



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

Jim Nichol, Coordinator

Specialist in Russian and Eurasian Affairs

William H. Cooper

Specialist in International Trade and Finance

Carl Ek

Specialist in International Relations

Steven Woehrel

Specialist in European Affairs

Amy F. Woolf

Specialist in Nuclear Weapons Policy

Steven A. Hildreth

Specialist in Missile Defense

Vincent Morelli

Section Research Manager

October 15, 2009

Congressional Research Service

7-5700

www.crs.gov

RL33407

CRS Report for Congress

Prepared for Members and Committees of Congress

Summary

Dmitry Medvedev, Vladimir Putin's chosen successor and long-time protege, was elected President of the Russian Federation on March 2, 2008 with about 70% of the vote. Medvedev, formerly First Deputy Prime Minister, announced during the campaign that if elected, he would propose Putin as Prime Minister. Medvedev was inaugurated as President on May 7; Putin was confirmed as Prime Minister the next day. The Kremlin's Unified Russia party had previously swept the legislative election (December 2, 2007), winning more than two-thirds of the seats in the Duma. U.S. and EU observers criticized both elections as unfairly controlled by the governing authorities. Nevertheless, Putin's widespread popularity in Russia led many to conclude that the election results corresponded to Russian public opinion.

The sharp decline in oil and gas prices since mid-2008 and other aspects of the global economic downturn put a halt to a Russian economic expansion that had begun in 1999, resulting in an officially reported 9.5% drop in gross domestic product in 2008 and an estimated 5% drop in 2009. These declines exacerbate existing problems: 15% of the population live below the poverty line; inadequate healthcare contributes to a demographic decline; foreign investment is low; inflation hovers around 12%-14%; and crime, corruption, capital flight, and unemployment remain high.

Russia's 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. Russia's economic revival allowed it to substantially increase defense spending. Some high-profile activities were resumed, such as multi-national military exercises, Mediterranean and Atlantic naval deployments, and strategic bomber patrols. Stepped-up military efforts were launched in late 2007 to further downsize the armed forces and emphasize rapid reaction and contract forces. The global economic downturn and strong opposition within some segments of the armed forces appears to have slowed down force modernization.

After the Soviet Union's collapse, the United States sought a cooperative relationship with Moscow and supplied almost \$17 billion to Russia from fiscal year 1992 through 2008 to support urgent humanitarian needs, to encourage democracy and market reform, and to support WMD threat reduction. U.S. aid to reduce the threats posed by the proliferation of weapons of mass destruction in recent years has hovered around \$700-\$900 million per fiscal year, while other foreign aid to Russia has dwindled, due in part to the phase-out of some aid and to congressional conditions placed on foreign aid to Russia. The United States at times has imposed economic sanctions on Russian organizations for exporting nuclear and military technology and equipment to Iran and Syria. The Russia-Georgia conflict of August 2008 was the most serious source of tensions between Russia and the United States since the end of the Cold War. Despite rising tension on issues such as NATO enlargement, Kosovo, and proposed U.S. missile defenses in Eastern Europe, Washington and Moscow had found some common ground on Iranian and North Korean nuclear issues and on nuclear non-proliferation in general. The Russia-Georgia conflict threatened such cooperation. The Obama Administration has endeavored to "reset" relations with Russia to reinvigorate and expand bilateral cooperation, including through a summit in July 2009. Russia welcomed the Obama Administration's announcement in September 2009 of the cancellation of the planned missile defense setup in Eastern Europe. The 111th Congress has held several hearings on Russia.

Contents

Recent Developments.....	1
Post-Soviet Russia and Its Significance for the United States.....	2
Political Developments	2
Background	2
The Putin-Medvedev Era.....	3
Instability in the North Caucasus.....	6
Human Rights Developments	7
Defense Reforms.....	10
Trade, Economic, and Energy Issues	11
Russia and the Global Economic Crisis	11
Russia’s Accession to the World Trade Organization (WTO) and PNTR for Russia.....	12
Intellectual Property Rights (IPR) Enforcement in Russia.....	13
Russian Energy Policy	14
Foreign Policy.....	16
Russia and the West	16
NATO-Russia Relations	17
Russia and the European Union.....	20
Russia and the Soviet Successor States	21
U.S.-Russia Relations	23
The Obama Administration Moves to “Re-set” Bilateral Relations	24
Bilateral Relations and Iran	26
Bilateral Relations and Afghanistan.....	27
Arms Control Issues.....	29
Cooperative Threat Reduction.....	30
Russia and Missile Defense.....	31
U.S.-Russia Economic Ties	34
U.S. Assistance to Russia	36

Tables

Table 1. U.S. Merchandise Trade with Russia, 1992-2008	34
Table 2. U.S. Government Funds Budgeted for Assistance to Russia, FY1992-FY2008	37

Contacts

Author Contact Information	38
Acknowledgments	38

Recent Developments

Secretary of State Hillary Clinton visited Russia on October 12-14 and met with Foreign Minister Sergey Lavrov and President Dmitry Medvedev. She reported continued progress between the two sides in negotiations to replace the expiring Strategic Arms Reduction Treaty (START), support for the Global Initiative To Combat Nuclear Terrorism, and cooperation in Afghanistan. She reported that there were discussions about cooperating on missile defense efforts and about Iran's nuclear proliferation threat. Foreign Minister Lavrov stated that tightened sanctions against Iran were premature while diplomatic efforts are underway to ensure that Iran does not develop nuclear weapons. Meeting with Russian human rights advocates, Secretary Clinton argued that the United States would continue to advocate democratization and respect for human rights in Russia. Secretary Clinton and Foreign Minister Lavrov convened the first meeting of the U.S.-Russia Bilateral Presidential Commission. Several of the co-chairs of working groups attached to the Commission also met. Michael McFaul, the Senior Director for Russian and Eurasian Affairs on the National Security Council, who co-chairs the civil society working group, reportedly stated that the working groups would only include government officials, and that non-governmental groups would meet separately. Ahead of Secretary Clinton's trip, some co-chair meetings already had taken place, including the education and culture working group and the anti-narcotics trafficking working group in Washington, D.C. in late September. At the latter working group meeting, Russia urged the United States to greatly step up poppy eradication efforts in Afghanistan.

On October 11, 2009, mayoral and other local elections took place in most of Russia's regions. Ruling United Russia Party candidates won overwhelmingly. Alleged irregularities in many races led the three minority parties represented in the State Duma (Russia's lower legislative chamber)—the Communist Party, Liberal Democratic Party, and Just Russia—to walk out as a sign of protest. President Putin, however, declared the results "satisfactory."

The Kremlin-supported Nashi youth movement picketed the home of reporter Aleksandr Podrabinek for several days in late September and early October 2009. Nashi deemed that one of his articles had maligned the former Soviet Union. Nashi reportedly wanted to force Podrabinek to either apologize or leave the country. Radio France Internationale earlier had appealed to Russian authorities to ensure the safety of its Moscow correspondent. Allegedly, President Medvedev's press secretary dismissed harassment and death threats against the reporter as "normal discussion." On October 7, Prime Minister Vladimir Putin reportedly stated that he did not approve of the picketing.

On September 17, 2009, the Obama Administration announced it would cancel the Bush-proposed European missile defense program. Instead, Defense Secretary Gates announced U.S. plans to develop and deploy a regional missile defense capability that can be deployed around the world on relatively short notice. Gates argued this new capability, based primarily around current missile defense sensors and interceptors, would be more responsive and adaptable to growing concern over the direction of Iranian short- and medium-range ballistic missile proliferation. This capability would continue to evolve and expand over the next decade. In Russia, President Dmitry Medvedev called the decision "a responsible move," adding that "we value the responsible

approach of the U.S. President to our agreement. I am ready to continue our dialogue.”¹ (See below, *Russia and Missile Defense*.)

Post-Soviet Russia and Its Significance for the United States

Although Russia may not be as central to U.S. interests as was the Soviet Union, cooperation between the two is essential in many areas. Russia remains a nuclear superpower. It still plays 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, the 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.

Russia is a potentially 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, although bilateral trade remains relatively low.

Political Developments

Background

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 Boris Yeltsin's presidency, many of the republics and regions won greater autonomy. Only the Chechen Republic, however, tried to assert complete independence. During his term, President Putin 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. Until it was amended in 2008, the Constitution provided a four-year term for the president and no more than two

¹ Obama Cancels Bush Plan For European Missile Shield That Had Soured Relations With Russia. *AP Newswire*. September 17, 2009. Medvedev Praises Obama's Move On Europe Missile Shield. *RIA Novosti*. September 17, 2009.

consecutive terms. The president, with parliament's approval, appoints a prime minister who heads the government. The president and prime minister appoint government ministers and other officials. The prime minister and government are accountable to the president rather than the legislature. Dmitry Medvedev was elected president on March 2, 2008 and inaugurated on May 7. On May 8, Putin was confirmed as Prime Minister. In November 2008, constitutional amendments extended the presidential term to six years and the term of Duma Deputies from four to five years.

The bicameral legislature is called the Federal Assembly. The State 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 May 2005, Putin's proposal that all 450 Duma seats be filled by party list election, with a 7% threshold for party representation, became law. In the December 2007 legislative election, the pro-Kremlin United Russia Party won 315 seats, more than the two-thirds majority required to amend the constitution. The upper chamber, the Federation Council, has 166 seats, two from each of the 83 regions and republics of the Russian Federation. Deputies are appointed by the regional chief executive and the regional legislature.

The judiciary is the least developed of the three branches. Some of the Soviet-era structure and practices are still in place. Criminal code reform was completed in 2001. Trial by jury was planned to expand to cover most cases, but recently was restricted following instances where state prosecutors lost high-profile cases. The Supreme Court is the highest appellate body. The Constitutional Court rules on the legality and constitutionality of governmental acts and on disputes between branches of government or federative entities. 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 Putin-Medvedev Era

Former President Boris Yeltsin's surprise resignation (December 31, 1999) propelled then-Prime Minister Vladimir Putin into the Kremlin as acting President. Putin's meteoric rise in popularity was due to his being presented on state-owned TV and other mass media as a youthful, vigorous, sober, and plain-talking leader; and to his aggressive launch of military action against the breakaway Chechnya region. In March 2000, Putin was elected president in his own right. He won a second term four years later. Putin was a Soviet KGB foreign intelligence officer for 16 years and later headed Russia's Federal Security Service (the domestic component of the former KGB). His priorities as president were strengthening the central government and restoring Russia's status as a great power.

