

# CRS Report for Congress

## Russian Political, Economic, and Security Issues and U.S. Interests

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## Summary

Vladimir Putin won reelection as President in March 2004 in an exercise in “managed democracy” in which he took 71% of the vote and faced no serious competition. The pro-Putin Unified Russia party similarly swept the parliamentary election in December 2003 and controls more than two-thirds of the seats in the Duma. Putin’s twin priorities remain to revive the economy and strengthen the state. He has brought TV and radio under tight state control and virtually eliminated effective political opposition. Federal forces have suppressed large-scale military resistance in Chechnya and in 2006 succeeded in killing most of the remaining top Chechen rebel military and political leaders.

The economic upturn that began in 1999 is continuing. The GDP and domestic investment are growing impressively after a long decline, fueled in large part by profits from oil and gas exports. Inflation is contained, the budget is balanced, and the ruble is stable. Major problems remain: 18% of the population live below the poverty line, foreign investment is low, and crime, corruption, capital flight, and unemployment remain high.

Russian foreign policy has grown more self-confident and assertive, fueled by its perceived status as an “energy superpower.” Russia’s drive to reassert dominance in and integration of the former Soviet states is most successful with Belarus and Armenia but arouses opposition in Georgia, Ukraine, Azerbaijan, and Moldova. The Commonwealth of Independent States as an institution is failing. After years of sharp U.S.-Russian disagreement over Russian support for Iran’s nuclear program, Washington and Moscow appear to have found some common ground on the Iranian as well as the North Korean nuclear concerns.

The military has been in turmoil after years of severe force reductions and budget cuts. The armed forces now number about 1.2 million, down from 4.3 million Soviet troops in 1986. Readiness, training, morale, and discipline have suffered. Major weapons procurement, which virtually stopped in the 1990s, has begun to pick up as petrodollars flow into Moscow and defense spending increases.

After the Soviet Union’s collapse, the United States sought a cooperative relationship with Moscow and supplied over \$14 billion to encourage democracy and market reform, for humanitarian aid, and for WMD threat reduction in Russia. Direct U.S. foreign aid to Russia under the Freedom Support Act fell in the past decade, due in part to congressional pressure. U.S. aid in the form of WMD threat reduction programs, and indirect U.S. aid through institutions such as the IMF, however, was substantial. The United States has imposed economic sanctions on the Russian government and on Russian organizations for exporting nuclear and military technology and equipment to Iran and Syria. Restrictions on aid to Russia are in the FY2006 foreign aid bill. This CRS report will be updated regularly.

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# Russian Political, Economic, and Security Issues and U.S. Interests

## Most Recent Developments

On October 30, 2006, General Peter Pace, Chairman of the Joint Chiefs of Staff, and his Russian counterpart General Yuri Baluyevsky signed a military cooperation agreement for 2007 that provides for military exchanges and other forms of military-to-military cooperation.

On November 19, 2006, U.S. and Russian negotiators signed a long-delayed trade agreement that helps pave the way for Russian accession to the World Trade Organization.

On November 23, 2006, Aleksandr Litvinenko, a former Russian Federal Security Service (ex-KGB) agent, fierce critic of the Putin regime, and U.K. citizen, died of radiation poisoning in London. He fell ill after meeting with two Russians in London on November 1. British and German authorities traced a trail of the highly toxic radioactive element polonium 210 from Moscow, through Germany, to London, apparently carried by one of the Russians Litvinenko met November 1. Russian authorities deny any involvement in the death, which they blame on anti-Putin Russian emigres in London and elsewhere.

On December 21, 2006, Russian authorities forced Shell Oil, Mitsui, and Mitsubishi to give up control of the largest foreign direct investment in Russia., the Sakhalin-2 oil and gas project, valued at over \$20 billion. Russian authorities, claiming violations of environmental regulations, threatened huge financial penalties and revocation the foreign consortium's operating licences — unless Shell and its partners sold a majority share to the Russian state-owned gas monopoly, Gazprom, which paid a reported \$7.45 billion for 50% plus one share of the project.

On January 8, 2007, Russian oil deliveries to Belarus, and through Belarus to other European customers, were interrupted by a pricing dispute between Russia and Belarus. Russia resumed pumping oil through the *Druzhba* pipeline on January 10, after Belarus acceded to most of Russia's demands. This echo of the January 2006 "gas crisis" between Russia and Ukraine revived European concerns about dependence on Russian energy imports and highlighted the growing tension between Putin and Belarusian President Lukashenko.

On January 16, 2007, Russian Defense Minister Sergei Ivanov announced that Russia had completed its sale to Iran of Tor-M1 anti-aircraft missiles. Iran reportedly plans to deploy the missiles at the nuclear power plant that Russia is building at Bushehr, and perhaps at other Iranian nuclear sites.

## **Post-Soviet Russia and Its Significance for the United States**

Russia was by far the largest of the former Soviet republics. Its population of 142 million (down from 149 million in 1991) is about half the old Soviet total. Its 6.6 million square miles comprised 76.2% of the territory of the U.S.S.R. and it is nearly twice the size of the United States, stretching across Eurasia to the Pacific, across 11 time zones. Russia also has the lion's share of the natural resources, industrial base, and military assets of the former Soviet Union.

Russia is a multinational, multi-ethnic state with over 100 nationalities and a complex federal structure inherited from the Soviet period. Within the Russian Federation are 21 republics (including Chechnya) and many other ethnic enclaves. Ethnic Russians, comprising 80% of the population, are a dominant majority. The next largest nationality groups are Tatars (3.8%), Ukrainians (3%), and Chuvash (1.2%). Furthermore, in most of the republics and autonomous regions of the Russian Federation that are the national homelands of ethnic minorities, the titular nationality constitutes a minority of the population. Russians are a majority in many of these enclaves. During Yeltsin's presidency, many of the republics and regions won greater autonomy. Only the Chechen Republic, however, tried to assert complete independence. President Putin has reversed this trend and rebuilt the strength of the central government vis-a-vis the regions.

The Russian Constitution combines elements of the U.S., French, and German systems, but with an even stronger presidency. Among its more distinctive features are the ease with which the president can dissolve the parliament and call for new elections and the obstacles preventing parliament from dismissing the government in a vote of no confidence. The Constitution provides a four-year term for the president and no more than two consecutive terms. The president, with parliament's approval, appoints a premier who heads the government. The president and premier appoint government ministers and other officials. The premier and government are accountable to the president rather than the legislature. President Putin was reelected to a second term in March 2004. The next presidential election is due to be held in March 2008. Putin is ineligible to run for a third term.

