

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



U.S.-Russia Relations: Trade, Nukes, and Energy

Joseph Ferguson
National Council for Eurasian and East European Research

In a relatively quiet quarter for U.S.-Russia relations, the issues topping the bilateral agenda were trade, nuclear proliferation, and energy security. That nuclear proliferation and energy security were at the top of the list should come as no surprise. The big news was the announcement that the U.S. government had agreed in principle to Russia's long-awaited accession to the World Trade Organization (WTO). Presidents George Bush and Vladimir Putin met twice during the quarter, a few days apart in Moscow and Hanoi. At their meetings the discussions centered on WTO, Iran, and North Korea. A surprise announcement by the Japanese foreign minister concerning the dispute over the Northern Territories caused a few ruffles in both Moscow and Tokyo, but the Japanese-Russian relationship returned again to its stagnant state by the end of the quarter.

WTO membership for Russia

U.S.-Russia relations have become increasingly antagonistic over the past several years. Nevertheless, the top leadership maintains a cordial relationship, even if the term "strategic partnership" is no longer in the official lexicon. The Russian government has long aspired to WTO membership, and one of the primary hindrances has been the reluctance of Washington to extend permanent normal trade relations (PNTR) status to Moscow. The two nations have been in negotiations for 13 years. Congress has long opposed overturning the Jackson-Vanik Amendment, which was passed during the 1970s calls for an annual review of PNTR status for Russia as long as it forbids emigration of its citizens. Once the Soviet Union collapsed, this piece of legislation became obsolete because millions of Russians have emigrated and continue to do so. But Jackson-Vanik has many supporters on Capitol Hill and is unlikely to be repealed by a Democrat-controlled Congress. Additionally, any trade deal must be passed by the Senate, in which the Democrats also hold a razor-thin margin. Russian WTO membership may not necessarily be subject to the vote of Congress, but PNTR status is subject to Congressional approval and could affect the privileges U.S. and Russian firms can expect in each country.

So it came as somewhat of a surprise when it was announced in November that the Bush administration had worked out a deal wherein Russia could be admitted into the WTO. Among the issues of dispute have been restrictions imposed on U.S. meat and poultry imports, as well as concerns about the financial sector and the status of intellectual

property rights in Russia. The Russian side seems to have addressed these issues for now. There is no doubt that the voice of big business in the U.S. was instrumental in finally seeing a resolution to the negotiations. Companies such as Boeing, Ford, GM, and other multinational firms have strongly urged Washington to admit Russia into the WTO.

WTO membership for Russia is unlikely to dramatically increase U.S.-Russian trade in the short run. Two-way trade is not great. The U.S. is only the fifth largest importer of Russian goods, and ranks as the 11th largest exporter to Russia. But WTO membership can help Russia's image as a place for investment, something important when many are questioning the wisdom of investing in Russia.

Russian energy picture

What has many potential investors and foreign governments worried is the "soft nationalization" of energy resources and energy projects throughout the Russian Federation. Last quarter, pressure was being brought to bear on the Sakhalin-2 energy project, which has been under European and Japanese management since its inception in the mid-1990s. Unhappy with the terms of the original production sharing agreement (PSA), many in the Russian government and in the Russian energy industry have been calling for a revision of the agreement. Additionally, the continuing rise in costs of the project (from \$10 billion to over \$20 billion) angered the powers that be in the Kremlin; Vladimir Putin even made specific reference to this in a speech this past summer.

The Russian energy giant Gazprom had made it known that it desired a stake in at least one of the major Sakhalin projects. Sakhalin-2 has been the most attractive candidate for the inclusion of Gazprom because it was the only major project without a Russian partner. All year Gazprom made offers to Shell, Mitsui, and Mitsubishi, without success. In the summer and fall, meanwhile, the Russian Ministry for Natural Resources and the Environment began an extensive (and some argue intrusive) inspection process of the Sakhalin-2 project. A list of environmental transgressions was presented to the management of the project, and the partners were told that if the problems were not rectified the production license would be revoked in early 2007. Gazprom increased its lobbying, and in December the persistence paid off.