Under Putin, the government took nearly total control of nation-wide broadcast media. A key early target was Russia's only independent television network, NTV, which had been critical of Putin. The state-controlled gas monopoly Gazprom took over NTV and appointed Kremlin loyalists to run it. The government then forced the controlling owner of the ORT TV network to give up his shares. TV-6, the last significant independent Moscow TV station, was shut down under government pressure in 2002. The government has also moved against the independent radio network, Echo Moskvuy, and other electronic media. In 2006, the Russian government forced most Russian radio stations to stop broadcasting programs prepared by the U.S.-funded Voice of America (VOA) and Radio Liberty (RL). Journalists critical of the government have been imprisoned, attacked, and in some cases killed with impunity. The highly respected journalist and Chechen war critic Anna Politkovskaya was murdered in October 2006.

A defining political and economic event of the Putin era was the October 2003 arrest of Mikhail Khodorkovski, CEO of Yukos, then the world's fourth largest oil company. Khodorkovski's arrest was triggered by his criticism of some of Putin's actions, his financing of anti-Putin political parties, and his hints that he might enter politics in the future. Khodorkovski's arrest was seen by many as politically motivated, aimed at eliminating a political enemy and making an example of him to other Russian tycoons. Many observers also saw this episode as the denouement of a long power struggle between two Kremlin factions: a business-oriented group of former Yeltsin loyalists and a group of Putin loyalists drawn mainly from the security services and Putin's home town of St. Petersburg. In May 2005, Khodorkovski was found guilty on multiple criminal charges of tax evasion and fraud and sentenced to eight years in prison. A new trial on charges of embezzlement, theft, and money-laundering could extend his imprisonment.²

Yukos was broken up and its principal assets sold off to satisfy tax debts allegedly totaling \$28 billion. The main oil production subsidiary of Yukos soon ended up as part of Rosneft, a wholly state-owned Russian oil company. The deputy head of the Presidential Administration, Igor Sechin, became the Chairman of Rosneft's Board of Directors. Since then, the government has re-nationalized or otherwise brought under its control a number of other large enterprises that it views as "strategic assets." These include ship, aircraft, and auto manufacturing, as well as other raw material extraction activities. At the same time, the Kremlin has installed senior officials to head these enterprises. This phenomenon of political elites taking the helm of many of Russia's leading economic enterprises has led some observers to conclude that "those who rule Russia, own Russia."

In September 2004, a terrorist attack on a primary school in the town of Beslan, North Ossetia, resulted in hundreds of civilian casualties. President Putin seized the opportunity provided by the crisis to propose a number of political changes he claimed were essential to quash terrorism. He also asserted that Western interests aimed at dismembering Russia had supported the terrorists. In actuality, the changes—which were rubber-stamped by the legislature—marked the consolidation of his centralized control over the political system and the vitiating of the fragile democratic reforms of the 1980s and 1990s, according to many observers. The changes included abolishing the popular elections of regional governors (replacing such elections with the appointment of presidential nominees that are confirmed by regional legislatures) and mandating 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 measure made regional governors wholly dependent on, and subservient to, the president. The second measure eliminated independent deputies, further strengthening the pro-presidential parties that already controlled an absolute majority in the Duma. In early 2006, President Putin signed a new law regulating non-government organizations (NGOs), which Kremlin critics charged has given the government leverage to shut down NGOs that it views as politically troublesome (see also below, "Human Rights Developments").

² S.Res. 189, introduced by Senator Roger Wicker on June 18, 2009, and a similar bill, H.Res. 588, introduced by Representative James McGovern on June 26, 2009, express the sense of the chamber that the prosecution of Khodorkovski is politically-motivated, calls for the new charges against him to be dropped, and urges that he be paroled as a sign that Russia is moving toward upholding democratic principles and human rights. President Obama has raised concerns about a new trial for Khodorkovski. The White House. Office Of The Press Secretary. *Transcript of President Obama's Interview with Novaya Gazeta*, July 6, 2009. In late 2009, the European Court of Human Rights will hold hearings on a complaint by Khodokovski that the Russian government subjected him to inhumane and degrading treatment, unlawful and politically motivated arrest and detention, and judicial persecution. In late July 2009, Russia's former Prime Minister Mikhail Kasyanov submitted a brief to the court in support of Khodorkovski's complaint.

The Kremlin decided to make the December 2, 2007, State Duma election a referendum on Putin and his style of government. Despite Putin's apparent genuine popularity, his backers used myriad official and unofficial levers of power and influence to ensure an overwhelming victory for United Russia, the main Kremlin party. Putin's October 2007 announcement that he would run for a Duma seat at the head of the United Russia ticket made the outcome doubly sure. The state-controlled media heavily favored United Russia and potentially popular opposition candidates were bought off, intimidated, or barred from running. Russian authorities effectively prevented the Organization for Security and Cooperation in Europe (OSCE) from sending an observer team by delaying the issuance of visas until the last minute, thus blocking normal monitoring of the election campaign.

United Russia won 64.3% of the popular vote and 315 of the 450 seats—more than the two-thirds majority required to amend the constitution. Two other pro-Putin political parties won 78 seats, giving the Kremlin the potential support of 393 of the 450 Duma members. The only opposition party in the Duma is the Communist Party, which won 11.57% of the vote and 57 seats.³ Despite some allegations of ballot-box stuffing, voter intimidation, and other “irregularities,” there is little doubt that by dint of Putin's genuine popularity, an honest vote count would still have given United Russia a victory.

On December 10, barely a week after the Duma election, Putin announced that 42-year-old long-time Putin protégé Dmitry Medvedev was his choice for president. Medvedev announced that, if elected, he would ask Putin to serve as Prime Minister. This carefully choreographed arrangement presumably was meant to ensure political continuity for Putin and those around him. Like Putin and many of the Kremlin inner circle, Medvedev is a native of St. Petersburg. But unlike so many of the inner circle, he did not have a background in the security services. His academic training is as a lawyer.

The Putin regime manipulated election laws and regulations to block “inconvenient” candidates for the prospective March 2, 2008, presidential election from getting onto the ballot. In the end, the three candidates besides Medvedev included Vladimir Zhironovsky of the Liberal Democratic Party (a party that is neither liberal nor democratic), Gennady Zyuganov of the Communist Party, and Andrei Bogdanov of the tiny Democratic Party.⁴ Medvedev easily won the election, with 70% of the vote. Television news coverage was skewed overwhelmingly in Medvedev's favor. Like Putin before him, Medvedev refused to participate in public debates with his rivals. As with the Duma election, the OSCE refused to submit to restrictions demanded by Moscow and did not send electoral observers.⁵

There has been considerable uncertainty about the relationship between President Medvedev and Prime Minister Putin. The dual power arrangement between the two leaders has been viewed by some observers as inherently unstable, although so far it has appeared that the “tandem” has worked. Strains in their relationship may increase as Russia feels the effects of the global economic downturn and hard policy choices have to be made, some observers suggest. Possible succession scenarios include Medvedev stepping down after his first term as president or even

³ See CRS Report RS22770, *Russia's December 2007 Legislative Election: Outcome and Implications*, by Jim Nichol.

⁴ This party, seen by many as a Kremlin-backed pseudo-opposition group, won fewer than 90,000 votes nation-wide in the December 2007 Duma election.

⁵ RFE/RL, *Newsline*, February 5, 20, 2008.

resigning during his first term. In either case, Putin would be eligible to run, since he would not have served more than two *consecutive* terms.

Instability in the North Caucasus

Some observers have argued that Russia's efforts to suppress the separatist movement in its Chechnya region have been the most violent in Europe in recent years in terms of ongoing military and civilian casualties.⁶ In late 1999, Russia's then-Premier Putin ordered military, police, and security forces to enter the breakaway Chechnya region. By early 2000, these forces occupied most of the region. High levels of fighting continued for several more years and resulted in thousands of Russian and Chechen casualties and hundreds of thousands of displaced persons. In 2005, then-Chechen rebel leader Abdul-Khalim Saydullayev decreed the formation of a Caucasus Front against Russia among Islamic believers in the North Caucasus, in an attempt to widen Chechnya's conflict with Russia.

The high levels of conflict in Chechnya appeared to ebb markedly after mid-decade with the killing, capture, or surrender of leading Chechen insurgents. However, Russian security forces and pro-Moscow Chechen forces still contend with residual insurgency. Russia's pacification policy has involved setting up a pro-Moscow regional government and transferring more and more local security duties to this government. An important factor in Russia's seeming success in Chechnya has been reliance on pro-Moscow Chechen clans affiliated with regional president Ramzan Kadyrov. Police and paramilitary forces under his authority allegedly have committed flagrant abuses of human rights, including by holding the relatives of insurgents as hostages under threat of death until the insurgents surrendered.

In April 2009, the counter-terrorist operations regime in Chechnya (declared nearly 10 years ago and later extended to other areas of the North Caucasus) was lifted. President Medvedev argued that "the situation [in Chechnya] has to a substantial degree normalized, life there is becoming normal." Seeming to indicate that the formal lifting of the regime would not substantially alter the human rights situation, he specified that security agencies could still impose "if need be individual provisions of the counter-terrorist operation regime ... in Chechnya and the other republics in southern Russia."⁷ Reasons for Medvedev's decision might have included budgetary pressures associated with keeping sizable forces in Chechnya and Prime Minister Putin's support for force reductions, according to some observers. According to media reports, some of the remaining 50,000 troops and police deployed in Chechnya began to be withdrawn.

The Center for Strategic and International Studies, a U.S. think tank, has estimated that armed violence started to increase in the North Caucasus in early 2007 and was at an even higher level in 2009. It reports that there were 462 violent incidents and 440 deaths in the region in the summer of 2009 (May through August), compared to 265 incidents and 150 deaths for the same period in 2008.⁸ Among prominent recent incidents, Dagestani Internal Affairs Minister

⁶ For background information, see CRS Report RL32272, *Bringing Peace to Chechnya? Assessments and Implications*, by Jim Nichol.

⁷ President of Russia. *Beginning of Working Meeting with Director of the Federal Security Service Alexander Bortnikov*, March 27, 2009, at http://www.kremlin.ru/eng/speeches/2009/03/27/2210_type82913_214418.shtml.

⁸ Center for Strategic and International Studies, *Violence In The North Caucasus: Trends Since 2004*, 2008; *Violence in the North Caucasus: Summer 2009*, 2009. Violent incidents include "abductions of military personnel and civilians, bombings, assassinations of key civilian and military leaders, rebel attacks, police or military operations against (continued...)"