The bicameral legislature is called the Federal Assembly. The Duma, the lower (and more powerful) chamber, has 450 seats. In previous elections, half the seats were chosen from single-member constituencies and half from national party lists, with proportional representation and a minimum 5% threshold for party representation. In September 2004, President Putin proposed that all 450 Duma seats be filled by party list election, with a 7% threshold for party representation. This was signed into law in May 2005. The upper chamber, the Federation Council, has 178 seats, two from each of the 89 regions and republics of the Russian Federation. Deputies are appointed by the regional chief executive and the regional legislature. The next parliamentary election is to be held in December 2007.

The judiciary is the least developed of the three branches. Some of the Soviet-era structure and personnel are still in place. Criminal code reform was completed in 2001 and trial by jury is being introduced, although it is not yet the norm. Federal

judges, who serve lifetime terms, are appointed by the President and must be approved by the Federation Council. The courts are widely perceived to be subject to political manipulation and control. The Constitutional Court rules on the legality and constitutionality of governmental acts and on disputes between branches of government or federative entities. The Supreme Court is the highest appellate body.

Russia is not as central to U.S. interests as was the Soviet Union. With the dissolution of the U.S.S.R. and a diminished Russia taking uncertain steps toward democratization, market reform and some cooperation with the West, much of the Soviet military threat has disappeared. Yet developments in Russia are still important to the United States. Russia remains a nuclear superpower. It will play a major role in determining the national security environment in Europe, the Middle East, and Asia. Russia has an important role in the future of arms control, nonproliferation of weapons of mass destruction, and the fight against terrorism. Such issues as the war on terrorism, the future of NATO, and the U.S. role in the world will all be affected by developments in Russia. Also, although Russia's economy is distressed, it is recovering and is potentially an important trading partner. Russia is the only country in the world with more natural resources than the United States, including vast oil and gas reserves. It is the world's second largest producer and exporter of oil (after Saudi Arabia) and the world's largest producer and exporter of natural gas. It has a large, well-educated labor force and a huge scientific establishment. Also, many of Russia's needs — food and food processing, oil and gas extraction technology, computers, communications, transportation, and investment capital — are in areas in which the United States is highly competitive.

## **Political Developments**

Former President Boris Yeltsin's surprise resignation (December 31, 1999) propelled Vladimir Putin (whom Yeltsin had plucked from obscurity in August 1999 to be his fifth Premier in three years) into the Kremlin as Acting President. Putin's meteoric rise in popularity was due to a number of factors: his tough policy toward Chechnya; his image as a youthful, vigorous, sober, and plain-talking leader; and massive support from state-owned TV and other mass media. In March 2000, Putin was elected president in his own right.

Putin, who was a Soviet KGB foreign intelligence officer for 16 years and later headed Russia's Federal Security Service (domestic component of the former KGB), is an intelligent, disciplined statist. His priorities appear to be strengthening the central government, reviving the economy, and restoring Russia's status as a great power.

On the domestic political scene, Putin early on won major victories over regional leaders, reclaiming authority for the central government that Yeltsin had allowed to slip away. First, Putin created seven super-regional districts overseen by presidential appointees. Then he pushed legislation to change the composition of the Federation Council, the upper chamber of parliament — a body that was comprised of the heads of the regional governments and regional legislatures, giving those leaders exclusive control of that chamber and also parliamentary immunity from

criminal prosecution. With Putin's changes, Federation Council Deputies are appointed by the regional leaders and legislatures, but once appointed, they are somewhat independent. Putin then won parliamentary approval of a bill giving the president the right to remove popularly elected regional leaders who violate federal law. In 2005, the Kremlin-controlled parliament gave Putin the power to appoint regional governors.

The Putin regime has been steadily working to gain control of the broadcast media. A key target was the media empire of Vladimir Gusinsky, which included Russia's only independent television network, NTV, which had been critical of Putin. Gusinsky, one of the so-called oligarches who rose to economic and political prominence under Yeltsin, was arrested in June 2000 on corruption charges and was later released and allowed to leave the country. Many viewed this as an act of political repression by the Putin regime. In April 2001, the state-controlled gas monopoly Gazprom took over NTV and appointed Kremlin loyalists to run it. A few days later, Gusinsky's flagship newspaper, *Segodnya*, was shut down and the editorial staff of his respected newsweekly, *Itogi*, was fired. The government then forced the prominent oligarch Boris Berezovsky to give up ownership of his controlling share of the ORT TV network. In January 2002, TV-6, the last significant independent Moscow TV station, was shut down, the victim, many believe, of government pressure. The government has also moved against the independent radio network, Echo Moskvuy and other electronic media. In July 2006, U.S. news media reported that the Russian government had forced Russian radio stations to stop broadcasting programs prepared by the U.S.-funded Voice of America (VOA) and Radio Liberty (RL). Threats to revoke the stations' broadcasting licenses reportedly forced all but 4 or 5 of the more than 30 radio stations that had been doing so to stop broadcasting VOA and RL programs.

A law on political parties, introduced by the government and explicitly aimed at reducing the number of parties, gives the government the authority to register, or deny registration to, political parties. In April 2001, Putin proposed that the Duma be stripped of its power to debate or vote on specific components of the budget and instead either approve or reject the government's proposed budget as a whole. In April 2002, the pro-Putin bloc in the Duma staged a political coup against the Communist Party faction, depriving it of most of its committee chairmanships and other leadership posts. Putin's September 2004 political changes will further reduce the number of parties in the Duma by raising the threshold for representation from 5% to 7% of the total vote and banning parliamentary blocs (coalitions of several parties).

In the summer of 2003, the Russian government launched a campaign against Mikhail Khodorkovski, CEO of Yukos, the world's fourth largest oil company. After numerous searches and seizures of Yukos records and the arrest of several senior Yukos officials, Federal Security Service police arrested Khodorkovski on October 25. Five days later prosecutors froze Yukos stock worth some \$12 billion. Khodorkovski, the wealthiest man in Russia, became a multi-billionaire in the 1990s in the course of the often corrupt privatization of state-owned assets under former president Yeltsin. Khodorkovski, however, subsequently won respect in the West by adopting open and "transparent" business practices while transforming Yukos into a major global energy company. Khodorkovski criticized some of President Putin's

actions, financed anti-Putin political parties, and hinted that he might enter politics in the future.

Khodorkovski's arrest is seen by many as politically motivated, aimed at eliminating a political enemy and making an example of him to other Russian oligarchs. Many observers also see this episode as the denouement of a long power struggle between two Kremlin factions: a business-oriented group of former Yeltsin loyalists and a rising group of Putin loyalists drawn mainly from the security services and Putin's home town of St. Petersburg. A few days after Khodorkovski's arrest, Presidential Chief of Staff Aleksandr Voloshin, reputed head of the Yeltsin-era group, resigned, as did several of his close associates, leaving the Kremlin in the hands of "the policemen." Khodorkovski went on trial in June 2004 on multiple criminal charges of tax evasion and fraud. In May 2005, Khodorkovski was found guilty and sentenced to nine years in prison and was sent to a penal camp in Siberia.

