

Senate Committee on Foreign Relations
Chairman Richard G. Lugar
Opening Statement for Hearing on Russia
June 29, 2006

The Foreign Relations Committee meets to examine the current status of political developments in Russia and the future of the U.S.-Russia relationship. Today's inquiry builds upon two hearings on Russia that the Committee held last year. At those hearings, I noted that President Putin's increasingly authoritarian style, his control of the media, and his retribution against political opponents have left the fate of democracy in Russia more ambiguous than at any time since the collapse of the Communist system. These internal developments, coupled with Russia's increasing pressure on its neighbors, its resistance to resolute international action to the proliferation threat in Iran, and its willingness to use its energy supplies for political leverage have complicated U.S.-Russian relations.

Russia's membership in the G-8 was once a hopeful sign of its evolution toward a more open society and economy. Now, as Russia prepares to host the G-8 summit in St. Petersburg, the other seven G-8 nations are dealing with the incongruous elements of Russian membership.

While some have called for the U.S. to boycott the summit, I support the Administration's decision to participate. Rather than boycott, we should build cooperation with our allies in challenging the negative trends coming out of Moscow. The United States, Europe, and Japan should show strong support for Russian civil society, a free and independent media, the application of the rule of law, and a resolution of conflicts in the region, while keeping under careful scrutiny the implementation of Russia's new NGO law.

Russia is an important country with which the United States must have a working relationship. Attempting to isolate Russia is likely to be self-defeating and harmful to American interests. The dilemma for American policymakers is how to strengthen Russia's respect for democracy, while simultaneously advancing cooperation with Russia on issues that are vital to American security and prosperity.

The United States must take the long view. Russia is still in the early stages of a complicated post-Soviet evolution. The United States and Russia do have many convergent goals. We share a strong interest in combating terrorism and safeguarding weapons of mass destruction. Russia's oil and natural gas reserves have provided it with an economic windfall. But over the long run it will need to achieve economic diversification and greater integration with Western economies if it is to have more than a one-dimensional economy.

The Putin government's foreign policy and domestic political strategy depend heavily on energy revenues. According to the Energy Information Agency, Russia will earn about \$172 billion in 2006 from oil exports. For every \$1 increase in the value of a barrel of oil, Russia earns an additional \$1.4 billion per year in revenue. In the short run, this influx of hard currency has eased many structural problems of the Russian economy and provided the Putin government with the means to reward supporters. It also gives Russia enhanced influence over nations in Europe and elsewhere who are dependent on Russian oil and natural gas.

This was underscored last January when Russia stopped pumping natural gas to Ukraine after the two sides had failed to reach agreement on Russia's proposed quadrupling of the price of gas. The agreement that resolved this crisis will soon expire, and President Putin again faces a choice of whether the world should view him as a reliable and productive energy security partner. Even beyond Ukraine's situation, threats to divert energy supplies eastward and interference in development of energy resources in Central Asia are unacceptable.

The United States must engage with Russia on energy security to send a clear and strong message promoting principles of transparency, rule of law, and sustainability. Efforts under the current U.S.-Russia Energy Dialogue are an integral part of our diplomatic relationship with Russia, and they should be expanded and fully supported.

I have introduced S. 2435, the Energy Diplomacy and Security Act, which recognizes the new reality of energy as a national security priority. It enhances U.S. energy diplomacy capabilities to support the type of rigorous energy security dialogue that we need with Russia and other important nations in the global energy equation. Such a dialogue must recognize the long term mutual interests shared by the United States and Russia in stable energy markets.

We are joined by a distinguished panel that will help us examine the trends in Russia and options for U.S. policy, particularly as they relate to the G-8 Summit. We welcome Ambassador Stephen Sestanovich, the George F. Kennan Senior Fellow for Russian and Eurasian Studies at the Council on Foreign Relations; Dr. Dmitri Trenin, Deputy Director at the Carnegie Moscow Center in Russia; and Ms. Amy Myers Jaffe, the Wallace S. Wilson Fellow at The Baker Institute Energy Forum at Rice University. Parenthetically, I would also say that I am pleased Ms. Jaffe will be speaking on domestic energy security issues at the Lugar-Purdue Energy Summit at the end of August.

We thank our witnesses for joining us today and look forward to their insights.

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