Adilgerey Magomedtagirov was killed on June 5, 2009, and the president of Ingushetia, Maj. Gen. Yunus-bek Yevkurov, was severely wounded by a bomb blast on June 22, 2009. Partly in response to Magomedtagirov's murder, President Medvedev flew to Dagestan and convened a session of the Russian Security Council to discuss regional counter-measures against terrorism. He stated that during the first half of the year, over 300 acts of terrorism had taken place in the North Caucasus (including over 100 bombings), that 75 police and other local government officials had been killed, that 48 civilians had died, and that 112 terrorists had been "eliminated." He appeared to claim that the level of violence was about the same in 2009 as in 2008. He admitted that the "problems in the North Caucasus ... are systemic. By saying that I am referring to the low living standards, high unemployment and massive, horrifyingly widespread corruption.... No doubt, the situation is partially influenced by certain outside factors such as extremism brought from abroad." In July 2009, prominent human rights advocate Natalia Estemirova was abducted in Chechnya and, after passing through police checkpoints, was found murdered in Ingushetia. In August 2009, Zarema Sadulayeva and Alik Dzhabrailov, who ran a child rehabilitation center in Chechnya, were murdered.

After a suicide truck bombing in Ingushetia killed 21 policemen and wounded 150 civilians in August 2009, President Medvedev fired the republic's Interior Minister. At a meeting of the Security Council in Stavropol, Medvedev admitted that "some time ago, I had an impression that the situation in the Caucasus had improved. Unfortunately, the latest events proved that this was not so." He reportedly ordered a purge of corrupt policemen throughout the North Caucasus, called for rotating policemen into and out of the North Caucasus to combat corruption and inefficiency, and urged legal and judicial changes that would reduce procedural rights and streamline the prosecution of "bandits." At a joint news conference with visiting German Chancellor Angela Merkel in Sochi, President Medvedev claimed that the murders of human rights workers and officials were carried out by enemies of Russia financed and supported from abroad (See also below, "Human Rights Developments.")⁹

Human Rights Developments

According to the State Department, there were numerous reports of government human rights problems and abuses during 2008. The Russian government restricted media freedom through direct ownership of media outlets, pressuring the owners of major media outlets to abstain from critical coverage, and harassing and intimidating journalists into practicing self-censorship. According to the Glasnost' Defense Foundation, a Russian NGO, 69 journalists were physically attacked and 5 journalists were killed in Russia in 2008, a few under circumstances that may have indicated government involvement. Local governments limited freedom of assembly, sometimes using violence, and restricted religious groups in some regions. There were incidents of societal discrimination, harassment, and violence against religious minorities, including anti-Semitism. The government's human rights record remained poor in the North Caucasus. In Chechnya,

(...continued)

suspected militants, destruction of property by militants, and the discovery of weapons." See also PACE. *Situation in the North Caucasus Region: Security and Human Rights, Second Information Report*, September 29, 2009.

⁹ President of the Russian Federation. *Russian president addresses Security Council meeting on Caucasus*, June 10, 2009, at <http://www.kremlin.ru>; CEDR, August 14, 2009, Doc. No. CEP-950185; and August 25, 2009, Doc. No. CEP-546006. See also CRS Report RL34613, *Stability in Russia's Chechnya and Other Regions of the North Caucasus: Recent Developments*, by Jim Nichol.

Ingushetia, and Dagestan, security forces continued allegedly to be involved in unlawful killings, torture, abductions, and other abuse, and to act often with impunity. One positive development was the decline in the disappearance of citizens in Ingushetia and Chechnya, which formerly was linked in many cases to extrajudicial killings by government security forces.¹⁰

The Russian government's accountability to its citizens lessened during 2008, because of increased presidential power, decreased legislative power, a non-independent judiciary, corruption, selective law enforcement, restrictions on media, and harassment of some NGOs. The government restricted the ability of opposition parties to participate in the political process. It also was hostile toward NGOs involved in human rights monitoring as well as those receiving foreign funding. A decree from Prime Minister Putin in June 2008 removed tax-exempt status from the majority of NGOs, including international NGOs, and imposed a potentially onerous annual registration process. Trafficking in persons continued to be a significant problem.¹¹

In late 2008, President Medvedev proposed a number of political changes that were subsequently enacted or otherwise put into place. Observers regarded some of the changes as progressive and others as regressive. These included extending presidential and State Duma terms, giving small political parties more rights (see below), requiring annual government reports to the State Duma, permitting regional authorities to dismiss mayors, reducing the number of signatures for a party to participate in elections, reducing the number of members necessary in order for parties to register, and abolishing the payment of a bond in lieu of signatures for participation in elections.

Developments of concern during 2009 include continuing physical attacks against human rights advocates and reporters, according to the NGO Human Rights Watch. In January 2009, human rights lawyer Stanislav Markelov and reporter Anastasiya Baburova were killed in Moscow just after leaving a press briefing where Markelov had criticized the early release of a former Russian officer in Chechnya who was convicted of murder. In late March 2009, human rights advocate Lev Ponomarev was beaten by unidentified assailants just after leaving a meeting on human rights with a representative of the Legislative Assembly of the Council of Europe. Aleksey Sokolov, an advocate of prisoners' rights, was arrested in Yekaterinburg in mid-May 2009 on theft charges that other prominent Russian human rights advocates viewed as politically motivated because of his recent reports on police torture.

Among other problems, de facto censorship has continued if not increased in 2009, according to some observers. They view President Medvedev's creation in April 2009 of a "Commission Under the Russian Federation President To Counter Attempts To Falsify History to the Detriment of the Interests of Russia" as an ominous sign of his intent to further control freedom of expression. In May 2009, Russian Constitutional Court Chairman Valeriy Zorkin warned that "today, laws on many cardinal issues have been adopted by the parliament in the backroom manner without discussion with the people," and that these laws threaten to turn constitutional law "into a fiction." Genri Reznik, president of the Moscow Bar Association, similarly argued in May 2009 that the presidential selection process for judges was a "mockery of justice," and that "the situation has become much worse in terms of judges' independence" from political pressure.¹² In a June 2009 journal article, prominent human rights advocate Lev Ponomarev alleged that there are "about 40" prison facilities in Russia where torture techniques are routinely

¹⁰ U.S. Department of State. *Country Reports on Human Rights Practices for 2008*, February 2009.

¹¹ *Country Reports on Human Rights Practices for 2008*.

¹² Open Source Center. *Central Eurasia: Daily Report* (hereafter *CEDR*), May 6, 2009, Doc. No. CEP-4003.

used, and termed them “concentration camps.”¹³ In August 2009, President Medvedev called for further limiting jury trials (he had signed a law at the end of 2008 limiting jury trials in terrorist or extremist cases) that involve “criminal communities,” which some legal experts and civil rights advocates criticized as an effort to further squelch unwanted acquittals by juries.

Possibly a positive development, in February 2009 Medvedev revived a moribund “Presidential Council to Promote the Development of Civil Society Institutions and Human Rights,” including by replacing several pro-government members with prominent oppositionists. He met with the Council in mid-April 2009, at which criticism of the human rights situation in Russia included that NGOs were being harmed by the 2006 NGO law. Medvedev admitted that NGOs “face difficulties” in their work and that “the law has been interpreted in such a way that many officials are now under the impression that all NGOs are enemies of the state.”¹⁴ In response to the criticism, in mid-May 2009 Medvedev established a Working Group on Nonprofit Organization Law to consider amendments to the NGO law. On June 17, 2009, Medvedev submitted amendments proposed by the Council for consideration by the legislature. Proposed changes include easing some reporting requirements and limiting the ability of bureaucrats to inspect NGO facilities. Restrictions on foreign-based NGOs are only slightly eased, however, as well as a decision made in mid-2008 to tax most foreign funding of NGOs. The amendments to the NGO law were passed by the legislature and signed into law on July 20, 2009. Some critics viewed the approved amendments as mainly cosmetic.¹⁵

Perhaps a sign of a future broadening of political accountability, the Federal Assembly approved a Medvedev proposal in April 2009 for political parties that get between 5%-7% of the vote in future Duma elections (presently, a party must get 7% or more of the vote to gain seats) to win one or two seats. Subsequently, Medvedev suggested that the 7% hurdle might be lowered. In June 2009, Medvedev met with unrepresented party leaders for discussions on how the government might improve the environment in which the parties operate, such as making media access more available. He also called for regional authorities to ensure that small parties are freely able to participate in local elections.

In early September 2009, President Medvedev authored an article that stated that democracy would be developed slowly so as not to imperil social stability and that civil society would not be created through “foreign grants.” He pointed to such changes as political party participation in the Duma (mentioned above) as marking progress in democratization, but also stated that “we have only just embarked” on creating a judicial system free of corruption that is capable of protecting citizens’ rights and freedoms.¹⁶ A few days later, Russian Duma Speaker Boris Gryzlov published an article that praised former President Putin’s abolition of popular gubernatorial elections for strengthening central government administration. He also asserted that the abolition of the elections did not harm democratization, and praised Medvedev’s proposal to “perfect” the process by having the winning political party propose gubernatorial candidates to the president. Like Medvedev, Gryzlov asserted that Russia would democratize at its own pace and in its own way, and criticized “certain states” that try to “impose their vision for the development of the political system on other countries.” Gryzlov stated that such countries should stop trying to impose a

¹³ CEDR, June 12, 2009, Doc. No. CEP-21002.

¹⁴ CEDR, April 17, 2009, Doc. No. CEP-950334.

¹⁵ Michael Allen, “Obama Trip Prompts Token NGO Reform, but Kremlin Incapable of Real Change,” *Democracy Digest*, July 6, 2009.

¹⁶ CEDR, September 10, 2009, Doc. No. CEP-378001.

sphere of influence over Russia and should focus on “real threats such as international terrorism, international drugs trafficking, and crisis phenomena in the world economy.”¹⁷

Defense Reforms

Despite the sizeable reduction in the size of the armed forces since the Soviet period—from 4.3 million troops in 1986 to 1.2 million at present—the Russian military remains formidable in some respects and is by far the largest in the region. Because of the deteriorating capabilities 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 Russian armed forces about priorities between conventional versus strategic forces and among operations, readiness, and procurement. Russia is trying to increase security cooperation with the other Soviet successor states that belong to the Commonwealth of Independent States (CIS).¹⁸ Russia has military facilities 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. Resisting this, Georgia, Ukraine, Moldova, and Azerbaijan have shifted their security policies toward a more western, pro-NATO orientation. Many observers warn, however, that the August 2008 Russia-Georgia conflict demonstrated that in certain circumstances, Moscow will use military force to reinforce the “lesson” that small countries adjacent to Russia may disregard Moscow’s interests and warnings only at their peril.