Yukos was broken up and its principal assets sold off to satisfy tax debts allegedly totaling \$28 billion. On December 19, 2004, Yuganskneftegaz, the main oil production subsidiary of Yukos, was sold at a state-run auction, ostensibly to satisfy tax debts. The winning, and sole, bidder, Baikalfinansgrup, paid \$9.7 billion, about half of its market value, according to western industry specialists. It was subsequently revealed that the previously unheard-of Baikalfinansgrup is a group of Kremlin insiders headed by Igor Sechin, Deputy Head of the Presidential Administration and a close associate of President Putin. On December 22, Baikalfinansgrup was purchased by Rosneft, a wholly state-owned Russian oil company. Sechin has been Chairman of Rosneft's Board of Directors since July 2004. The de-facto nationalization of Yuganskneftegaz was denounced by Andrei Illarionov, then a senior Putin economic advisor, as "the scam of the year."

In parliamentary elections on December 7, 2003, the big winners were the Unified Russia Party, identified with President Putin, and the newly created pro-Kremlin populist/nationalist party, Motherland. When the new Duma convened on December 29, Unified Russia had 300 of the 450 seats. With its two-thirds majority and the added support of the Motherland Party and Vladimir Zhirinovskiy's right-wing Liberal Democratic Party, the Kremlin's control of the Duma is absolute, sufficient to pass any legislation and to amend the Constitution. The big losers were the Communist Party, which lost half its seats, and the two liberal, pro-western parties, Yabloko and Union of Rightists, which failed to reach the 5% threshold and were virtually eliminated from the Duma. The Communist Party now holds 52 seats; Motherland and the Zhirinovskiy's LDP hold 36 seats each. These are the only four parties with meaningful representation in the Duma.

The pro-Kremlin sweep in the Duma election foretold the results of the presidential election three months later. Demonstrating what some of Putin's own advisors call "managed democracy," the Kremlin team used levers of power and influence to affect the electoral process, including determining the opposition candidates. So-called "administrative resources" (financial, bureaucratic, and judicial) were mobilized at the federal, regional, and local level in support of Putin's campaign. The state-controlled national broadcast media lionized Putin and generally ignored and/or denigrated his opponents. On March 14, 2004, Putin, as expected, won reelection to a second term with a reported 71% of the vote, and no

serious opposition. Communist Party leader Zyuganov declined to run, as did Zhirinovskiy, both of whom designated surrogates to put up a show of contesting the election. In the event, the Kremlin's biggest campaign challenge turned out to be maintaining the appearance of a politically meaningful contest. Most objective observers, Russian and international, concluded that in this the Putin team failed.

Putin declined to participate in several televised debates with the other five presidential candidates, nor did he present a campaign platform. Two weeks before the election, however, he surprised observers by announcing a major government shake up. Mikhail Kasyanov, who had served as Putin's Premier for four years but also had ties with the Yeltsin "family," was replaced by Mikhail Fradkov, a little-known bureaucrat who was Moscow's representative to the EU and before that briefly headed the Federal Tax Police.

On September 13, 2004, in the aftermath of the bloody Beslan school hostage crisis (see below), President Putin proposed a number of changes to the political system that would further concentrate power in his hands, necessitated, he said, by Russia's intensified war against international terrorism. He proposed, *inter alia*, that regional governors no longer be popularly elected, but instead that regional legislatures confirm the president's appointees as governors and that all Duma Deputies be elected on the basis of national party lists, based on the proportion of votes each party gets nationwide. The first proposal would make regional governors wholly dependent on, and subservient to, the president, undermining much of what remains of Russia's nominally federal system. The second proposal would eliminate independent deputies and further strengthen the pro-presidential parties that already control an absolute majority in the Duma. Putin and his supporters argue that these measures will help reduce corruption in the regions and "unify" the country, the better to fight against terrorism. Critics see the proposals as further, major encroachments on the fragile democratic reforms of the 1980s and 1990s that have already suffered serious setbacks under Putin. They warn of Putin's growing authoritarianism. President Bush, Secretary of State Powell, and many members of Congress voiced concern that Putin's September 13 proposals threatened Russian democracy.

In January 2005, the Russian government monetized many previously in-kind social benefits for retirees, military personnel, and state employees. The cash payments, however, only partly compensated for the lost benefits. At the same time, another government "reform" substantially raised housing and public utility costs. This led to massive, prolonged anti-government demonstrations bringing hundreds of thousands of protesters into the streets in what many have called the most serious challenge to Putin's rule. These widespread protests, following the September 2004 Beslan school hostage disaster and Putin's public humiliation in the Ukrainian presidential election in December, briefly brought Putin's public approval rating down to 41% (March 2005), from the high 70s a year earlier. It has since recovered to near the previously high level.

On November 14, 2005, President Putin announced major high-level changes in the government, naming two of his closest lieutenants to new deputy-prime-ministerial positions: Presidential-Administration head Dmitrii Medvedev and Defense Minister Sergei Ivanov. Ivanov will also retain his post as

defense minister. These two men now are seen by many as the front runners to succeed Putin in 2008.

In December 2005, the Russian parliament passed a controversial Kremlin-proposed law regulating non-government organizations (NGOs), which Kremlin critics charge gives the government leverage to shut down NGOs that it views as politically troublesome. The U.S. and many European governments expressed concern about the NGO law.

## **Chechnya**

In 1999, Islamic radicals based in Russia's break-away republic of Chechnya launched armed incursions into neighboring Dagestan, vowing to drive the Russians out and create an Islamic state. At about the same time, a series of bombing attacks against apartment buildings in Moscow and other Russian cities killed some 300 people. The new government of then-Premier Putin blamed Chechen terrorists and responded with a large-scale military campaign. Russian security forces may have seen this as an opportunity to reverse their humiliating 1996 defeat in Chechnya. With Moscow keeping its (reported) military casualties low and Russian media reporting little about Chechen civilian casualties, the conflict enjoyed strong Russian public support, despite international criticism. After a grinding siege, Russian forces took the Chechen capital, Grozny, in February 2000 and in the following months took the major rebel strongholds in the mountains to the south. Russian forces have killed tens of thousands of civilians and driven hundreds of thousands of Chechen refugees from their homes.

