparently, the State Department got the Russian word for "reset" wrong and instead it said "overload." This is highly symbolic, as haste and incompetence in foreign affairs are the enemies of wisdom, or as the Russian proverb goes, "Measure seven times before cutting."

President Obama is also likely to meet President Medvedev in London at the G-20 summit in April.<sup>7</sup> This meeting will build on the progress made in Geneva and on other initiatives such as those in the secret letter. These meetings will also occur in a context where both the Obama administration and Russia want a new legally binding treaty for limiting strategic nuclear arms. Ostensibly, this new treaty will be designed to replace the 1991 Strategic Arms Reduction Treaty (START).<sup>8</sup> START is scheduled to expire late this year, unless it is extended, which the Obama administration sees as problematic.

Russian media leaks seem to reciprocate American overtures and suggest that the Kremlin may not deploy its Iskander short-range missiles in Kaliningrad; various speeches and comments by President Medvedev, and Prime Minister Vladimir Putin's statements in Davos on January 28 that "great powers need to cooperate to find an exit from the current global economic crisis" may be signals that Moscow is exploring ways to improve relations with Washington, albeit driven by the plummeting economy at home.<sup>9</sup>

While an improvement in United States-Russian relations is certainly desirable, haste is ill advised for the Obama administration, which has not yet announced its key officials concerning Russia, nor conducted a comprehensive assessment of United States-Russian relations. Such an improvement cannot come at the expense of defending the U.S. and our allies from the threat of Iranian missiles; the independence and sovereignty of countries in the region; or the acceptance of a purported Russian sphere of influence. Foremost, the Obama administration must not allow Moscow to rewrite the geopolitical map of Europe or to pocket the gains that it has recently made in Georgia, including expanding and building military bases on Georgian territory and evicting the U.S. from Kyrgyzstan.

#### *Privileged Sphere of Influence*

Since the watershed war with Georgia last August, Russia has been on the offensive across Eurasia and has been seeking to reimpose itself over much of the post-Soviet space. The Kremlin is so concerned with the expansion of its exclusive sphere of influence that even the severe economic crisis—which has sent the ruble plunging 50 percent against the dollar and dropped Moscow stock market capitalization 80 percent—has not slowed Russia's push into the "near abroad."

Currently, Russia has a number of military bases in Europe and Eurasia. The Russian military recently announced the establishment of three military bases in the secessionist Abkhazia and is building two more in South Ossetia: A naval base in Ochamchire; the Bombora air base near Gudauta; an alpine Special Forces base in the Kodori Gorge; and the two bases in South Ossetia: In Java; and in the capital Tskhinvali.<sup>10</sup> Not only do these deployments violate the spirit and the letter of the cease-fire<sup>11</sup> negotiated by French President Nicolas Sarkozy after the 2008 Russo-Georgian war, but they extend Russia's power projection capabilities into the Southern Caucasus, threatening the already precarious strategic position of Georgia and the East-West energy and transportation corridor of oil and gas pipelines and railroads from the Caspian Sea to Turkey and Europe.<sup>12</sup>

More recently, Washington received an eviction notice for the U.S. military from Kurmanbek Bakiyev, President of Kyrgyzstan. With Russian President Dmitry Medvedev at his side, Bakiyev announced in Moscow last month that he wants the U.S. to leave Manas Air Base, a key military cargo hub at the airport of the Kyrgyz capital Bishkek that has been used by NATO and U.S. troops in Afghanistan since 2001.<sup>13</sup> With this move, the Kremlin signaled the West that to gain access to Central Asia, Western countries must first request permission from Moscow and pay the Kremlin for transit.

NATO's desire to cooperate with Moscow is understandable in view of what's going on with Afghanistan and Iran. However, part of the problem was "Made in Moscow": After the "Yankee Go Home" announcement by the Kyrgyz, Moscow offered to use its cargo planes and air space to resupply Afghanistan. And it is refusing to compromise on Iran. This is Tony Soprano geopolitics: "Use my trucks and my garbage dumps—or you can't do business on my turf."

Closing Manas Air Base for the U.S. military will complicate efforts to send up to 30,000 more troops to Afghanistan—a key objective of the Obama administration. Russia's pressure on the Kyrgyz government to evict the U.S. from this base raises questions about long-term strategic intentions of the Moscow leadership, and its willingness to foster a NATO defeat in Afghanistan.

Russia may mistakenly believe that, together with China and Iran, it would be able to pick up the pieces in Afghanistan and prevent the Taliban from extending their influence over allies in Central Asia and the Caucasus. However, radical Islamists—not America—are the long-term systemic threat toward the “soft underbelly” of Russia's south—a threat for which Moscow lacks answers.

Russia has taken additional steps to secure its clout from Poland to the Pacific. It initiated a joint air-and-missile defense system with Belarus, which may cost billions, and initiated a Collective Security Treaty Organization's (CSTO) Rapid Reaction Force (RRF), intended to match the forces of NATO's Rapid Response Force. The CSTO's RRF not only could be used to fight external enemies, but is likely to be available to put down “velvet revolutions” and quell popular unrest.<sup>14</sup> Russia also announced the creation of a \$10 billion stabilization fund for the seven countries which are the members of the Eurasian Economic Community (EEC), most of which (\$7.5 billion) Moscow will front.<sup>15</sup> The reason for the spending spree is simple: Money and weapons consolidate control over allies.

Russia's effort to secure a zone of “privileged interests” is consistent with policies formulated almost two decades ago by Yevgeny M. Primakov, leader of the Eurasianist School of Foreign Policy, Boris Yeltsin's spy chief, later a Foreign Minister, and then Prime Minister. In 1994, under Primakov's direction, the Russian Foreign Intelligence Service published a report calling for Russian domination of the “near abroad”—referring to the newly independent states that emerged from the rubble of the collapsed Soviet empire.

Since the Iraq war, the Kremlin championed the notion of “multipolarity,” in which U.S. influence would be checked by Russia, China, India, and a swath of authoritarian states. Today, Putin and Medvedev are calling for a new geopolitical and economic architecture—not only in Europe but throughout the entire world—based on massive spheres of influence.

Russia's interests in Iran are commercial and geopolitical and militate against substantial cooperation or any potential “grand bargain.” The so-called bargain would involve the U.S. delaying or canceling plans for European missile defense, scaling back relations with Russia's “near-abroad” and overlooking Russia's domestic human rights situation in exchange for Russian cooperation on preventing Iran from going nuclear. Any such bargain is doomed to failure.

Russia's commercial interests in Iran are well known and span from billions in arms sales and sales of nuclear technology to lucrative oil and gas contracts for Russian companies on- and offshore. Yet, while profitable, these commercial interests often have a geopolitical angle as well. While the Kremlin ostensibly seeks to help the West in stopping Iran from enriching uranium, it also supports Iran's nuclear program, knowing that sanctions will help to keep Iran in Russia's commercial sphere of influence. This serves the dual purpose of keeping the U.S. and its allies preoccupied and preventing Western companies from helping Iran to send its gas west through the proposed Nabucco gas pipeline.

Beyond this, Russia sees Iran as a key platform to revive its regional and international influence and block or challenge U.S. influence at the same time.<sup>16</sup> Russia uses Iran as a geopolitical battering ram or wedge against the U.S. in the gulf region. Therefore, Russian arms sales to Iran are not only an economic and export issue, but a geopolitical one. It is necessary to understand that Russia and Iran favor a strategy of what their leaders call “multipolarity,” both in the Middle East and worldwide. Thus, the Kremlin believes that it is not in Russia's national interest to have a “pro-Western” Iran on its soft underbelly. In addition to these factors, any effort to enter such an arrangement will demand an excessively high price from Moscow that will continue to rise; it will also undercut America's friends and allies.<sup>17</sup> These factors must be taken into account when considering any version of a “grand bargain.”

#### *Global Revisionism*

Despite the economic crisis that provided a reality check for Moscow, Russia is doing its best to continue to pursue a broad, global, revisionist foreign policy agenda that seeks to undermine what it views as a U.S.-led international security architecture. Russia's rulers want to achieve a world order in which Russia, China, Iran, Syria, and Venezuela will form a counterweight to the United States. Moscow is doing so despite the dwindling currency reserves and a severe downturn in its economic performance due to plummeting energy and commodity prices.<sup>18</sup>

In December 2008, the Russian navy conducted maneuvers in the Caribbean with Venezuela, while the Russian air force's supersonic Tupolev TU-160 "Blackjack" bombers and the old but reliable TU-95 "Bear" turboprop bombers flew patrols to Venezuela, as well as close to U.S. air space in the Pacific and the Arctic.<sup>19</sup>

A top Russian Air Force general recently announced that the Kremlin is considering a Venezuelan offer to base strategic bombers on a military airfield on La Orchila island off the coast of Venezuela. The Russian Government is also considering basing bombers out of Cuban territory, where there are four or five airfields with 4,000-meter-long runways. The Air Force official remarked that "if the two chiefs of state display such a political will, we are ready to fly there."<sup>20</sup>

Russia is also developing the Syrian ports of Tartus and Latakia in order to manage an expanded Russian naval presence in the Mediterranean, and may possibly revive an anchorage in Libya and Yemen.<sup>21</sup> These are only some examples of how Moscow is implementing its global agenda. While some of these moves may be mostly symbolic, combined with a \$300 billion military modernization program they signal a much more aggressive and ambitious Russian global posture. Russia is also overtly engaging the Hezbollah and Hamas terrorist groups.

If Moscow's vision were to be realized, given the large cast of state and nonstate "bad actors" currently on the international stage, Russia's notion of "multipolarity" would engender an even more unstable and dangerous world. Additionally, the very process of trying to force such a transition risks destabilizing the existing international system and its institutions while offering no viable alternatives.

#### *Russia's Strategic Energy Agenda*

On the energy front alone, the Obama administration will face a multiplicity of challenges emanating from Moscow. The Bush administration signed a "123 Agreement" on civilian nuclear cooperation and nonproliferation with Russia in May 2008, before the war in Georgia. The 123 Agreement, so called because it falls under section 123 of the U.S. Atomic Energy Act, is necessary to make nuclear cooperation between the countries possible. The agreement would facilitate Russia's foray into international nuclear waste management and reprocessing business by potentially providing Russian access to U.S. commercial technologies.<sup>22</sup>

The agreement, however, ran into severe congressional opposition: Representative John Dingell (D-MI), then-chairman of the Energy and Commerce Committee, announced that, "Even without Russia's incursion into Georgia, Russian support for Iranian nuclear and missile programs alone is enough to call into question the wisdom of committing to a 30-year agreement to transfer sensitive nuclear technologies and materials to Russia."<sup>23</sup> As the Obama administration is signaling a new thaw in the relationship, senior Russian officials hope that the administration will revive the agreement, which could bring billions of dollars to the lean Russian coffers.<sup>24</sup>

*Europe's Dependence on Russian Gas.* The Europeans, especially the Germans, are concerned with carbon emission reductions, while downplaying nuclear energy and coal as alternative sources of energy to natural gas. Russia is the primary source of Europe's gas habit. Thus, an environmental concern becomes a major geopolitical liability. Bulgaria, Slovakia, and Finland depend on Russian gas for up to 100 percent of their imports, and are not pursuing alternatives, such as liquefied natural gas (LNG). Germany depends on Russian gas for 40 percent of its consumption, a share that is set to increase to 60 percent by 2020.

Russia strives to dominate Europe, particularly Eastern and Central Europe, including Germany, through its quasi-monopolistic gas supply and its significant share of the oil market and of other strategic resources. Russia controls a network of strategically important pipelines and is attempting to extend it by building the Nord Stream pipeline along the bottom of the Baltic Sea to Germany; the South Stream pipeline across the length of the Black Sea; and even control gas pipelines from North Africa to Europe.

Russia has shown a pattern of using revenues from its energy exports to fuel its strategic and foreign policy agendas. It grants selective access to Russian energy resources to European companies as a quid pro quo for political cooperation and government lobbying on the Kremlin's behalf. It has selectively hired prominent European politicians, such as the former German Chancellor Gerhard Schroeder and former Finnish Prime Minister Paavo Lipponen, to promote Russian interests and energy deals and has offered positions and lucrative business deals to other European political heavyweights, such as the former Italian Prime Minister Romano Prodi.

Russian energy giant Gazprom has been on a shopping spree, acquiring European energy assets. Europe is projected to be dependent on Russia for over 60 percent of its gas consumption by 2030, with some countries already 100 percent dependent on Gazprom.<sup>25</sup> Russia has shown a willingness to use this dependency and its en-

ergy influence as a tool of foreign policy, shutting down or threatening to shut down the flow of gas to countries perceived to be acting against Moscow's interest, as in the cases of Ukraine, Georgia, and Azerbaijan.

Russia is in the process of creating an OPEC-style gas cartel with Iran, Qatar, and other leading gas producers, to be headquartered in Moscow. This cartel would allow Moscow and Tehran to dictate pricing policy, weigh in on new projects, and oppose any new pipelines they want. This may bring about even greater domination of Europe's gas supply than they currently enjoy, and eventually, domination of the global LNG markets as well.<sup>26</sup> Any EU dependence on such a cartel will diminish its ability to support gas-exporting countries whose pipelines bypass Russia, will challenge EU energy liberalization and gas deregulation policies, and may have dire foreign policy consequences.

The U.S. certainly should explore all available diplomatic avenues to curb Russian anti-American policies, yet the new administration must be prepared for the contingency that the United States may have no choice but to counter Russian revisionism through disincentives, rather than limiting itself to persuading the Kremlin to embrace the international system.

*The Rule of Law: Backsliding to "Legal Nihilism"*<sup>27</sup>

The Obama administration should not neglect the deterioration of the rule of law in Russia, which has been taking place for the past 6 years. The rule of law is necessary to foreign and domestic investment in Russia; to protect the rights of investors, including property rights; and to facilitate the development of civil society and human rights. Russia's track record of the rule of law under the Communist regime was abysmal, and even before that was problematic at best. Under President Medvedev, originally a law professor, there will hopefully be some change for the better.

Under the administration of Boris Yeltsin (1992–1999), the Russian courts, despite their corrupt practices and lack of judicial sophistication, slowly but surely were becoming more independent. In 2002–2003, however, a reversal began to take place. Specifically, the state increasingly used so-called telephone justice—a practice in which senior officials of the executive branch call upon judges or their staff, including in the Supreme Court system, and tell them how to decide cases.<sup>28</sup> The state also began interfering more heavily even in relatively small disputes under the guise of protecting “paramount state interests.” Russia's judges are dependent on the state for their careers and social benefits, such as appointments, apartments, cars, vacations, promotions, etc. Thus, the state yet again has brought the courts under its control and subjugated the judicial branch to the executive.

State officials have been increasingly involved in hostile takeovers and appropriations ranging from intellectual property in film (even cartoons); to lucrative trademarks, such as the Stolli vodka; and most of all, to companies developing natural resources.<sup>29</sup>

*The Watershed.* The first Yukos case (2003–2004), in which the most successful and transparent Russian oil company was taken over, was a watershed in the downturn of Russian rule of law, and symbolizes its demise. Yukos was broken up based on trumped-up tax charges, although many government officials clearly stated that its owner, Mikhail Khodorkovsky, was perceived as a political threat, because he supported liberal political parties, Internet projects, and institutions of civil society, among other reasons.<sup>30</sup>

The persecution of Yukos undermined the notion of justice being universal because it selectively targeted a politically inconvenient corporation. Other Russian oligarchs, who were often involved in unsavory business practices but were politically loyal to the regime, were not prosecuted.

Yukos property was sold at auction to the state oil company Rosneft at prices considerably lower than the market value. Rosneft is controlled by President Putin's confidantes and political allies. It is hardly accidental that after the Yukos affair, Russian and Western oil companies came under tremendous pressure from the Russian state, which used the bureaucracy, such as tax and environmental protection agencies, to strip them of their property rights. The victims of this policy included Exxon, Shell, British Petroleum, William Browder's Hermitage Capital, and the Russian companies Rusneft and Metchel, to mention a few.

Having targeted Khodorkovsky, the richest and most successful man in the country, the executive branch demonstrated that it can do anything to anybody—all the oligarchs and politicians quickly got the message that, in the words of Star Trek's The Borg, “Resistance is futile.”

Today, Khodorkovsky is facing a new trial scheduled to begin around April 1—around the same time Presidents Obama and Medvedev meet in London for the first time. The trial is widely believed to be a political vendetta and to have no legal

merit. As the new trial gets underway, the only hope expressed by Russian experts is that President Medvedev, who spoke about the “legal nihilism” which is plaguing Russia, may order an impartial trial, or pardon Khodorkovsky afterward—a long shot indeed.<sup>31</sup>

*Journalists Murdered.* Unfortunately, President Medvedev seems not to be excessively concerned about the October 2006 murder of crusading journalist Anna Politkovskaya, whose killers were acquitted by a Moscow jury this past February.<sup>32</sup> Moreover, the prosecutors never presented the court with the names of those suspected of ordering her murder, nor that of the suspected gunman, while an internal security service colonel closely connected to the conspiracy was never put on trial for her murder.

Nor has Medvedev pressed to find the killers of human rights lawyer Stanislav Markelov, who was gunned down a stone’s throw from the Kremlin together with another journalist, Anastasia Baburova, this past February.<sup>33</sup>

Nothing was done to solve the murders of other journalists, including defenestration of *Kommersant* Daily’s military correspondent Ivan Safronov, the poisoning of Yuri Shchekochikhin, Deputy Editor of *Novaya Gazeta*,<sup>34</sup> where Politkovskaya and Baburova worked, or the fatal 2004 shooting of Paul Klebnikov, an American of Russian descent who was editor in chief of *Russian Forbes*.<sup>35</sup> It took an intervention by Mikhail Gorbachev to stop, at least for now, threats against Yulia Latynina, a brave writer and investigative journalist. Violations of Russian law and constitution tragically continue, despite all the talk of restoring legal norms and fighting corruption. No progress was reported in the mysterious poisoning. No progress was reported in the Russian cooperation over the mysterious assassination of Alexander Litvinenko, a Russian former secret service officer poisoned in the United Kingdom with the help of the radioactive element polonium. It is still unclear who authorized, ordered, and supervised this assassination. In fact, the suspected assassin is running for the mayor of the Russian Olympic town of Sochi.<sup>36</sup>

Yet, without a fundamental legal reform, a fight against corruption, and return to judiciary independence, Russia will linger at the bottom of the Transparency International Corruption Index, and The Heritage Foundation’s Index of Economic Freedom.<sup>37</sup> If Russia does not return to internationally recognized legal practices, investment inflows are likely to slow down, and capital will continue to flee. According to a recent study, the Russian courts acquit 1–2 percent of the accused, whereas, for comparison, even under the Soviet dictator Joseph Stalin, Soviet courts acquitted 10–12 percent of those accused, and in Europe, the acquittal rates are 20–40 percent. This is hardly a picture of the rule of law.<sup>38</sup>

#### *Russia Policy for the Obama Administration*

To meet today’s challenges and preserve the security of Europe and Eurasia, the Obama administration should conduct a comprehensive assessment of United States-Russian relations and then prepare a detailed foreign policy agenda that protects American interests; checks the growing Russian influence in Europe, the Middle East, and Eurasia; deters aggression against the U.S., its allies, and its strategic partners; encourages Russia to adhere to the rule of law at home and abroad; and to act as a responsible player in the international system.

Specifically, the Obama administration should use its political capital to maintain and expand transatlantic unity by showing leadership within NATO. Russia is seeking to divide the United States and its European allies, not only through energy sources, but also by exploiting existing differences over missile defense, the Iraq war, and other issues. In its attempt to undermine the global posture of the U.S. and its allies, the Kremlin offers incentives for European powers to distance themselves from the United States. Germany, with its growing dependence on Russian natural gas and its opposition to further NATO enlargement and missile defense deployment in Central Europe is a good example. Essentially, in order for Russia to successfully carry out its foreign policy agenda it needs to delay and thwart any strong, unified energy-policy response from the United States and its allies. Moscow is seeking to gain power and influence without being countered by any significant challenge. The National Security Council and the U.S. State Department should develop a mechanism for regular consultation with our allies with regards to Russia, with coordinated initiatives toward regional conflicts, institutional enlargement, conventional weapons control, and energy policy.<sup>39</sup>

The Obama administration should refrain from resubmitting the 123 nuclear agreement with Russia for congressional approval until Russia meets the following three conditions:

(1) Russia discontinues its support of Iran’s military nuclear energy program and provides full disclosure. Indeed, it is Russian nuclear fuel that undermines Iran’s claim that it needs uranium enrichment. Russia must discontinue any efforts that

advance Iran's heavy-water-reactor program, enrichment activities, spent-fuel reprocessing programs, missile technology transfer, or engineer and scientist training for nuclear and missile technology. Russia must disclose its past activities in support of the Iranian program, as well as what it knows about any third party assistance. Russia should work with the United States and other nations to compel Iran to discontinue any fuel enrichment or spent-fuel reprocessing, which would give Iran access to bomb-grade material. The U.S. should use the prospect of the 123 Agreement as an incentive to halt Russia's interactions with Iran on nuclear issues.<sup>40</sup>

(2) The Obama administration through the Office of the United States Trade Representative should also request that Russia provide adequate liability protection for U.S. companies doing business in Russia. Even with a 123 Agreement in place, U.S. companies would likely forgo commercial activities in Russia due to a lack of liability protection. Indeed, many countries use the lack of liability protection for U.S. companies as a means to protect their domestic nuclear industry from U.S. competition.<sup>41</sup>

(3) The U.S., through the Office of the United States Trade Representative, should demand that Russia provide two-way market access to American companies. This agreement should not be simply an avenue to bring Russian goods and services to the U.S. market; it is equally important that U.S. companies are allowed to compete for business in Russia. While Russian nuclear technology is second to none, foreign competition will assure that the highest quality standards are maintained throughout the country.<sup>42</sup>

The Obama administration, through the National Security Council and the U.S. State Department and Departments of Energy, should work with American allies and partners to diminish dependence on Russian energy and shore up the East-West energy corridor. This is a vital component of any strategy designed to stem Russian aspirations to neutralize and "Finlandize" Europe by weakening its strategic alliance with the United States. The U.S., under President Obama's leadership, should encourage its European allies to diversify their sources of energy, to add LNG and non-Russian-controlled gas from the Caspian, and nuclear energy and coal, as well as economically viable renewable energy sources. The U.S. should also encourage Russia to act as a responsible supplier of energy by opening development of its resources to competitive bidding by Russian and foreign companies, whether private or state-owned. Since the U.S. is interested in a level playing field in the energy and natural resources area, the Obama administration should offer political support by encouraging European and American companies' efforts to bring natural gas from the Caspian to Europe. Washington should also encourage Moscow to decouple access to Russia's natural resources sectors from the Kremlin's geopolitical agenda in compliance with the Energy Charter that Russia signed, but did not ratify.

The Obama administration, through the National Security Council and the U.S. State Department, should oppose the Kremlin's support of anti-American state and nonstate actors (Venezuela, Cuba, Iran, Syria, Hamas, Hezbollah). Russia's revisionist foreign policy agenda has extended to cultivating de facto alliances and relationships with a host of regimes and terrorist organizations hostile to the United States, its allies, and its interests. Even as the United States seeks Russia's assistance in ending Iran's nuclear program, Moscow is selling Tehran sophisticated air-defense systems and other modern weapons and technologies, including dual-use ballistic missile know-how, ostensibly for civilian space purposes. Russia cannot improve relations with the United States while maintaining ties with aggressive powers and terrorists. The Obama administration should advise Russia to distance itself from the likes of Hugo Chavez, Mahmoud Ahmadinejad, and other troublemakers with global reach.