The improvement of Russia’s economy since 1999, fueled in large part by the cash inflow from sharply rising world oil and gas prices, enabled Russia to reverse the budgetary starvation of the military during the 1990s. Defense spending has increased substantially in each of the past few years. The 2009 proposed defense budget was 1.279 billion rubles (\$38.8 billion), a 25% increase from the previous year. If one adds the funds planned for security, border, and defense-related law-enforcement activities; the emergencies ministry; and military pensions to the total defense budget, spending on defense reaches around 1.9 billion rubles (\$57.6 billion).¹⁹ Even factoring in purchasing power parity, Russian defense spending still lags far behind current U.S. or former Soviet levels. The efficacy of the larger defense budgets is reduced by systemic corruption. But Russia is beginning to resume serial production of major weapons systems, albeit at rates very far below Soviet Cold War levels. Some high-profile military activities have been resumed, such as large-scale multi-national military exercises, show-the-flag naval deployments to the Mediterranean and the Atlantic, and strategic long-range bomber patrols that approach U.S. and NATO airspace.

In February 2007, then-President Putin appointed Anatoly Serdyukov as defense minister. With a career outside the military establishment, many observers suggest that Serdyukov was chosen to carry out the painful restructuring of the armed forces. In October 2008, Serdyukov announced that planned cuts in the officer corps would be accelerated, so that the 355,000-strong officer corps would be reduced to 150,000 within three years. The non-commissioned officers’ ranks of warrant officer and midshipman in the Russian Army and Navy would be abolished, and the bulk of these 140,000 NCOs would retire. He called for reducing the number of personnel at the Defense Ministry and General Staff, slashing the number of higher military schools, disbanding

¹⁷ *CEDR*, September 14, 2009, Doc. No. CEP-23005.

¹⁸ Members include Armenia, Azerbaijan, Belarus, Moldova, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Georgia withdrew following the August 2008 Russia-Georgia conflict.

¹⁹ “Russia,” *The Military Balance*, February 1, 2009, p. 215.

most of the combined arms divisions, and setting up over 80 service branch brigades (as in the U.S. military). He also endorsed further revamping of the four-tier troop control system of military districts, armies, divisions, and regiments into a three-tier system of military districts, tactical commands, and brigades. The total size of the armed forces would be reduced from 1.2 million to under 1 million. At the same time, a major rearmament effort would be accelerated.

During 2009, it has appeared that the defense reform effort has faltered—perhaps at least in part because of decreasing state revenues due to falling energy prices—at providing for military pensions, retraining for civilian occupations, transitioning to a volunteer military, housing, and rearmament efforts. The total size of the armed forces was planned to be reduced to under 1 million troops by 2012, but Russia’s economic problems caused President Medvedev to decree a revised deadline of 2016. Reportedly, officers of some units launched demonstrations against the reforms, including a rally in Vladivostok in April 2009 by about 300 military officers and retirees.²⁰

At the July 2009 U.S.-Russia Summit, the two sides agreed to the resumption of military-to-military activities, which had been suspended since the August 2008 Russia-Georgia conflict. The two sides agreed in their work plan to conduct nearly 20 exchanges and operational events before the end of 2009, and to plan a more ambitious work plan for 2010. The two sides also agreed to renew the activities of the Joint Commission on POW/MIAs and the four working groups that seek to account for personnel from World War II, the Korean War, the Vietnam War, and the Cold War, including Soviet military personnel unaccounted for in Afghanistan. The Commission’s work had been disrupted since 2004, when Russia downgraded the status of its representatives and failed to appoint a co-chair in the face of cooling U.S.-Russia relations.²¹

Trade, Economic, and Energy Issues

Russia and the Global Economic Crisis²²

As is the case with most of the world’s economies, the Russian economy has been hit hard by the global financial crisis and resulting recession that became readily apparent in the last quarter of 2008. Even before the financial crisis, Russia was showing signs of economic problems when world oil prices plummeted sharply around the middle of 2008, diminishing a critical source of Russian export revenues and government funding.

The financial crisis brought an abrupt end to about a decade of impressive Russian economic growth that helped to raise the Russian standard of living and brought economic stability that Russia had not experienced for more than two decades. Russia had experienced strong economic growth over the past 10 years (1999-2008), during which time its GDP *increased* 6.9% on

²⁰ “Moscow Reconsidering Military Reform Plans,” *RIA Novosti*, January 5, 2009; Roger McDermott, “Russian Military Reform Delayed by Financial Crisis,” *Eurasia Daily Monitor*, January 28, 2009; Lt. Col. Erik Rundquist, *Russian Federation Armed Forces*, The ISCIP Analyst, April 30, 2009.

²¹ U.S. Department of Defense. *U.S.-Russia Joint Commission on POW/MIAs*, at <http://www.dtic.mil/dpmo/sovietunion/jcsd.htm>; Bill Gertz, “Inside the Ring,” *Washington Times*, July 9, 2009.

²² Prepared by William H. Cooper, Specialist in International Trade and Finance.

average per year in contrast to an average annual *decline* in GDP of 6.8% during the previous seven years (1992-1998).

In 2008, however, Russia faced a triple threat with the financial crisis coinciding with a rapid decline in the price of oil and the costs of the country's military confrontation with Georgia. These events exposed three fundamental weaknesses in the Russian economy: substantial dependence on oil and gas sales for export revenues and government revenues, a rise in foreign and domestic investor concerns, and a weak banking system. The economic downturn is showing up in Russia's performance indicators. Although Russia's real GDP increased 5.6% in 2008 as a whole, it increased more slowly than it did in 2007 (8.1%) and grew only 1.2% in the last quarter of 2008.²³ Among various estimates, the International Monetary Fund (IMF) projects that Russia's real GDP will *decline* over 6% in 2009,²⁴ while INS Global Insight, a private economic forecasting firm, projects a decline of 4.7%.²⁵

The decline in world oil prices has hit Russia hard and has been a major factor in the overall decline in Russia's economy. Oil, natural gas, and other fuels account for about 65% of Russia's export revenues. In addition, the Russian government is dependent on taxes on oil and gas sales for more than half of its revenues. As of July 10, 2009, the price of a barrel of Urals-32 (the Russian benchmark price) oil was \$61.53, a 55.3% drop from its July 4, 2008, peak of \$137.61. Russian government revenues are expected to be adversely affected because of the drop in oil revenues, but also because of the decline in income tax revenues, which will cause the Russian government to incur a budget deficit for the first time in 10 years.²⁶

The ruble has been declining in nominal terms because foreign investors have been pulling capital out of the market to shore up their domestic reserves, putting downward pressure on the ruble. The ruble had declined as much as 45.6% between July 29, 2008 and April 21, 2009; it has recovered somewhat, but remains below its peak value. Russian official reserves have declined substantially in part because the Russian Central Bank has intervened to defend the ruble. Russian foreign currency reserves declined from \$597 billion at the end of July 2008 to \$368 billion at the end of April 2009, for a decline of 38.4%.²⁷

Russia's Accession to the World Trade Organization (WTO) and PNTR for Russia

Russia first applied to join the General Agreement on Tariffs and Trade (GATT—now the World Trade Organization [WTO]) in 1993. For many years, Russia's accession process seemed to move slowly, but in the last few years, Russia had accomplished some critical steps, including the completion of bilateral agreements with the European Union (EU), the United States, and most of the other WTO members that sought such agreements. At the beginning of 2009, Russia was in the process of completing negotiations with a WTO working party (WP), which includes representatives from about 60 WTO members, including the United States and the EU. Throughout this process, WP members have raised concerns about Russia's intellectual property

²³ INS Global Insight. June 3, 2009.

²⁴ IMF. Statement of IMF Mission to the Russian Federation. June 1, 2009.

²⁵ INS Global Insight. June 3, 2009.

²⁶ *Moscow Times*. March 11, 2009.

²⁷ Economist Intelligence Unit. June 8, 2009.

rights enforcement policies and practices, sanitary and phytosanitary (SPS) regulations that may be unnecessarily blocking imports of agricultural products, and Russia's demand for large subsidies for its agricultural sector, among other issues. The United States has raised objections to Russia's imposition of restrictions on imports of some U.S. pork products in response to the outbreak of swine flu.

However, in what has been largely considered a stunning announcement, Prime Minister Putin stated on June 9, 2009, that Russia would be abandoning its application to join the WTO as a single entity, and instead would seek to join as a member of a yet-to-be-formed customs union with Belarus and Kazakhstan. It is not clear at this time why Russia's leaders decided to change substantially the country's application status. Belarus and Kazakhstan have also applied to join the WTO, but neither country was as far along as Russia was in the process. At the least, the change could further delay Russia's accession to the WTO. It is also unclear whether the three countries would be allowed to join as one entity. Russian leaders have still maintained that they will proceed with acceding to the WTO and that the United States should support their application.

The WTO requires that each member grant to all other members "unconditional" most-favored-nation (MFN), or permanent normal trade relations status (PNTR). Not granting PNTR usually requires a WTO member to invoke, upon accession of a new member, a provision of the WTO that makes WTO rules inapplicable in their bilateral trade relationship.

NTR is used to denote nondiscriminatory treatment of a trading partner compared to that of other countries. Russia's NTR status is governed by Title IV of the Trade Act of 1974, which includes the so-called Jackson-Vanik amendment (section 402). Under Title IV, Russia currently receives NTR on the condition that the President continues to determine that Russia complies with freedom-of-emigration criteria under section 402 subject to a semiannual review and to a congressional resolution of disapproval. In order for Russia to receive unconditional or "permanent" NTR (PNTR), Congress would have to pass and the President would have to sign legislation indicating that Title IV no longer applies to Russia. To date, no such legislation has been introduced in the 111th Congress. Russian leaders consider the absence of PNTR an affront and Jackson-Vanik a relic of the Cold War that should no longer apply to U.S.-Russian trade relations, especially since such still ostensibly communist countries as China and Vietnam have PNTR.

Intellectual Property Rights (IPR) Enforcement in Russia

The apparent lack of adequate intellectual property rights protection in Russia has tainted the business climate in Russia for U.S. investors for some time. The Office of the United States Trade Representative (USTR) consistently identifies Russia in its Special 301 Report as a "priority watch list" country, as it did in its latest April 30, 2009, report. This report cites industry estimates that online piracy and other copyright infringements cost U.S. intellectual property owners more than \$2.8 billion in losses in 2008. While the USTR report acknowledges some improvement in IPR protection, it also finds that implementation of laws has been slow and enforcement weak. In particular, the report cites the failure of Russia to fulfill its commitments to improve IPR

protection made as part of the 2006 bilateral agreement that was reached as part of Russia's WTO accession process.²⁸

Russian Energy Policy²⁹

Russian oil and natural gas industries are important players in the global energy market, particularly in Europe and Eurasia. Russia has by far the largest natural gas reserves in the world, possessing over 30% of the world's total. It has been the second largest oil producer and is eighth in the world in reserves, with at least 10% of the global total. Another key trend has been the concentration of these industries in the hands of the Russian government. The personal and political fortunes of Russia's leaders are tied to the energy firms, as Russia's economic revival in the Putin/Medvedev era has been due in large part to the massive revenues generated by energy exports, mainly to Europe.