In March 2003, Russian authorities conducted a referendum in Chechnya on a new Chechen constitution that gives the region limited autonomy within the Russian Federation. Moscow claims it was approved by a wide margin. In October 2003, the Moscow-appointed head of the Chechen Administration, Akhmad Kadyrov, was elected President of the republic. Russian hopes that these steps would increase political stability and reduce bloodshed were disappointed, as guerilla fighting in Chechnya and suicide bomb attacks in the region and throughout Russia continued. On May 9, 2004, Kadyrov was assassinated by a bomb blast in Grozny, further destabilizing Chechnya. On August 29, Alu Alkhanov, Moscow's preferred candidate, was elected President of Chechnya, replacing Kadyrov.

Many foreign governments and the U.N. and Organization for Security and Cooperation in Europe (OSCE), while acknowledging Russia's right to combat separatist and terrorist threats on its territory, criticized Moscow's use of "disproportionate" and "indiscriminate" military force and the human cost to innocent civilians and urge Moscow to pursue a political solution. Although Moscow has suppressed large-scale Chechen military resistance, it faces the prospect of prolonged guerilla warfare. Russia reportedly has lost over 15,000 troops in Chechnya (1999-2006), comparable to total Soviet losses in Afghanistan (1979-1989). Russian authorities deny there is a "humanitarian catastrophe" in the North Caucasus and strongly reject foreign "interference" in Chechnya. The bloodshed continues on both sides. Russian forces regularly conduct sweeps and "cleansing operations" that reportedly result in civilian deaths, injuries, and abductions. Chechen fighters stage attacks against Russian forces and pro-Moscow Chechens in

Chechnya and neighboring regions and terrorist attacks against civilian targets throughout Russia.

On September 1, 2004, a group of heavily armed fighters stormed a school in the town of Beslan, taking some 1,150 children, teachers, and parents hostage and demanding the withdrawal of Russian forces from Chechnya. Two days later, in a chaotic and violent battle, 330 hostages and nearly all the pro-Chechen fighters were killed by explosives set by the hostage-takers and by gunfire from all sides. Radical Chechen field commander Shamil Basaev later claimed responsibility for the Beslan school assault. However, Aslan Maskhadov, the nominal political leader of Chechnya's separatist movement, denounced the school attack and suicide bombings against civilian targets as unjustifiable acts of terrorism. Maskhadov, who was elected President of Chechnya in 1997, was seen by some as a relatively moderate leader and virtually the only possible interlocutor if Moscow sought a political resolution to the conflict. Putin's government labeled Maskhadov, like all Chechen rebels, as a terrorist and refused to negotiate with him. On March 8, 2005, Russian authorities announced that they had killed Maskhadov in a shoot-out in Chechnya, apparently extinguishing what little hope remained for a political settlement. Chechen rebel field commanders named Abdul-Khalim Sadulaev President and vowed to continue their struggle for independence.

In succeeding months, Russian forces eliminated many Chechen rebel field commanders. On June 17, 2006, Chechen rebel president Sadulaev was killed in a fire fight by Russian federal forces. Three weeks later, Basaev, the most prominent and notorious Chechen rebel field commander, was killed in an explosion. Moscow's success in eliminating so many Chechen rebel leaders and inflicting losses on rebel bands leads some to speculate that the back of the resistance has been broken. Nevertheless, sporadic attacks against Russian forces and pro-Moscow officials continue in Chechnya and neighboring regions.

## **Economic Developments**

After the collapse of the Soviet Union, Russia experienced widespread economic dislocation and a drop of close to 50% in GDP. Conditions worse than the Great Depression of the 1930s in the United States impoverished much of the population, some 15% of which is still living below the government's official (very low) poverty level. Russia is also plagued by environmental degradation and ecological catastrophes of staggering proportions; the near-collapse of the health system; sharp declines in life expectancy and the birth rate; and widespread organized crime and corruption. The population has fallen by about 6 million since 1991, despite net in-migration of 5 million mostly ethnic Russians from other former Soviet republics.

In 1999, the economy began to recover, due partly to the sharp increase in the price of imports and increased price competitiveness of Russian exports caused by the 74% ruble devaluation in 1998. The surge in the world price of oil and gas also buoyed the Russian economy. The economic upturn accelerated in 2000, led by a 7.6% increase in GDP, 20% inflation, and a budget surplus. Economic performance

has remained relatively strong since then. Economists disagree as to whether this is a turning point marking fundamental economic recovery, or a cyclical improvement that will not be sustainable without further, politically painful, systemic reform. The following table highlights Russian economic performance since the dissolution of the Soviet Union in December 1991.

**Table 1. Russian Economic Performance Since 1992**  
(Annual Percentage Change)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>GDP Growth Rates</b>	-14.5	-8.7	-12.6	-4.1	-4.9	0.8	-5.0	3.2	9	5.5	4	7.3	7.1	6.4
<b>Inflation Rates</b>	2,525	847	223	131	48	11	84	36	20.2	15	12	13.6	11.7	12.9

Sources: PlanEcon, Inc., Center for Strategic and International Studies, and CIA *World Factbook*.

## Economic Reform

In January 1992, Yeltsin launched a sweeping economic reform program developed by Acting Premier Yegor Gaidar. The Yeltsin-Gaidar program wrought fundamental changes in the economy. Although the reforms suffered many setbacks and disappointments, most observers believe they carried Russia beyond the point of no return as far as restoring the old Soviet economic system is concerned. The Russian government removed controls on the vast majority of producer and consumer prices in 1992. Many prices have reached world market levels. The government also launched a major program of privatization of state property. By 1994, more than 70% of industry, representing 50% of the workforce and over 62% of production, had been privatized, although workers and managers owned 75% of these enterprises, most of which have not still been restructured to compete in market conditions. Critics charged that enterprises were sold far below their true value to “insiders” with political connections.

Putin initially declared reviving the economy his top priority. His liberal economic reform team formulated policies that won G-7 (now G-8, with Russia as a full member) and IMF approval in his first term. Some notable initiatives include a flat 13% personal income tax and lower corporate taxes that helped boost government revenue and passage of historic land privatization laws. In May 2004, Russia reached agreement with the EU on Russian accession to the WTO. EU leaders reportedly made numerous economic concessions to Moscow. Russia agreed to sign the Kyoto Protocol and roughly double the price of natural gas domestically by 2010.

In Putin’s second term, massive oil and gas profits and related revenues have made it easier for the government to put off politically difficult decisions on structural economic reform. Reform was further undermined by the Kremlin’s *de facto* privatization of oil giant Yukos, which has darkened the investment climate. Putin seems to be turning away from market reform toward greater government

control of key segments of the economy, with top government officials being put into leadership positions in many of Russia's largest economic enterprises.