Washington should undertake necessary strategic planning before initiating new strategic nuclear-arms-control negotiations with Russia. The White House and the Kremlin appear eager to negotiate a new arms control treaty governing strategic nuclear forces on both sides. But at this early juncture in the Obama administration, the White House has not conducted the necessary reviews of the broader national security strategy, let alone more technical analyses regarding the future military requirements of the U.S. strategic nuclear force. At the outset, the Obama administration needs to establish a new policy that pledges to the American people and U.S. friends and allies that it will serve to "protect and defend" them against strategic attack. The administration, therefore, should defer negotiations on a new strategic nuclear arms treaty with Russia until after it has drafted the national security strategy, the national military strategy, issued a new targeting directive, and permitted the military to identify and allocate targets in accordance with the protect-and-defend strategy.<sup>43</sup>

Further, the Obama administration need not be overly concerned about the expiration of START. U.S. and Russian strategic nuclear weapons, specifically those that are operationally deployed, will be controlled under the 2002 Strategic Offensive Reductions Treaty (SORT, commonly called the Moscow Treaty for the city where it was signed). The Moscow Treaty requires both sides to reduce the number of operationally deployed strategic nuclear warheads to between 1,700 and 2,200. It will not expire until the end of 2012. Thus, there is no reason for the U.S. and Russia to negotiate a new treaty limiting strategic nuclear arms against the artificial deadline of START's expiration. Indeed, it would be unwise to do so because an effective arms control treaty requires careful planning and preparation.

Washington should maintain missile defense plans for Poland and the Czech Republic. If a "grand bargain" between Moscow and Washington abandons the third site in Poland and the Czech Republic, it would compromise American interests, damage relations with important allies and open up the United States to extortion. Moreover, Russian interests in Iran militate against such a deal. Nor should the administration cancel America's ballistic defense program in response to Russian threats—or in response to recent promises by President Medvedev not to deploy short-range ballistic missiles to the Belarussian-Polish border or to the Kaliningrad exclave. To cancel this program as a concession to the Russians would send a clear signal of American weakness, encouraging further aggression against Russia's neighbors. Russia must not come to believe it can succeed in altering U.S. policy through threats, or it will continue to use these and other destabilizing gestures more consistently as tools of foreign policy—to the detriment of American and world security. Backing down on missile defense would also strengthen the pro-Russian political factions in the German Foreign Ministry, dominated by Social Democrats, in the German business community, and elsewhere in Europe. However skeptical some in the Obama administration may be of the functionality and cost-effectiveness of the missile-interceptor system, the fact is that this is the only defense the U.S. and its allies currently have against a potential Iranian ballistic missile launch, as well as a powerful symbolic bargaining chip in discussions with Russia. The U.S. should also engage Russia in discussions on ballistic missile cooperation—without granting Moscow a veto over missile deployment in Europe.

Washington should support Georgia's and Ukraine's territorial integrity and sovereignty. Such support should involve the Departments of State, Defense, Energy, and USAID and be coordinated by the National Security Council. During the Presidential campaign, Candidate Obama made multiple laudable statements expressing firm support for Georgia's territorial integrity, denying the validity of Russia's recognition of Abkhazia and South Ossetia, and expressing a willingness to extend NATO Membership Action Plans (MAPs) to Georgia and Ukraine (which were recently replaced by the Bush administration with Strategic Cooperation Charters). Likewise, Secretary Clinton's words on her recent visit to Brussels were encouraging: "We do not recognize any sphere of influence on the part of Russia, or their having some kind of veto power over who can join the EU or who can join NATO." Yet there are lingering doubts whether the U.S. will follow through on its stated principles of supporting Georgia, especially its NATO aspirations and defense reform plans.

President Obama should now provide the firm foundation for a policy devoted to deterring Russia from taking similar action in the future, for example against Ukraine or Azerbaijan. The Obama administration should implement the Strategic Cooperation Charters signed with Ukraine and Georgia on December 19, 2008, and January 9, 2009, respectively. In negotiations with Russia, the Obama administration should also stress that the U.S. will not tolerate any foreign adventures in Georgia. If such admonitions are not made, this may be taken as a de facto green light for a new conflict.

While there is little chance that Russia will renounce its recognition of Abkhazia or South Ossetia, the Obama administration should explore every option for making Russia pay a diplomatic and economic price for its recent acts of aggression against Georgia's territorial integrity, sovereignty, and international law. To do otherwise will only invite Russia to try more of the same in the future. The White House should rethink the format of the G-8. It should expand the current G-8 to G-20, in which Russia, China, Brazil, India, and other major powers participate, while holding future meetings of the leading industrial democracies in the G-7 format. This will send a clear signal to Moscow that if it chooses to remove itself from the boundaries of acceptable behavior in the club of the largest democracies, it will no longer enjoy the benefits of being part of that club.

The United States must boost its presence in the Arctic. Russia has designs on a great part of the Arctic—an area the size of Germany, France, and Italy combined. Recently, the deputy chairman of the Duma, the polar explorer Artur Chilingarov,



announced that Russia will control the Northern Sea Route, which is in international waters.<sup>44</sup> The Arctic has tremendous hydrocarbon and strategic mineral reserves. Controlled by Moscow, the Arctic would offer Moscow another means of consolidating Russia's global energy dominance. The United States should ensure that its interests are respected in the region by modernizing and expanding its ice-breaker fleet, updating its surveys of strategic resources, and expanding efforts with NATO and other Nordic states (Canada, Norway, and Denmark, etc.) to develop and coordinate Arctic policy. As much as the Arctic may seem a distant priority given the economic and defense challenges facing the Obama administration, the United States cannot afford to ignore this strategically vital region.

Finally, The administration should appeal to President Medvedev to stop what he himself has called law enforcement's "nightmarish practices" toward business; start reforming the legal system; ban the so-called power ministries (i.e., the secret police and law enforcement, including the Investigatory Committee of the Ministry of Internal Affairs) and their leaderships from engaging in expropriations and extortion; fight corruption in the judiciary and in law enforcement; and allow enforcement of foreign arbitral awards in Russia. The Obama administration should also request that President Medvedev order renewed investigations of the Politkovskaya and the Markelov cases, and ask for the release of Khodorkovsky from incarceration through either a fair trial or a Presidential pardon. While unlikely, these measures, if undertaken, would be a strong signal to the U.S., to the Western business community, and to the Russian people, that when it comes to the rule of law, a clean break with the lawless past is underway, and that Russia may be joining the community of civilized nations.

#### *Conclusion*

Russia is and will remain one of the most significant foreign policy challenges facing the Obama administration. Despite the recent toned-down rhetoric stemming from the economic downturn, the Kremlin needs an "outside enemy" to keep its grip on power at home. Yet, this truculence clashes with Russia's need to fight the financial crisis in cooperation with major economic powers; attract foreign investment; switch the engine of its economic growth from natural resources to knowledge and technology; and ensure steady commodities exports. From the Kremlin's perspective and due to the democracy deficit in Russia, the legitimacy and popularity of the current regime necessitates confrontation with the West, especially with the United States. The image of an external threat is exploited to gain popular support and unite the multiethnic and multi-faith population of the Russian Federation around Prime Minister Putin and President Medvedev.

Despite the need to attract investment, the Kremlin is likely to pursue an antistatus quo foreign policy as long as it views the United States as weakened or distracted due to the combined effects of the economic crisis; U.S. involvement in Afghanistan and Iraq; the presence of the Taliban and al-Qaeda in Pakistan; the need to deal with the fast-developing prospect of a nuclear-armed Iran; and preoccupation with the Arab-Israeli conflict.

The Obama administration must raise the profile of Russian, Eurasian, and Caspian energy on the U.S. foreign policy agenda. Further failures to stem Russia's revisionist efforts will lead to a deteriorating security situation in Eurasia and a decline of American influence in Europe and the Middle East.

With regards to renewed U.S. engagement with Russia and pressing the "reset button," there is concern that there may be naivete about what can be accomplished or achieved with Russia. An improvement of United States-Russia relations is certainly desirable, but it should be calibrated with concrete Russian actions that support U.S. interests. If Russia, reconsiders its anti-American stance, the United States should be prepared to pursue matters of common interest, such as the recent agreement on military supplies to Afghanistan and the strategic-weapons-limitations agreement.

Lastly, the Obama administration should not forgo a core American foreign policy objective with regards to Russia: Promoting democracy, good governance, and the rule of law. As events have shown in recent years, the prospects for Russia becoming a law-governed society have in many ways receded. Yet, the United States has a strong interest in Russia's eventual transformation into a liberal, free-market, law-governed democracy. Such a transformation will improve its relations with the United States, its neighbors and enable Russia to make a more substantial contribution to the international system.

History has shown that the most dangerous times are the ones when new powers (or in this case, resurgent ones) attempt to overturn the status quo. The United States and its allies must remain vigilant and willing to defend freedom and pre-

vent Russia from engendering shifts in the global power structure detrimental to U.S. national security interests.

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The CHAIRMAN. Thank you very much, sir.

Mr. Kuchins.

**STATEMENT OF ANDREW KUCHINS, DIRECTOR AND SENIOR FELLOW, RUSSIA AND EURASIA PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, WASHINGTON, DC**

Mr. KUCHINS. Mr. Chairman, Senator Lugar, members of the committee, thank you very much for the opportunity to share a few thoughts with you this morning about Russia and the prospects for engagement, or pressing this so-called “reset button.”

I suppose I’m somewhat a bit more optimistic than Ariel on this, but, you know, the analogy, certainly, of a reset button is not perfect. There is an awful lot of toxic waste under the bridge in the United States-Russian relationship. There’s no way that we can simply clear this up by—overnight, and some of the legacies of the past are not going to go away immediately. But, if the sentiment simply implies that there is an opportunity for the Obama administration to improve relations with Russia, that’s one which I heartily agree with, and I want to spend a few minutes arguing more broadly as to why I think that’s the case, rather than focusing on specific issues. I’ve made lots of recommendations in a couple of recently published reports, one of which you referred to.

Now, a good part of the rationale that there is an opportunity here is simply that relations had reached such a low point in the wake of the Georgia war in the fall that there was only virtually one direction to go in, and that was up, unless we wanted a new cold war, or perhaps something worse, with the Russians.

I’ve also sensed, here in Washington over the course of the last 6 months, the emergence of a broadening consensus in the middle of our political spectrum about the need, the importance of having a more constructive relationship with the Russians, and I think the report that you referred to by your former colleagues, Senators Hart and Hagel, is an example of that.

But, more fundamentally, the global situation has changed quite drastically in the last year, and, I think, in ways that have altered the calculations of friends in the Kremlin. Russia had been on an extraordinarily—extraordinary economic role, for the past decade, that saw its GDP grow by a factor of more than eight in less than 10 years. Simultaneously, they had perceived United States power in the world as ebbing, they saw us mired in difficult military engagements in Iraq and Afghanistan, and then, more recently, they saw our economy begin to flounder with the subprime mortgage crisis, which foreshadowed the global economic—global financial crisis.

I think, for the last several years—the 5 years or so, particularly, which Steve mentioned, the worsening—the deterioration of United States-Russia relations—the Russians have overestimated their strength, and they have overestimated our weaknesses. But, their hubris, I think, has been rocked as the crisis has hit them extraordinarily hard, revealing their vulnerabilities, as well as deep integration into the global economy.

Now, Russia is notoriously difficult to comprehend, as many famous observers far smarter than I have noted over the years. My favorite line about Russia comes from Will Rogers, “Russia is the only country about which, no matter what you say about it, it’s true.”

My argument today is that maybe Russia’s not so mysterious to understand and that’s it’s really its economic circumstances, as well as its articulated goals, that hold the answer about this question of “Whither Russia?”

Two thousand eight was the most contentious year in Russian-Western relations since the collapse of the Soviet Union; yet, while these political relations have continued to worsen, economic integration between Russia and the West continue to deepen and to widen as trade and investment volumes reached all-time highs.

In the summer of 2008, the Russian Government published a long report detailing Russia’s economic goals to the year 2020. The most striking finding, for me, in this report is that Europe especially, but the West more broadly, would be, far and away, the most important partners for Russia to achieve their best-case-growth scenarios in the coming 12 years. And it seemed that the current trends—and this goes back to before the Georgia war—the current trends of deepening economic integration, on the one hand, and worsening political relations, on the other hand, between Russia and the West, were contradictory and not sustainable.

Now, Mr. Medvedev was inaugurated as Russian President back in May. A couple of weeks later, the Russian stock market hit its all-time high. A couple of months after that, oil price went up to \$147 a barrel. The Russian Government had more money than it knew what to do with. And the report on Russia’s strategic economic goals to 2020 called for similar growth levels that would ultimately make Russia the fifth largest economy in the world and the largest in Europe. Our friends in the Kremlin were talking about themselves as a safe haven or an island of stability in the widening economic crisis.

But, how quickly things have changed. And both Senator Kerry and Lugar pointed to a number of these data points about the im-

pect of the economic crisis on Russia. I would only add to that, that most prognoses for economic performance in 2009 predict negative growth. And because of the expected—because of the ruble devaluation which has taken place, and possible ruble devaluation in the future, the nominal dollar GDP of Russia is likely to drop 20 to 25 percent after averaging more than 25 percent growth for the last 9 years. And the Moscow-based investment bank, Troika Dialog, which actually is one of the most—one of the more optimistic prognostications about the Russian economy, have the numbers for the economy coming in, last year, 2008, at almost 1.7 trillion, and the prediction for next year is 1.25 trillion. Now, this is quite a reversal of fortune. The Russian Government is looking at deficits of 5 to 10 percent in 2009, and possibly deficits in 2010 and 2011. And we've seen the growing impact of the crisis on the Russian real economy.

Now, all national economies are struggling to adjust to the deepest global slump in several generations, but the drastic change in momentum for policymakers in Moscow is especially stark and challenging. Since so many millions of Russians have benefited from the economic prosperity of the last decade, the impact of the current crisis affects a far greater percentage of the population than the last economic crisis, back in 1998. And I think, in the coming year ahead, Mr. Putin's vaunted "vertical of power" will be tested as never before.

Now, it's important for us to think carefully about what are the foreign policy implications of this extraordinary economic whiplash?

The crisis should have a major impact on Russia's external behavior and, therefore, U.S. interests. As of this moment, many analysts have concluded, as Dmitri Simes did back in December, that in Russia hard times normally produce hard lines. I don't think that the historical record actually supports that that's the case, and I think that history provides more evidence that economic downturns in Russia have often—corresponded with periods of greater cooperation. Economic stagnation in the late 1980s was associated with the end of the cold war. And the contraction of the 1990s correlated with an accommodating foreign policy under Boris Yeltsin. Since the first oil crisis back in the 1970s, there has been a powerful correlation, I would argue, between a high-oil-price environment and a more assertive and aggressive Russian foreign policy, and this dynamic corresponds to the late Brezhnev years and to the Putin period, especially since 2003–2004.

Now, nothing is predetermined, but this historical perspective suggests that the current economic downturn could push Russia towards a more cooperative stance, vis-a-vis the West, including the United States, especially in terms of economic cooperation.

Just 9 months ago, with the oil price so high, the Russians had very little incentive to cooperate and engage economically with us. Russia was such an attractive market that it did not need to make any effort to lure Western investors; money flowed into its markets, regardless of its policies; its economy grew at a rapid clip, despite the stagnation of the structural economic reform agenda; and it no longer needed financing from an international—international institutions to ensure fiscal health. In short, Russia's boom provided lit-

tle incentive to reach out to the West. Today, that situation is quite different.

I think there were also implications of this for Russia's domestic economic and political policies. I think evidence also supports that, since the first oil crisis, back in 1973, periods of low international oil prices and/or economic downturns in Russia correlate with greater incentives for structural economic reform, and those usually correspond with greater degrees of political pluralization.

It was the crash of the oil price, back in 1986, that took place shortly after Mikhail Gorbachev assumed leadership, and this dramatic drop in hydrocarbon revenue starkly revealed all the structural deficiencies of the Soviet economy. The rapidly eroding balance sheet clearly made imperative the—reform much more urgent. It's hard to imagine that Mr. Gorbachev would have embarked on such a radical set of reforms, absent this impending sense of economic crisis.

So, at least in the short term, or for however long this economic downturn lasts, the Russians are going to feel far more economically constrained than recently. And even when global demand begins to recover, the Russians are going to be competing for investment with all economies whose assets have dramatically declined in value, as opposed to 10 years ago, where Russia was more unique as a large emerging market with undervalued assets.

There's another major difference that Russia faces today with its recovery than 11 years ago, and that is that, for the near and mid term, the prospects for production growth of both oil and gas resources are rather grim. And particularly in the oil sector, after the financial crash in 1998, Russian oil companies, led by YUKOS, Mr. Khodorkovsky at the time, achieved remarkably rapid growth in production with application of modern technologies to the old Soviet wells in western Siberia. That feat cannot be repeated again today, and future production will have to come from new green fields in geologically and climatically challenging conditions that could be the most expensive and complicated projects in history, and they can't do it alone.

I think as commodity prices have fallen sharply, I think it's clear to the—our leaders in the Kremlin, that the status quo is not a viable option. Russia cannot continue to depend to such an extent on its resource of wealth, which is vulnerable to the cycles of booms and busts. They know it, but doing something about it is a bit more complicated.

Now, in—to conclude, here, my view, since the Soviet Union collapse, has been, and remains, that, in the long term, Russia's strategic economic and security interests lie in closer partnership with the West, not necessarily to the exclusion of its partnerships and relations with other key countries, like China, India, and Iran and others. But, historically, culturally, economically, demographically, Russia has always leaned to the West, and its roots are as a European great power. And a particularly telling data point from the Russia 2020 strategy supports this conclusion. Even in the best-case scenario, what they call the “innovation scenario of growth to 2020,” which calls for an average of 7-percent growth to that year, Russia's share of global GDP would rise from only 2.5 percent today to a bit less than 4 percent in 2020. My conclusion from this

fact is that Russia will not have the financial or human resources to wage any kind of new cold war and contest United States power around the globe, as it did for most of the second half of the last century. And it was Russia's excessive—Soviet Union's excessive militarization of its economy and society to support its overarching global confrontation with the United States that was a major cause of its collapse, and this lesson is not lost on current Russian leaders.

Why have we failed to establish a firmer partnership with Russia over the past generation? Well, there's lots of fault to go around, but I think one factor that we should keep in mind is that, while many observers have been quick to refer to Mr. Putin's Russia as neoimperial in its policies, I think fundamentally what the Russians are still dealing with is the collapse of empire in a post-imperial syndrome. The Soviet Union was the last empire to collapse. And, like many empires before them, it will take more than one generation for Russia to fully adapt to its post-imperial status. As then-Deputy Secretary of State Strobe Talbott said, back in the 1990s, "We need to have strategic patience with Russia."

The other thing I would point to is that Russia's heavy dependence on energy exports also contributes to contradictory tendencies in its internal organization and its foreign policy. For the last near-decade, in fact, Russia has defied modernization theory, in that its democratic institutions have weakened as its people have become considerably more prosperous. Social scientists point to this \$10,000 per-capita income level at the point, generally, at which most developing countries become more democratic. I think it is oil and gas dependency which has made Russia an outlier in this regard.

In conclusion, while I'm reasonably confident about the broader framework of my argument, there are two important near-term caveats I'd like to make.

First, there is the danger that the Kremlin may not be able to react quickly or effectively enough to the growing social and political impact of an extended downturn, especially if there's a second wave of dramatic difficulties later this year or next year.

Now, one may fault the Russian leadership for being in denial for too long or spending too much of its reserves on defending the ruble. Their response has been broadly in line with what other national governments are doing with stimulus packages and other measures, bailout packages, and some economic indicators, such as the value of the ruble, the Russian stock market, have stabilized. Still, there is considerable potential for greater hardship and social unrest that may invite a tougher crackdown in response, that could be accompanied by greater international isolation, and this would short-circuit any reset button.

The second caveat concerns differences over our policies towards Russia's near neighbors, which I would expect would continue to be the most contentious point of our relationship. Now, while Russia has been harder hit than many developed and large emerging market economies, many of its neighbors have been hit harder, which may actually be increasing Russia's leverage with them. And, I think, already we see signs of this in ties with Ukraine and Kyrgyzstan earlier this year.

Tougher economic conditions also may increase Moscow's incentives to control oil and gas production and transport infrastructure with its neighbors, and conflict between Washington and Moscow over the post-Soviet space will likely continue to be the most volatile set of issues in the bilateral relationship, as well as within Europe. I think we are unlikely to see consensus in Europe anytime soon.

With that, let me conclude so we can leave more time for discussion and questions.

Thank you.

[The prepared statement of Mr. Kuchins follows:]

PREPARED STATEMENT OF DR. ANDREW C. KUCHINS, DIRECTOR AND SENIOR FELLOW, RUSSIA AND EURASIA PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, THE HERITAGE FOUNDATION, WASHINGTON, DC

Last month in Munich Vice President Biden talked about "pressing the reset button in United States-Russia relations." While the State Department was challenged to find the correct translation of "reset button," those of us in the Russia-watching community have been debating whether such a button exists, and if so, what "pressing" it might really mean. The analogy that Vice President Biden used a month ago at the Munich security conference is not perfect, since there is too much toxic waste under the bridge of United States-Russian relations to be cleaned up over night. But the sentiment implies that there is a real opportunity for the Obama administration to improve relations with Russia, and with this I very much agree.

A good part of the rationale is simply that relations had reached such a low point, lower than any point in at least two decades, in the wake of the Georgia war last year, that there was virtually only one direction the relationship could go before igniting a new cold war or worse. I also sensed in the fall/winter the development of a solid consensus in the center of the U.S. political spectrum that it was imperative for the incoming Obama administration to develop a more constructive relationship with Moscow, in order to address more effectively a number of pressing security challenges including Afghanistan, the Iranian nuclear program, and nuclear security more broadly, among other issues.

In addition, the global situation has drastically changed in ways that probably have altered the calculations in the Kremlin. Russia had been on an extraordinary economic roll for the past decade that saw their GDP grow by more than eight times. Simultaneously they perceived U.S. power to be ebbing as we became mired in the Iraq and Afghanistan wars and our economy began to flounder with the subprime problems, foreshadowing the global financial crisis. Most likely they overestimated their strength as well as our weakness, but Russian economic hubris has been rocked as the crisis has hit them extremely hard, revealing their vulnerabilities as well as deep integration with the global economy. For the first time in years I think there is a greater sense in Moscow that Russia needs better relations with the United States and the West more broadly.

#### ECONOMIC FACTORS KEY TO UNRAVELING THE RUSSIAN RIDDLE

Russia is notoriously difficult to comprehend, as many famous observers far smarter than I have noted over the years. My personal favorite is from Will Rogers, "Russia is a country that no matter what you say about it, it's true." My argument today is that understanding Russia's economic circumstances as well as its articulated goals hold the answer today to the eternal question "Whither Russia?"

Two thousand eight was the most contentious year in Russian-Western relations since the collapse of the Soviet Union. From differences over Kosovo, NATO enlargement, and missile defense in the spring to the Georgia war in August to concluding the year and opening the new one with another gas war between Russia and Ukraine, tensions and differences escalated. Yet while political relations continued to worsen, economic integration between Russia and the West continued to deepen and widen as trade and investment volumes reached all time highs. In the summer of 2008 the Russian Government published a long report detailing Russia's economic goals to the year 2020. The most striking finding in that report is that Europe especially, and the West more broadly, would be far and away the most important partners for Russia to achieve their best-case growth scenarios in the coming 12 years. The current trends of deepening economic integration amidst worsening political re-



lations did not seem sustainable in the summer of 2008, and now after the war in Georgia and the impact of the economic crisis they seem even less so.