It was announced that the leaders of Gazprom and the Russian Ministry of Industry and Energy, along with Royal Dutch Shell Chief Executive Jeroen van der Veer, Mitsui President Shohei Utsuda, and Mitsubishi President Kojima Yorihiro had signed a protocol of agreement on the management of the Sakhalin-2 project. The agreement states that (1) a 50 percent stake plus one share will be transferred by the three firms to Gazprom (for \$7.45 billion); (2) the Russian government will approve a portion of the increased project costs and Gazprom will bear it; and (3) the framework for the PSA will be kept in place. Putin attended the signing ceremony – and amazingly – upon its completion, announced that the project's environmental problems had been "resolved" and pledged the Russian government's support for the project. By making this sweeping statement, Putin appeared to support the theory espoused by many in the West that the environmental inspections were but a ploy to get Russian management involved in the Sakhalin-2 project.

This development (although it had no direct U.S. involvement) explains why many pundits (including the editorial boards of *the New York Times*, the *Wall Street Journal*, and the *Washington Post*) are claiming that Vladimir Putin is behind a resurgent Russia that is authoritarian by nature, random in its actions, and an “enemy” of the U.S. The Russian government’s attempts to dominate all sectors of the energy industry in that country, however, are not exactly unprecedented, as any review of the nationalization of the oil industries across the Middle East will attest. But what has many in the West concerned (particularly Russian LNG-consuming nations in Western and Central Europe) is the potential for Moscow to utilize the energy spigot to attain foreign policy goals.

At the NATO summit in Riga in late November (the first NATO summit to be held on former Soviet territory) energy security was a major theme. In the keynote address, U.S. Sen. Richard Lugar suggested that NATO extend the guarantees outlined in Article 5 of the NATO Charter (treating an armed attack on an allied country as an attack against all) to include member states’ energy security. Referencing the shut-off of Russian gas to Ukraine in January 2006, Lugar suggested that Moscow has the leverage to cripple member nations’ economies with the mere turn of a valve, and that Russian leaders have demonstrated the will and the capacity to do so. Lugar appears to have more supporters of this idea, not only in the U.S., but in Europe as well, where Britain and Germany have let the Russian government know that they are less than happy about the direction of Russia’s energy strategy.

Prior to the NATO Summit, U.S. Undersecretary of State Nicholas Burns said that President Bush would propose a program to bring Japan, South Korea, and Australia closer to the military alliance. Burns stated that although the three countries “do not seek NATO membership...we seek a partnership with them so that we can train more intensively from a military point of view.” Some members were said to be in favor of this, as a reward to those nations that are contributing to operations in Afghanistan. In May 2006, Japanese Foreign Minister Aso Taro had suggested that Japan strengthen its coordination with the military bloc in a meeting with senior NATO leaders. But the proposal received little press due to the strong disagreements in Riga between Washington on the one hand, and Berlin and Paris on the other hand about troop commitments in Afghanistan. It can be safely assumed that both Beijing and Moscow would be poorly disposed to any idea of the enlargement or empowerment of NATO into the Asia-Pacific region.

The Litvinenko affair

The November death by radiation poisoning of the former Russian Federal Security Bureau (FSB) agent Alexander Litvinenko has been given widespread attention in the Western, as an example of the increasing control the Kremlin is asserting over both minions and enemies of the state. Litvinenko served in the FSB during the 1990s, and who had won the ire of the Kremlin by suggesting its complicity in a series of apartment bombings in Russia in the summer and fall of 1999. These bombings were pinned on Chechen terrorists, and gave Putin (as prime minister) the impetus to launch the second Chechen war that year. Litvineko fled the country afterward and ended up in London.

Litvinenko was only known within certain circles, but his affiliation with the Putin critic-in-exile cum oligarch Boris Berezovsky raised eyebrows in the Kremlin. Litvinenko's death has been blamed on the Kremlin, although no one has convincingly explained how the death could really benefit Putin and his entourage. Others (including the Kremlin) point to Berezovsky and other opponents of Putin, who might have carried out the assassination to discredit the Russian government. The fact that Litvinenko was purportedly gathering evidence on the shooting death in Moscow of Russian journalist Anna Politkovskaya – a prominent critic of the war in Chechnya – adds to the conspiratorial tone of the affair.

Nearly two months after Litvinenko's death articles still appear daily in the Western press about the case. The abiding impression readers in the West (and in Japan) get is that Putin was behind the death, and behind that of Politovskaya, as well. In late November, citing Litvinenko's death, a member of the *Wall Street Journal's* editorial board wrote, "It's time we start thinking of Vladimir Putin's Russia as an enemy of the United States." Putin graced a recent cover of the magazine *Economist* dressed like a gangster, holding a gasoline nozzle as a machine gun. There is no question that Western governments are feeling pressure from prominent critics of the Kremlin in their countries. To suggest that this does nothing to change foreign policy or influence the thinking of government leaders would be ignoring the increasingly frigid bilateral relationship between Moscow and Washington.