## Foreign Policy

In the early 1990s, Yeltsin's Russia gave the West more than would have seemed possible. Moscow cut off military aid to the Communist regime in Afghanistan; ordered its combat troops out of Cuba; committed Russia to a reform program and won IMF membership; signed the START II Treaty that would have eliminated all MIRVed ICBMs (the core of the Soviet Strategic Rocket Forces); and radically reduced Russian force levels in many other categories. The national security policies of Yeltsin and Foreign Minister Andrei Kozyrev came to be strongly criticized at home, not only by hardline communists and ultra nationalists but also by many centrists and prominent democrats, who came to agree that the Yeltsin/Kozyrev foreign policy lacked a sense of national interest and was too accommodating to the West — at Russia's expense.

In 1995, Yeltsin replaced Kozyrev as Foreign Minister with Yevgeny Primakov, who was decidedly less pro-Western. Primakov opposed NATO enlargement, promoted integrating former Soviet republics under Russian leadership, and favored cooperation with China, India, and other states opposed to U.S. "global hegemony." When Primakov became Premier in September 1998, he chose Igor Ivanov to succeed him as Foreign Minister. Ivanov kept that position until March 2004, when he was replaced by career diplomat Sergei Lavrov, formerly Russia's U.N. Ambassador.

During Putin's first year as president he continued Primakov's policies, but by 2001, even before September 11, he made a strategic decision to reorient Russian national security policy toward cooperation with the West and the United States. Putin saw Russia's economic revitalization proceeding from its integration into the global economic system dominated by the advanced industrial democracies — something that could not be accomplished in an atmosphere of political/military confrontation or antagonism with the United States. After 9/11, the Bush Administration welcomed Russia's cooperation against Al Qaeda and the Taliban regime in Afghanistan, which paved the way for broader bilateral cooperation.

Moscow remained unhappy about NATO enlargement in Central and Eastern Europe, but reconciled itself to that. NATO and Russian leaders meeting in Rome signed the "NATO at 20" agreement, in which Russia and NATO members participate as equals on certain issues. Russia reacted relatively calmly to NATO's admission of seven new members (May 2004), including the former Soviet Republics of Estonia, Latvia, and Lithuania.

After the collapse of the Soviet Union, a consensus emerged in Moscow on reestablishing Russian dominance in this region as a very high priority. There has been little progress toward overall CIS integration. Russia and other CIS states impose tariffs on each others' goods in order to protect domestic suppliers and raise revenue, in contravention of an economic integration treaty. Recent CIS summit

meetings have ended in failure, with many of the presidents sharply criticizing lack of progress on common concerns and Russian attempts at domination. The CIS as an institution appears to be foundering, and in March 2005, Putin called it a “mechanism for a civilized divorce.”

On the other hand, in October 2000, the presidents of Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan upgraded their 1992 Collective Security Treaty, giving it more operational substance and *de jure* Russian military dominance. In February 2003, the presidents of Russia, Ukraine, Belarus, and Kazakhstan agreed in principle to create a “single economic space” (SES) among the four countries. They signed a treaty to that effect in September 2003 but failed to agree on fundamental principles and terms of implementation. The December 2004 election of western-oriented Viktor Yushchenko as President of Ukraine seemed to have killed the SES agreement, but Yushchenko’s political reverses in 2005-2006 and the appointment of a more pro-Russian Prime Minister in Kyiv in August 2006 puts this matter in play again.

Russia and Belarus have taken steps toward integration. Belarusian President Aleksandr Lukashenko may have hoped for a leading role in a unified state during Yeltsin’s decline. Lukashenko unconstitutionally removed the parliamentary opposition in 1996 and strongly opposes market reform in Belarus, making economic integration difficult and potentially very costly for Russia. In April 1997, Yeltsin and Lukashenko signed documents calling for a “union” between states that were to remain “independent and sovereign,” and a year later, they signed a Union Charter. Lukashenko minimized his and his country’s political subordination to Moscow. Yeltsin avoided onerous economic commitments to Belarus. After protracted negotiations, the two presidents signed a treaty on December 8, 1999, committing Russia and Belarus to form a confederal state. Moscow and Minsk continue to differ over the scope and terms of union, and Putin repeatedly has sharply criticized Lukashenko’s schemes for a union in which the two entities would have equal power. The prospects for union seem to be growing more distant, especially after the sharp oil price dispute between the two governments in January 2007 that temporarily disrupted Russian oil deliveries to Belarus and westward into Europe.

Russian forces remain in Moldova against the wishes of the Moldovan government (and the signature of a troop withdrawal treaty in 1994), in effect bolstering a neo-Communist, pro-Russian separatist regime in the Transnistria region of eastern Moldova. Russian-Moldova relations warmed, however, after the election of a communist pro-Russian government in Moldova in 2001, but even that government became frustrated with Moscow’s manipulation of the Transnistrian separatists. The United States and the EU call upon Russia to withdraw from Moldova. Russian leaders have sought to condition the withdrawal of their troops on the resolution of Transnistria’s status, which is still manipulated by Moscow.

Russian forces intervened in Georgia’s multi-faceted civil strife, finally backing the Shevardnadze government in November 1993 — but only after it agreed to join the CIS and allow Russia military bases in Georgia. Russia tacitly supports Abkhazian and South Ossetian separatism in Georgia and delayed implementation of a 1999 OSCE-brokered agreement to withdraw from military bases in Georgia. In 2002, tension arose over Russian claims that Chechen rebels were staging cross-

border operations from Georgia's Pankisi Gorge, near the border with Chechnya. In 2002, the Bush Administration sent a small contingent of U.S. military personnel to Georgia to help train and equip Georgian security forces to combat Chechen, Arab, Afghani, Al Qaeda, and other terrorists who had infiltrated into Georgia. Tension between Moscow and Tbilisi sharpened further after Georgia's "Rose Revolution" catapulted U.S.-educated Mikheil Saakashvili into the presidency in November 2003. Saakashvili is an outspoken critic of Moscow and seeks to bring Georgia into NATO. Nevertheless, in July 2005, Russia concluded an agreement with Georgia to withdraw its forces from military bases it had occupied in Georgia since the Soviet era. The withdrawal is to be completed in 2007.<sup>1</sup> But in September 2006, Georgian authorities arrested four Russian army officers on charges of espionage. Although the Georgian government soon released the officers, Moscow imposed a broad economic embargo against Georgia and expelled hundreds of Georgians from Russia.

Moscow has used the Armenian-Azerbaijani conflict over Nagorno-Karabakh to pressure both sides and win Armenia as an ally. Citing instability and the threatened spread of Islamic extremism on its southern flank as a threat to its security, Moscow intervened in Tajikistan's civil war in 1992-93 against Tajik rebels based across the border in Afghanistan.