Dmitri Medvedev was inaugurated as Russia's new President in May, later in the month the Russian stock market hit its all-time high, and in July the oil price peaked at \$147/per barrel. The Russian Government had more money than it knew what to do with as foreign currency reserves peaked at nearly \$600 billion with another \$200 billion in two funds that were formally the Stabilization Fund. The Russian GDP (in nominal dollar terms) had increased by a factor of eight in less than a decade, and the report on Russia's strategic economic goals to 2020 called for similar growth levels that would ultimately make Russia the fifth largest economy in the world and the largest in Europe. Our friends in the Kremlin talked about Russia possibly being a "safe haven" or "island of stability" as the impact of the U.S. mortgage crisis widened to the global economy.

But how quickly things change. Russia's economic hubris has been smashed, as their economy in the last few months has been amongst the hardest hit of large emerging markets. The Russian stock market has lost about 70 percent of its value since its peak (worst performance of all large emerging market economies). It is estimated the Russian Central Bank spent about \$200 billion—first defending the ruble, and then allowing gradual devaluation, until the ruble eventually dropped 50 percent against the U.S. dollar. Most prognoses for economic performance in 2009 predict negative growth, and because of ruble devaluation, the nominal dollar GDP is likely to drop 20–25 percent after averaging more than 25 percent growth for nearly a decade. The Moscow-based investment bank Troika Dialog, for example, calls for a drop in nominal dollar GDP from nearly \$1.67 trillion in 2008 to \$1.25 trillion in 2009—and Troika's prognostications are relatively more optimistic than most.

After a decade of budget surpluses, the Russian Government is anticipating a deficit of 5–10 percent in 2009 and the possibility of deficit in 2010 and 2011. In the fall, Russian enterprises began major layoffs and the unemployment rate will likely exceed 10 percent this year. After a decade of dramatically reducing the poverty level, Russia will likely see it increase once more, from 12 percent to 15 percent according to the most recent World Bank projections. There is growing concern about the potential social impact in one-company towns with massive layoffs resulting from shutdowns of their major local enterprise.

All national economies are struggling to adjust to the deepest global slump in several generations, but the drastic change in momentum for policymakers in Moscow is especially stark and challenging. Since so many millions of Russians have benefited from the economic prosperity of the past decade, the impact of the current crisis affects a far greater percentage of the population than the last economic crisis in 1998. Vladimir Putin's vaunted "vertical of power" will be tested like never before as the prospects for social unrest and even bankruptcy are ever more possible, if the slump endures for more than 12–18 months.

#### FOREIGN POLICY IMPLICATIONS OF THE ECONOMIC DOWNTURN

It is important that U.S. policymakers understand the implications of this unprecedented economic whiplash. The crisis could have a major impact on Russia's external behavior, and therefore U.S. interests. As of this writing, many analysts have already concluded that the crisis will spur a new period of aggressiveness in Moscow's external stance.<sup>1</sup> Most agree with Dmitri Simes' maxim that "In Russia, hard times normally produce hard lines."<sup>2</sup>

Thus far the crisis has indeed correlated with assertiveness in Russian foreign policy. For example, Russia has engaged in a highly destructive "gas war" with Ukraine, at one point going so far as to completely cut off deliveries to Europe, which caused rationing in some countries that are completely dependent on Russian gas, such as Bulgaria. The recent announcement that Kyrgyzstan would close the U.S. base at Manas under apparent Russian pressure would also indicate a more assertive line. Moscow seems at least in part motivated by a revanchist instinct to keep its "near abroad" under tighter political control.

Despite these assertive moves, it is too early to draw definitive conclusions about the future trajectory of Russian policy. History provides evidence that economic downturns in Russia have corresponded with periods of greater cooperation. Economic stagnation in the late 1980s was associated with the end of the cold war, and the contraction of the 1990s correlated with an accommodating foreign policy under Boris Yeltsin. Since the first oil crisis in the early 1970s, there has been a powerful correlation between a high oil price environment and a more assertive and aggressive Soviet or Russian foreign policy. This dynamic corresponds to the later Brezhnev years and the Putin period, especially since 2003.

Although nothing is predetermined, this historical perspective suggests that the current economic downturn could push Russia toward a more cooperative stance vis-à-vis the West, especially in terms of economic cooperation. Just 9 months ago when oil was over \$140 per barrel, Moscow had fewer incentives to engage with the West on economic issues. Russia was such an attractive market that it did not need to make an effort to lure Western investors; money flowed into its markets regardless of its policies. Its economy grew at a rapid clip despite the stagnation of the economic reform agenda and it no longer needed financing from international institutions to ensure fiscal health. In short, Russia's boom provided little incentive to reach out to the West.

With its economy in deep trouble and oil under \$50, this situation has significantly changed. Clearly economic troubles are not exclusive to Russia, but the whiplash factor has altered the incentive structure to perhaps a greater degree than in many other countries. Recovery from the crisis could require a considerably more economic engagement with the West than the boom did. In sharp contrast to the precrisis period, Russia may now need resources that only international, and particularly Western, investors, institutions and trading partners can provide. This is a potentially powerful incentive for pursuing greater cooperation. Three examples illustrate the point.

First, since its budget appears likely to run a large deficit this year, Moscow may need to turn to international lenders to shore up its fiscal position, especially if its stabilization funds and foreign currency reserves continue to be depleted at such a rapid clip. After having paid off virtually all its debts to other states and international financial institutions ahead of schedule in the first few years of this decade—a move intended both to prevent incoming oil and gas revenues from spurring inflation and to increase geopolitical freedom of maneuver—Russia could now once again turn to international markets and lenders for credits. According to the World Bank, Russia will be forced to do so if oil prices average below \$30 for the year.<sup>3</sup>

Second, Russia's stock market can only recover if foreign, and particularly Western, investors return.<sup>4</sup> The massive expansion of Russia's market over the course of the period from 1998 to mid-2008 was to a significant extent driven by Western investors. Many Russian firms held IPOs in London and New York, some listing directly on Western exchanges. After the "ring fence" that prevented foreigners from trading in its shares on the Russian market was lifted in December 2005 and the government consolidated its 51 percent stake, leaving the remainder to be purchased by private investors, Gazprom rapidly became one of the most desirable stocks in emerging markets. In May 2008, its market capitalization peaked at \$315 billion, making it the third largest company by market cap in the world. In this period, Russia was viewed as one of the most attractive emerging markets. Portfolio foreign investment stood at \$4.2 billion in 2007, a 31.8-percent increase from the previous year.<sup>5</sup>

The economic circumstances that allowed the Russian Government to interfere in the market with impunity are long gone. In the context of the current economic crisis and the bottoming out of the RTS at around 500 points (compared to its high of approximately 2,500 points in May 2008), Russia needs to attract foreign, and particularly Western, investors back to the market. Without a return of foreign capital, the Russian market is unlikely to recover in the medium term. Even if oil prices increase significantly, investors have little money to spend, and if Russia remains a risky investment they will be loath to spend it there.

Third, Russian corporations and financial institutions need to refinance loans obtained from Western lenders. Russian firms obtained nearly \$500 billion in private credits in the years of plenty leading up to the crisis.<sup>6</sup> U.S. estimates that around 40 percent of that went to the energy sector, mostly to Gazprom and Rosneft.<sup>7</sup> Western lenders competed fiercely with one another to finance Russian companies' rapid expansion, tempted by the impressive cash flows on their balance sheets.

When the value of collateralized assets sank as investors fled the Russian stock market over the summer of 2008, Russian companies scrambled to make their (dollar-denominated) repayment schedules. Credit dried up fast and margin calls on 10 of the 25 wealthiest owners of large private companies forced even more asset sell-offs. As one brokerage house put it, "Russia has a solvency problem. Simply put, in August Moscow was flooded with international bankers competing to provide funding to Russian entities. By October, the only financiers visiting were those trying to get their money back."<sup>8</sup> In addition to cash shortage problems, Russian corporations will face difficulties refinancing as a result of the global credit crunch. Russian firms have about \$130 billion in debt coming due in 2009, more than double the total owed by the governments and companies of Brazil, India, and China combined.<sup>9</sup>

## DOMESTIC ECONOMIC AND POLITICAL IMPACT OF DOWNTURN

Evidence since the first oil crisis in 1973 also suggests that periods of low international oil prices and/or economic downturns in Russia correlate with greater incentives for structural economic reform and political pluralization. The crash of the oil price in 1986 took place shortly after Mikhail Gorbachev assumed leadership of the Soviet Union. The dramatic drop in hydrocarbon revenues starkly revealed all the structural deficiencies of the Soviet economy. The rapidly eroding balance sheet clearly made the imperative of reform far more urgent—it is hard to imagine that Gorbachev would have embarked on such a radical set of reforms absent impending sense of economic crisis.<sup>10</sup>

At least in the short-term, or however long this global recession lasts, the Russians will feel far more economically constrained than in the recent halcyon years. Even when global demand begins to recover, Russia will be competing for investment with all economies whose assets have dramatically declined in value, as opposed to 10 years ago when Russia was more unique as a large emerging market with undervalued assets.

The second major difference the Russians will face is that for the near and mid-term, prospects for production growth of oil and gas resources are grim. Particularly in the oil sector after the financial crash in 1998, Russian oil companies, led by Yukos at the time, achieved remarkably rapid growth in production with application of modern technologies to old Soviet wells. That feat cannot be repeated, and future production will have to come from new greenfields in geologically and climatically challenging conditions that could be the most expensive and complicated projects in history.

Russia has reached the end of the road in resource-based development and catch-up growth, but it remains only semimodernized and highly vulnerable to external circumstances beyond its control, primarily the oil price. About 85 percent of its exports are based on energy and commodities such as metals and chemicals. With the exception of the arms industry, Russia's manufacturing has largely failed to develop because of an adverse business climate (widespread corruption and onerous state intervention) and a lack of comparative advantages outside of the commodity sector.

The global financial crisis has hit Russia hard. As commodity prices have fallen sharply, the status quo is not a viable option. Russia cannot continue to depend to such an extent on its resource wealth, which is vulnerable to cycles of booms and busts. No other large emerging market or developed economy is so dependent on a single volatile factor (the oil price) as is Russia.

Sustaining economic growth for the country's increasingly prosperous population will have a direct influence on popular support for the government. A recent study by Daniel Treisman, a political scientist at UCLA, found that the popularity of Russian Presidents "closely followed perceptions of economic performance, which, in turn, reflected objective economic indicators." Thus the Presidential approval rating depends on the Russian people's sense of material well-being; "most other factors"—such as the war in Chechnya, in the case of Putin in 1999—"had only marginal, temporary effects."<sup>11</sup>

Russia faces two starkly different choices for its economy. One option is to continue the current course toward increased state control and renationalization, which would result in economic domination by large monopolistic state corporations. In that case, the country would have little need for the WTO and increasing isolationism would be the natural outcome. Russia's economic growth, however, would probably wither, because such a system breeds stagnation.

The alternative would be to return to the liberal economic reform agenda that Putin abandoned in 2003. Indeed, then-Presidential candidate Dmitri Medvedev's February 15, 2008, speech in Krasnoyarsk called for the revival of such a program.<sup>12</sup> In his speech in Davos on January 28, 2009, Putin further stated: "The crisis has exposed the challenges we have. They are: An excessive orientation of exports towards natural resources and, of the economy as a whole, a weak financial market. There is a greater demand for the development of basic structures . . ." <sup>13</sup> Major elements of such a policy would be the control of corruption, deregulation of the domestic economy, and the reinforcement of private property rights. Such an economic choice would most likely accompany political liberalization and enhanced international integration.

## WHITHER RUSSIA?

My view since the collapse of the Soviet Union has been and remains that in the long term, Russia's strategic economic and security interests lie in closer partnership with the West—not to the exclusion of its important interests in constructive relations with China, India, Iran, and many other countries to its East and South.

Historically, culturally, economically, demographically, Russia has and continues to lean strongly to its roots as a European great power.

Another telling data point from the Russia 2020 strategy supports this conclusion. Even in the best-case innovation scenario that calls for average 7 percent annual growth and a more diversified economy, Russia's share of global GDP would rise from only 2.5 percent of global GDP today to about 4 percent in 2020. Russia will not have the financial or human resources to wage any kind of new cold war and contest U.S. power around the globe as it did for most of the second half of the last century. The Soviet Union's excessive militarization of its economy and society to support its overreaching global confrontation with the United States was a major cause of its collapse, and this lesson is not lost on most of the current Russian elites.

And it would also seem that Russia's genuine security challenges are principally to its South in the form radical Islamic groups supporting terrorist and oppositionist activities in its neighborhood as well as in the Northern Caucasus, the most vulnerable and unstable region of Russia. Longer term, there is tremendous insecurity about the rapid rise of China to its East. Russia may not have been thrilled with the notion of "junior partnership" with Washington, but a subordinate role to Beijing is far less palatable.

So why have we failed to establish a firmer partnership with Russia over the past generation? There is lots of fault to go around, and certainly our own unipolar hubris in the wake of the great victory of the cold war played a considerable role. As for Russia, while many observers have been quick to label Putin's Russia as "neo-imperial," fundamentally the Russians are still dealing with collapse of empire and post-imperial syndrome. The Soviet Union was the last empire to collapse, and like many empires before them, it will certainly take more than one generation for Russia to fully adapt to its post-imperial status. As then-Deputy Secretary of State Strobe Talbott wisely advised more than a decade ago, we need to have "strategic patience" with Russia.

Russia's heavy dependence on energy exports also contributes to its contradictory tendencies. For the last near decade, Russia has defied modernization theory in that its democratic institutions have weakened as its people have become considerably more prosperous. Social scientists point to a \$10,000/year income as the point at which most developing countries become more democratic. The oil and gas income dependency is probably the factor that makes Russia an outlier.

#### CAVEATS

While I am reasonably confident about the broader framework of my argument, there are two important near-term caveats. First, there is the danger that the Kremlin may not be able to react quickly or effectively enough to the growing social and political impact of an extended downturn, especially if there is a second wave of dramatic difficulties this year or next. While one may fault the Russian leadership for being in denial for too long or spending too much of its reserves on defending the ruble, their response has been broadly in line with what other national governments are doing with stimulus packages and other measures, and some economic indicators such as the value of the ruble and the Russian stock market have stabilized. Still, there is considerable potential for greater hardship and social unrest that may invite a tougher crackdown in response that could be accompanied by greater international isolation. This would short-circuit any "reset button" in United States-Russian relations for a time.

The second caveat concerns differences over our policies toward Russia's near neighbors. While Russia has been harder hit than many developed and large emerging market economies, many of its neighbors have been harder hit which may be increasing Russia's leverage with them. Already we see signs of this with Ukraine and Kyrgyzstan early this year. Tougher economic conditions may increase Moscow's incentives to control oil and gas production and transport infrastructure with its neighbors. Conflict between Washington and Moscow over the post-Soviet space will likely continue to be the most volatile set of issues in the bilateral relationship as well as with and within Europe. We are unlikely to see European consensus over Russia policy any time soon.

#### CONCLUSION

I believe we have an important opportunity to turn around United States-Russian relations. Despite lingering revanchist tendencies, Moscow harbors powerful motivations to improve its ties with the United States and the West to both enhance its security and facilitate its economic development. The Russian leaders wish to be seen in public on an equal footing with global leaders, especially the United States President. Furthermore, and more importantly, they understand that Russia cannot

afford to fall back into another long-term confrontation with the West: Integration with the West remains Russia's best chance to develop and reach its ambitious target of becoming the fifth largest economy in the world by 2020.

For the United States, the motivation for closer cooperation with Russia is grounded in the reality that the world's most pressing energy and security challenges cannot be addressed effectively without Moscow's cooperation and trust. This is most obvious in the realm of nuclear nonproliferation and European security.

In conclusion, my final caveat is that rebuilding trust and reaching concrete agreements about cooperation will not be easy, and we must beware of overly high expectations lest we be disappointed as we were with two previous opportunities to improve ties with Russia: After the collapse of the Soviet Union in 1991–92 and after 9/11 in 2001. The powerful cold war legacies have now been overlaid with nearly two decades of mutual disappointment in Russia and the United States. Even in areas that we presumably share broadly common goals such as promoting nuclear security, stabilizing Afghanistan, restoring global economic growth and order, and expanding economic and trade ties, the going will be tough. Strong leadership and support in the Congress will be essential as well as firm Presidential leadership supported by a well-organized bureaucracy in the executive branch.

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Note: Much of this testimony derives from two recent reports which I coauthored: Samuel Charap and Andrew C. Kuchins, "Economic Whiplash in Russia: An Opportunity for U.S.-Russian Commercial Relations?" (Washington DC: Center for Strategic and International Studies, February 2009) and Anders Aslund and Andrew C. Kuchins, "Pressing the Reset Button in U.S.-Russia Relations," (Washington DC, Peterson Institute for International Economics, March 2009). See these reports for a comprehensive set of specific policy recommendations regarding U.S.-Russia relations.

<sup>1</sup>E.g., Clifford G. Gaddy and Barry W. Ickes, "Putin's Third Way," *The National Interest*, January 21, 2009, <http://www.nationalinterest.org> and Leon Aron, "Russia's Woes Spell Trouble for the U.S.," *Wall Street Journal*, December 31, 2008.

<sup>2</sup>Dimitri K. Simes, "Uncertainty in Moscow," *The National Interest*, December 24, 2008, <http://www.nationalinterest.org>.

<sup>3</sup>"Vsemirnyi bank ponizhaet protsenty," *Vzglyad*, December 19, 2008, <http://vz.ru>. Russian officials claim that their stabilization funds will be adequate to cover budgetary shortfalls for 2009–2011. Courtney Weaver, "Oil Funds Will Cover Shortfalls for 3 Years," *Moscow Times*, February 4, 2009, <http://www.moscowtimes.ru>.

<sup>4</sup>If oil prices remain low, domestic investors alone will be too cash-poor to return the market to its previous levels. Gaddy and Ickes, "Putin's Third Way."

<sup>5</sup>Interfax, February 2, 2008.

<sup>6</sup>Gaddy and Ickes, "Putin's Third Way."

<sup>7</sup>Ben Aris, "RUSSIA 2009: Paused Before A Rally," *Business New Europe*, December 20, 2008, <http://www.businessneweurope.eu>.

<sup>8</sup>Renaissance Capital, "2009 Outlook: What's Next," December 16, 2008, p. 8.

<sup>9</sup>World Bank, "Russia Economic Report," no. 17, November 2008, p. 15. <http://www.bloomberg.com>.

<sup>10</sup>Andrew C. Kuchins, "Alternative Futures for Russia to 2017," (Washington DC: Center for Strategic and International Studies, 2007).

<sup>11</sup>Daniel Treisman, "The Popularity of Russian Presidents," presentation at the Frontiers of Political Economics conference, New Economic School, Moscow, May 30–31, 2008.

<sup>12</sup>Transcript of the speech of the first deputy chairman of the Government of Russia, Dmitri Medvedev, at the 5th Krasnoyarsk economic forum "Russia 2008–2020. Management of Growth," February 15, 2008. (Stenogramma vystupleniya Pervogo zamestitelia Predsedatelia Pravitelstva Rossiya Dmitriya Medvedeva na V Krasnoyarskom ekonomicheskome forume "Rossiya 2008–2020. Upravleniye rostom") Available at <http://www.rost.ru> (Accessed on February 9, 2009).

<sup>13</sup>"Putin's Speech at Davos World Economic Forum," *Russia Today*, January 28, 2009, [www.russiatoday.com](http://www.russiatoday.com) (accessed on February 2, 2009).

The CHAIRMAN. Thank you very much, Mr. Kuchins.

With that, actually, I'm not sure where we are with Russia. [Laughter.]

Listening to you, in the back and forth of these last three testimonies, it kind of leaves a lot up in the air, which is what we're going to try to narrow down.

Now, we have a problem that's developed. The Senate is going to have three votes at 11 o'clock. What I'd ask colleagues to do is, if we can stay until the back end of the first vote, and then we'll have a recess for the period of the second vote, and then we'll vote at the front end of the third vote and come right back, so we'll have

a minor recess in order to try to accommodate the process. And I apologize to witnesses for that.

Let me try to jump in very quickly here. You said, at the end of your testimony, Mr. Kuchins, that, you know, Russia's going to have, perhaps, little ability to contest American power around the world. Is that—isn't that old thinking? I mean, is it—is that really their objective, to contest our power? Or is it perhaps to assert their interests, as they see them, in certain places? Which may, on occasion, contest our power, but it seems to me that's not their fundamental organizing principle, or is it? I'd like to get a sense of that.

You know, countries respond to other countries' actions, and countries make determinations about what their interests are, and make determinations about their perception of a threat to them. The fact is that the Bush administration did a number of things that Russia was pretty much dead-set against, and stated so before they happened, and we did 'em anyway. The independence of Kosovo is an example. I'm not saying it was the wrong thing to do, but, in terms of their perceived interests, it certainly clashed. The NATO expansion, we were pushing like crazy; in the last months, we were pushing like crazy to get a couple of countries in that they obviously saw as a major threat to their perceived interests. Abrogated the ABM Treaty, unilaterally, boom, gone. What does that say? Missile defense—talked about putting it in, said it's about Iran, but people had questions. I mean, other countries are going to respond, it seems to me, to the things that we do unilaterally, and I wonder to what degree that is perceived by any or all of you as sort of a legitimate perception problem in these relationships, and something we need to think about as we go forward.

Mr. Kuchins.

Mr. KUCHINS. Thank you very much, Mr. Chairman. It's an excellent question. And I didn't mean to imply, in my remarks, that I saw as a core organizing principle for Russian foreign policy to contest United States power around the world.

I think, broadly speaking, for the last couple—the last nearly 20 years, since the collapse of the Soviet Union, we've had a—almost sort of very divergent, almost psychologies and narratives about our positions in the world, and the United States-Russian relationship, in particular, which have made it more complicated for us to have a meeting of the minds. And, you know, for the Russians, going into the 1990s, through a very difficult time, where their power was a low ebb, while, at that time, in the 1990s, we are experiencing the so-called “unipolar moment” and a certainly amount of hubris on our part, I think it contributed to a lot of misunderstanding in the relationship.

It's hard for us to—

The CHAIRMAN. Is it not fair to say that our policy could have been perceived as being driven by a significant amount of ideological energy during that period?

Mr. KUCHINS. I understand that—how the—from the Russian standpoint, how they could—they could perceive that. Let me talk specifically about their views on NATO enlargement and missile defense, because, again, very fundamentally, I see that Russia's security interests, in the long term, would be best answered by closer

ties with us, given their existing threats in the south of instability, Islamic—radical Islam and terrorism, et cetera, which we care about, as well as their deep concern about the rising power of China in the East. And I think, for the Russians, when they look at the issues of NATO enlargement and missile defense—

The CHAIRMAN. Let me just say to you, timewise, we're not going to be able to chew up, so that everybody gets an opportunity here.

Mr. KUCHINS. The point I want to make is that the Russians view these policies, rightly or wrongly, as, to a considerable extent, as the expansion of a—sort of the unilateral expansion of a United States-led global security system, and they see themselves as excluded. I think, fundamentally, they want to be included in the development of a European, a Eurasian and broader global security system.

The CHAIRMAN. Which speaks to our unilateralism, correct?