Some Members of Congress, U.S. officials, and European leaders (particularly those in central and eastern Europe) have pointed to a potential long-term threat to transatlantic relations arising from European dependence on Russian energy and Russia's growing influence in large segments of Europe's energy infrastructure. Analysts have noted that Russia itself views its natural resources as a political tool. Russia's "National Security Strategy to 2020," released in May 2009, states that "the resource potential of Russia" is one of the factors that has "expanded the possibilities of the Russian Federation to strengthen its influence on the world arena."³⁰

Concerns about Russian energy policy have centered largely on Russia's natural gas supplies to Europe. In early January 2009, the state-controlled Russian natural gas firm Gazprom halted all gas supplies transiting Ukraine after the two sides failed to reach agreement on several issues, including a debt allegedly owed by Ukraine to Gazprom and the price that Ukraine would pay for gas supplies for 2009. About 80% of Europe's natural gas imports from Russia transit Ukrainian pipelines. An increasingly angry EU threatened to reevaluate its whole relationship with the two countries unless the impasse was resolved. Finally, on January 18, Russia and Ukraine reached an agreement, and gas supplies to Europe resumed on January 20. A similar gas cut off to Europe occurred at the beginning of 2006.

Concerns about the reliability of gas supplies and transit have caused Russia and some European countries to propose new pipeline projects. Gazprom has started work on the North European Gas Pipeline (NEGP, often referred to as Nord Stream), which would transport natural gas from Russia to Germany via a pipeline under the Baltic Sea starting in 2012, bypassing pipelines running through the states of central and eastern Europe. Nord Stream will have a planned capacity of 55 billion cubic meters (bcm) per year, as compared to the Ukrainian pipeline system's 120 bcm per year. However, Russian officials have expressed frustration with delays in the Nord Stream project caused by objections from Sweden and other Baltic countries due to environmental concerns.

Another pipeline project favored by Moscow is South Stream. In November 2007, Gazprom and the Italian firm ENI signed an agreement to build South Stream, which would run from Russia

²⁸ Office of the United States Trade Representative. *Special 301 Report*. April 30, 2009. p. 16.

²⁹ Prepared by Steven Woehrel, Specialist in European Affairs.

³⁰ The text of the National Security Strategy can be found at the website of the Russian National Security Council at <http://www.scrf.gov.ru/documents/99.html>

under the Black Sea to Bulgaria, then through the Balkans, with branches to Austria, Italy, and Greece. Serbia and Hungary have also signed on to the project. Russia hopes to complete South Stream in 2015. Like Nord Stream, South Stream would bypass Belarus, Ukraine, Poland, and other central European countries. In May 2009, Russia and Italy announced that the pipeline would have a capacity of 63 bcm per year.

Those concerned about the possible consequences of overdependence on Russia for energy have called for the building of pipelines circumventing Russian territory that would transport non-Russian gas supplies to Europe. In May 2009, the EU held a summit in Prague with leading transit and supplier nations in Transcaucasia and Central Asia. The summit agreed to expedite the creation of the Nabucco pipeline, which could have a capacity of 31 bcm per year. It would get its supplies from Azerbaijan and perhaps Turkmenistan through pipelines in Georgia and Turkey. Nabucco received a further boost on July 13, 2009, when Austria, Hungary, Romania, Bulgaria, and Turkey signed an intergovernmental agreement on the project. It is hoped that work on the pipeline could begin in 2011, with the first gas supplies available by 2014 and full capacity reached in 2019.

While denying that Nabucco and South Stream are conflicting projects, Russian officials have cast doubt on Nabucco's prospects, claiming that the gas supplies for such a pipeline may be difficult to find. Russia has attempted to buy up gas supplies in Azerbaijan and Turkmenistan, in what some analysts view as an attempt to undermine Nabucco. In order to build political support for South Stream, Russia has tried to entice a large number of countries to participate in the project as investors or as transit countries or both. For example, in what may have been a reaction to Turkey's signature of the July 2009 intergovernmental agreement on Nabucco, Prime Minister Putin agreed with Turkish leaders in August 2009 to route South Stream through Turkish territorial waters.

In addition to possible competition from Europe for Central Asian energy supplies, Russia also faces a challenge from China. A pipeline from Turkmenistan to China will open later in 2009, delivering 30 bcm of gas per year. China is also helping develop South Yoloten, one of Turkmenistan's biggest gas fields.

Prime Minister Putin sharply criticized as "ill-considered and unprofessional" a March 23, 2009, agreement between the EU and Ukraine that would provide EU assistance to help modernize Ukraine's gas pipeline system in exchange for greater transparency by Ukraine in how the system is run. Additional funding for the project is expected to come from the World Bank, European Investment Bank, and the European Bank for Reconstruction and Development. Russian officials said that any agreement about Ukraine's pipelines should include Russia. Russia has long sought a controlling stake in Ukraine's pipeline system. In the wake of the Ukraine-EU deal, Russian and Gazprom officials have threatened to expand development of liquefied natural gas facilities that could divert more Russian gas away from European consumers. Russia may hope that it can secure control of the Ukrainian pipeline system if a pro-Russian candidate is elected at president of Ukraine in elections scheduled for January 2010. In any case, North Stream and South Stream and the threat of rerouting a substantial portion of Russian gas away from Ukraine could serve as a powerful political and economic weapon for Moscow against Ukraine.

Like the Bush Administration, the Obama Administration has promoted the diversification of natural gas supplies and pipelines to Europe, including the building of pipelines from Central Asia and the Caspian region that bypass Russia, chief among them Nabucco. However, the Obama Administration has been less critical of Nord Stream and South Stream than the previous

Administration Part of the change in tone may be due to an effort to “reset” ties with Russia that were frayed during the Bush years. Ambassador Richard Morningstar, the State Department Special Envoy for Eurasian Energy, has denied that the United States and Russia are involved in a “great game”—that is, a geopolitical struggle—for Central Asian energy supplies. He has said that the United States should at least try to work with Russia on the issue. Morningstar has said that the United States does not oppose Nord Stream and South Stream; that the United States does not see Nabucco as being in competition with South Stream; and that it was possible that Russia could provide gas for Nabucco.³¹

Foreign Policy

Russia and the West

Soon after the collapse of the Soviet Union and the turmoil associated with the Yeltsin period, a consensus began to emerge in Moscow on reestablishing Russia’s global prestige and dominance in “the former Soviet space.” As the Putin era began, Russia’s foreign policy seemed to focus on three priorities: to once again be respected as a “great power”; supporting continued economic growth through the energy sector; and effectively demonstrating Russia’s ability through economic and diplomatic power to pursue its highest policy priorities. The pursuit of these goals by then-President Putin and his closest policy advisors seemed to be driven by the belief that the West, and in particular the United States, took advantage of Russia’s political turmoil and overall weakness during the Yeltsin years. Putin and his advisors were determined to restore what they believed to be Russia’s rightful place as a significant influence on the world stage.

Fueled in part by the massive inflow of petro-dollars, Moscow’s self-confidence grew over the several years prior to the late 2008 global economic downturn, and its actions became less restrained. Against a background of growing East-West tensions, officials and observers in Europe and the United States expressed growing concerns about what was perceived as the increasingly authoritarian character of the Russian government, Moscow’s new-found foreign policy assertiveness, and its quest for influence in the Russian “near abroad.” This was evident in recent years in Russia’s recent sharp political struggles with Estonia and Ukraine, its opposition to a planned U.S. missile defense system in Eastern Europe, the suspension of compliance with the Conventional Armed Forces in Europe Treaty, and its strong opposition to NATO membership for Ukraine and Georgia.

According to analyst Dmitriy Trenin, then-President Putin became greatly alarmed following the “rose revolution” in Ukraine in 2004-2005 and the “tulip revolution” in Kyrgyzstan later in 2005, and his attitude toward the United States hardened. Putin viewed these popular revolts as “part of a U.S.-conceived and led conspiracy. At minimum, these activities ... aimed at drastically reducing Russia’s influence in its neighborhood, and expanding the United States’. At worst, they constituted a dress rehearsal for ... installing a pro-U.S. liberal puppet regime in the Kremlin.”³² In February 2007, at the 43rd annual Munich Security Conference, President Putin delivered a

³¹ Morningstar’s testimony before the Senate Foreign Relations Committee hearing “\$150 Oil: Instability, Terrorism, and Economic Disruption, July 16, 2009; State Department Foreign Press Center Briefing, June 23, 2009.

³² Dmitriy Trenin, “Russia’s Spheres of Interest, not Influence,” *The Washington Quarterly*, October 2009.

particularly harsh speech attacking Bush Administration policies and condemning the “unipolar” world he alleged the United States was creating.³³

In contrast to Putin, President Medvedev has been considered by some observers to be more liberal and a potentially pragmatic leader who could potentially shift Russia’s attitudes more positively toward the United States and the West. However, during Medvedev’s initial period in office, Russia’s relations with the west continued to grow increasingly tense. In September 2008, at the annual meeting of the Valdai Discussion Club, which brings together Russian experts from around the world with Russia’s leaders, Medvedev articulated a set of guiding principles for Russian foreign policy, including a claim that “Russia, just like other countries, has regions where it has its privileged interests.” Asked if he was referring to neighboring countries, Medvedev replied, “Certainly the regions bordering [on Russia], but not only them.”³⁴ Russia under Medvedev continued to voice strong opposition to NATO enlargement to Georgia and Ukraine; refused to recognize Kosovo’s independence; opposed missile defenses in Europe and threatened to deploy Russian missiles in Kaliningrad; cut off energy supplies in a dispute with Ukraine; boosted ties with Cuba and Venezuela; and influenced the use of airbases in Central Asia by the United States and NATO. In the aftermath of its August 2008 conflict with Georgia, relations between Russia and the West reached what many considered to be the lowest point in relations since the end of the Cold War.

Russia’s apparent obsession with restoring its global prestige and being viewed as a powerful nation with great influence on the world stage has worried many in Europe and may clash with the Obama Administration’s efforts to defuse tensions and set a new course for relations between Russia and the west through cooperation on a very practical level.

NATO-Russia Relations³⁵

Russia’s overall cooperation with NATO on issues such as the mission in Afghanistan, the implementation of the Conventional Forces in Europe Treaty (CFE), missile defense, enlargement, and even cyber and energy security is of critical importance to the Alliance.