A major focus of Russian policy in Central Asia and the Caucasus has been to gain more control of natural resources, especially oil and gas, in these areas. Russia seeks a stake for its firms in key oil and gas projects in the region and puts pressure on its neighbors to use pipelines running through Russia. This became a contentious issue as U.S. and other western oil firms entered the Caspian and Central Asian markets and sought alternative pipeline routes. Russia's policy of trying to exclude U.S. influence from the region as much as possible, however, was dramatically reversed by President Putin after the September 11 attacks. Russian cooperation with the deployment of U.S. military forces in Uzbekistan, Kyrgyzstan, and Tajikistan would have seemed unthinkable before September 11. More recently, however, Russian officials have voiced suspicions about U.S. motives for prolonged military presence in Central Asia.

On July 5, 2005, the Shanghai Cooperation Organization (comprising China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan), approved a Moscow-backed initiative calling for establishing deadlines for the withdrawal of U.S. and coalition military bases from the Central Asian states. On July 29, the Uzbek government directed the United States to terminate its operations at the Karshi-Khanabad (K2) airbase within six months. Tashkent is believed to have acted not only in response to Russian and Chinese urging but also out of anger over sharp U.S. criticism of the Uzbek government's massacre of anti-government demonstrators in Andijan in May 2005.<sup>2</sup>

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<sup>1</sup> See CRS Report RL33453, *Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests*, by Jim Nichol.

<sup>2</sup> For more on Russian policy in these regions, see CRS Report RL33458, *Central Asia: Regional Developments and Implications for U.S. Interests* by Jim Nichol, and CRS Report RL33453, *Armenia, Azerbaijan, and Georgia: Political Developments and Implications for* (continued...)

Of all the Soviet successor states, Ukraine is the most important for Russia. Early on, the Crimean Peninsula was especially contentious. Many Russians view it as historically part of Russia, and say it was illegally “given” to Ukraine by Khrushchev in 1954. Crimea’s population is 67% Russian and 26% Ukrainian. In April 1992, the Russian legislature declared the 1954 transfer of Crimea illegal. Later that year Russia and Ukraine agreed that Crimea was “an integral part of Ukraine” but would have economic autonomy and the right to enter into social, economic, and cultural relations with other states. There was tension over Kyiv’s refusal to cede exclusive use of the Sevastopol naval base in Crimea to Russia. Finally, in May 1997, Yeltsin and Ukrainian President Leonid Kuchma signed a Treaty resolving the long dispute over Sevastopol and the Black Sea Fleet and declaring that Russian-Ukrainian borders cannot be called into question. This agreement, widely viewed as a major victory for Ukrainian diplomacy, was ratified in April 1999. Bilateral relations remain very important for both countries.

Ukraine’s October 31, 2004, presidential election pitted the openly pro-Moscow Prime Minister, Viktor Yanukovych, against an independence and reform-minded candidate, Viktor Yushchenko. Putin strongly and openly backed Yanukovych and lent much material support to his campaign. Nevertheless, Yushchenko narrowly out-pollled Moscow’s man in the first round. In the disputed run-off election on November 21, Yanukovych initially claimed victory and was publically congratulated by Putin. Evidence of widespread election fraud, however, sparked massive Ukrainian street demonstrations and strong U.S. and EU criticism, pitting Russia against the West in a way reminiscent of the Cold War. After Ukraine’s parliament and Supreme Court threw out the results of the November 21 election, the re-run on December 26 was won by Yushchenko (52% vs. 44%). Many observers in Russia, Ukraine, and the West, saw this outcome as a powerful blow to perceived Russian hopes of reasserting dominance over Ukraine. Yushchenko declared integrating Ukraine economically and politically into Europe as his top priority.

Under Yushchenko, Ukraine opted out of the SES agreement promoted by Moscow. Ukraine, however, is economically dependent on Russia, especially for energy, although Kyiv also has some leverage in this area, as the main pipelines carrying Russian gas and oil to Europe pass through Ukraine. This troubled relationship leapt to prominence on January 1, 2006, when Russia stopped pumping natural gas to Ukraine after the two sides had failed for months to reach agreement on Russia’s proposed quadrupling of the price of gas. This led to a sharp reduction in Russian gas supplies to Central and Western Europe, which pass through Ukraine. In response to strong European protests, Russia resumed pumping gas to and through Ukraine on January 3. The next day, Russia and Ukraine announced agreement on a complicated deal that amounts to doubling of the price Ukraine is to pay for gas. Many analysts saw the outcome as strengthening Russian influence in Ukraine and politically weakening Yushchenko prior to parliamentary elections (March 26, 2006), in which Yushchenko’s party won only 13% of the vote, finishing third among five major parties. After four months of political deadlock in Kyiv, Yushchenko appointed his 2004 arch-enemy, Yanukovych, Prime Minister in August 2006.

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<sup>2</sup> (...continued)

*U.S. Interests*, also by Jim Nichol.

Yanukovych, however, signed an agreement pledging to continue Yushchenko's policy of integration with the West, and Yushchenko was able to have pro-western members of his own party head the Ministries of Foreign Affairs and Defense. It remains to be seen how these Ukrainian political developments affect the country's relations with Russia, the EU, and the United States.

## **Defense Policy**

### **Fundamental Shakeup of the Military**

The Russian armed forces and defense industries have been in turmoil since 1992. Their previously privileged position in the allocation of resources has been broken, as has their almost sacrosanct status in official ideology and propaganda. Hundreds of thousands of troops were withdrawn from Eastern Europe, the former Soviet Union, and the Third World. Massive budget cuts and troop reductions forced hundreds of thousands of officers out of the ranks into a depressed economy. Present troop strength is about 1.2 million men. (The Soviet military in 1986 numbered 4.3 million.) Weapons procurement virtually came to a halt in the 1990s and is only slowly reviving. Readiness and morale remain low, and draft evasion and desertion are widespread. Yeltsin and later Putin declared military reform a top priority, but fundamental reform of the armed forces and the defense industries is a difficult, controversial, and costly undertaking. The Chechen also conflict delayed military reform.

Putin has pledged to strengthen and modernize the armed forces, and appears determined to do so. At the same time, he appears to be aware of Russia's financial and material limitations. The decisions announced in August and September 2000 to greatly reduce Russia's strategic nuclear forces (from 6,000 to 1,500 deployed warheads), to shift resources from strategic to conventional forces, and to shift from a conscript to a volunteer force suggest serious intent to effect military reform.

Putin has made some changes in the military leadership that may lead to major policy changes. Sergei Ivanov, a former KGB general very close to Putin, was named Defense Minister. Ivanov had resigned his nominal intelligence service military rank and headed Putin's Security Council as a civilian. Putin explained that the man who had supervised the planning for military reform (Ivanov) should be the man to implement reform as Defense Minister. In May 2004, the General Staff was taken out of the direct chain of command and given a more advisory role, a move that appears to strengthen civilian control.