Mr. KUCHINS. Yes.

The CHAIRMAN. Mr. Cohen.

Mr. COHEN. I think, to answer your question adequately, you need to look at what happened after the collapse of the Soviet Union, in terms of the transformation of foreign policy elites. And if you compare it to other revolutions, the Russian foreign policy elite remained more or less the Soviet elite. Maybe a little bit younger, maybe with a little bit bigger bank accounts and better watches and clothes, but the outlook—I would call it a quasi-Soviet or neo-Soviet outlook with a good layer of Russian imperialism that views the former Soviet Union, as President Medvedev said on the 31st of August of last year in the nationally televised address, the exclusive sphere of influence of—the privilege—I'm sorry—the privileged sphere of influence of the Russian Federation.

That includes the view of the United States, as they say openly, the leadership and the military and the security services, the "principal adversary." Yes, this is old-think, but this is an old-think that informs the fundamental decisionmaking that goes into the questions such as how much money to spend on multiple warhead, heavy intercontinental ballistic missiles, what kind of navy they have to build, how they build the basing policy in the "near abroad" and beyond in the Mediterranean, as I mentioned, et cetera.

So, before we examine our foreign policy mistakes—and I admit, everybody makes foreign policy mistakes—the Bush administration, and I'm afraid, in the future, maybe the Obama administration—we need to look at how much the Russian world view changed. And as the tutor to the heir—the future young tsar told the boy, Russia has—in the 19th century, "Russia has only two allies, the army and the navy." And unfortunately, Mr. Chairman, I am afraid that that world view still informs a lot of decisionmaking in Russia.

The CHAIRMAN. It may well. I'm not going to disagree—I mean, we all know where the leadership's roots are. I don't disagree that they're informed by that history and by those views and perceptions, and nobody is pretending that there's all of a sudden, just because the Soviet Union disappeared, a rosiness and a capacity to have a complete, easy relationship in all of these regards.

The issue is, how do you find those places, notwithstanding that view, where you have a mutual interest and have the ability to be

able to cooperate, rather than finding a way to just poke your finger in an eye and find the worst of the situation? And it seems to me that we did a good job of avoiding the ability to find the best, and found the worst, again and again.

To that end, I want to—as you answer your question, because my time is up and I want Senator Lugar—as you answer that part of the question, I want you to involve in this—it seems to me we all have a singular most important unifying principle, at this point in time—or two, if not one. One is, I have heard every major country in the region in the Middle East and surrounding neighbor, from India to Russia, say that it is not in the interests of the world or them individually for Iran to have a nuclear weapon or capacity. That's No. 1. And No. 2, the rise of religious radical extremism, fundamental, or whatever you want to call it. Those are huge interests. And we seem to have left those on the sidelines of these other disputes.

And I just want you, as you answer it—and then, Senator Lugar, you pick up. Does Russia indeed perceive that as a threat, this potential? And do we not have an ability to cooperate there, as a starting point to change this relationship?

Ambassador SESTANOVICH. Senator, I think you're absolutely right, that the issue isn't whether we have disagreements, it's whether there is a kind of common purpose that allows the two sides to view those disagreements as less important and less mutually threatening.

We should remember that a lot of the disagreements that you talk about—NATO enlargement and the abrogation of the ABM Treaty—took place at a time when, actually, relations were very good. The peak—

The CHAIRMAN. Right.

Ambassador SESTANOVICH [continuing]. The peak of Russian-American relations, since the cold war, came in 2002 and 2003, when the Russians had a lot of things to complain about in our policy. Even so, relations were very positive, because there was a kind of strategic convergence between the two sides.

We're certain to find that we won't be able to resolve all of our disagreements. But, can we, and do the Russians, in particular, see a common purpose that makes the remaining disagreements less grating and less disruptive of the overall relationship? One can identify a number of common purposes today. You've talked about Iran. The international economic crisis is something that is very much on the Russians' mind as a reason to expand cooperation. How those will play out, you know, depends a little bit on diplomacy, but I completely accept your premise that the way to restructure the relationship is through identifying some common interests that we can act on—not necessarily on backing away from our position on areas where we disagree. We may simply have to disagree.

The CHAIRMAN. Senator Lugar.

Senator LUGAR. Just following on the Chairman's questions, given your points on domestic Russian governance, it would appear that the downturn in the economy has put some stresses on what we always saw as sort of an implicit bargain between President, now Prime Minister, Putin and the general public; namely, that a certain degree of civil rights suspension or difficulties with the lack



of democracy and so forth were acceptable to the Russian public so long as there was security, prosperity, and a general good feeling that many people in Russia feel they had not had before. The dilemma for the current Russian leadership, the current president or prime minister—is that the downturn, not so much of the stock market, which affects some wealthy persons, but the ruble, which affects many Russians and reminds people of '98 and other crashes when the middle class was wiped out, gives a great deal of pause. And they've been going on national television in Russia to try to express the desire to hold things within a 25-percent decline and maybe they'll succeed, or not.

I mention this because this seems to me to make the thought of a strategic partnership, which is often expressed as our goal, extremely difficult. The current regime may have stress if the world crisis continues for a period of time, of simply hanging absent very tough measures to repress the public.

Now, beyond that, there might be use by the regime of the so-called “near abroad policy” or the Russian sphere of influence—that is, the use of Russian nationalism as a way of trying to suppress domestic difficulty.

I wouldn't say we could lose on both grounds, but those who are optimistic about the strategic partnership under these current circumstances, I'm not certain have much going for them. What is it that we might talk about? Prospects for arms control have arisen, simply because, as we expressed in our opening statement, the START regime ends December 5th. Our government is hardly prepared, at this point, and we hope to have, the nomination of Rose Gottemoeller coming over soon, someone who might form a negotiating team, because time is slipping away, and it may not be a lay down hand finding an agreement, even on a narrow START situation, quite apart from one that's more ambitious.

But, that's sort of an existential problem in which 90 percent of all the nuclear weapons are still with the Russians and ourselves. Russian Foreign Minister Lavrov and others have indicated that he'd like to work on this. But, beyond that, this is going to be pretty rough terrain. And the question for us will be: What happens, for example, if there are further problems in Georgia with the build-up of the bases in Abkhazia, for example? Or, what if a relatively dysfunctional government in Ukraine becomes weaker still and problems in Crimea begin to arise? And therefore, Russian aspirations really challenge our foreign policy in very strenuous and dangerous ways. Do any of you see any more optimistic scenario with regard to the domestic scene or the “near abroad” business that I've talked about?

Ambassador SESTANOVICH. I do.

The CHAIRMAN. Stephen.

Ambassador SESTANOVICH. Senator, I wouldn't bet the mortgage on this hope, but I would note, first, there is political tension growing in Russia within the elite about how to deal with this crisis, and second, that so far the results are, broadly speaking, to empower liberals and Western-style policy solutions. Andy mentioned that the Russian response to the economic crisis has been like that within the developed world. This crisis emboldens some people to argue that Russia has lost time in not dealing with corruption.

President Medvedev has been particularly active and vocal on that front, and his advisors have emphasized how much Russia is weakened by the rigidity of its system. One of them said, a couple of weeks ago, "We need a new elite." So, there's ferment, and that is something we ought to keep our eye on. Now, is there anything that we can do to encourage greater integration and cooperation, greater acceptance by Russia of international norms?

I mentioned the WTO accession of Russia and that would be helpful. Even before it occurs, I would urge that the Congress not continue to link WTO accession and the lifting of the Jackson-Vanik amendment. I would also note that Russian policymakers have said they don't expect energy prices to come back soon, and that means they've got to create a positive environment for foreign investment. They're talking about constructive adaptation to economic adversity.

So, I think there is a narrow path through this crisis that could end up with positive political results.

Senator LUGAR. What if Russia just takes membership in the World Trade Organization and the Jackson-Vanik legislation off the table and says, "Thank you very much," but—why is there any change in the predicament after the Russia's pocket those two situations?

Mr. Kuchins.

Mr. KUCHINS. Let me—I think it gets—it gets to, What are the sources in the—of the credibility and legitimacy of the existing regime? Or, put it more simply, Why is Mr. Putin and Mr. Medvedev—why have they been very popular? And I think it fundamentally has to do with the fact that Mr. Putin's leadership of the Russian Federation has coincided with one of the most prosperous periods—

Senator LUGAR. Right.

Mr. KUCHINS [continuing]. In Russia's 1,000-year history. You take away that economic growth and prosperity that millions of Russians have been experiencing and he would not be nearly so popular.

Now, the nationalistic elements, the—kind of the—the looking tough and all of that, well, that helps, to some degree, but it's fundamentally the economy which is driving the popularity. There are some interesting studies which bear that out. And I am absolutely convinced that the guys in the Kremlin, and in the White House—excuse me, the Russian White House—they are deeply aware of that. They do all kinds of polling and public-survey research, and they understand that the fundamental deal—it's not so much that the regime can restrict, you know, political rights and cut down the opposition, but as long as the economy is good, then the people will be more quiescent. And if those—and that fundamental situation is very, very different day, and I think that really affects the whole spectrum of domestic, economic, and political relationships, as well as the drivers behind Russian foreign policy.

Senator LUGAR. My time is expired and—

The CHAIRMAN. Well, let me just ask one thing I want to ascertain for colleagues. Which colleagues are going to be able to come back? Because if people can't come back, I don't want to detain our witnesses. Are—is anybody—you're next, Ben, and you're going to

be able to get your questions in. But, whether—you're going to come back—

Senator CASEY. I'm going to try.

The CHAIRMAN. OK. Do you know? You can't come back. So, one—all right.

Senator Cardin. And maybe you can answer in the course of Senator Cardin.

Senator CARDIN. Thank you, and I'll try to be brief. I just want to agree with our leaders on this committee about the importance of improving our relationship with the—with Russia. And effective relationship is very important for us on security issues, whether it's Iran or energy.

There are many concerns. A lot of them have been brought out. We have human rights concerns, from how they treat their journalists to the right dissent. And we talk about the repeal of Jackson-Vanik and PNTR.

Let me just point out, we still have lingering concerns. Let me just mention one, the Chabad-Lubavitch community has a legitimate concern about the return of the Schneerson collections. And when you see parts of the Schneerson collection show up on the black market, it has an impact on whether we're prepared to permanently repeal Jackson-Vanik.

In regards to security issues, we've talked a little bit about Georgia and NATO. I want to bring up an issue I brought up, that's brought up in the OSCE. I chair the Helsinki Commission, and we have established direct relationships with Duma members. And I must tell you, there is skepticism by my colleagues in Russia as to the sincerity of our reaching out, at this point. Russia has brought forward a new security initiative for Europe which would—which has been supported, at least encouraged, by France. So, I guess my question to you is whether there is any hope in a security initiative that would include Russia and Europe, in which the United States would participate in, not as a substitute to NATO, but as a manner in which we're all at the same table, hopefully changing our focus from the interior threats within Europe to the concerns of the Middle East and other areas where we have, I think, a more direct interest of concern about security risk, whether these initiatives hold out promise.

Mr. COHEN. To address the issue of Mr. Putin's popularity, absolutely he was the very popular because of the Russian prosperity, also because he brought the war—the second war in Chechnya to the ending, but he was also popular because of the increasing control of mass media and electronic media. If President Bush controlled ABC, CBS, NBC, and CNN, he would be more popular than his popularity used to be. So, you cannot decouple a leader's popularity from the control of the media, especially television.

To the Senator's excellent question about European security initiatives, this is, in my view, in my reading of the Russian initiative, it's something to keep the United States out. As Lord Ismay said, the emergence of NATO was to keep Germany in—U.S. in, Germany down, and Russia out. This initiative is to keep—get Russia in and United States out. And as such, I don't think we should support it.

Ambassador SESTANOVICH. I have a slightly different take on this. I actually think that the concerns that Ariel mentions are entirely appropriate. And for some Russians, the goal of this initiative is openly to subordinate NATO. And we don't have any particular interest in that.

But, do we have an interest, and can we manage a process, in which we put the Russian initiative on the table and talk about it in a Europeanwide setting, exploring all of the complexities, and insisting on the principles that the Russians will find very difficult to oppose, of national sovereignty, independence, respect for human rights, reaffirming the original Helsinki final act. I think this is a process that actually has some potential for us, and I'm not so afraid of the devilish Russian diplomatic cleverness that will, in the dead of night, lead us to sacrifice NATO for the sake of a new forum in Vienna. We've been through more than one Helsinki round in the past, and we've protected our alliance extremely successfully.

Senator CARDIN. Let me—

Ambassador SESTANOVICH. If I could—the original Helsinki negotiations were intended by the Russians to subordinate NATO, and they ended up becoming a tool for human rights activists throughout the Soviet bloc.

Senator CARDIN. I think it's a very valid point. And no one here will weaken our involvement in NATO. And I understand what the Russians intents might be. But, when you look at the direct military threat against America from Europe, it's not in Europe, it's the Middle East. And if—we certainly have our concerns in Europe, and they're not going to be reduced. But, I do hope that we can engage, and not be worried about an engagement here. I do think it does give us the opportunity to work on an effective relationship with Russia, which we need to improve.

And thank you, Mr. Chairman. I appreciate the opportunity.

The CHAIRMAN. Thank you very much, Senator. And thank you for your work on the Helsinki Commission.

Senator KAUFMAN. I just have a real short question, a followup on Senator Lugar's question.

It all sounds very organized, "We're going to have this economic downturn, we're doing the polling data, everything's going to be just fine," but what are the possibilities that—you say that they're behaving like a developing country—but, that this turns bad for the United States? In other words, that Putin, because he's got the problems—Medvedev—if they turn on the United States, it's kind of the problem that's causing this, as opposed to us causing the problem. Is that a prospect, of that happening? And what do you think the probability of it is?

Mr. KUCHINS. It's certainly a possibility. The worst-case scenario, to me, in the near to medium term, were to be if, as I suggested, one of the caveats, if the Kremlin found itself really under siege, not able to respond quickly enough, growing social unrest, and there was the crackdown in response, greater centralization of power, greater oppression, et cetera, et cetera, and then, not too long after that, there might be a spike in the oil price and suddenly the Russian economy is on much firmer footing, not necessarily because of anything they do to promote, you know, diversification,

more sustainable sources. That would be the worst-case scenario, which the justification for the crackdown would have greater credibility and legitimacy simply because of the flow of oil money. It's a possibility, and we have to be ready for it and consider it. But, you know, absent that, I think—I mean, just the—the constraints the Russians face today on longer-term economic growth, as opposed to 1998, they're far greater, and they really do, I think, push them more towards—more toward cooperation, even if it's kicking and screaming.

The CHAIRMAN. Yes, quickly. We've got 3 minutes left on the vote. We have a little grace period. So, if you can wrap it up, that'd be helpful.

Mr. COHEN. Yeah. We tend to give a lot of credit to President Medvedev, and duly so, because he is the president. However, when you look at who is really running Russia today, these are all Mr. Putin's allies, and there is a lot of anti-Americanism and nationalism. How do I know? When I go to Russia, I'm a Russian speaker, I flip television channels, and, lo and behold, I find out from Russian state-run television, that the United States funded the Bolshevik Revolution when it is a consensus in the historic community that it was German general staff that provided money and the sealed carriage for Lenin.

When I'm looking at who of the Russian allies emerge over the last 3 or 4 years, I'm looking at Chavez, I'm looking at Iran, we're looking at OPEC. Now Russia is in a very intense dialogue with OPEC and the world view of a multipolar world; translate, less and less American power. I am not saying that the economic crisis will bring it about, but the tendency was there when the prices were high. The question is, What is the perceived national interest? What we consider rational, do they consider the same thing rational? And I'll leave it at that.

The CHAIRMAN. Well, it's very provocative and helpful and important, and it's an important dialogue. And we, unfortunately, have not been able to complete it, and I regret the schedule, because of the votes now, and the number of Senators coming back, what we're going to do is adjourn rather than recess, but we're going to leave the record open. A number of colleagues have said they want to submit questions for the record, which I'd like to do.

This will not be our only hearing with respect to this question, so we will pursue further, and we might even engage you folks in a roundtable that we want to have on this topic at some point in the near term, because we've put a number of very important thoughts out there, which really need to be developed a little more.

Nevertheless, we did cover a lot of territory, and I think we began to lay the predicate, so we're grateful to you for being here to help us do that today. And we'll stand adjourned, with the record staying open for a week.

Thank you.

[Whereupon, at 11:20 a.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED  
FOR THE RECORD BY MEMBERS OF THE COMMITTEE

RESPONSES TO QUESTIONS SUBMITTED TO ANDREW KUCHINS BY SENATOR KERRY

*Question.* The closure of Manas Air Force Base was immediately followed by the offer to negotiate the transportation of equipment through Russia and on their terms. Obviously it was a power play, but what does it say about Russia's strategic goals in Central Asia and what sort of role are they seeking in Afghanistan?

*Answer.* First, we should acknowledge that the Kyrgyz have their interests in this as well, and they principally entail getting as much money as possible. Russia's strategic goals in Central Asia are to strengthen their role as the hegemonic regional great power. Regarding Afghanistan, they would like to control/coordinate the transit cooperation with NATO, Russia, and Central Asian states. Ideally they would like to do this through the CSTO (Collective Security Treaty Organization).

*Question.* The Moscow Treaty limits only apply for a single day in December 2012, and allows each party to define for itself what counts as an operationally deployed warhead. Does that arrangement provide enough stability and predictability in our strategic relationship?

*Answer.* In my view the Moscow Treaty is not adequate to provide sufficient stability and predictability in our strategic relationship with Russia. We need a treaty relationship that provides more verification and monitoring measures than the Moscow Treaty, but one that is simpler to negotiate and execute than START

*Question.* President Medvedev spoke last year about a new European security architecture. Russia has been suspicious of the OSCE and highly critical of NATO. Is there a positive vision for a new architecture? What kind of organization is the CSTO?

*Answer.* I think President Medvedev has a "positive vision," but it is hard to say how widely that is shared amongst his colleagues in the leadership, including Mr. Putin. But even in the case of Medvedev, it appears there is little specificity to what this architecture would entail. I have a hard time gleaming real content in the Russian proposals. They are right to the extent that existing security institutions have not been fully successful in maintaining peace and security in Europe, as the Georgia war last summer tragically illustrated. Russia could go a long way to strengthening European security by developing a stronger relationship with NATO and not trying to undercut the OSCE.

Below is how I describe the CSTO in my forthcoming book, *The Russia Balance Sheet* (co-authored with Anders Aslund, April 2009):

The CSTO, originally established in 1992 as the CIS Collective Security Treaty, was founded in 2002 by the presidents of Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan; Uzbekistan joined in 2006. It should certainly not be compared with the Warsaw Pact as there is neither political control exercised by Moscow nor an integrated military structure. The CSTO is a consultative body where Moscow is not challenged, but where national interests clearly prevail over collective ones. Tellingly, no member of the CSTO apart from Russia has recognized the independence of Abkhazia and South Ossetia.

The only addition I would make to this is that early this year the CSTO agreed to establish a 10–12,000 man rapid reaction force, so this would, if it does indeed happen, would provide some operational capability to the organization.

*Question.* To what extent does Russia perceive Iran's nuclear program as a threat to international peace? Do Russia's estimates of a timeline of Iran reaching nuclear weapons capability differ from our own? If so, do you think such an estimate changes the urgency of the situation in Russia's view?

*Answer.* Russia does not view the Iranian nuclear program with the same degree of urgency as Washington, and they are far more inclined to view Iran as a regional geopolitical partner. They do not want to see Iran become a nuclear power, but I think they are more reconciled that this is an inevitability given that Tehran's efforts go back decades to the time of the Shah, and that military efforts to prevent it would be more destabilizing than stabilizing for the region and international security more broadly. Moscow regards a nuclear-armed Pakistan as more threatening to their interests as well as to the nuclear nonproliferation regime.

Moscow also benefits from the rather unstable status quo with Iran being regarded as a “rogue state” by the West, and this leaves more room for Moscow to assert economic and political influence. But there is very little trust between Moscow and Tehran, and the Russians have been increasingly frustrated with Iranian intransigence on the nuclear issue with their refusals to take up Russian proposals for an international fuel bank for the processing of Iranian and other countries nuclear fuel.

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RESPONSES TO QUESTIONS SUBMITTED TO ANDREW KUCHINS BY SENATOR FEINGOLD

*Question.* In recent testimony, the DNI noted that Moscow’s engagement with both Iran and Syria, including advanced weapons sales, has implications for U.S. nonproliferation interests. Equally as relevant are press reports that Russian President Medvedev has announced his intention to strengthen Russia’s conventional military force. How should the Obama administration interpret these signals and what actions might result in more effective cooperation with Russia on Iran?

*Answer.* Regarding the Medvedev announcement about increasing budget for military modernization, this is being done in the context of a broader military reform that will reduce forces considerably and force retirement for many officers. The reform is a long overdue measure unpopular with most of the uniformed military, and the increase in spending is both to sweeten the pill and address some of the shortcomings of Russian military forces that have been starved of procurement since the Soviet collapse.

Arms sales have been principal means of supporting what is left of Soviet military industrial complex for nearly two decades. A major piece of arms sales is its role as a jobs program. Some of the sales to Iran, Syria, and others are clearly problematic, but I think the decision of the Russians to deliver the A-300 anti-air system to Iran is the most important one to watch in terms of U.S. interests and Russian intentions. The Russians have held back this delivery perhaps waiting to see what Obama administration policy towards Russia will be like.

*Question.* If Iran continues to move forward in the direction it is currently headed and does not cease uranium enrichment, do you think Russia would be supportive of more punitive actions if need be, including sanctions through the UN Security Council even though it has resisted harsher measures in the past?

*Answer.* I can say with some degree of certainty that absent a broader improvement in U.S.-Russia relations, I think the Russians would be reluctant to support tougher sanctions without more clear proof of Iranian efforts to develop a weapons program. If the Obama administration does have some success in improving the relationship, then certainly the likelihood of the Russians being more open to tougher sanctions on Iran are increased—how much is impossible to say.

*Question.* With the media reporting that Russia will now allow the United States to ship non-lethal supplies through its territory to Afghanistan—via Kazakhstan and Uzbekistan—what kind of support is feasible from Russia. Is it appropriate to see Russia as an equal partner with regard to Afghanistan and if so what steps should we take to ensure that’s the case?

The Russians have indicated they are prepared to discuss/negotiate shipment of lethal military goods through their territory, so I think this is a possibility. The Russians are also probably prepared to serve as contractors for reconstruction efforts in some areas. The Russians are probably most interested in stronger efforts to curtail narco-trafficking out of Afghanistan. It is not clear what being an “equal partner” really means (effectively no country is operationally an “equal partner” to the U.S.), but probably our benchmark for what can be done should start with the areas of cooperation in taking out the Taliban we did engage in with Russians in fall/winter of 2001/02.

*Question.* Russian officials said earlier this year that they are scaling up their diplomatic involvement to solve conflicts in Africa, and they recently appointed a special envoy to Sudan. However, their record to date toward Sudan and specifically the situation in Darfur has been unhelpful to say the least. They have provided political cover for the regime in Khartoum at the UN Security Council and, according to the organization Human Rights First, they have continued to provide arms to the Government of Sudan used in Darfur in direct violation of the UN arms embargo. How can the Obama administration better press Russia on the Security Council and bilaterally to change their approach to Sudan? And just as with the Chinese, how

can we engage and identify opportunities to partner with the Russians as they increase their involvement in African affairs?