The principal mechanism for NATO’s ongoing relations with Russia is the NATO-Russia Council (NRC), founded in May 2002. Recognizing that both NATO and Russia faced many of the same global challenges and shared similar strategic priorities, Russian and NATO leaders structured the NRC as a “consensus” forum of equals with a goal of “political dialogue, common approaches, and joint operations.”

While the NRC has recorded some achievements since its inception, Russia, according to many, has never really shed its suspicion of NATO since the end of the Cold War, continues to view NATO as a potential threat, and has become increasingly concerned about NATO’s intentions. In particular, the enlargement of NATO in 2004—to include six former Eastern bloc nations—heightened Russian concerns by bringing the Alliance up to Russia’s borders. The subsequent decision by the United States to establish, albeit non-permanent, military facilities in Bulgaria and Romania and the establishment of a large U.S./NATO military base in Central Asia to support the

³³ The full text of Vladimir Putin’s speech at the 43rd Munich Conference on Security Policy, February 10, 2007 can be found at <http://www.securityconference.de>.

³⁴ Dmitriy Medvedev, “We Did Everything Right, and I’m Proud of It,” *Russia Today*, September 13, 2008.

³⁵ Prepared by Vincent Morelli, Section Research Manager.

war in Afghanistan, were viewed by some in Moscow as an encirclement of Russia by NATO and the United States. The reluctance of NATO to establish relations with the Russian-led Collective Security Treaty Organization (CSTO, formed in 2002 with Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan) has led Moscow to fear that NATO will not recognize a Russian “zone of influence” along its border and intends to strengthen its own influence in the Caucasus and Central Asia. In addition, Moscow has been critical of those who have suggested a more formal role for NATO in the debate over European energy security.

For its part, recent actions taken by Moscow have caused uncertainty and unease within NATO that has resulted in a division among the Allies on Russia’s intentions. In 2007 Russia suspended its compliance with the CFE Treaty, signed in 1990 by 22 members of NATO and the Warsaw Pact to limit non-nuclear forces in Europe. The CFE agreement was designed to limit troop and equipment levels; provide for the exchange of data on equipment and training maneuvers; provide procedures for the destruction of equipment; and permit on-site inspections to verify treaty compliance. Moscow claimed that NATO countries were taking too long to begin the ratification of the CFE Treaty. NATO claims that Russia has failed to live up to its agreed “Istanbul Commitments” to remove its military forces from Georgia and Moldova.

NATO’s (and the United States’) relations with Russia marked a new low in 2008. Following Russia’s decision to suspend compliance with the CFE Treaty and the January 2008 shut off of gas to Ukraine, then-President Putin, at the NATO Bucharest summit in April 2008, strongly warned NATO against offering Membership Action Plans (MAPs) to Georgia and Ukraine. Although NATO, after serious internal debate, deferred the decision to extend MAPs at the summit, Moscow still appeared to be disappointed with NATO’s concluding statement that both Georgia and Ukraine would eventually become members of the Alliance.

Also, at the summit Putin warned against the deployment of a U.S. missile defense system in Poland and the Czech Republic, and intimated that this decision could make those two countries targets of Russia’s nuclear arsenal. Later in the year, new Russian President Medvedev threatened to place short-range missiles in Kaliningrad as a counter to the U.S. missile defense system—a threat he seemed to have reiterated after his July meeting with President Obama. At the same time, Russia introduced the concept of a new “European security structure” for Europe that in their view would serve to ease tensions and restore positive relations with the West but which was seen by many as a prelude to the end of NATO.

Finally, the August 2008 war between Russia and Georgia caused much concern throughout Europe and opened a serious debate within NATO over how to react to Russia’s action. The swift invasion of Georgia by Russian troops, and the subsequent actions taken by Russia toward Georgia caused NATO-Russia Council meetings to be placed on hold and initiated an entirely new debate among the Allies over the implications for Europe of what many termed Russia’s new, more aggressive and assertive foreign policy intended to carve out a Russian “sphere of influence” along its border with Europe. The debate also led some Allies to call for a complete review of NATO’s mission and a return to an Alliance that emphasizes and prepares for the territorial defense of Europe.

Up until the Russia-Georgia conflict, the NRC met regularly at the Ambassador level and twice yearly at the foreign and defense minister level. During the remainder of 2008 and the beginning of 2009, NATO’s relations with Russia were generally limited to low-level technical discussions.

Soon after the Obama Administration's early public statements that the United States intended to "re-set" relations with Moscow, NATO leaders, despite strong dissenting views among several Allies, agreed at their April 2009 summit in France to re-start the NATO-Russia Council "as soon as possible." On April 29, 2009, the NATO-Russia Council resumed its normal meetings at the ambassadorial level. On June 18, 2009 the NATO-Russia Council met in Ankara, Turkey to review and reinforce a joint program for training Afghan and Central Asian personnel in counter-narcotics. On June 27, the first meeting of the NATO-Russia Council at the foreign minister's level took place on Corfu, Greece where both sides agreed that the NATO-Russia Council represented the best approach for promoting Euro-Atlantic security. The ministers also agreed to restart military cooperation within the NATO-Russia Council as well.

President Obama's July summit meeting with President Medvedev and Prime Minister Putin was seen as setting a new tone in the bi-lateral relationship that many hoped would spill over to the NATO-Russia relationship. At the time, no new ground had been on missile defense, the CFE Treaty, Georgia or Ukraine. However, one positive note came with respect to Afghanistan, when Russia agreed to allow the resupply of the U.S./NATO mission to travel over Russian land territory and through its airspace. Russia also agreed to consider providing training for Afghan police forces and to provide financial assistance for reconstruction projects in Afghanistan. Russian helicopters, operated by civilian crews, had already begun providing transport in Afghanistan.

Shortly after assuming the role as the new Secretary General of the Alliance in August 2009, Anders Fogh Rasmussen indicated that he would make improvement in relations between NATO and Russia one of his top priorities. In his first major public speech in September, entitled: "NATO and Russia: A New Beginning,"³⁶ given just one day after President Obama's decision not to deploy a missile defense system in Europe, Secretary General Rasmussen presented his concept of a partnership with Russia that envisioned practical cooperation, joint review of security challenges, and the rejuvenation of the NATO-Russia Council, and stated that "NATO-Russia cooperation is not a matter of choice—it is a matter of necessity." Dmitry Rogozin, Russia's ambassador to NATO apparently welcomed the Secretary General's remarks as "very positive, very constructive".³⁷

On September 24, during the Fall session of the United Nations General Assembly, Secretary General Rasmussen continued his outreach to Russia, meeting with Russian Foreign Minister Lavrov. During their meeting, both sides expressed the desire to strengthen NATO-Russia cooperation in areas such as fighting terrorism, anti-piracy operations, and Afghanistan. While acknowledging that differences over some issues will remain, they both felt the relationship should continue to move forward on a positive basis. Minister Lavrov then invited Rasmussen to visit Russian President Medvedev in Moscow before the end of the year. Inviting the NATO Secretary General to Moscow was seen by some as a sign that Russia did want to explore how to lower existing tensions between Russia and NATO.

As Russia's relations with NATO appear to be slowly returning to normal, there continues to be concern among some NATO allies that Russia has not changed its fundamental view of NATO as a lingering threat and that the unresolved issues of Georgia's territorial integrity, NATO

³⁶ "NATO and Russia: A New Beginning." Speech by NATO Secretary General Anders Fogh Rasmussen at the Carnegie Endowment, Brussels, September 18, 2009.

³⁷ "NATO chief reaches out to Russia," *BBC News*, September 18, 2009.

membership for Georgia and Ukraine, the unratified CFE treaty, and a possible new debate to begin over a NATO-sponsored missile defense system that would substitute for the abandoned U.S. missile defense plan, will continue to plague NATO-Russia relations. And, while not NATO-specific, a recent “open letter” to President Obama from several former leaders of Eastern European (and NATO) countries expressed the hope that the United States, in its determination to improve relations with Moscow, will not abandon a large portion of Europe to Russian influence and political pressure, suggests that NATO, despite the new Secretary General’s goal of improving relations with Russia, remains divided over how to deal with Moscow.

Russia and the European Union

Russia’s May 2009 National Security Strategy calls for strengthening cooperation with the EU in the economic, foreign and domestic security, educational, scientific, and cultural spheres, and states that the negotiation of a Euro-Atlantic collective security treaty “meets Russia’s long-term national interests.”³⁸

Russia is the EU’s third biggest trade partner. Trade turnover in 2008 was approximately 278 billion euros. Russian oil and gas constitute a large part of the EU’s imports from Russia, although other aspects of EU-Russian trade have declined during the current global economic downturn.

In the wake of the August 2008 Russia-Georgia conflict, the European Parliament (EP) reacted sharply and approved a resolution on September 3 that—while not imposing sanctions on Russia—did provide that consultations on a new Partnership and Cooperation Agreement (PCA; to replace an expired PCA) would be postponed until Russia immediately and completely withdrew its troops from Georgia. Talks on a new PCA were resumed after the EU-Russia Summit in November 2008. EU relations with Russia were further roiled in January 2009, with Russia’s cut off of gas shipments transiting Ukraine, which affected many countries in Eastern Europe. The EU was active in both cases in mediating the conflicts.³⁹

A May 2009 EU-Russia summit appeared to reflect continuing contention between the EU and Russia on several issues. President Medvedev objected to the EU’s launch of an “Eastern Partnership” of enhanced trade, aid, and other relations with Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine, raising concerns that it might become a “partnership against Russia.” He also demanded that talks begin on a new energy charter to replace an existing European treaty that Russia rejects as requiring Russian pipelines and other energy infrastructure to be open to foreign commercial investment and use. Russia has moved to further limit foreign investment in the automotive, energy, finance, and telecommunications sectors.

Russian President Dmitriy Medvedev has called for opening trans-Atlantic talks on a new European security architecture, which he views as augmenting (if not replacing) the NATO-Russia Council, the OSCE, and the PCA. He has stated that a legally binding Treaty on European Security (TES) be formulated that “should include the basic principles for developing arms control regimes, confidence building measures, and measures on restraint and reasonable

³⁸ Russian Federation Security Council. *Russian Federation National Security Strategy Until 2020*, May 12, 2009.

³⁹ “The EU-Russia Relationship at a Turning Point,” *DGAPaktuell*, German Council on Foreign Relations, February 2009.

sufficiency in military development.”⁴⁰ At the Munich Security Conference in February 2009, French President Nicolas Sarkozy called for rapprochement between the EU and Russia, to include discussion of a new European security architecture. In late June 2009, OSCE foreign ministers met in Corfu to discuss how to address new challenges to European security and considered Russia’s proposal. Criticism of the Russian proposal includes that it appears vague, calls for Russia to be considered an equal partner to the United States and the EU, and discounts the human rights aspect of security, among other concerns.