The improvement of Russia's economy since 1999, fueled in large part by the cash inflow from sharply rising world oil and gas prices, has enabled Putin to begin to reverse the budgetary starvation of the military during the 1990s. Defense spending has increased substantially in each of the past few years. The government's 2006 budget increased military spending by 22% over 2005. At the official exchange rate, that puts the defense budget at \$24 billion out of a total federal budget of about \$150 billion. Even factoring in purchasing power parity, Russian defense spending lags far behind current U.S. or former Soviet levels.

Despite its difficulties, the Russian military remains formidable in some respects and is by far the largest in the region. Because of the deterioration of its conventional forces, however, Russia relies increasingly on nuclear forces to maintain its status as a major power. There is sharp debate within the armed forces about priorities between conventional vs. strategic forces and among operations, readiness, and procurement. Russia is trying to increase security cooperation with the other CIS countries. Russia has military bases on the territory of all the CIS states except Azerbaijan and is seeking to take over or share in responsibility for protecting the external borders of the CIS. In the proposed Russia-Belarus union, President Lukashenko pointedly emphasizes the military dimension. On the other hand, Georgia, Ukraine, Moldova, and Azerbaijan are shifting their security policies toward a more western, pro-NATO orientation.

## **Control of Nuclear Weapons**

When the U.S.S.R. collapsed in 1991, over 80% of its strategic nuclear weapons were in Russia. The remainder were deployed in Ukraine, Belarus, and Kazakhstan. Those three states completed transfer of all nuclear weapons to Russia and ratified the Nuclear Non-Proliferation Treaty as non-nuclear-weapon states by 1995-1996. All Soviet tactical nuclear weapons, which had been more widely dispersed, reportedly were moved to Russia by 1992. The command and control system for strategic nuclear weapons is believed to be tightly and centrally controlled, with the Russian president and defense minister responsible for authorizing their use. The system of accounting and control of nuclear (including weapons grade) material, however, is much more problematic, raising widespread concerns about the danger of nuclear proliferation. There are growing concerns about threats to Russian command and control of its strategic nuclear weapons resulting from the degradation of its system of early warning radars and satellites. At the June 2000 Clinton-Putin summit, the two sides agreed to set up a permanent center in Moscow to share near real-time information on missile launches, but this has yet to be implemented.<sup>3</sup>

## **U.S. Policy**

### **U.S.-Russian Relations**

The spirit of U.S.-Russian “strategic partnership” of the early 1990s was replaced by increasing tension and mutual recrimination in succeeding years. In the aftermath of the September 11, 2001 attacks, the two nations reshaped their relationship on the basis of cooperation against terrorism and Putin’s goal of integrating Russia economically with the West.<sup>4</sup> Since 2003, however, tensions have reemerged on a number of issues that again strain relations. Although cooperation

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<sup>3</sup> See CRS Report RL32202, *Nuclear Weapons in Russia: Safety, Security, and Control Issues*, by Amy F. Woolf.

<sup>4</sup> For the change in Russian policy toward integration with the West and cooperation with the United States, see CRS Report RL31543, *Russia’s National Security Policy After September 11*, by Stuart D. Goldman, last updated August 20, 2002.

continues in some areas, and Presidents Bush and Putin strive to maintain at least the appearance of cordial personal relations (the APEC summit in Vietnam, November 16-19, 2006, was their 19<sup>th</sup> meeting since 2001), there now appears to be more discord than harmony in U.S.-Russian relations.

Russia's construction of nuclear reactors in Iran and its role in missile technology transfers to Iran are critical sources of tension with the United States. Despite repeated representations from the White House and Congress, which argue that Iran will use the civilian reactor program as a cover for a covert nuclear weapons program, Russia refused to cancel the project, which is nearly completed. Revelations of previously covert Iranian nuclear developments revived this issue, and some Russian political leaders criticized the policy of nuclear cooperation with Iran, giving rise to policy debate on this issue in Moscow. Moscow's position is that it intends to continue its civilian nuclear power projects in Iran, while urging Tehran to accept intrusive international safeguard inspections and other guarantees that it will not produce nuclear weapons.

Moscow has withheld delivery of nuclear fuel for the Bushehr reactor, pending agreement with Teheran about return of spent fuel to Russia for reprocessing. In late 2005, Moscow proposed a compromise plan to avert a showdown between Iran and the United States and the EU over Iran's insistence on its right to reprocess uranium. The Russian proposal, which won luke-warm Bush Administration support, would allow Iran to reprocess uranium, in facilities on Russian territory, presumably subject to international inspection. After prolonged talks, Iran's Foreign Ministry in March 2006 rejected the Russian proposal. The United States and an EU group (France, Germany, and the U.K.) won Russian (and Chinese) agreement to move the issue to the UN Security Council. After months of negotiations during which Russia argued that diplomacy with Iran would yield greater results than would sanctions, the Security Council agreed to U.N. Security Council Resolution 1737, passed unanimously on December 23, 2006, to impose some modest sanctions on trade with Iran's nuclear infrastructure and a freeze on trade with and the assets of ten Iranian entities and twelve individuals.<sup>5</sup>

Since the mid-1990s, U.S. and Russian interests have clashed over Iraq. Russia strongly opposed military action against Iraq in connection with the U.N. inspection regime. After September 11, Moscow moved away from blanket support of Iraq. Some Russian officials suggested that under certain circumstances, U.S. military action against Iraq might not seriously strain U.S.-Russian relations — provided it was not unilateral and Russia's economic interests in Iraq were protected. As the United States moved toward military action against Iraq, Putin tried to balance three competing interests: protecting Russian economic interests in Iraq; restraining U.S. "unilateralism" and global dominance; and maintaining friendly relations with the United States. In February-March 2003, Putin aligned Russia with France and Germany in opposition to U.S. military action and threatened to veto a U.S.-backed UNSC resolution authorizing military force against Iraq. The U.S.-led war in Iraq further strained U.S.-Russian relations, but the senior leadership in both countries

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<sup>5</sup> See CRS Report RL3204, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

said that this would not be allowed to jeopardize their overall cooperation. On May 22, 2003, Russia voted with other members of the U.N. Security Council to approve a U.S.-backed resolution giving the United States broad authority in administering post-war Iraq.

A sharp U.S.-Russian clash of interests over missile defense, the ABM Treaty, and strategic arms reductions flared in the first year of the Bush Administration. These problems were substantially reduced, but not entirely resolved, at the Bush-Putin summit in May 2002. The Bush Administration declared its disinterest in START II and the ABM Treaty and its determination to pursue robust missile defense. This approach was met with resistance from Moscow, but the Administration stuck to its policies and, despite skepticism from some Members of Congress and many European allies, gradually won Russian acquiescence on most elements of its program.