Answer. The most important drivers in growing Russian interest and influence in Africa are commercial and economic. Fully understanding their economic interests, where in some cases they are competing against the Chinese, can yield clues about partnership opportunities. The extent to which Moscow perceives us as taking their interests seriously and in some cases helping to advance them, the more likely they will be prepared to support us on regional issues we consider priorities.

*Question.* The State Department's yearly report on human rights noted for 2008 that "the Russian Federation has an increasingly centralized political system, with a compliant State Duma, corruption and selectivity in enforcement of the law, media restrictions, and harassment of some NGOs [all of which have] eroded the government's accountability to its citizens."

The 2008 report also documents numerous reports of government and societal human rights problems and abuses during the year. The last administration pretty much gave Russia free pass but this is not expected to be the case with the new administration. How do you anticipate these restrictions will be addressed in any new U.S. policy towards Russia?

Answer. Certainly the Russian leadership does not view itself as having received a "free pass" by the Bush administration on these issues. The previous administration did far more to hurt the advancement of American ideals by failing to live up to them in very public ways. This is a hard set of issues as we have so little leverage over them, and it is a real dilemma to ascertain to what extent our efforts to support more reform-oriented individuals and groups actually empower them or are counterproductive for their agendas. Our influence on domestic issues in Russia is further reduced when the bilateral relationship is overall so negative—it is too easy then for the Russian leadership to paint Washington in the "enemy image" that seeks to sabotage and weaken Russia.

The new administration will have an advantage in this regard from the outset since the global financial crisis has hit Russia especially hard and will likely force the Kremlin to be more attentive to good policy decisions that improve the investment climate. The Kremlin does understand that their principal "accountability" to the Russian people is continued prosperity, and for the last five years of rising oil prices, until last summer, there has been far less incentive for the Russian government to make what we would regard as good policy decisions.

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RESPONSES TO QUESTIONS SUBMITTED TO ARIEL COHEN BY SENATOR KERRY

*Question.* In your testimony, you state that the United States does not need to replace the START treaty because the 2002 Moscow Treaty will continue in force after START's expiration. However, the Moscow Treaty has no verification mechanism of its own; it relies entirely on START's verification provisions.

Without START's verification provisions, or something similar to them, won't the U.S. lose valuable information about Russia's strategic forces?

Answer. The recent upsurge in international calls for the total elimination of nuclear weapons has added to the administration's hope to be able to develop a new workable agreement with the Russian Federation by December 5, 2009, when START is set to expire according to its Article XVII, which is reflected in the U.S.-Russian joint statements of April 1st. A second treaty in existence limiting the strategic nuclear forces of the U.S. and Russia to levels below START—the Strategic Offensive Reductions Treaty (SORT), frequently referred to as the Moscow Treaty for the city where it was signed, will remain in force until the end of 2012. However, SORT lacks verification and control measures foreseen in START. Since at least mid-2006, Moscow has been calling for maintaining START verification and transparency measures, albeit with modifications that will reduce the expense and cumbersome nature of some requirements.

The most immediate issue for the U.S. and the Russian Federation (RF) regarding strategic nuclear arms reductions is that START, ratified in 1994, is set to expire in December. This is not an issue regarding the numbers of weapons deployed. Both sides are well below the START limits and working toward the lower limits established by the Moscow Treaty. The problem is that the Moscow Treaty uses the verification and transparency provisions in START to inform each side of the reductions they are making. The issue is complicated by the fact that the START verification and transparency provisions do not reflect the Moscow Treaty's different



definition of the weapons to be limited, which is referred to as operationally deployed warheads. While Article XXVII of START allows the parties to extend the treaty, a simple extension will not resolve the problem with verification and transparency mechanism. This is because the START verification and transparency provisions are not ideally suited to verifying the reductions required by the central provisions of the Moscow Treaty and simple extension of START will leave this mismatch in place. While START will expire in December, it would be best to let it lapse rather than negotiate a new agreement with Russia under a tight deadline, as rushed agreements on matters as technical as arms control almost always end up flawed.<sup>1</sup>

Letting START expire will remove an unrealistic deadline for the conduct of negotiations with Russia regarding strategic nuclear arms limitations. Negotiating a new treaty under such a deadline will prohibit a careful review of the proper strategic force posture for the U.S., which will not be concluded until the completion of the required Nuclear Posture Review at the end of this year or early next year. As a result, hasty negotiations are much more likely to result in a treaty that contains significant flaws that make it inconsistent with U.S. security requirements. Finally, there is no compelling reason to keep START in place. Its expiration will not result in the abandonment of numerical limitations on U.S. and Russian operationally deployed strategic nuclear warheads because the Moscow Treaty will remain in force through the end of 2012.

Instead, the Obama administration should negotiate a verification and transparency protocol (as a treaty document) to the Moscow Treaty. This treaty limits nuclear forces to levels below those allowed by START. Although it will remain in force until 2012, the Moscow Treaty uses verification and transparency provisions taken from START, which are not suited to verifying the reductions it requires. START limits warheads on the basis of the capacity of strategic delivery systems, whereas The Moscow Treaty limits all operationally deployed strategic nuclear warheads. Correcting this should be the first order of business for arms control talks with the Russians. Unless the Obama administration and Russia badly mishandle the negotiations, this Moscow Treaty protocol is likely to enjoy the necessary support in the Senate.

*Question.* The Moscow Treaty limits only apply for a single day in December 2012, and allows each party define for itself what counts as an operationally deployed warhead.

Does that provide enough stability and predictability in our strategic relationship?

Answer. Under the Moscow Treaty, both the U.S. and Russia are on the path to reducing their respective operationally deployed strategic nuclear warheads to between 1,700 and 2,200. The Obama administration has declared its determination “to stop the development of new nuclear weapons; work with Russia to take U.S. and Russian ballistic missiles off hair trigger alert; and seek dramatic reductions in U.S. and Russian stockpiles of nuclear weapons and material.”<sup>2</sup> In line with these goals and the promise “to extend a hand if others are willing to unclench their fist,” the administration has rushed to renew strategic arms control negotiations with Russia on a follow-on agreement to the Strategic Arms Reduction Treaty (START) and broader areas of cooperation to reduce the number of nuclear weapons and prevent further proliferation in accordance with joint statements issued by President Obama and Russian President Dmitri Medvedev in London on April 1, 2009.

The administration needs to fashion an arms control policy specifically tailored to meeting the current and projected defense needs of the U.S. This policy should be based on the in-depth professional analysis of political, legal, economic and all other pertinent aspects and implications of the existing and future negotiations and agreements with the Russian Federation, and the Russian internal and foreign policies, including their motivations and goals in arms control. It should proceed on the basis of clearly defined U.S. security goals and requirements, in particular, to be established in the next Nuclear Posture Review. It also needs to have as comprehensive and accurate understanding of Russian interests, goals and methods in future negotiations as possible.

Haste in redefining the parameters of the U.S.-RF strategic relationship, for the sake of political expediency, is inadvisable and potentially dangerous for the U.S. national security interests. The Obama administration seems to be on the cusp of defining its planned negotiations with Russia on strategic nuclear arms reductions as the barometer of its initiative of “resetting” U.S.-Russian relations. If these nego-

<sup>1</sup> Andrei Shoumikhin, Ph.D. and Baker Spring, “Strategic Nuclear Arms Control for the Protect and Defend Strategy,” forthcoming Backgrounder from The Heritage Foundation.

<sup>2</sup> The White House, “The Agenda: Foreign Policy,” at <http://www.whitehouse.gov> (March 19, 2009).

tiations are defined in that broader context, process will come to dominate substance. The likely result will be a treaty that fails to serve either the central purposes of arms control or the interests of the U.S. The Obama administration needs to pursue the now-established strategic nuclear arms control negotiations with Russia with both care and patience. The negotiations on the fate of the Strategic Arms Reduction Treaty should be driven not by chronological deadlines but by the clear understanding of how this process and its expected results would comply with the security interests and defense requirements of the United States and its allies.

The Obama administration should defer negotiations on a treaty to reduce strategic nuclear weapons below those required by the Moscow Treaty. The administration, despite the implied goal of the April 1st joint statement on arms control, is not in a position to negotiate a new treaty with Russia that would effectively serve as a successor to the Moscow Treaty. It has yet to see the final report of the congressionally-appointed Strategic Posture Commission, which could include consensus-based recommendations regarding these matters. Further, it has yet to produce its own National Security Strategy and Nuclear Posture Review. All of these reviews are necessary parts of establishing a broader policy governing the strategic posture of the U.S. and defining the proper role for arms control in that context.<sup>3</sup>

Further, there is no need to rush this broader strategic arms control process. By allowing START to expire and concluding a narrow treaty regarding verification and transparency measures under the Moscow Treaty, no immediate deadline looms. This breathing space can be used to establish a new and carefully prepared policy for arms control with Russia and beyond. This is the opportunity the Obama administration can use to fashion an arms control policy that is based on the Constitution's requirement that the federal government provide for the common defense. It would be an arms control policy that would serve as an arm of a broader national security policy and strategic posture that is designed to protect and defend the people, territory, institutions and infrastructure of the U.S. and its allies against strategic attack. The arms control element of such a policy can also seek to encourage more defensive strategic postures by all other nuclear-armed states, starting with Russia.

The Heritage Foundation believes that between now and the end of 2012, that the SORT Treaty will provide for stability in the U.S.-Russian bilateral relationship, assuming the conclusion of a verification and transparency protocol to SORT as we recommended earlier.

*Question.* Has Russia demonstrated the successful use of an "energy weapon" in its recent disputes with Ukraine, Georgia, Estonia and Lithuania? Or has Russia awakened Europe to the danger of over-dependence on Russian energy supplies? Has Russia over-played its hand?

*Answer.* Yes, it certainly did. Since the late 1990s, the Kremlin has repeatedly demonstrated that it is willing to use energy as a weapon to accomplish its political objectives. In fact, the Kremlin has institutionalized this behavior. At the same time, Ukraine, the Baltic, Central and Western European states are not without fault as they have largely neglected the steps that would have reduced vulnerabilities.

Anyone aware of Russia's past behavior and fervent opposition to U.S. missile defense plans in Europe could easily adduce it was no coincidence when Transneft, Russia's monopoly oil exporter, reduced oil deliveries to the Czech Republic by 40 percent the day after Prague signed a deal with the U.S. Furthermore, after Lithuania sold its oil facilities to a Polish company instead of a Russian company in 2006, it was no coincidence when the Kremlin cut off the flow of oil. The Kremlin had already cut off oil to Lithuania no less than nine times between 1998 and 2000 in an attempt to engender favorable conditions for Russia's companies to benefit from Lithuania's privatization. A similar incident happened earlier in 2004, which was barely noticed in Europe, when Russia cut oil deliveries to Latvia in 2004.

<sup>3</sup>The Dmitrii Medvedev government seems to be deeply involved in some doctrinal drafting that may eventually change Russian approaches to arms control in a significant way. At the meeting of the RF Security Council on March 24, 2009, the Kremlin announced the preparation of the new "National Security Strategy to 2020" and the new "Military Doctrine" to be submitted to the President for signing before the end of 2009. Both documents are supposed to complement each other. As reported, "Russia does not intend to get involved in burdensome confrontation or new the arms race," however it is supposed to respond adequately to the "serious conflict potential in a number of world regions, international terrorism, and the unending attempts to expand NATO's military infrastructure in close proximity to Russian borders. See: "Russia Refused to Renew the Arms Race," Lenta.ru, March 24, 2009, available at: <http://lenta.ru>.

Here, the Kremlin was trying to procure an oil port for a Russian company during Latvia's privatization.<sup>4</sup>

With regard to Georgia, the August 2008 war and President Dmitry Medvedev's August 31 statement on national television of Russia's new foreign policy principles were intended to send clear signals to multiple audiences. The message to the world was that Russia has a "zone of privileged influence" and that it holds the veto over the aspirations of the people living in it. Second, initiating democratic reforms or pursuing a pro-Western policy in Russia's backyard is dangerous. Thirdly, that Moscow can disrupt the flow of energy and goods through the East-West energy and transportation corridor of oil and gas pipelines and railroads from the Caspian Sea to Turkey and Europe. Turkmenistan agreement to sell the majority of its gas to Moscow, and the recent Memorandum of Understanding between Azerbaijan and Russia on sale and export of gas demonstrate this important point. (More below on how this war has impacted energy policy and influenced investors and regional governments alike).

Russia also sought to enhance its strategic position by shutting off the flow of natural gas to Ukraine and the European Union in January 2006 and January 2009. While legitimate commercial issues were involved in the January 2009 gas war, such as Ukrainian indebtedness, the siphoning of so-called "technical gas" and the price of transit fees, there is little doubt that powerful political considerations and concerns over huge sums of money featured largely in the Kremlin's calculus.<sup>5</sup> On energy, the Russian leadership sought to show Europe that Ukraine is an unreliable transit state and that expensive Russian-proposed gas pipe lines bypassing Ukraine are justified.

While Russia has clearly been willing to use energy as a weapon, fault can still be distributed widely. For example, the Baltic States and most of the Central European states are dependent on Russia for virtually all of their gas imports. However, only the Czech Republic invested heavily during the 1990s to diversify their supply source. Prague invested in an oil pipeline from Germany and began buying gas from Norway long before it was in vogue to diversify away from Russia. This policy proved to be farsighted, especially after Transneft reduced its oil supplies to the country following the missile defense deal. Yet, Central European and Baltic states haven't pursued Liquefied Natural Gas (LNG) solutions. So far, Prague is the outlier. Even following the 2006 gas cut-off, there was little investment in pipelines, especially interconnector pipelines, or LNG; indeed, the Baltic States still remain on the old Soviet electric grid to this day.<sup>6</sup>

In the case of Ukraine, the government is also at fault for having left the country vulnerable. There has been no fundamental reform in the Ukrainian energy sector since the Orange Revolution over four years ago. The Ukrainian state-owned energy sector remains corrupt, inefficient, overly politicized, and mismanaged, regardless of who's in power in Kyiv. Worse, Kiev has failed to develop a coherent policy toward its Russian supplier. One of the major reasons for this the ongoing influence of shady intermediary companies like Swiss-based RosUkrEnergo.

Despite the supposed termination of this company in the Russian-Ukrainian gas trade, stipulated in December 2008, it remained active in importation of Turkmenistani gas. It was also reported that RosUkrEnergo likely played a prominent role in the gas war. In fact, one prominent analyst stated that Putin cut off the gas to Ukraine because he became so furious with Dmitry Firtash, one of the RosUkrEnergo principals, because he could not control him any longer.<sup>7</sup> While the facts and potential violations of the law by RosUkrEnergo's involvement in the gas war are murky and deserve a thorough international investigation through a combination of law enforcement and intelligence means, experts agree that Ukraine should have taken steps by now to fully eliminate the role of shady middlemen, in addition to modernizing the energy sector.

Has Europe awakened? It has become cliché to say that the latest natural gas row between Russia and Ukraine should have been a wake-up call for the EU. However,

<sup>4</sup> Keith Smith, "Russia and European Energy Security: Divide and Dominate," Center for Strategic and International Studies, October 27, 2008, at <http://www.csis.org> (April 19, 2009).

<sup>5</sup> Ariel Cohen and Owen Graham, "European Security and Russia's Natural Gas Supply Disruption," Heritage Foundation WebMemo No. 2194, January 8, 2009, at <http://www.heritage.org>.

<sup>6</sup> Keynote Address by Czech Ambassador-at-Large for Energy Security Vaclav Bartuska, Conference on "Energy Security Challenges to Europe and America in Eurasia," The Jamestown Foundation, National Press Club, Tuesday, February 17, 2009, at <http://www.jamestown.org> (April 22, 2009).

<sup>7</sup> Remarks by Anders Aslund, "Energy Security Challenges to Europe and America in Eurasia," The Jamestown Foundation, National Press Club, Tuesday, February 17, 2009, at <http://www.jamestown.org> (April 22, 2009).

the 2006 gas cut-off and the watershed Russian-Georgian war of August of 2008 should have also been wake up calls. They are not.

Despite calls in 2006 and the prioritization for a unified EU energy strategy, including diversification of transit routes not under Russian control, the EU member states continue to take a largely go-it-alone approaches to energy. Every capital is trying to cut its own deal with Gazprom, and energy policy is influenced by the level of dependence on Russian gas.

During the January crisis, however, the EU did find a common voice for a short time. At the height of the crisis, Russia called for an Energy Summit to help resolve the crisis. EU member states declined to attend delegating the role to the Commission and the Presidency. While those advanced some positive measures, such as setting up gas meters and sending observers to the border where gas is crossing from Russia to Ukraine, comprehensive energy security solutions still elude Brussels.

More recently, Brussels achieved an ephemeral "unity" by supporting funding for the proposed Nabucco pipeline, which will carry gas not under Russian control from the Caspian region to Europe. However, this measure, part of a four billion Euro plan to boost Europe's economy, was achieved only after overcoming strong German objections. In fact, German Chancellor Angela Merkel was lobbying actively for one month against Nabucco, and Germany is trying to undermine the project. Nabucco has been labeled as a strategic priority project by the EU Commission. In addition to lobbying against Nabucco, Merkel has been trying to get the proposed Nord Stream pipeline elevated to become a priority project. It should be noted that unlike Nabucco, Nord Stream would be an exclusive pipeline between two countries, with spurs to Germany's neighbors.

Only after coming under pressure from EU Commissioners and other officials and receiving phone calls did Frau Merkel reverse course. In the end, the package for Nabucco went from \$250 million to \$200 million. It should also be noted that Germany ironically objected to including Nabucco in the spending package on the basis that it would not immediately stimulate the economy.

The reality is that some member states, namely Germany, Italy and France are growing increasingly dependent on Russian energy and this militates against common efforts on the energy front. Unfortunately, many Germans seemed to have concluded from the recent gas war that the solution is their capitulation on the "Eastern Front."

Another reason the 2009 crisis has not interrupted business as usual is that blackmail occurs only occasionally. It appears that many governments prefer to weather a temporary storm rather than take the hard steps necessary to achieve greater energy independence, preferring to believe that they are drawing Moscow into a relationship of "interdependence" which benefits Europe in the long term. It appears that it is going to have to take a crisis of much greater magnitude to shake some member states free from their slumber.

Has Russia overplayed its hand? When asking this question, it is necessary to put it into context. Since 1999, Moscow has ridden an energy boom and mounted a proactive energy agenda throughout Eurasia, in which foreign policy priorities predominated. Indeed, the Kremlin has been working very effectively to advance their interests throughout Eurasia.

Moscow's fortunes began to reverse, however, with Putin's shakedown of the Mechel Corporation, the fallout from the fight for control of TNK-BP oil joint venture, the August war with Georgia, the latest gas war, and the start of Mikhail Khodorkovsky's second trial. These events, taken cumulatively, have caused international investors to reel, the Russian stock market to plunge, and capital to flee, sending shock waves through the Russian leadership.

After the gas war, the International Energy Agency observed that Russia is not a reliable supplier. Investors also took notice of Russia's behavior and state of corporate management and voted with their feet. Nevertheless, Russia will remain the primary supplier of gas to Europe for the foreseeable future. Moreover, demand for Russian gas will only grow as Europe seeks to meet its stringent carbon emissions reduction targets.

Moscow's effective energy offensive, coupled with the West's low level of engagement on Eurasian energy diplomacy, continues to pay dividends to Russia. With the significant exception of Senator Lugar, there has been scant engagement from the U.S. Congress, and insufficient and inefficient involvement by the administration, as well as by European states, in Eurasian energy diplomacy, including Turkey. This lack of attention has given Moscow an added advantage. To contrast, high-level delegations from Russia, starting with Putin and other bosses of the Kremlin, as well as from Gazprom, Rosneft, Transneft, etc., have been making regular visits to the capitals of key energy producing states in Eurasia.

Moreover, Moscow's demonstration of force in the Southern Caucasus last August is one more factor that is driving this trend: Turkey's recent efforts to tie progress on Nabucco to gaining EU membership.

Currently, Ankara is stalling on signing an intergovernmental agreement on Nabucco myopically tying it with negotiating the Energy Chapter of Aquis Communautaire with the EU. Without such an agreement, Azerbaijan's access to Western markets outside of Russian controlled transit will be seriously compromised.<sup>8</sup>

This action coupled with the Georgia war may be pushing Baku closer towards Russia in Baku's ever delicate balancing policy. In a meeting on March 27 between Gazprom chief Alexei Miller and Socar chief Rovnag Abdullayev, Gazprom won an agreement from Azerbaijan to begin talks on buying Azeri gas.<sup>9</sup> On April 18, Azerbaijani President Ilham Aliyev flew to Moscow in a follow-up meeting and met with his Russian counterpart Dmitry Medvedev. At this meeting, President Aliyev confirmed his interest in selling gas directly to Gazprom.<sup>10</sup>

It should also be noted that the number one priority for Azerbaijan is resolving Nagorno-Karabakh. Unlike the West, Moscow has been moving very rapidly on this issue, promising Baku an acceptable outcome. This Russian-Azeri gas deal could potentially undercut Nabucco.<sup>11</sup>

In addition to Azerbaijan, Turkmenistan is critical to filling Nabucco. On April 9, a segment of the Central Asia-Center pipeline exploded, halting Turkmen natural gas exports to Russia.<sup>12</sup> Following the incident, the Turkmen Foreign Ministry remarkably blamed Russia for the explosion. The U.S. should have begun a much more active diplomacy with Ashgabat a long time ago. Not only there were no high level visits of U.S. officials to Turkmenistan, as the time of this writing, there is no full-time U.S. Ambassador to Turkmenistan.

The West needs to step up its energy diplomacy in Eurasia. The appointment of Ambassador Richard Morningstar as Special Envoy for Eurasian Energy is a good start. The Obama administration should continue to encourage Europe to diversify their sources of energy, to add LNG and non-Russian-controlled gas from the Caspian, and nuclear energy and coal, as well as economically viable renewable energy sources. The administration should also encourage efforts to build interregional pipeline connections and storage facilities in Europe that will increase flexibility during future supply disruptions. Lastly, Washington and Europe should encourage Moscow to decouple access to Russia's natural resources sectors from the Kremlin's geopolitical agenda in compliance with this convention.

*Question.* Given the poor state of the rule of law, democracy and human rights in Russia, how can or should the U.S. act to support those who would stand up for fundamental rights? What works and what doesn't?

*Answer.* So far, the Obama administration has not publicly raised questions about human rights violations, tight state controls of national TV channels, political repression, or rule of law issues in any significant way. In fact, so far despite the rhetoric, under President Medvedev human rights activists were assassinated, murderers of others (Politkovskaya) were acquitted in what appears as deliberately botched prosecutions, while the Khodorkovsky-Lebedev trial is moving ahead full steam.

The Obama administration appears to be meeker than the Bush administration in addressing these issues. I believe that in the "euphoric" stage of bilateral relations, determined to press the "reset" button and pursue arms control initiatives, the Obama administration may be all but mum in this area. This should not be the case though.

An important question to ask is what priority should the U.S. place on democratization and protecting civil liberties in Russia. Additionally, there is an important corollary to this question: If the Obama administration focuses too much on these areas, do we risk alienating Russia on important security issues, like Iran's nuclear threat, arms control, or Russian policy towards its neighbors? Indeed, some argue, that if the Obama administration focuses "too much" on democratization and civil

<sup>8</sup> Steven Blank, "Germany and Turkey Keep Nabucco on the Rocks," March 25, 2009, CACI Analyst, at <http://www.cacianalyst.org> (April 22, 2009).