Just after the July 2009 U.S.-Russia summit, prominent former politicians and others from Central European EU states (and NATO)—including former Polish President Lech Walesa and former Czech President Vaclav Havel—issued an open letter to the Obama Administration calling on it to consider regional security concerns as part of its reset of relations with Russia. They also raised concerns that Russia’s proposal for a new European security system was an effort to gain influence over Europe and to exclude the United States. The Obama Administration has pointed to Vice President Biden’s July visit to Ukraine as part of the effort to reassure the region of U.S. commitments. The letter was considered curious by some observers who wondered why the Central Europeans might feel that an improvement in U.S.-Russia relations would result in the decline of U.S. interest in trans-Atlantic relations. The participation of the countries in both the EU and NATO is not harmed by improved ties between Russia and the United States, these observers argue. In the case of NATO, all members are guaranteed protection from aggression by Article V of the North Atlantic Treaty, and no nation such as the United States can unilaterally declare certain Members of the Alliance ineligible for Article V protection.

Russia and the Soviet Successor States

Russia’s May 2009 National Security Strategy hails cooperation within the CIS as “a priority foreign policy direction,” and proclaims that the Collective Security Treaty Organization (CSTO) is “the main interstate instrument” to combat regional military threats.⁴¹ Despite this emphasis, however, there has been little progress toward overall CIS integration. 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.”

The CSTO was formed in 2002 with a headquarters in Moscow. Members include Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan. An airbase at Kant, Kyrgyzstan, was designated in 2002 to provide support for CSTO rapid reaction forces, but these force plans were unrealized, and the base has housed three Russian air squadrons and about 700 troops. Appearing to signal an intention to raise the significance of the CSTO, President Medvedev called in early 2009 for forming sizeable CSTO rapid reaction forces, which he claimed will rival those of NATO. Some of these forces may be based at Kant and another airbase in Kyrgyzstan.

In early June 2009, Russia suddenly banned imports of dairy products from Belarus—Russia is the main importer—on the grounds that some paperwork had not been completed. In response, Belarusian President Alexander Lukashenko boycotted a session of the CSTO, even though Belarus was to chair the session. Lukashenko also asserted in early June that he had rejected a

⁴⁰ President of Russia. President Dmitry Medvedev: Speech at Helsinki University and Answers to Questions from Audience, April 20, 2009; European Security and Russian-US Relations, June 5, 2009, at <http://www.kremlin.ru>.

⁴¹ Russian Federation Security Council. *Russian Federation National Security Strategy Until 2020*, May 12, 2009.

Russian demand that Belarus extend diplomatic recognition to Abkhazia and South Ossetia as a condition for receiving a \$500 million loan from Russia, an allegation that Russia denied.⁴²

Russian forces remain in the Transnistria region of Moldova against the wishes of the Moldovan government (and in violation of Russia's commitment under the adapted CFE Treaty to withdraw the forces), 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.⁴³

Moscow has used the Armenian-Azerbaijani conflict over Nagorno-Karabakh to pressure both sides, maintain Armenia as an ally, and otherwise exercise regional influence. 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 1992-1996 against Tajik rebels. Russia's policy of trying to exclude U.S. influence from Central Asia as much as possible was temporarily reversed by President Putin after the September 11, 2001, attacks, but appeared to be back in place after 2005. On July 29, 2005, 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 after the United States criticized the Uzbek government's repression in Andijon in May 2005. In February 2009, Kyrgyzstan accepted a large loan proffered by Russia and simultaneously requested that the United States wind up operations at the Manas airbase by August 2009. After reportedly intense U.S.-Kyrgyz talks, Kyrgyzstan reversed course in late June 2009 and agreed to permit U.S. and NATO cargoes to transit through Manas.⁴⁴

The international community condemned Russia's military incursion into Georgia in early August 2008 and President Medvedev's August 26, 2008, decree officially recognizing the independence of South Ossetia and Abkhazia. Russian officials announced in September 2008 that two army brigades, each consisting of approximately 3,700 troops, would be deployed to new military bases in Abkhazia and South Ossetia (the brigades were reduced to a reported 1,700-1,800 troops each in mid-2009, allegedly because of Russia's budgetary problems). A part of the Black Sea Fleet also was deployed to Ochamchire in Abkhazia. The United States and others in the international community have called for Russia to reverse these deployments and rescind the recognitions of independence.

Some observers have expressed concern about the possibility of increased Russian pressure on Ukraine in the near future. One current issue is natural gas supplies. Russian officials have warned that Ukraine may not be able to meet its monthly bill for Russian natural gas in the near future, raising the possibility of a new gas shut-off later this year, similar to the ones that occurred

⁴² See also CRS Report RL32534, *Belarus: Background and U.S. Policy Concerns*, by Steven Woehrel.

⁴³ See also CRS Report RS21981, *Moldova: Background and U.S. Policy*, by Steven Woehrel.

⁴⁴ For more on Russian policy in these regions, see CRS Report RL33453, *Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests*, CRS Report RL33458, *Central Asia: Regional Developments and Implications for U.S. Interests*; and CRS Report R40564, *Kyrgyzstan and the Status of the U.S. Manas Airbase: Context and Implications*, all by Jim Nichol.

in 2006 and 2009. Ukraine denies the Russian charges. However, Ukrainian Prime Minister Yuliya Tymoshenko has sought a loan from Russia to pay for gas supplies, so far without success. Ukraine has also unsuccessfully sought funding from the United States and the EU. Given Ukraine's economic vulnerability due to the global economic crisis, some believe Russia could use the gas supplies and the prospect of a loan to extract political and economic concessions from Kiev. Another possible avenue for Russian pressure is political. Ukraine is scheduled to hold presidential elections in January 2010, and several leading candidates for the post may be angling for Moscow's support, which could help them in pro-Russian eastern Ukraine. Finally, some have expressed concern that Russia, following the model of its actions in Georgia in 2008, may attempt to provoke conflict in Ukraine's Crimea region, where pro-Russian sentiment is high and part of the Russian Black Sea Fleet is based.

At the U.S.-Russia summit in July 2009, President Obama stated that one area where the two presidents "agreed to disagree" was on Georgia, where he stressed that "Georgia's sovereignty and territorial integrity must be respected." Michael McFaul, the Senior Director for Russian and Eurasian Affairs on the National Security Council, reported that President Obama stated that the United States would not recognize South Ossetia and Abkhazia as independent states and also argued that the Russian idea of a "sphere of influence" in the Soviet successor states does not belong in the 21st century. The two presidents did agree, however, that "no one has an interest in renewed military conflict." They also discussed the Armenia-Azerbaijan conflict over Azerbaijan's breakaway Nagorno Karabakh (NK) region, according to McFaul, and agreed to continue cooperative efforts to resolve the conflict. At his talk at the New Economic School in Moscow, President Obama reiterated that the sovereignty and independence of nations such as Georgia and Ukraine should be respected. Apparently in reference to Ukraine and Georgia as among countries that wanted to join NATO, he emphasized that the United States would "never impose a security arrangement on another country."

Some analysts in Ukraine and Georgia have expressed concern that the "reset" in U.S.-Russian relations could lead the United States to downgrade ties with these countries, or even make concessions to Russia at their expense. Perhaps to allay these fears, Vice President Joseph Biden visited Ukraine and Georgia on July 20-23, 2009. In both countries, he expressed strong U.S. support for their aspirations to join NATO and rejected the idea of a Russian sphere of influence over other Soviet successor states. He said that the reset in ties with Russia would not come at the expense of ties with Ukraine and Georgia. He added that, on the contrary, the reset could help the countries by defusing "zero-sum" thinking in Moscow about U.S. relations with Russia's neighbors.

U.S.-Russia 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.⁴⁵ However, tensions soon increased on a number of issues that contributed to ever-growing discord in U.S.-Russian relations. Cooperation continued in some areas, and then-Presidents Bush and Putin strove to

⁴⁵ For the change in Russian policy toward integration with the West and cooperation with the United States, see CRS Report RL31543, *Russian National Security Policy After September 11*, by Stuart D. Goldman.

maintain at least the appearance of cordial personal relations. In the wake of the August 2008 Russia-Georgia conflict, bilateral ties reached their lowest point since the Cold War.

The Obama Administration Moves to “Re-set” Bilateral Relations

The Obama Administration called for starting a dialogue with Russia from a fresh slate. A February 2009 speech in Munich by Vice President Biden to “re-set” U.S.-Russian relations and Secretary of State Clinton’s meeting in Geneva on March 6 with Russian Foreign Minister Sergey Lavrov were early signs of the President’s intentions. At their first “get acquainted” meeting on April 1, 2009, in London, Presidents Obama and Medvedev issued two joint statements on opening nuclear weapons talks (see below, “Arms Control Issues”) and on U.S.-Russia relations.

In their joint statement on U.S.-Russia relations, the two presidents announced an “ambitious work plan for our two governments.” They agreed to “deepen cooperation to combat nuclear terrorism” and to “support international negotiations for a verifiable treaty to end the production of fissile materials for nuclear weapons.” President Obama confirmed his commitment to work for U.S. Senate ratification of the Comprehensive Nuclear Test Ban Treaty. Both sides also pledged to bring into force the bilateral Agreement for Cooperation in the Field of Peaceful Uses of Nuclear Energy, which former President Bush had withdrawn from consideration in the U.S. Senate following the August 2008 Russia-Georgia conflict. Russia agreed to assist the United States and the international community in responding to terrorism and the insurgency in Afghanistan and Pakistan, and to drug trafficking from Afghanistan. The two sides called for the continuation of the Six-Party Talks and for the verifiable denuclearization of the Korean Peninsula. They also pledged to strengthen Euro-Atlantic and European security, including through the OSCE and NATO-Russia Council.⁴⁶

Reflective of Russia’s views of the bilateral relationship, its May 2009 National Security Strategy states that Moscow strives to establish “an equal and full-fledged strategic partnership” with the United States. The Strategy claims that the two countries have “key” influence in the world and should work together on arms control, on confidence-building measures, on the nonproliferation of weapons of mass destruction, on counterterrorism, and on the settlement of regional conflicts. The Strategy proclaims that Russia will work to maintain parity with the United States in strategic offensive weapons even if the United States deploys a global missile defense system. The maintenance of global and regional stability will be “substantially reduced” by the U.S. deployment of “elements of global” missile defense in Europe.⁴⁷

Before the July 2009 summit, there were positive and negative developments in bilateral relations. An announcement by the Russian foreign ministry in March 2009 that Russia had not delivered S-300 anti-aircraft missile systems to Iran raised U.S. hopes of Russian restraint in selling advanced weaponry to Iran. However, Prime Minister Putin stated that Russia would postpone efforts to gain membership in the World Trade Organization (WTO), even though the United States had been working to facilitate such membership. Ostensibly to lower some public hopes for the summit, Michael McFaul, the Senior Director for Russian and Eurasian Affairs on the National Security Council, stated that “we are not going to reassure or give or trade anything

⁴⁶ The White House. Office of the Press Secretary, Remarks By President Obama and Russian President Medvedev after Meeting, April 1, 2009.