Iranian and DPRK nuclear problems

The U.S. and Russia agree that nuclear nonproliferation should sit alongside the antiterror campaign as a principal shared foreign policy goal. Both George Bush and Vladimir Putin also recognize that their governments' efforts to keep two particular nations (Iran and North Korea) nuclear free are worthy goals. Unfortunately, a shared vision has done very little to realize these goals. Both governments seem to have differing perceptions of the nature of the threats posed by the Iranian and the DPRK governments.

Moscow seems satisfied with the UN vote last fall on Iran's incipient nuclear program. For Moscow, the vote demonstrated the international community's rejection of Iran's nuclear ambitions, but which in the words of one Russian pundit, "secured our geostrategic and economic interests and closed lawful routes to the use of force against Iran."

The failure of the latest round of Six-Party Talks on the denuclearization of North Korea received scant coverage in Moscow. Russia has taken a wait-and-see attitude since almost the very beginning of the imbroglio. This is understandable given Russia's marginalized position in Northeast Asia. Moscow, hoping for a potential economic bonus should North Korea need light-water reactors (or a modernized rail system), does not want to be seen as leaning too heavily on Pyongyang. It prefers to play the good cop to America's bad cop (just like in Iran). Moscow also rightly recognizes that this is primarily the affair of Beijing, Seoul, and Washington. The Russian leadership wants to be involved in any

Korean Peninsula discussions, but would prefer to do so from the safety of the bench, rather than on the gridiron.

Where Washington sees a vital and immediate threat in Teheran, Moscow sees a potential economic partner under siege. The two governments cannot agree on the scope of the threat and the plan for action. Similarly with North Korea, no concerted plan for action has made its way to the negotiating table. Judging by Washington's seeming inattention to the issue, it could be surmised that the Bush administration sees no immediate threat to the security of the U.S. But in Iran it does. Moscow seems to think that both problems might just go away if they are ignored. Both governments should recognize the necessity of taking urgent action on these issues, but given the continued morass in Iraq and any number of pressing domestic issues in each country (with a Democrat-controlled U.S. Congress) it might take a minor miracle for either of these issues to be addressed effectively. This is not an indictment of either government, just a realistic assessment.

APEC Hanoi Summit

Presidents Bush and Putin met on the sidelines of the APEC Summit in Hanoi. Bush had also stopped in Moscow on his way to the Far East, to lay the groundwork for the talks in Vietnam. The talks focused primarily on Iran, North Korea, nonproliferation, and Russia's impending WTO accession. East Asia was not high on the bilateral agenda, apart from North Korea. But the two leaders let it be known that their governments agree on the importance of Asia not only as a dynamic region for their respective nations, but in the context of bilateral relations. Both understand the need for an active presence, and both understand the increasingly larger challenges China will pose in the years to come. Leaders in Moscow and Washington wish to work hand in hand in addressing China's emergence in a peaceful and nonconfrontational manner.

Japan and the Northern Territories

In December Japanese Foreign Minister Aso Taro suggested that Japan and Russia take a China-Russia approach to their long-standing territorial dispute: divide up the land 50-50. In the case of the Northern Territories, Aso stated that Japan should be given three of the disputed islands, and part of the largest, fourth island. The predictable Russian response was to dismiss Aso's proposal as unrealistic. The Japanese Foreign Ministry and the Japanese press took a similar line, calling the proposal everything from not realistic to traitorous. The fact that there was somewhat of a pause in the Japanese reaction suggests that this may have been a trial balloon. For the foreign minister to throw out such a statement about one of the most controversial foreign policy issues suggests a calculated measure, not a political gaffe (although given the Japanese government's track record on controversial public utterances, this cannot be ruled out).

Later, reports in the Japanese press in early January 2007 suggested that Russian First Deputy Foreign Minister Andrei Denisov had floated the idea originally in Moscow to a visiting delegation of leaders from the Japanese ruling coalition junior party, the Komeito in November. This may have been brought back to the Foreign Ministry in Tokyo, hence

Aso's statement. But it would not be the first time that the Japanese press sensationalized what may have been a mere throw-away remark into something that could be interpreted as policy. If anything does come of this, it would represent a watershed in Japanese-Russian relations, and perhaps at long last recognition in Tokyo that a resolution to this issue could have important geopolitical ramifications for the entire Asia-Pacific region.