<sup>9</sup> "Azeris Agree To Consider Gazprom," *The Moscow Times*, March 30, 2009, at <http://www.themoscowtimes.com> (April 3, 2009).

<sup>10</sup> Anatoly Medetsky, "Aliyev Proposes Selling Gas to Europe," *The Moscow Times*, April 20, 2009, at <http://www.moscowtimes.ru> (April 22, 2009).

<sup>11</sup> Alexandros Petersen, "Nabucco Pipeline: Over Before It Started?," April 8, 2008, at <http://www.acus.org> (April 22, 2009).

<sup>12</sup> John C.K. Daly, "Pipeline explosion reveals Turkmenistan-Gazprom rift," April 13, 2009, UPI, at <http://www.upi.com> (April 22, 2009).

liberties in Russia, then the U.S. may risk alienating the Russian leadership on security, foreign policy, energy and business issues. All these priorities have to be taken into account, and with this in mind, the Obama administration should not forgo a core American foreign policy value and objective with regards to Russia: promoting democracy, good governance, transparency and the rule of law. The United States should seek to advance these principles when it can and in realistic and practical ways.<sup>13</sup>

Bargaining away human and civil rights issues to secure Russia's cooperation in other areas may not only be immoral, but ineffective. It is necessary to ask two questions. Why does the internal political situation and rule of law within Russia matter? Why should the U.S. care if Russia is growing more authoritarian, retarding or undermining democratic institutions or ignoring the rule of law?

First, the United States has a strong interest in Russia's eventual transformation into a more liberal, free-market, law-governed society. Such a transformation is likely to improve its relations with its neighbors, with the United States, and enable Russia to make a more substantial contribution to the international system. It is often argued, moreover, that democracies are more stable and responsible actors on the world stage. Second, internal developments within Russia, such as the critical lapses in the rule of law and extra-legal battles over property and wealth are important because they help shape the Russian foreign policy agenda and, thus, the state's behavior. They negatively affect Western investment activity and Russian economic development.

In the West, there is a strong distinction between political power and private property. The two are separated by the rule of law and strong property rights. If there is a property dispute, the two parties go to court. In Russia, power and property are intertwined for centuries, as many of the elites running the country largely own it as well. This ancient patrimonial system has a profound affect on how Kremlin elites define their interests and, thus, the national interest.<sup>14</sup>

Kremlin elites define their interests in terms of wealth distribution and revenue flows—who gets the money? The control of energy production and transit then becomes a critical foreign policy question. This is crucial, for example, in Moscow's policies toward Ukraine. Thus, are geopolitical considerations for example, governing Moscow's policies toward Kyiv stemming from security concerns or are vested interests over revenue flows dominating? This phenomenon is most evident in the Russian-Ukrainian gas trade, where the use of opaque companies like RosUkrEnergo and its massive revenues streams becomes a key factor in foreign policy. This approach also affects Russia's pipeline policies in the Caucasus, where Georgia is a key oil and gas transit state, and in Central Asia.

Thus, a Russia with a stronger rule of law, clear property rights and a vibrant media to check corruption, expose abuses and reflect political diversity becomes a critical interest for the United States. A more democratic Russia with strong, rule-governed institutions such as a pluralist media is also a prerequisite to Russia becoming a more reliable partner for the U.S. and a constructive actor on the world stage.

With this in mind, the Obama administration faces the challenge of finding the right mix of policies that will advance these goals while not alienating the more liberal factions of the Russian leadership and elite. A good point of departure on this track is to begin addressing President Medvedev's own concerns and goals. Himself a lawyer, President Medvedev has spoken with concern about Russia's "legal nihilism," law enforcement's "nightmarish practices" and rampant corruption.<sup>15</sup> The Obama administration could emphasize that without fundamental legal reform, a fight against corruption, and a return to judiciary independence, Russia will keep lingering at the bottom of the measuring scales, such as Transparency International Corruption Index, The Heritage Foundation's Index of Economic Freedom and other international financial indices.

It should also emphasize that if Russia does not return to internationally recognized legal practices, investments are likely to slow down, and capital will continue to flee. For example, the Obama administration could, first, explore behind closed doors, and if not proven effective, publicly call for vigorous investigations into the deaths of slain journalists, such as Anna Politkovskaya, Yuri Shchekochikhin, et. al,

<sup>13</sup> Donald N. Jensen, "Russian Democracy in Crisis: The Outlook for Human Rights, Political Liberties, and Press Freedom," in "Russia and Eurasia: A Realistic Policy Agenda for the Obama administration," The Heritage Foundation, Special Report #49, March 27, 2009, at <http://www.heritage.org> (April 13, 2009).

<sup>14</sup> *Ibid.*

<sup>15</sup> Ariel Cohen, "Reversing habit of 'legal nihilism'," The Heritage Foundation, April 2, 2009, at <http://www.heritage.org>.

restoring property rights of defrauded investors, some of whom were barred from entering Russia, and releasing Mikhail Khodorkovsky from jail. These measures are, first and foremost, in Russia's national interest. They would send a strong signal to the U.S., to the Western business community, and to the Russian people, that a clean break with the lawless past is underway, and that Russia may be joining the community of civilized nations.

Lastly, the Obama administration should not be deterred from advancing democracy and rule of law in the face of Russian objections. Democracy promotion and emphasizing the rule of law and good governance are a core element of U.S. bipartisan foreign policy over the last three decades, and Moscow must eventually come to accept to this fact. Russia needs to return to a vibrant, multiparty system it had for a short time in the 1990s, despite a dismal economic performance then. If Russia wishes to be treated as a true partner and enjoy a greater international status, it must be held to the same standards as other states.

*Question.* A recent report on U.S.-Russia relations by the Belfer and Nixon centers advocated prompt congressional action on lifting Jackson-Vanik amendment sanctions against Russia in order to help re-set the relationship.

Would Russia simply welcome the concrete benefits provided by lifting Jackson-Vanik and provide little in return to the United States? What could be on the table in such a situation?

*Answer.* Congress should act to lift Jackson-Vanik as it was promised a long time ago. Russia would certainly welcome this and the benefits it will provide. However, this measure should be part of a larger package and a quid pro quo should be negotiated. The larger package would be aimed at gaining Russian cooperation on Iran and other Middle East security.

There are two approaches possible. One approach could be viewed as fulfillment of past promises and lifting of Jackson Vanik unconditionally. This would contribute to further improvement of bilateral relations and set the stage for future progress on a variety of important issues on the Washington-Moscow agenda.

The second approach would include the lifting of Jackson-Vanik; U.S. support for Russia's entry into the World Trade Organization (WTO), provided Moscow meets the WTO criteria; and a revival of the bilateral 123 nuclear agreement with Russia and offer to resubmit it for congressional approval. However, this package should only be offered after Russia meets several conditions. Specifically, Moscow should:

- Support a robust U.S. sanctions and an intrusive inspections regime at the IAEA. This inspections regime, which should include the right to visit all areas and sites, including those not officially declared to IAEA, would have to provide assurance that there is no indigenous enrichment or covert nuclear programs are taking place. Russia should work with the United States and other nations to compel Iran to discontinue any fuel enrichment or spent-fuel reprocessing, which would give Iran access to bomb-grade material.<sup>16</sup>
- Stop all arms and nuclear and other WMD technology sales to Iran and Syria and provide full disclosure of past sales, as well as what it knows about any third party assistance. In particular, Russia must stop the delivery of the SAM-300 surface-to-air missiles and other destabilizing systems to Iran.
- Stop any new anti-aircraft weapons systems sales to Syria.
- Cease diplomatic contacts with Hezbollah and Hamas.
- Russia provide adequate liability protection for U.S. companies doing business in Russia. The U.S. should demand that Russia provide two-way market access to American companies.

The second approach, while more comprehensive and more risky, would demonstrate to Moscow that the U.S. can pursue policies that benefit Russia economically and help it to overcome the severe economic crisis which is negatively affecting its economy, employment, and even social stability. The administration should formulate clear and verifiable benchmarks to pursue such a course. Yet, to succeed in this approach, Moscow needs to put cards on the table and clearly commit to cooperation with the United States on Iran (Note: For more on the inherent risks to this approach as well the multi-faceted Russian-Iranian relationship and the potential for cooperation, see my recently published article: "The Russian Handicap to U.S. Iran Policy," Jerusalem Issue Briefs, Vol. 8, No.28, April 22, 2009, The Jerusalem Center for Public Affairs, at <http://www.jcpa.org>).

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<sup>16</sup>Jack Spencer, "Russia 123 Agreement: Not Ready for Primetime" *Heritage Foundation WebMemo No. 1926*, May 15, 2008, at <http://www.heritage.org>.

*Question.* In recent testimony, the DNI noted that Moscow's engagement with both Iran and Syria, including advanced weapons sales, has implications for U.S. nonproliferation interests. Equally as relevant are press reports that Russian President Medvedev has announced his intention to strengthen Russia's conventional military force. How should the Obama administration interpret these signals and what actions might result in more effective cooperation with Russia on Iran?

*Answer.* Following the commencement of the Iraq war and Putin's reelection in 2004, Moscow has pursued a much more active if not aggressive policy in the Middle East. Moscow policies since this time have extended to cultivating de facto alliances and relationships with a host of regimes and terrorist organizations (Iran, Syria, Hamas, and Hezbollah) hostile to the United States, its allies, and its interests. The warming of relations with these states did not endear Moscow to the major Sunni powers in the region, such as Saudi Arabia, Jordan, Egypt and the United Arab Emirates. To offset this, Moscow has sought to court these powers as well by offering them weapons, nuclear reactors, and energy cooperation. Broadly speaking, Moscow is taking advantage of the U.S. strategic overstretch and is seeking to restore its influence and prestige in the region.<sup>1</sup>

Moscow's engagement with Syria and Iran, in particular, bodes ill for the U.S. interests in general and U.S.-Russian cooperation in particular. After the Operation Iraqi Freedom, Putin's first move was to improve relations with Syria. Moscow forgave 90 percent of the country's \$7 billion debt and sold Damascus anti-tank missiles and surface to air-missiles. Some of these weapons were transferred to Hezbollah and were used in the 2006 war against Israel—despite Russia's assurance to the contrary. Moscow has also protected Syria on the UN Security Council (UNSC) and obstructed sanctions against Damascus for its role in the assassination of former Lebanese President Rafiq Hariri.

In Iran, Moscow has completed the Bushehr reactor and supplied the nuclear fuel. It has also provided cover for Tehran in the U.S. by obstructing or providing very limited support for weak sanctions regimes. Importantly, Moscow has also provided protection for Tehran by supplying sophisticated weapons to protect Iran's nuclear facilities. (Note: The multi-faceted Russian-Iranian relationship and the question over Russia's potential cooperation are addressed at greater length below).

In light of Russia's behavior, the following concrete Russian actions should result in more effective cooperation with Moscow over Iran. Only by changing what it does, not what it says, can Russia become a significant partner with the U.S. on Iran. Specifically, Moscow should:

- Support a robust U.S. sanctions and an intrusive inspections regime at the IAEA. This inspections regime, which should include the right to visit all areas and sites, including those not officially declared to IAEA, would have to provide assurance that there is no enrichment or covert nuclear programs taking place.
- Stop all arms and nuclear and other WMD technology sales to Iran and Syria and disclose past sales. In particular, Russia must stop the delivery of the SAM-300 surface-to-air missiles and other destabilizing systems to Iran.
- Stop any new anti-aircraft weapons systems sales to Syria.
- Cease diplomatic contacts with Hezbollah and Hamas.

*Question.* If Iran continues to move forward in the direction it is currently headed and does not cease uranium enrichment, do you think Russia would be supportive of more punitive actions if need be, including sanctions through the U.N. Security Council even though it has resisted harsher measures in the past?

*Answer.* At best, judging by the past behavior, Russia will support very limited sanctions against Iran. Some in Washington, however, have interpreted recent Russian statements as signs that the Kremlin may be more willing to cooperate on Iran than in the past. According to the President of the Nixon Center Dimitry Simes, in a recent closed-door meeting at the Kremlin, Russian President Dmitri Medvedev purportedly expressed "concern" and "alarm" in "very graphic language" over Iran's satellite launch. He stated that this launch represents how "far-reaching Iran's nuclear ambitions are. . . ." <sup>2</sup> This statement, however, sounds like it was produced

<sup>1</sup> Robert O. Freedman, "Russia and the Middle East: A Possible U.S. Partner for Peace?," in *Russia and Eurasia: A Realistic Policy Agenda for the Obama Administration*, The Heritage Foundation, Special Report #49, March 27, 2009, at <http://www.heritage.org> (April 13, 2009).

<sup>2</sup> Phillip P. Pan and Karen De Young, "Russia Signaling Interest in Deal on Iran, Analysts Say," *The Washington Post*, March 17, 2009, at <http://www.washingtonpost.com> (March 30, 2009).



for the outside consumption and may have been aimed in enticing the Obama administration to offer concessions to the Kremlin in exchange for promises of Russia's engagement on Iran.

Only a few days later Russia's Deputy Foreign Minister Sergei Ryabkov publicly stated that "We still believe that at this point in time there are no signs that this [Iranian nuclear program] has switched to a military purpose. . . ." <sup>3</sup> This public statement is in accordance with previous Russian leaders' public statements and assessments of Iran's nuclear and "civilian space" program as peaceful. <sup>4</sup> During a number of visits to Moscow in 2004–2009, I heard the highest levels of the Russian leadership explain that there is no Iranian threat; "there is an Iranian problem." For years, top Russian officials tried to convince American visitors that Iran would "never" be able to develop long-range ballistic missiles. The recent Iranian satellite launch has proven them wrong—or deliberately misleading. Russia simply does not view the situation through the same lens as the U.S.

The Kremlin sees Iran not as threat but as a partner and an ad-hoc ally to challenge U.S. influence. <sup>5</sup> It also sees Iran as a key platform to expand its regional and international influence and prestige. While the Iranian agenda is clearly separate from that of Russia, the Kremlin uses Iran as geopolitical battering ram against the U.S. and its allies in the Gulf region and the Middle East. Therefore, Russian support for Iran's nuclear program and arms sales are not only economic and defense exports issues, but reflect a geopolitical agenda which is at least 20 years old.

Moscow has yet another powerful motive for providing Iran with diplomatic, technological and military support (to defend their missile and nuclear programs from attack), and not to achieve concrete results on cooperation: In the era of expensive oil, more tension at and around the planet's "gas station" (the Persian Gulf) drive energy prices up—a boon to the energy export revenue-dependent Russia.

An arms race in the Gulf may benefit Russia's weapons exports. After all, Moscow sold weapons to both sides during the 1980–1988 Iran-Iraq War. The perceived geopolitical and economic benefit of an unstable Persian Gulf, in which American influence is on the wane, outweighs Russia's concerns about a nuclear armed Iran.

The Obama administration should use extreme caution in negotiating Russian cooperation on Iran. Moscow's interests in Iran are commercial and geopolitical in nature. In addition to nuclear technology and arm sales and geopolitical objectives, the Kremlin has major plans cooperating with Tehran in the energy sector. The Kremlin is in the process of creating an OPEC-style gas cartel with Iran and other leading gas producers, to be headquartered in Moscow. By launching this cartel, Moscow hopes to enhance its energy superpower status. <sup>6</sup> In addition to nuclear sales, Russia is also engaged in oil and gas "swap" deals with Iran that are accruing Russia influence in Teheran, in the Caspian Basin and the Persian Gulf. <sup>7</sup>

Moscow and Iran also are planning a massive energy and transportation corridor (The North-South Corridor) to connect the Indian Ocean, the Caspian, and Europe. <sup>8</sup> The chances of Russia risking this ambitious agenda will depend on what the Obama administration offers in exchange—and whether Moscow can pocket the concessions and continue its multi-faceted relationship with Teheran.

It will be important to remember that Russia can pocket American concessions and continue its old strategy of obfuscation, cooperating only as much as is necessary to accomplish its objectives (e.g., convincing the U.S. to abandon the missile defense sites in Eastern Europe, roll back U.S. influence in Eurasia, get Washington to ignore Russia's domestic situation, including violation of civil liberties and human rights) but not enough to actually stop the nuclear program in Iran. <sup>9</sup>

<sup>3</sup>"No sign Iranian nuclear programme has military intent: Russia," AFP, March 20, 2009, at <http://www.spacewar.com> (March 30, 2009).

<sup>4</sup>Stephen Blank, "Russia and Iran's Missiles," *World Politics Review*, February 9, 2009, at <http://www.worldpoliticsreview.com> (March 16, 2009).

<sup>5</sup>Stephen Blank, "Russia and Iran's Missiles," *World Politics Review*, February 9, 2009, at <http://www.worldpoliticsreview.com> (March 16, 2009).

<sup>6</sup>Ariel Cohen, "Gas OPEC: A Stealthy Cartel Emerges," Heritage Foundation WebMemo, April 12, 2007 <http://www.heritage.org> (March 24, 2009).

<sup>7</sup>"Russia, Iran signed hydrocarbon memorandum allowing for swap operations," Itar-Tass, March 15, 2009, at <http://www.itar-tass.com> (April 1, 2009); "Iran: Is Tehran Using Russia as Insurance Against Tougher Sanctions?" *Eurasia Insight*, March 17, 2009, at <http://www.eurasianet.org> (April 1, 2009).

<sup>8</sup>Ariel Cohen, Lisa Curtis and Owen Graham, "The Proposed Iran-Pakistan-India Gas Pipeline: An Unacceptable Risk to Regional Security," The Heritage Foundation, Background #2139, May 30, 2008, at <http://www.heritage.org> (April 14, 2009); For more information, see official International North-South Transport Corridor Web site at <http://www.instc.org>.

<sup>9</sup>Kim R. Holmes, "U.S. backtracks on missile shield," February 20, 2009, The Heritage Foundation, at <http://www.heritage.org> (April 14, 2009).

*Question.* With the media reporting that Russia will now allow the United States to ship non-lethal supplies through its territory to Afghanistan—via Kazakhstan and Uzbekistan—what kind of support is feasible from Russia. Is it appropriate to see Russia as an equal partner with regard to Afghanistan and if so what steps should we take to ensure that's the case?

*Answer.* When judging Russia's potential to support operations in Afghanistan or whether it can be an equal partner, it is important to examine Russia's actions vs. Russia's declarations and place these issues in the context of the U.S.'s violent history in the 1979–1989 invasion of Afghanistan.

Moscow does have good reasons to be alarmed at a possible U.S. defeat in Afghanistan, which could mean the destabilization of good parts of Central Asia and the export of the Taliban/Al Qaeda jihad to Central Asia and the Caucasus. The Kremlin is also concerned with the unimpeded flow of narcotics into Europe and Eurasia, which the Russians and local border guards along the Afghan border fail to control. Yet, while the Kremlin is allowing the transit of non-lethal war supplies and military materiel through its territory and has stated on multiple occasions its desire to cooperate more, its actions have evinced more of a negative tone, as well as conflicting priorities and overriding goals.

For example, it is important to remember that at the same time the Kremlin was voicing support for cooperation in Afghanistan, it was also working hard behind the scenes in Kyrgyzstan to evict the U.S.—and NATO—from the key airbase in Manas.<sup>10</sup> This action was consistent with Medvedev's August 31 statement of Russia's new foreign policy principles and policies in which he called for a "zone of privileged interests."

With Russian President Dmitry Medvedev at his side, Kurmanbek Bakiyev, President of Kyrgyzstan, announced in Moscow that he wants the U.S. to leave Manas Air Base. With this move, the Kremlin signaled the West that in order to gain access to Central Asia, Western countries must first request permission from Moscow and pay the Kremlin for transit. For Moscow, this is a critical issue of status, prestige, and influence in the region. This move also signaled that Moscow has different priorities than the U.S. vis-à-vis Afghanistan.

The creation of the sphere of influence (economically, politically, and militarily) in the former Soviet space is a major priority for Moscow. Incidentally, this territory is almost identical to that of the Russian Empire. President Dmitry Medvedev announced as much in his televised speech on August 31, 2008, calling for a "privileged sphere of interests."

Russia is pursuing this path through multilateral integration with the former Soviet states (including those bordering Afghanistan) through Moscow-dominated international bodies, such as the Commonwealth of Independent States (CIS), the Eurasian Economic Community (EurAsEC) and the CIS Collective Security Treaty Organization (CSTO), a Moscow-based military alliance, also known as the Tashkent Treaty.

In Moscow's quest to regain its status in the region and become an equal partner with the U.S., it may cooperate on its own terms. This is what Moscow did after 9/11 attacks. Like then, today the demand to recognize its political supremacy in the former U.S. has not changed. Two of these conditions may involve the acceptance by NATO of the CSTO as the primary security provider in the entire former Soviet space, including denial of NATO membership to Ukraine and Georgia, and the carving up of Afghanistan into spheres of responsibility between NATO and the CSTO.<sup>11</sup> Indeed, on the latter, Moscow may be seeking to extend its sphere of influence into the Tajik-dominated northern part of Afghanistan.

Influential Russian experts have discussed spheres of responsibility in Afghanistan and in Eurasia between Russia and NATO. On the former, the well connected Sergei Rogov, Director of the state-run Institute for the Study of the USA and Canada, laid down his formula for what greater U.S.-Russian cooperation would look like in Afghanistan. He suggested including Russia in the NATO political-decision making process or by giving additional functions to the NATO-Russia Council. His prescription to achieve stability was to divide up Afghanistan into spheres of responsibility between Russia and NATO, with Russian reconstruction and security forces in the North.<sup>12</sup> Another insight into Russian terms came from then-Defense Min-

<sup>10</sup> Mikhail Sergeev, "West Makes the Most of Conflict," *Nezavizimaya Gazeta* August 24, 2008.

<sup>11</sup> Stephen Blank, "What Does Moscow Want in Afghanistan?," *Perspective*, Boston University, April 2009, at <http://www.bu.edu> (April 17, 2009).

<sup>12</sup> *Ibid.*

ister Sergei Ivanov in 2006 when speaking about security guarantees in Eurasia at large. He stated that,

The next logical step on the path of reinforcing international security may be to develop a cooperation mechanism between NATO and the CSTO, followed by a clear division of spheres of responsibility. This approach offers the prospect of enabling us to possess a sufficiently reliable and effective leverage for taking joint action in crisis situations in various regions of the world.<sup>13</sup>

These Russian visions of what greater Russian-NATO cooperation may look like bode ill to American global agenda and to U.S. allies in Central and Eastern Europe and the former Soviet Union. They point to vastly different views on the sovereignty of nation states and their right to choose politico-military relationships. One would hope that the Obama administration would reject such proposed divisions of the world, which remind one of the 19th century Count Otto von Bismark's Weltanschauung and the darker episodes of the early 20th century history.

There, however, areas of potential cooperation which are feasible. The highest levels of the Russian leadership have voiced the need to stem the flow of narcotics and other illicit goods from Central Asia to Russia. Anti-narcotics are an area where the U.S. and Russia have shared interests and cooperation should be possible. The U.S. and NATO could engage in intelligence sharing initiatives on both of these fronts. Some have also suggested that it may be possible to work with Moscow on border security initiatives.<sup>14</sup> For now, Moscow has been acting unilaterally to harden and strengthen border and defense ties with Central Asian states after having arrived at the conclusion that cooperation with NATO on this effort is does not benefit it.<sup>15</sup>

Therefore, while cooperation is certainly desirable, Moscow's overriding goals, past behavior and conflicting priorities must be thoroughly examined, with understanding that today it can not be an equal partner in Afghanistan.