Moscow reacted negatively to early Bush Administration determination to press ahead vigorously with missile defense, although the atmospherics, at least, improved after the Bush-Putin summit in Slovenia on June 16, 2001. In December 2001, the Bush Administration gave Moscow official notification of its intention to renounce the ABM Treaty within six months. Russia's official response was cool but restrained, calling the U.S. decision a mistake, but saying that it would not cause a major disruption in relations. Similarly, in January 2002, Moscow reacted negatively to the Bush Administration's proposed plans to put in storage many of the nuclear warheads it planned to withdraw from deployment, rather than destroy them. Again, however, Russian criticism was relatively restrained, while the two sides continued intensive negotiations.

The negotiations bore fruit in mid-May, when final agreement was announced. Moscow won U.S. agreement to make the accord a treaty requiring legislative approval. The terms of the treaty, however, achieve all the Administration's key goals: deployed strategic nuclear warheads are to be reduced to 1,700-2,200 by 2012, with no interim timetable, no limits on the mix or types of weapons, and no requirement for destroying rather than storing warheads. The so-called Treaty of Moscow was signed by the two presidents on May 24, 2002. On June 13, the United States became free of all restraints of the ABM Treaty. On the same day, Moscow announced that it would no longer consider itself bound by the provisions of the (unratified) START II Treaty, which has become a dead letter. In June 2002, the commander of Russia's Strategic Rocket Forces announced that in response to the U.S. withdrawal from the ABM Treaty, Russia would prolong the life of its MIRVed ICBM force, which, he said, could be extended another 10-15 years. On June 1, 2003, Presidents Bush and Putin exchanged instruments of ratification allowing the Treaty of Moscow to enter into force. They also agreed to cooperate in missile defense. In November 2004, Putin announced that Russia was developing a new strategic nuclear missile superior to any in the world. The SS-27 reportedly combines a hypersonic boost phase and a maneuverable warhead, characteristics designed to defeat (U.S.) ballistic missile defenses.

Moscow and Washington are cooperating on some issues of nuclear weapons reduction and security. Since 1992, the United States has spent over \$7 billion in Cooperative Threat Reduction (CTR or "Nunn-Lugar") funds and related programs

to help Russia dismantle nuclear weapons and ensure the security of its nuclear weapons, weapons grade nuclear material, other weapons of mass destruction, and related technological know-how. During the September 1998 summit, both countries agreed to share information when either detects a ballistic missile launch anywhere in the world, and to reduce each country's stockpile of weapons-grade plutonium by fifty metric tons. In June 1999, U.S. and Russian officials extended the CTR program for another seven years. The two sides also agreed to each dispose of an additional 34 tons of weapons-grade plutonium, with the U.S. to seek international funding to help finance the \$1.7 billion Russian effort. The planned U.S.-Russian joint missile early warning information center in Moscow, however, has yet to be established. In April 2002, the Bush Administration decided not to certify that Russia was fully cooperating with U.S. efforts to verify its compliance with agreements to eliminate chemical and biological weapons. This could have blocked U.S. funding for some CTR programs, but President Bush granted Russia a waiver.

In September 2006, the United States and Russia resolved a long-standing dispute over liability issues that had threatened to disrupt an important bilateral nuclear nonproliferation program. The Elimination of Weapons-Grade Plutonium Production Program — designed to convert 68 tons of excess weapons-grade plutonium (enough for 16,000 nuclear weapons) into mixed oxide fuel for use in nuclear reactors, a form that cannot be used for weapons by terrorists or others — is now on track to continue.

On August 4, 2006, the U.S. State Department announced sanctions against the Russian state arms export agency, Rosoboroneksport, and the aircraft manufacturer Sukhoi, for alleged violations of the Iran Nonproliferation Act of 2000, thereby barring U.S. companies from dealing with those Russian entities for two years. Russian officials denounced the action as retaliation for their Venezuelan arms sales. In December 2006, the sanctions against Sukhoi were lifted, but those against Rosoboroneksport were reconfirmed for two more years, over Russian protests.

Despite continued tension between Washington and Moscow over Iran and the sharp disagreement over Iraq in early 2003, both governments seek to preserve mutually advantageous elements of the cooperative relationship they built following the September 11 attacks. In March 2003, Senator Lugar introduced legislation to exempt Russia from the Jackson-Vanik amendment to the Trade Bill of 1974, action which would grant Russia permanent normal trade relations (PNTR) status and facilitate Russian accession to the WTO, but it received no further action. After years of difficult negotiations, U.S. and Russian officials concluded a U.S.-Russian trade agreement on November 19, 2006, paving the way for Russian accession to the WTO. This means that the 110<sup>th</sup> Congress will almost certainly address the issues of PNTR for Russia and the Jackson-Vanik Amendment. But approval of these measures is by no means assured.

## **U.S. Assistance**

From FY1992 through FY2006, the U.S. government obligated \$14.9 billion in assistance to Russia, including \$3.7 billion in Freedom Support Act (FSA) aid for democratization, market reform, and social and humanitarian aid. Most of the rest went for CTR (Nunn-Lugar) and other security-related programs. But Russia's share

of the (shrinking) NIS foreign aid (FSA) account fell from about 60% in FY1993-FY1994 to 17% in FY1998 and has been between 15%-22% since then. The Administration requested \$148 million for Russian FSA programs in FY2003, \$93.4 million in FY2004, \$85 million in FY2005, and \$48 million in FY2006 (which was raised by Congress to \$80 million). The Administration's request for FSA aid to Russia in FY2007 is \$58 million.<sup>6</sup>

Both the FSA and the annual foreign operations appropriations bills contain conditions that Russia is expected to meet in order to receive assistance. A restriction on aid to Russia was approved in the FY1998 appropriations and each year thereafter, prohibiting any aid to the government of the Russian Federation (i.e., central government; it does not affect local and regional governments) unless the President certifies that Russia has not implemented a law discriminating against religious minorities. Presidents Clinton and Bush have made such determinations each year.

Since FY1996, direct assistance to the government of Russia has hinged on its continuing sale of nuclear reactor technology to Iran. As a result, in most years as much as 60% of planned U.S. assistance to the federal Russian government has been cut. The FY2001 foreign aid bill prohibited 60% of aid to the central government of Russia if it was not cooperating with international investigations of war crime allegations in Chechnya or providing access to NGOs doing humanitarian work in Chechnya. Possibly as a result of Russian cooperation with the United States in its war on terrorism, the war crime provision was dropped.

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<sup>6</sup> See CRS Report RL32866, *U.S. Assistance to Russia and the Former Soviet Union*, by Curt Tarnoff.