Looking ahead

The growing acrimony in the relationship between Moscow and Washington appears to have taken a slight break this quarter. The coming months will undoubtedly bring some further development on the Iran and North Korean proliferation issues. For now these are the most pressing issues between the two governments. Energy security and Russia's growing assertiveness in Europe and Central Asia are big picture issues, which will come to define the relationship in the months and years ahead. But for now the two governments have tangible tasks they need to address: Iran and North Korea. A failure to do so effectively will make energy security seem like child's play should nuclear material pass into the hands of terrorist groups operating against both nations.

Chronology of U.S.-Russia Relations October-December 2006

Oct. 2, 2006: The Georgian government frees four Russian soldiers accused of spying. The Russian government maintains a blockade of Georgia, while Russian Foreign Minister Sergei Lavrov blames the U.S. and NATO for inspiring the crisis.

Oct. 3, 2006: Russia's Foreign Ministry warns the Polish government about hosting a NATO- or U.S.-administered missile defense system on its territory, saying that it would undermine security and stability in the region.

Oct. 12, 2006: Speaking at the U.S.-Russia Business Council in Washington, Secretary of Commerce Carlos Gutierrez expresses concern about Russia's investment climate in the wake of stories about "soft nationalization" in the Russian energy industry.

Oct. 25, 2006: NATO Secretary-General Jaap de Hoop Scheffer visits Moscow to discuss conventional forces levels in Europe.

Oct. 27, 2006: The leaders of 13 large U.S. firms address a letter to Presidents Bush and Vladimir Putin with the request that Russia's accession to the WTO be expedited. This is done under the initiative of the American Chamber of Commerce in Russia.

Nov. 7, 2006: U.S. midterm elections result in a drubbing of the Bush administration.

Nov. 10, 2006: U.S. and Russian negotiators in Moscow reportedly strike an early deal on Russia's WTO accession. The details of the agreement are to be announced later in the month in Hanoi at the APEC summit.

Nov. 15, 2006: Air Force One makes a stop in Moscow on the way to Vietnam for a brief luncheon tête-à-tête between Bush and Putin. Iran and WTO are the focus of the talks.

Nov. 18, 2006: Presidents Bush and Putin meet in Vietnam on the sidelines of the Asia-Pacific Economic Cooperation summit in Hanoi. A deal on Russia's WTO accession is signed, and the two leaders discuss the nuclear crises in Iran and North Korea. U.S. sanctions against the Russian aircraft maker Sukhoi are lifted.

Nov. 21, 2006: Under Secretary of State Nicholas Burns says President Bush will propose at the upcoming Riga NATO Summit a partnership program for Japan, South Korea, and Australia.

Nov. 23, 2006: Former Federal Security Service (FSB) Lieutenant Colonel Alexander Litvinenko dies in London from radiation poisoning. A relative unknown before his death, Litvinenko's death attracts enormous attention in the international press, as a so-called example of the growing authoritarianism in Putin's Russia.

Nov. 28, 2006: Citing Litvinenko's death, a member of *The Wall Street Journal's* editorial board writes, "It's time we start thinking of Vladimir Putin's Russia as an enemy of the United States."

Nov. 28, 2006: NATO summit convenes in Riga, Latvia. It is the first NATO summit held on the territory of the former Soviet Union. In Riga, U.S. Sen. Richard Lugar urges the organization to take up the issue of the energy security of the member states.

Dec. 14, 2006: Japanese Foreign Minister Aso Taro floats a proposal for dividing the disputed Northern Territories into two equal parts, giving Japan control of three islands and part of the fourth island. The Russian reaction is expectedly cool. The Japanese press and the government subsequently dismiss his proposal off-hand.

Dec. 18-22, 2006: Six-Party Talks held in Beijing.

Dec. 20, 2006: In a telephone interview with the Russian daily *Izvestia*, Congressman Tom Lantos claims that Russia was better off in the Yeltsin era.

Dec. 22, 2006: Royal Dutch Shell, Mitsui & Co., and Mitsubishi Corp. (Mitsubishi) – the managing partners of the Sakhalin-2 oil and gas project – agree to the transfer of a majority of their shares to Russia's state-run monopoly Gazprom, at a price of \$7.45 billion. The impending deal has attracted international attention for months due to the heavy-handed tactics of the Russian government.

Dec. 23, 2006: UN Security Council unanimously passes Resolution 1737 to impose sanctions on Iran to curtail its nuclear program.