*Question.* Russian officials said earlier this year that they are scaling up their diplomatic involvement to solve conflicts in Africa, and they recently appointed a special envoy to Sudan. However, their record to date toward Sudan and specifically the situation in Darfur has been unhelpful to say the least. They have provided political cover for the regime in Khartoum at the UN Security Council and, according to the organization Human Rights First, they have continued to provide arms to the Government of Sudan used in Darfur in direct violation of the UN arms embargo. How can the Obama administration better press Russia on the Security Council and bilaterally to change their approach to Sudan? And just as with the Chinese, how can we engage and identify opportunities to partner with the Russians as they increase their involvement in African affairs?

*Answer.* Russia is indeed steeping up its activity in Africa in a bid to demonstrate its independence on the international stage and get Russian state-controlled companies involved in oil, gas, mineral and arms deals. As you state, Russia is also providing political support and cover to some problematic actors such as Zimbabwe and Sudan.

First, Russia's energy agenda in Africa is of particular importance. Russia's strategy is to maintain its dominance as the single largest gas supplier to Europe. Russia leverages Europe's dependence as a foreign policy tool to pressure states that would adopt policies against Russia's national interests.<sup>16</sup> The Kremlin uses this leverage to divide Europe on key issues, thus weakening Europe's bargaining power in economic and geopolitical relations with Russia. This dependence, most clearly demonstrated during the 2006 and 2009 interruptions of Gazprom's gas supply to Ukraine, increases Europe's "continental drift" away from the U.S. by limiting the foreign policy options available to America's European allies, and forcing them to choose between an affordable energy supply and siding with the U.S. and NATO on key strategic issues, such as missile defense or opposing Russia's treatment of Georgia.

In order to maintain this dominant position in the European gas market and prevent alternative gas transit solutions, the Kremlin is investing heavily in Africa. Russia is already controlling the transit of gas supplies to Europe from the East

<sup>13</sup> Ibid.

<sup>14</sup> Borut Grgic and Alexandros Petersen, "A strategy for Central Asia," April 9, 2009, The Washington Times, at <http://www.washingtontimes.com> (April 17, 2009).

<sup>15</sup> Stephen Blank, "What Does Moscow Want in Afghanistan?," Perspective, Boston University, April 2009, at <http://www.bu.edu> (April 17, 2009).

<sup>16</sup> Ariel Cohen, "Europe's Strategic Dependence on Russian Energy," Heritage Foundation Backgrounder No. 2083, November 5, 2007, at <http://www.heritage.org>.

(Central Asia) and is deftly conducting what some analysts have called a “pincer” pipeline attack on Europe, moving to dominate the supply routes to Northern Europe via the proposed Nord Stream gas pipeline along the bottom of the Baltic Sea.

In the southern vector, Gazprom is seeking to dominate the supply routes to Southern Europe via the proposed South Stream gas pipeline and a pipeline from Libya that travels under the Mediterranean to Sicily.<sup>17</sup> In Libya, Gazprom originally offered to buy all of the country’s gas. Thus far, it has successfully used debt forgiveness and arms sales to accelerate this effort and “lock in” supply.<sup>18</sup> Gazprom has also inked a deal to help Nigeria fund a 2,700 mile trans-Saharan pipeline to Europe. Russia has additional deals in Algeria, Angola, Egypt and the Ivory Coast. Already controlling most of Central Asia’s export routes to Europe, if Moscow succeeds in North Africa, Europe will be geopolitically surrounded.

In addition to Russia’s strategic energy agenda, Moscow is providing political cover to the Sudanese government and is selling it arms. Russia has provided critical political support to Zimbabwe as well by vetoing Security Council sanctions against Robert Mugabe’s dictatorship. While in many respects, Russian behavior does not appear amendable to substantial cooperation, it may, however, be worthwhile to engage the Russians on various anti-piracy initiatives.

Beyond this, it will also be important to hold hearings on Russia’s activities in Africa and expose the discrepancies between words and actions and shame certain behaviors.

*Question.* The State Department’s yearly report on human rights noted for 2008 that “the Russian Federation has an increasingly centralized political system. with a compliant State Duma, corruption and selectivity in enforcement of the law, media restrictions, and harassment of some NGOs [all of which have] eroded the government’s accountability to its citizens.”

The 2008 report also documents numerous reports of government and societal human rights problems and abuses during the year. The last administration pretty much gave Russia free pass but this is not expected to be the case with the new administration. How do you anticipate these restrictions will be addressed in any new U.S. policy towards Russia?

*Answer.* So far, the Obama administration has not raised questions about human rights violations, absence of pluralistic national TV channels, political repression or rule of law issues in any significant way. In fact, so far the Obama administration more meek than the Bush administration in addressing these issues. I think that in the “euphoric” stage of relations, determined to press the “reset” button and pursue arms control initiatives, the Obama administration may be all but mum in this area. This should not be the case though.

An important question to ask when formulating foreign policy is what priority should the U.S. place on democratization and protecting civil liberties in Russia. There is an important corollary to this question: If we focus too much on these areas, do we risk alienating Russia on important security issues, like Iran’s nuclear threat?

If the Obama administration focuses “too much” on democratization and civil liberties in Russia, some believe that the U.S. may risk alienating the Russian leadership on security issues. With this in mind, the Obama administration should not forgo a core American foreign policy values and objectives with regards to Russia: promoting democracy, good governance, transparency and the rule of law. The United States should seek to advance these principles when it can and in realistic and practical ways.

Some may argue that Russia’s domestic situation and deteriorating rule of law do not really matter and should not figure highly in U.S. policy toward Russia as these are Russia’s “internal affairs”. However, the 1975 Helsinki Agreements put human rights and civil liberties squarely into the “third basket” of East-West relations.

To counter this philosophical position which makes its adherents more receptive towards a “grand bargain”, it is necessary to ask two questions. Why does the internal political situation and rule of law within Russia matter? Why should the U.S. care if Russia is growing more authoritarian, retarding or undermining democratic institutions or ignoring the rule of law?

<sup>17</sup> Nord Stream is a proposed pipeline that would transport gas from Vyborg, Russia, along the Baltic seabed to Greifswald, Germany. South Stream is a proposed and expensive pipeline that will cross the Black Sea to Varna, Bulgaria, with one branch running south to Italy via Greece and the other running north to Austria via Serbia and Hungary.

<sup>18</sup> Ariel Cohen, “The Real World: Putin in Libya,” Middle East Times, April 18, 2008, <http://www.metimes.com>.

First, the United States has a strong interest in Russia's eventual transformation into a liberal, free-market, law-governed society. Such a transformation will improve its relations with the United States, its neighbors and enable Russia to make a more substantial contribution to the international system. It is axiomatic, moreover, that democracies are more stable and responsible actors on the world stage.

Second, internal developments within Russia, such as extra-legal battles over property and wealth are important because they help shape the Russian foreign policy agenda and, thus, the state's behavior.

In the West, there is a strong distinction between political power and private property. It is separated by the rule of law and strong property rights. If there is a property dispute, the two parties go to court. In Russia, power and property are blended, as many of the elites running the country largely own it as well. This patrimonial system has a profound affect on how Kremlin elites define their interests and, thus, the national interest.

Kremlin elites define their interests in terms of wealth distribution and revenue flows—who gets the money? The control of energy production and transit then becomes a critical foreign policy question. This is crucial, for example, in Moscow's policies toward Kyiv. Thus, are geopolitical considerations for example, governing Moscow's policies toward Kyiv stemming from security concerns or are vested interests over revenue flows dominating? This phenomenon is most evident in the Russian-Ukrainian gas trade, where the use of opaque companies like RosUkrEnerg and its massive revenues streams becomes a key factor in foreign policy.

Thus, a Russia with a stronger rule of law, clear property rights and a vibrant media to check corruption, expose abuses and reflect political diversity becomes a critical interest for the United States. A more democratic Russia with strong, rule governed institutions such as a pluralist media is also a prerequisite to Russia becoming a more reliable partner for the U.S. and a constructive actor on the world stage.

With this in mind, the Obama administration faces the challenge of finding the right mix of policies that will advance these goals while not alienating the more liberal factions of the Russian leadership and elite. A good point of departure on this track is to begin addressing President Medvedev's own concerns and goals. President Medvedev has spoken with concern about Russia's "legal nihilism," law enforcement's "nightmarish practices" and rampant corruption. The Obama administration could emphasize that without fundamental legal reform, a fight against corruption, and a return to judiciary independence, Russia will keep lingering at the bottom of the Transparency International Corruption Index, The Heritage Foundation's Index of Economic Freedom and other international financial indices. It should also emphasize that if Russia does not return to internationally recognized legal practices, investments are likely to slow down, and capital will continue to flee. For example, the Obama administration could, first, explore behind closed doors, and if not proven effective, publicly call for vigorous investigations into the deaths of slain journalists, restoring property rights of defrauded investors, some of whom were barred from entering Russia, and releasing Mikhail Khodorkovsky from jail.

These measures are in Russia's national interest. They would send a strong signal to the U.S., to the Western business community, and to the Russian people, that a clean break with the lawless past is underway, and that Russia may be joining the community of civilized nations.

Lastly, the Obama administration should not be deterred from advancing democracy and rule of law amidst of Russian objections. Democracy promotion is a core element of U.S. bipartisan foreign policy over the last three decades, and Moscow must eventually come to accept to this fact. Russia needs to return to a vibrant, multiparty system it had for a short time in the 1990s, despite a dismal economic performance then. If Russia wishes to be treated as a true partner and enjoy a greater international status, it must be held to the same standards as other states.

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RESPONSES TO QUESTIONS SUBMITTED TO ARIEL COHEN BY SENATOR CASEY

*Iran*

*Question.* Russia has given mixed signals about the steps it is ready to take in order to contain Iran's nuclear ambitions. On one hand, Russia is building a nuclear reactor for Iran at Bushehr, and has obstructed efforts in the UN Security Council to impose tougher sanctions on Iran for continuing its nuclear enrichment program. On the other hand, after Iran's clandestine nuclear program came to light, Russia withheld the delivery of nuclear fuel for the Bushehr reactor and eventually agreed

to limited UN Security Council sanctions, when Iran refused to accept a Russian proposal that would have allowed Iran to reprocess uranium at facilities on Russian territory. In recent weeks, senior Russian officials, including President Medvedev, have indicated that Russia is prepared to support additional sanctions on Iran if it does not stop enrichment of uranium.

How do you interpret Moscow's vacillation on stopping Iran's enrichment program? Why has Moscow historically been unwilling to agree to tougher sanctions on Iran? Are Moscow's motivations for building a nuclear reactor for Iran strategic, financial, or both?

Answer. Past Russian vacillations, such as delaying and temporarily withholding delivery of nuclear fuel to Iran, postponing the transfer of sophisticated S-300 anti-aircraft batteries to Iran and providing limited support for weak sanctions regimes, indicate that Russia is trying to have its cake and eat it to. It demonstrates responsiveness to the U.S. and occasionally, even Israeli, pressures and entreaties, while inexorably enabling Iran to get its wishes.

The challenge in assessing Russia's willingness to cooperate with the West on Iran is to examine and interpret Russia's actions versus its rhetoric and to place both in the context of Russia's perceived interests and its strong and multifaceted relationship with Iran.

Russia's ambitions in Iran go back to the czarist and Soviet eras, when in the eightieth century South Caucasus and the Caspian littoral—until then under Persian hegemony—came under the sway of St. Petersburg. The Soviets occupied northern Iran during World War II. Later, Soviet intelligence predicted the victory of the Khomeini Revolution long before Washington realized the scope of the geopolitical disaster it faced after the abandonment of its ailing ally, the Shah. Moscow sold weapons to both Baghdad (its principal client) and to Teheran during the Iran-Iraq war of 1980–1988. Today, Russia's commercial interests in Iran span from billions in arms sales and transfer of nuclear and space technology to lucrative oil and gas contracts for state-controlled Russian companies. These ties, and the potential of bilateral trade, are greater than the US economic “carrots” offered under the Bush administration, let alone the economic links with Israel.

The Kremlin sees Iran not as threat but as a partner or as an ad-hoc ally to challenge U.S. influence.<sup>1</sup> It also sees Iran as a key platform to expand its regional and international influence or prestige. While the Iranian agenda is clearly separate from that of Russia, the Kremlin uses Iran as geopolitical battering ram against the U.S. and its allies in the Gulf region and the Middle East. Therefore, Russian support for Iran's nuclear program and arms sales are not only economic and export issues, but reflect a geopolitical agenda which is at least 20 years old.

This agenda is part of a strategy aimed at creating a “multi-polar world,” a strategy which came about as a reaction to the decline of Soviet stature in the waning years of the Cold War, and was called by this author “The Primakov Doctrine.” Named after foreign minister Evgeny Primakov, this doctrine was a response to the emergence of independent states in Eastern Europe and Eurasia and the enlargement of NATO. In early 1997, Primakov and his Iranian counterpart, Ali Akbar Velayati, issued a joint statement calling the U.S. presence in the Persian Gulf “totally unacceptable.”<sup>2</sup>

Today, both Russia and Iran favor a strategy of “multipolarity,” both in the Middle East and worldwide. This strategy seeks to dilute American power, revise current international financial institutions which comprise the post-Bretton Woods world order, shift away from the dollar as a reserve currency, weaken or neuter NATO and Organization for Security and Cooperation in Europe, while forging a counterbalance to the Euro-Atlantic alliance, with Russia, Iran, Venezuela, Syria and terrorist organizations, such as Hamas and Hezbollah, while hoping to attract China, India, and other states to this anti-U.S. coalition.

Russia is playing a sophisticated game of Star Trek's multidimensional chess. It combines a Realpolitik recognition of Moscow's relative weakness vis-à-vis Washington with a desire to push America out of its zone of military and political predominance—the Persian Gulf.

Moscow has yet another powerful motive for providing Iran with diplomatic, technological and military support (to defend their missile and nuclear programs from attack), and to not provide concrete results on cooperation: In the era of expensive oil, more tension at and around the planet's “gas station” drive energy prices up—

<sup>1</sup>Stephen Blank, “Russia and Iran's Missiles,” *World Politics Review*, February 9, 2009, at <http://www.worldpoliticsreview.com> (March 16, 2009)

<sup>2</sup>Ariel Cohen and James Phillips, “Russia's Dangerous Missile Game in Iran,” The Heritage Foundation Executive Memorandum, November 13, 1997, <http://www.heritage.org> (March 17, 2009)

a boon to the energy export revenue-dependent Russia. And an arms race in the Gulf may benefit Russia's weapons exports. After all, Moscow sold weapons to both sides during the Iran-Iraq War. The perceived geopolitical and economic benefit of an unstable Persian Gulf, in which American influence is on the wane, outweighs Russia's concerns about a nuclear armed Iran. (Note: The Russian-Iranian relationship and the question over Russia's potential cooperation are addressed at greater length below).

*Question.* President Medvedev recently suggested that Russia is open to cooperating with the United States on Iran. However, he also scoffed that the U.S. should not link cooperation on Iran to U.S. missile defense plans in Eastern Europe. In other words, the Russian leadership continues to maintain that U.S. missile defense sites do not counter the Iranian threat, but rather threaten Russia.

In your view, did the Obama administration present the Kremlin a fair deal by offering to scrap U.S. missile defense plans in Eastern Europe for greater cooperation on combating the Iranian nuclear and ballistic missile threat?

*Answer.* President Obama's letter to President Dmitry Medvedev and subsequent statements suggested that if Russia cooperated with the United States in preventing Iran from developing long-range nuclear-missile capabilities, the need for a new missile defense system in Europe would be eliminated—a quid pro quo. This arrangement is ill-advised for several reasons.

First, Russia could pocket any delay or cancellation and continue its old strategy of obfuscation, cooperating only as much as is necessary to kill the missile sites in Eastern Europe, but not enough to actually stop the nuclear program in Iran.<sup>3</sup>

Second, this course would seriously damage bilateral and NATO relations with Poland and the Czech Republic, two important allies. Canceling the deployment would show that the United States is unreliable and that NATO is an alliance without a credible security guarantee. Moreover, accommodating Russia on this deployment would split NATO and show that it is a two-tiered alliance—one for members within Russia's sphere of influence and one for those outside of it.

The question of Russian cooperation in exchange for missile defense plans in Europe will be fleshed out in greater detail in the next answer as it is critical to address the potential for any "grand bargain."

*Question.* Do you take President Medvedev at his word when he indicates that Russia might agree to additional sanctions? Or is the Kremlin expecting a carrot from the Obama administration in exchange for its cooperation?

*Answer.* Some in Washington have interpreted recent Russian statements as signs that the Kremlin may be more willing to cooperate on Iran than in the past. According to the President of the Nixon Center Dmitry Simes, in a recent closed-door meeting at the Kremlin, Russian President Dmitri Medvedev purportedly expressed "concern" and "alarm" in "very graphic language" over Iran's satellite launch. He stated that this launch represents how "far-reaching Iran's nuclear ambitions are. . . ."<sup>4</sup> This statement may have been aimed in enticing the Obama administration to offer concessions to the Kremlin in exchange for promises of Russia's engagement on Iran.

Only a few days later Russia's Deputy Foreign Minister Sergei Ryabkov publicly stated that "We still believe that at this point in time there are no signs that this [Iranian nuclear program] has switched to a military purpose. . . ."<sup>5</sup> This announcement is in accordance with previous Russian leaders' public statements and assessments of Iran's nuclear and "civilian space" program as peaceful.<sup>6</sup> Russia simply does not view the situation through the same lens as the U.S.

The Obama administration should use extreme caution in negotiating Russian cooperation on Iran. Moscow's interests in Iran are commercial and geopolitical in nature, and until now mostly militated against substantial cooperation or any potential "grand bargain." This so-called bargain would involve the U.S. delaying or canceling plans for European-based U.S. missile defense and barring NATO's doors to Ukraine and Georgia.

Russia is also demanding that the West scale back relations with Russia's "near-abroad" countries and overlook Russia's domestic abysmal rule-of-law situation and

<sup>3</sup> Kim R. Holmes, "U.S. backtracks on missile shield," February 20, 2009, The Heritage Foundation, at <http://www.heritage.org> (April 14, 2009).

<sup>4</sup> Phillip P. Pan and Karen De Young, "Russia Signaling Interest in Deal on Iran, Analysts Say," *The Washington Post*, March 17, 2009, at <http://www.washingtonpost.com> March 30, 2009).

<sup>5</sup> "No sign Iranian nuclear programme has military intent: Russia," *AFP*, March 20, 2009, at <http://www.spacewar.com> (March 30, 2009).

<sup>6</sup> Stephen Blank, "Russia and Iran's Missiles," *World Politics Review*, February 9, 2009, at <http://www.worldpoliticsreview.com> (March 16, 2009).

the security services' human rights excesses—in exchange for Russian cooperation on preventing Iran from going nuclear. To the Realpolitik school, including octogenarians: the former Secretary of State Henry Kissinger, former President Jimmy Carter's National Security Advisor Zbigniew Brzezinski, and former President George H.W. Bush's National Security Advisor Brent Scowcroft, this looks like a plausible bargain—if Moscow delivers. And herein lies the rub.

In addition to the previously mentioned nuclear and arm sales and geopolitical objectives, the Kremlin has major plans with Tehran in the energy sector. The Kremlin is in the process of creating an OPEC-style gas cartel with Iran and other leading gas producers, to be headquartered in Moscow. By launching this cartel, Moscow hopes to enhance its energy superpower status.<sup>7</sup> In addition to nuclear sales, Russia is also engaged in oil and gas “swap” deals with Iran that are accruing Russia influence in Teheran, in the Caspian Basin and the Persian Gulf.<sup>8</sup> Moscow and Iran also are planning a massive energy and transportation corridor (The North-South Corridor) to connect the Indian Ocean, the Caspian, and Europe.<sup>9</sup> The chances of Russia risking this ambitious agenda will depend on what the Obama administration offers in exchange—and whether Moscow can pocket the concessions and continue its multi-faceted relationship with Teheran.

This is not the time for navete. Given the substantial Russian interests and ambitions, a grand bargain may require an excessively high price paid by the United States to the detriment of its friends and allies. It will also open up the U.S. to extortion as Russia's price for cooperation is likely to continue to rise. For example, Russia is already demanding a fundamental revision of the European security architecture (see below).

Today, some foreign policy experts tend to overemphasize Russia's ability to “deliver” Tehran and play a constructive role. Before bargaining away real U.S. interests and allies, it will be important to recall that there have been little concrete steps from Russia thus far to stem Iran's nuclear ambitions. What is more likely under any such bargain is that Russia's will achieve its desired status as international broker but cooperate only enough to accomplish its objectives but not enough stop the military nuclear program in Iran. In other words, Russia will continue to try and have its cake and eat it too.

*Question.* What, if anything, should the Obama administration offer Russia for enhanced efforts to stop Iranian enrichment?

*Answer.* In exchange for concrete Russian help on Iran, the U.S. could support Russia's entry into the World Trade Organization (WTO), provided Moscow meets the WTO criteria. Russia's entry into the WTO is currently on hold because of the invasion of Georgia.<sup>10</sup> Given the economic challenges still facing Russia and the Kremlin's efforts to move Russia to a high-tech, non-resource-based economy, entry into the WTO would clearly be a boon for Russia.

In addition, the U.S. Congress could repeal the obsolete Jackson-Vanik Amendment, which denies Russia a Permanent Normal Trade Relations status leaving the President to waive the amendment each year in the absence of a congressional vote. While such a move is currently off the table because of the invasion of Georgia, it could be restored if Russia demonstrates a genuine change in policy.

The Obama administration could also revive the bilateral 123 nuclear agreement with Russia and offer to resubmit it for congressional approval. However, this should only be done once Russia meets the following three conditions:

- 1) Russia discontinues its support of Iran's military nuclear energy program and provides full disclosure. Indeed, it is Russian nuclear fuel that undermines Iran's claim that it needs uranium enrichment. Russia must discontinue any efforts that advance Iran's heavy-water-reactor program, enrichment activities, spent-fuel reprocessing programs, missile technology transfer, or engineer and scientist training for nuclear and missile technology. Russia must disclose its past activities in support of the Iranian

<sup>7</sup> Ariel Cohen, “Gas OPEC: A Stealthy Cartel Emerges,” *Heritage Foundation WebMemo*, April 12, 2007 <http://www.heritage.org> (March 24, 2009).

<sup>8</sup> “Russia, Iran signed hydrocarbon memorandum allowing for swap operations,” *Itar-Tass*, March 15, 2009, at <http://www.itar-tass.com/eng/> (April 1, 2009); “Iran: Is Tehran Using Russia as Insurance Against Tougher Sanctions?” *Eurasia Insight*, March 17, 2009, at <http://www.eurasianet.org> (April 1, 2009).

<sup>9</sup> Ariel Cohen, Lisa Curtis and Owen Graham, “The Proposed Iran-Pakistan-India Gas Pipeline: An Unacceptable Risk to Regional Security,” *The Heritage Foundation, Backgrounder #2139*, May 30, 2008, at <http://www.heritage.org> (April 14, 2009); For more information, see official International North-South Transport Corridor Web site at <http://www.instc.org>.

<sup>10</sup> Mikhail Sergeev, “West Makes the Most of Conflict,” *Nezavizimaya Gazeta*, August 24, 2008.



program, as well as what it knows about any third party assistance.<sup>11</sup> Russia publicly pledges to not deliver the sophisticated S-300 air defense system to Iran.

2) The Obama administration should also request that Russia provide adequate liability protection for U.S. companies doing business in Russia. Even with a 123 agreement in place, U.S. companies would likely forgo commercial activities in Russia due to a lack of liability protection. Indeed, many countries use the lack of liability protection for U.S. companies as a means to protect their domestic nuclear industry from U.S. competition.<sup>12</sup>

3) The U.S. should demand that Russia provide two-way market access to American companies. This agreement should not be simply an avenue to bring Russian goods and services to the U.S. market; it is equally important that U.S. companies are allowed to compete for business in Russia. While Russian nuclear technology is second to none, foreign competition will assure that the highest quality standards are maintained throughout the country.<sup>13</sup>

#### *Priorities in the U.S.-Russian Relationship*

*Question.* Russia has also vocally expressed its displeasure with the United States' promotion of democracy, both in Russia and in Russia's near abroad. It is a common view in Moscow that the U.S. was responsible for facilitating the colored revolutions that removed authoritarian leaders in Ukraine, Georgia, and Kyrgyzstan, and some officials in the Kremlin, particularly inside Prime Minister Putin's inner circle, fear a similar revolt in Russia. I disagree with Russia's claims, but I cannot ignore Russia's less than remarkable record on democratic reform and civil liberties. Opposition leaders, even those who pose no threat to the entrenched political establishment, are routinely jailed and harassed. In addition, several Russian journalists have been murdered under murky circumstances suggesting government involvement.

In your assessment, what priority should the U.S. place on democratization and protecting civil liberties in Russia? If we focus too much on these areas, do we risk alienating Russia on important security issues, like Iran's nuclear threat?

*Answer.* If the Obama administration focuses "too much" on democratization and civil liberties in Russia, then the U.S. may risk alienating the Russian leadership on security issues. With this in mind, the Obama administration should not forgo a core American foreign policy value and objective with regards to Russia: promoting democracy, good governance, transparency and the rule of law. The United States should seek to advance these principles when it can and in realistic and practical ways.

Some may argue that Russia's domestic situation and deteriorating rule of law do not really matter and should not figure highly in U.S. policy toward Russia. This philosophical position makes its adherents more receptive towards a "grand bargain."

To counter this position, it is necessary to ask two questions. Why does the internal political situation and rule of law within Russia matter? Why should the U.S. care if Russia is growing more authoritarian, retarding or undermining democratic institutions or ignoring the rule of law?<sup>14</sup>

First, the United States has a strong interest in Russia's eventual transformation into a liberal, free-market, law-governed society. Such a transformation will improve its relations with the United States, its neighbors and enable Russia to make a more substantial contribution to the international system. It is axiomatic, moreover, that democracies are more stable and responsible actors on the world stage.

Second, internal developments within Russia, such as extra-legal battles over property and wealth are important because they help shape the Russian foreign policy agenda and, thus, the state's behavior.

In the West, there is a strong distinction between political power and private property. It is separated by the rule of law and strong property rights. If there is a property dispute, the two parties go to court. In Russia, power and property are

<sup>11</sup> Jack Spencer, "Russia 123 Agreement: Not Ready for Primetime" *Heritage Foundation WebMemo No. 1926*, May 15, 2008, at <http://www.heritage.org>.

<sup>12</sup> *Ibid.*

<sup>13</sup> *Ibid.*

<sup>14</sup> Donald N. Jensen, "Russian Democracy in Crisis: The Outlook for Human Rights, Political Liberties, and Press Freedom," in "Russia and Eurasia: A Realistic Policy Agenda for the Obama administration," *The Heritage Foundation, Special Report #49*, March 27, 2009, at <http://www.heritage.org> (April 13, 2009).

blended, as many of the elites running the country largely own it as well. This patrimonial system has a profound affect on how Kremlin elites define their interests and, thus, the national interest.<sup>15</sup>

Kremlin elites define their interests in terms of wealth distribution and revenue flows—who gets the money? The control of energy production and transit then becomes a critical foreign policy question. This is crucial, for example, in Moscow’s policies toward Kyiv. Thus, are geopolitical considerations for example, governing Moscow’s policies toward Kyiv stemming from security concerns or are vested interests over revenue flows dominating? This phenomenon is most evident in the Russian-Ukrainian gas trade, where the use of opaque companies like RosUkrEnergO and its massive revenues streams becomes a key factor in foreign policy.

Thus, a Russia with a stronger rule of law, clear property rights and a vibrant media to check corruption, expose abuses and reflect political diversity becomes a critical interest for the United States. A more democratic Russia with strong, rule governed institutions such as a pluralist media is also a prerequisite to Russia becoming a more reliable partner for the U.S. and a constructive actor on the world stage.

With this in mind, the Obama administration faces the challenge of finding the right mix of policies that will advance these goals while not alienating the more liberal factions of the Russian leadership and elite. A good point of departure on this track is to begin addressing President Medvedev’s own concerns and goals.

President Medvedev has spoken with concern about Russia’s “legal nihilism,” law enforcement’s “nightmarish practices” and rampant corruption.<sup>16</sup> The Obama administration could emphasize that without fundamental legal reform, a fight against corruption, and a return to judiciary independence, Russia will keep lingering at the bottom of the Transparency International Corruption Index, The Heritage Foundation’s Index of Economic Freedom and other international financial indices. It should also emphasize that if Russia does not return to internationally recognized legal practices, investments are likely to slow down, and capital will continue to flee. For example, the Obama administration could call for vigorous investigations into the deaths of slain journalists, restoring property rights of defrauded investors, some of whom were barred from entering Russia, or releasing Mikhail Khodorkovsky from jail.

These measures are in Russia’s national interest. They would send a strong signal to the U.S., to the Western business community, and to the Russian people, that a clean break with the lawless past is underway, and that Russia may be joining the community of civilized nations.

Lastly, the Obama administration should not be deterred from advancing democracy and rule of law amidst of Russian objections. Democracy promotion is a core element of U.S. bipartisan foreign policy and Moscow must eventually come to accept to this fact. Russia needs to return to a vibrant, multiparty system it was for a short time in the 1990s, despite a dismal economic performance, if Russia wishes to be treated as a true partner and enjoy a greater international status, it must be held to the same standards as other states.

#### *NATO-Russian Relations*

*Question.* On March 5, 2009, NATO Foreign Ministers agreed to resume formal meetings of the NATO-Russian Council, after suspending its activity following Russia’s invasion of Georgia in August 2008. Ministers gave the signal that business would return to normal, even though serious disagreements with Moscow remain. I am interested in your assessment of “business as usual.” For example, it is promising that Russia agreed to allow NATO Allies to transport non-lethal military equipment to Afghanistan across Russian territory. Yet, Russia continues to demand that NATO abandon its plans to offer Ukraine and Georgia membership in the Alliance, in spite of the fact that at the 2008 NATO Summit, Allied Heads of State made explicitly clear that both countries would one day join NATO. The possibility of enlargement always threatens to derail NATO’s relationship with Russia.

How do you assess the future of NATO’s relationship with Russia, considering all that we know about Moscow’s red lines? Will the NATO-Russian relationship be complicated by President Medvedev’s proposal for a European Security Treaty that would presumably seek to give Russia a veto over Alliance decisions on enlargement, missile defense, and other contentious issues?

<sup>15</sup> *Ibid.*

<sup>16</sup> Ariel Cohen, “Reversing habit of ‘legal nihilism,’” The Heritage Foundation, April 2, 2009, at <http://www.heritage.org>

Answer. Yes, a revision of NATO-centered security architecture may create very serious problems as far as European defense is concerned. The existing international security architecture served the U.S. and Europe well for 60 years. It is already sufficient and does not need the revisions Moscow seeks. Russia is systematically obstructing activities within the Organization for Security and Cooperation in Europe (OSCE) and is seeking to undermine NATO and what it views as a U.S.-led international security and economic world order.

Testifying before the U.S. Senate's armed services committee, U.S. Army General John Craddock, NATO's supreme allied commander Europe, said in written testimony that "Russia seems determined [to] see Euro-Atlantic security institutions weakened and has shown a readiness to use economic leverage and military force to achieve its aims."<sup>17</sup>

He added that while Russian leaders, political and military signal a willingness to engage in closer cooperation, "their actions in Georgia in August 2008 and with European natural gas supplies in January 2009 suggest that their overall intent may be to weaken European solidarity and systematically reduce U.S. influence."

Seen against this background, Moscow's calls for new pan-European security architecture should give the U.S. and NATO pause.<sup>18</sup> The concept would marginalize NATO and weaken the human rights jurisdiction of the Organization for Security and Cooperation in Europe (OSCE). The concept seeks an absence of "blocs" in European security (i.e., abolition of NATO) and security that is not at the "expense" of some countries (i.e., Russia).<sup>19</sup> It proposes national armed forces to be deployed on a "common perimeter" and a "demilitarized zone" inside the perimeter. To be sure, the Kremlin seeks to marginalize NATO and restrain America's influence. To paraphrase Lord Ismay, Russia's proposed security system would keep Germany up, the U.S. out and Russia in.

Beyond Europe, Russia is doing its best to pursue a broad, global, revisionist foreign policy agenda in which Russia, China, Iran, Syria, and Venezuela will form a counter-weight to the United States. The Kremlin also continues to call—as it has since the St. Petersburg Economic Summit in 2007—for revising the global economic system, replacing the dollar as the world's reserve currency and creating a supra-national currency run by the IMF, as regional currencies, with the ruble as one of them.

*Question.* Should the U.S. have blocked consensus at NATO on restoring full relations with Russia, when Russia continues to base troops in South Ossetia and Abkhazia, both of which are still internationally recognized as Georgian sovereign territory?

Answer. We were surprised by the speed with which NATO restored full relations with Moscow. America's Central European NATO allies view with concern the most recent moves to resume full NATO-Russia ties. The allies are justified in their concerns about Russia. The "Guns of August" in Georgia demonstrated that Russia tore apart the 1975 Helsinki accords, which guaranteed inviolability of the borders in Europe. We also did not agree with the speed and decision of the 27 EU member countries to restart negotiations with Russia for a new partnership agreement after they had been halted due to the Russia-Georgia war.

By resuming formal NATO-Russia ties, NATO sends the wrong signal to Russia, who is still in violation of the terms of the ceasefire negotiated by French President Nicolas Sarkozy after the 2008 Russo-Georgian war. Rather than withdraw to status quo, as envisaged in the Sarkozy-Medvedev agreement, the Russian military has announced the deployment of five bases: three in Abkhazia and two in South Ossetia. These bases violate the spirit and the letter of the ceasefire.

This message has been reinforced by the Strasbourg-Kehl declaration of the most recent NATO summit. The declaration formally announced the immediate reconstitution of the NATO-Russia Council (NRC) and pledged to upgrade and expand relations between NATO and Russia through the Council. Despite some language in the Declaration inserted by Central and Eastern European nations criticizing Russia for its military build-up in South Ossetia and Abkhazia, the tone could be characterized as conciliatory. An improvement of U.S.-Russia and NATO-Russia relations is certainly desirable, but it should not come at the expense of key allies, interests and existing rules of international diplomacy and European security.

<sup>17</sup>"Russia-NATO Relations to Strain Further, Says General," Reuters, March 26, 2009, at <http://www.moscowtimes.ru> (March 26, 2009).

<sup>18</sup>"Medvedev Urges EU to Create New Intl-legal Security Architecture," ITAR-TASS, February 6, 2009, at <http://www.itar-tass.com/eng/> (March 27, 2009).

<sup>19</sup>"Rogozin Spells out New European Security Concept," ITAR-TASS, November 11, 2008.

RESPONSES TO QUESTIONS SUBMITTED TO AMBASSADOR  
STEPHEN SESTANOVICH BY SENATOR KERRY

*Question.* How realistic is it to pursue a revival of Russia's implementation of the Treaty on Conventional Force in Europe given Russia's actions in Georgia?

- a. Are there specific actions the United States should take?
- b. Are there compromises we should be willing to accept?

*Answer.* The Senator is right: it is completely incompatible with the CFE treaty for one signatory to have troops and military equipment on the territory of another without the latter's consent. That is why the United States sought Russia's commitment at the Istanbul Summit of the OSCE in November 1999 to withdraw such forces from both Georgia and Moldova. Unless those commitments are eventually fulfilled, it is hard to see how the CFE treaty can survive in its present form. But we can approach the problem one step at a time. The first step has to be for Russia to restore the military status quo antebellum of last year.

*Question.* You called on the committee to support the U.S.-Russia agreement on civilian nuclear cooperation. What should we say to those who worry that Russia is still helping Iran, if not with direct assistance to Iran's nuclear program, than at least by offering air defense systems and rejecting effective sanctions?

*Answer.* I favor Congressional approval of the 123 agreement on civil nuclear cooperation. Implementation of the agreement—and approval of individual cooperative projects—obviously has to take into account the broader framework of relations between Russia and the United States. These are not going to develop positively if Russia keeps increasing the technical sophistication and capabilities of the weapons it sells to Iran. From the hesitation that Russian officials have shown about going forward with the S-300 air-defense system, I think it's clear that they understand this problem.

*Question.* It's been more than seven months since Russian forces went into Georgia. Was Russia trying to send its neighbors a message? Did the West's muted reaction to the events in Georgia also send a message to the region? What has been the impact?

*Answer.* I think Russian leaders may actually have sent more of a message than they intended, both to their immediate neighbors and to others beyond the region. How Russia views the sovereignty of other states is, understandably, a more open question than it was even a year ago. What message other states end up receiving about American policy will depend on how we treat the problem of Georgia's security going forward. We have to make clear that we are not simply going to forget about this incident and accept its consequences.

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RESPONSES TO QUESTIONS SUBMITTED TO AMBASSADOR  
STEPHEN SESTANOVICH BY SENATOR FEINGOLD

*Question.* In recent testimony, the DNI noted that Moscow's engagement with both Iran and Syria, including advanced weapons sales, has implications for U.S. nonproliferation interests. Equally as relevant are press reports that Russian President Medvedev has announced his intention to strengthen Russia's conventional military force. How should the Obama administration interpret these signals and what actions might result in more effective cooperation with Russia on Iran?

*Answer.* President Medvedev's military policies are confusing—and require continuing, careful watching to understand their real meaning. His statements continue to refer to a threat from NATO, but most serious Russian observers of his plans conclude that Russia is abandoning the idea of preparing for a war against it. The rhetoric aside, that's probably good news.

*Question.* If Iran continues to move forward in the direction it is currently headed and does not cease uranium enrichment, do you think Russia would be supportive of more punitive actions if need be, including sanctions through the UN Security Council even though it has resisted harsher measures in the past?

*Answer.* Russia has consistently watered down sanctions resolutions in the Security Council, while ultimately supporting them. That seems the most likely pattern for the future—support for measures that put little pressure on Iran. A dramatic action by Iran—expulsion of inspectors, say, or enrichment to higher, weapons-grade levels—might change Moscow's outlook in ways that we can't predict at this time.

*Question.* With the media reporting that Russia will now allow the United States to ship non-lethal supplies through its territory to Afghanistan—via Kazakhstan and Uzbekistan—what kind of support is feasible from Russia. Is it appropriate to see Russia as an equal partner with regard to Afghanistan and if so what steps should we take to ensure that's the case?

*Answer.* It's encouraging to see Russia starting to allow supplies—non-lethal and perhaps at a later date lethal, too—to pass through its territory in support of NATO operations in Afghanistan. At the same time, it's discouraging to see Russia continuing to oppose the use of airfields in Central Asia for transporting the very same supplies. As long as it continues to have this split-screen view of the matter, it will be hard to think of Russia as a partner in the enterprise.

*Question.* Russian officials said earlier this year that they are scaling up their diplomatic involvement to solve conflicts in Africa, and they recently appointed a special envoy to Sudan. However, their record to date toward Sudan and specifically the situation in Darfur has been unhelpful to say the least. They have provided political cover for the regime in Khartoum at the UN Security Council and, according to the organization Human Rights First, they have continued to provide arms to the Government of Sudan used in Darfur in direct violation of the UN arms embargo. How can the Obama administration better press Russia on the Security Council and bilaterally to change their approach to Sudan? And just as with the Chinese, how can we engage and identify opportunities to partner with the Russians as they increase their involvement in African affairs?

*Answer.* Right now, the outlook isn't brilliant, and Russian resistance to Security Council pressures will continue. Finding a small, non-controversial peacekeeping operation in which Russian and other countries can participate side by side may be the most promising first step in whetting the Russian military's appetite for further cooperation. Remember, Russian forces served under an American command in both Bosnia and Kosovo: it can happen again.

*Question.* The State Department's yearly report on human rights noted for 2008 that "the Russian Federation has an increasingly centralized political system, with a compliant State Duma, corruption and selectivity in enforcement of the law, media restrictions, and harassment of some NGOs [all of which have] eroded the government's accountability to its citizens."

The 2008 report also documents numerous reports of government and societal human rights problems and abuses during the year. The last administration pretty much gave Russia free pass but this is not expected to be the case with the new administration. How do you anticipate these restrictions will be addressed in any new U.S. policy towards Russia?

*Answer.* President Medvedev's regular—and seemingly sincere—statements about the importance of strengthening the rule of law in Russia may be a good opening for a new policy. His use of this theme is so strong and so frequent that we should try to think ambitiously about how to build on it.

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RESPONSES TO QUESTIONS SUBMITTED TO AMBASSADOR  
STEPHEN SESTANOVICH BY SENATOR CASEY

*Iran*

*Question.* Russia has given mixed signals about the steps it is ready to take in order to contain Iran's nuclear ambitions. On one hand, Russia is building a nuclear reactor for Iran at Bushehr, and has obstructed efforts in the UN Security Council to impose tougher sanctions on Iran for continuing its nuclear enrichment program. On the other hand, after Iran's clandestine nuclear program came to light, Russia withheld the delivery of nuclear fuel for the Bushehr reactor and eventually agreed to limited UN Security Council sanctions, when Iran refused to accept a Russian proposal that would have allowed Iran to reprocess uranium at facilities on Russian territory. In recent weeks, senior Russian officials, including President Medvedev, have indicated that Russia is prepared to support additional sanctions on Iran if it does not stop enrichment of uranium.

How do you interpret Moscow's vacillation on stopping Iran's enrichment program? Why has Moscow historically been unwilling to agree to tougher sanctions on Iran? Are Moscow's motivations for building a nuclear reactor for Iran strategic, financial, or both?

**Answer.** Russia has for years wanted to find a formula that brings Iran's nuclear activities under greater international control and inspection without worsening its own relations with Iran if this effort fails. It has not wanted to be seen by Teheran as an agent of American policy—that's why, it has always wanted the list of sanctions voted by the Security Council to be shorter and milder than those sought by the U.S. As for its motivations in building the Bushehr reactor, they are surely both commercial and strategic.

**Question.** President Medvedev recently suggested that Russia is open to cooperating with the United States on Iran. However, he also scoffed that the U.S. should not link cooperation on Iran to U.S. missile defense plans in Eastern Europe. In other words, the Russian leadership continues to maintain that U.S. missile defense sites do not counter the Iranian threat, but rather threaten Russia.

In your view, did the Obama administration present the Kremlin a fair deal by offering to scrap U.S. missile defense plans in Eastern Europe for greater cooperation on combating the Iranian nuclear and ballistic missile threat?

**Answer.** What President Obama has said (and he repeated it in his Prague speech) is this: There would be no need for defensive systems against Iranian nuclear-armed missiles if Iran never acquired nuclear weapons nor long-range missiles in the first place. The U.S. has suggested to the Russians that this ought to be a reason for them to cooperate with us to constrain Iranian capabilities. This seems to me a good deal for everyone. An offer to scrap our missile defense plans just because the Russians offer "help" does not seem like such a good deal. Suppose we—and they—fail?

**Question.** Do you take President Medvedev at his word when he indicates that Russia might agree to additional sanctions? Or is the Kremlin expecting a carrot from the Obama administration in exchange for its cooperation? What, if anything, should the Obama administration offer Russia for enhanced efforts to stop Iranian enrichment?

**Answer.** I'm skeptical of quid pro quo deals of this kind. Successful diplomacy rarely involves trades of completely unrelated issues. I'm also unconvinced that Russia has a great deal of leverage over Iran. Most Russian officials and experts that I talk to dispute the idea.

#### *Priorities in the U.S.-Russian Relationship*

**Question.** Russia has also vocally expressed its displeasure with the United States' promotion of democracy, both in Russia and in Russia's near abroad. It is a common view in Moscow that the U.S. was responsible for facilitating the colored revolutions that removed authoritarian leaders in Ukraine, Georgia, and Kyrgyzstan, and some officials in the Kremlin, particularly inside Prime Minister Putin's inner circle, fear a similar revolt in Russia. I disagree with Russia's claims, but I cannot ignore Russia's less than remarkable record on democratic reform and civil liberties. Opposition leaders, even those who pose no threat to the entrenched political establishment, are routinely jailed and harassed. In addition, several Russian journalists have been murdered under murky circumstances suggesting government involvement.

In your assessment, what priority should the U.S. place on democratization and protecting civil liberties in Russia? If we focus too much on these areas, do we risk alienating Russia on important security issues, like Iran's nuclear threat?

**Answer.** Russian internal political developments have definitely been going in the wrong direction for some time now. But the reason to think hard about what if anything we can do to support a more positive evolution is not that our efforts annoy Russia's leaders and make them less likely to help us with Iran. The real reason is that these efforts simply haven't been working very well. And in fact President Putin has been able to use Western sympathy and support to weaken those who are trying to move Russia in a more democratic direction. It's obviously impossible for Americans to be silent about these matters, but we need to think a lot harder about what we can say and do that will actually have the desired effect.

#### *NATO-Russian Relations*

**Question.** On March 5, NATO Foreign Ministers agreed to resume formal meetings of the NATO-Russia Council, after suspending its activity following Russia's invasion of Georgia in August 2008. Ministers gave the signal that business would return to normal, even though serious disagreements with Moscow remain. I am interested in your assessment of "business as usual." For example, it is promising that Russia agreed to allow NATO Allies to transport non-lethal military equipment to Afghanistan across Russian territory. Yet, Russia continues to demand that NATO

abandon its plans to offer Ukraine and Georgia membership in the Alliance, in spite of the fact that at the 2008 NATO Summit, Allied Heads of State made explicitly clear that both countries would one day join NATO. The possibility of enlargement always threatens to derail NATO's relationship with Russia.

How do you assess the future of NATO's relationship with Russia, considering all that we know about Moscow's red lines? Will the NATO-Russian relationship be complicated by President Medvedev's proposal for a European Security Treaty that would presumably seek to give Russia a veto over Alliance decisions on enlargement, missile defense, and other contentious issues?

Answer. Russian policymakers are suspicious of NATO enlargement because they remain ambivalent—and more typically, hostile—to NATO itself. As long as they do, prospects for a productive relationship between Russia and NATO will be limited. But I wouldn't be too fearful that Russia will, merely by convening a conference on European security, be able to acquire a veto over NATO decisions. The other members of NATO have no more interest in such a result than we do, and they've all got diplomats just as smart as ours to make sure that it doesn't happen.

Should the U.S. have blocked consensus at NATO on restoring full relations with Russia, when Russia continues to base troops in South Ossetia and Abkhazia, both of which are still internationally recognized as Georgian sovereign territory?

Answer. What bothered me about this decision is not that NATO failed to use the resumption of "normal" relations with Russia as leverage to get Russian troops out of Georgia. It's that most NATO members seem to have stopped treating this as a problem issue in their relations with Moscow. Russian troops are not only occupying sovereign Georgian territory—they are occupying territory from which President Medvedev promised to withdraw last summer. Members of this committee may want to learn more about what our representatives at NATO have done to keep this issue on the agenda of the NATO-Russia Council.