⁴⁷ Russian Federation Security Council. *Russian Federation National Security Strategy Until 2020*, May 12, 2009.

with the Russians regarding NATO expansion or missile defense,” two of the main issues that Russia wanted to discuss at the summit.⁴⁸

At the July summit, President Obama stated that “the relationship between Russia and the United States has suffered from a sense of drift” in recent years, and that the two presidents had “resolved to reset U.S.-Russian relations.” He stressed that the United States wanted “to deal as equals” with Russia, since both countries are nuclear superpowers, and that the United States has recognized that its role “is not to dictate policy around the world, but to be a partner with other countries” to solve global problems. Some observers have argued that these statements were aimed at assuaging Russian sensitivities about the country’s status in the world. Russia’s hyperbole about its role in the world, these observers have suggested, was evidenced by President Medvedev’s statement that the United States and Russia are “powerful states [that] have special responsibility for everything that is happening on our planet,” and that strengthened bilateral cooperation “will ensure international peace and security.”

The two presidents and other officials signed six accords and issued three joint statements (details on significant decisions and deliberations at the summit are discussed below). According to McFaul, the main topics at the summit were Iran, a major U.S. concern, and missile defense, a major Russian concern. The statement on missile defense cooperation had not been completely worked out before the summit and was finalized at the summit to meet Russian concerns, McFaul reported. One achievement of the summit was the establishment of a U.S.-Russia Bilateral Presidential Commission intended to strengthen consultations and diplomacy. President Obama highlighted the commission as the “foundation” element in re-setting relations, since it would greatly expand communications between the two countries. The presidents are the co-chairs, and the Secretary of State and the Foreign Minister coordinate meetings. Thirteen working groups have been established, and additional working groups will be created in the coming months, along with sub-groups as necessary. Secretary Clinton plans to travel to Moscow in October 2009 for the first meeting of the Commission coordinators.

President Obama stated that he found President Medvedev “to be straightforward [and] professional.... I trust President Medvedev to not only listen and to negotiate constructively, but also to follow up.” Although Obama stated on July 2 that Prime Minister Putin still “has one foot in the old ways,”⁴⁹ an un-named Administration official reported that Obama was convinced after his meeting with Putin that “the Prime Minister is a man of today and has got his eyes firmly on the future as well.” Indicating that there were some tensions at the Obama-Putin meeting, it was described as “a very frank, honest conversation,” and as “very candid, very forthright.” An un-named Administration official stated that “President Obama did not always agree with the logic that Prime Minister Putin laid out,” but that there was some agreement that the two countries faced common terrorism and proliferation threats.⁵⁰

⁴⁸ Peter Baker and Ellen Barry, “Russia to Open Airspace to U.S. for Afghan War,” *The New York Times*, July 4, 2009.

⁴⁹ “Obama: Putin has ‘One Foot in the Old Ways,’” *Associated Press*, July 2, 2009.

⁵⁰ The White House. Office of the Press Secretary. Background Briefing on the President’s Meetings with Prime Minister Putin and Former President Gorbachev by Senior Administration Officials, July 7, 2009.

Bilateral Relations and Iran

Russian perceptions of the Iranian nuclear threat and its policies toward Iran are driven by a number of different and sometimes competing factors. Russia signed the agreement to build a nuclear power plant at Bushehr and provide other assistance to an Iranian civilian nuclear program in January 1995. Although the White House and Congress have argued that Iran will use the civilian nuclear reactor program as a cover for a clandestine nuclear weapons program, Russia refused to cancel the project. Moscow maintains that its cooperation with Iran's civilian nuclear program is legal, proper, and poses no proliferation threat, arguing that Iran is, after all, a signatory of the Nuclear Non-Proliferation Treaty, and the light water reactors that Russia is building are not well-suited for producing weapons-grade fissionable material.

Russia agrees with the United States and many other nations that a nuclear-armed Iran would be destabilizing and undesirable. After Iran's clandestine program to master the entire nuclear cycle, including uranium reprocessing, was revealed, Russia took steps to head off this development. Moscow withheld delivery of nuclear fuel for the Bushehr reactor, pending agreement with Tehran about return of spent fuel to Russia for reprocessing. Russia joined the United States and the "EU-3" group (Great Britain, France, and Germany) in approving a series of limited U.N. Security Council sanctions related to Iran's nuclear infrastructure, including asset freezes and trade bans targeting certain Iranian entities and individuals.⁵¹ Moscow temporarily withdrew most of its technicians and scientists from the unfinished Bushehr reactor in 2007. However, Russia soon resumed construction and shipment of nuclear fuel to Bushehr. Fuel delivery was completed in January 2008. In September 2009, Russia's Atomenergoprom state firm announced that final reactor testing work was underway and that Bushehr was on schedule for initial operational capability in late 2009.

In a joint statement issued at their meeting on April 1, 2009, Presidents Obama and Medvedev "urged Iran to ... address the international community's concerns" about its civilian nuclear energy program. They stressed that Iran had pledged as a signatory of the Treaty on the Non-Proliferation of Nuclear Weapons to retain its status as a state that does not possess nuclear weapons, and called on Iran to fully cooperate with the International Atomic Energy Agency. At a subsequent speech in the Czech Republic on April 5, President Obama stated that "as long as the threat from Iran persists, we will go forward with a missile defense system that is cost-effective and proven. If the Iranian [nuclear weapons] threat is eliminated, we will have a stronger basis for security, and the driving force for missile defense construction in Europe will be removed."⁵²

At the U.S.-Russia summit, nuclear and missile proliferation by Iran was the dominant topic, according to Michael McFaul, the Senior Director for Russian and Eurasian Affairs on the National Security Council. President Obama warned that "in the Middle East, there is deep concern about Iran's pursuit of nuclear weapons capability not simply because of one country wanting nuclear weapons, but the fact that ... we would then see a nuclear arms race in perhaps the most volatile part of the world." Another concern, he stated, was "the possibility that those nuclear weapons could fall into the hands of non-state actors." He also stressed that Iran's ballistic missile program could also pose a threat to the broader region. President Medvedev did not mention Iran by name at the summit press conference, but he did admit that some countries "have aspirations to have nuclear weapons and declare so openly or, which is worse, [build them]

⁵¹ See CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

⁵² The White House. Remarks By President Barack Obama, Hradcany Square, Prague, Czech Republic, April 5, 2009.

clandestinely.... These are areas where we should concentrate our efforts together with our American partners. It is quite obvious that the situation in the Middle East [and] on the Korean Peninsula will affect the ... globe.”

On September 21, 2009, Iran informed the International Atomic Energy Agency (IAEA) that it had been building a second uranium enrichment plant near the city of Qom. Many observers raised fears that the disclosure was further evidence that Iran intended to build nuclear weapons. On September 23, President Obama reported that a meeting he held with President Medvedev on the sidelines of a U.N. General Assembly session dealt mostly with Iran. President Medvedev stated that the international “task is to create ... a system of incentives that would allow Iran to continue its fissile nuclear program, but at the same time prevent it from obtaining nuclear weapons.” He argued that although “sanctions rarely lead to productive results,... in some cases sanctions are inevitable.”⁵³ In a meeting with concerned nations on October 1 (the so-called P-5 plus one, consisting of the United States, United Kingdom, France, Russia, China, and Germany), Iran agreed to a late October IAEA inspection of the enrichment site and to allow low-enriched uranium to be exported to other countries to be further enriched to fuel the Tehran Research Reactor.

In Congress, the Iran Refined Petroleum Sanctions Act (H.R. 2194, S. 908), amends the Iran Sanctions Act of 1996 to allow the President to sanction foreign companies that are involved in the sale of gasoline and other refined petroleum products to Iran, or that provide insurance or shipping for the delivery of these products to Iran, or that assist Iran in developing its own refineries. At a hearing of the Senate Banking Committee on October 6, 2009, Chairman Christopher Dodd stated that language in these bills was being incorporated into legislation to equip President Obama “with all of the tools he needs to confront the threats posed by Iran.”⁵⁴ Reportedly, Russia’s Lukoil firm supplies some fuel to Iran.

Bilateral Relations and Afghanistan

In a meeting with Afghan President Hamid Karzai in August 2008, Russian President Medvedev called for “opening a new page in relations” between the two countries, “because, unfortunately, our countries are coming up against similar threats and problems.” Russia provides some foreign assistance and investment to Afghanistan, although it has rejected sending military forces. In March 2009, Russian Foreign Minister Sergey Lavrov stated that Russia supported the U.S. plan to augment troops in Afghanistan and would assist the International Security Assistance Force (ISAF) in Afghanistan by making its territory available for the overland transport of non-lethal cargoes to Afghanistan.⁵⁵ Russia hosted a Shanghai Cooperation Organization conference on Afghanistan, counter-terrorism, and counter-narcotics in late March 2009, which was attended by U.S. and NATO observers. The conference communique praised the efforts of ISAF but offered no substantive assistance to Afghanistan. In a May 2009 letter to the U.N. Secretary General,

⁵³ The White House. Office of the Press Secretary. *Remarks by President Obama and President Medvedev of Russia after Bilateral Meeting*, September 23, 2009.

⁵⁴ U.S. Senate. Committee on Banking. Hearing on Minimizing Potential Threats from Iran. *Opening Statement by Chairman Christopher Dodd*, October 6, 2009, at <http://dodd.senate.gov/?q=node/5257>.

⁵⁵ Ministry of Foreign Affairs of the Russian Federation. Information And Press Department. Transcript of Remarks and Response to Media Questions by Russian Minister of Foreign Affairs Sergey Lavrov at Joint Press Conference Following Talks with Afghanistan Minister of Foreign Affairs Rangin Dadfar Spanta, March 16, 2009.

Russian Ambassador to the U.N. Vitaliy Churkin called for ISAF to step up counter-narcotics operations in Afghanistan.

At the U.S.-Russia summit, a joint statement on assistance to Afghanistan called for enhancing cooperation within the U.S.-Russia Counter-Terrorism Working Group (established in 2000); further implementing the Russia-NATO Council's counter-narcotics project; supporting Afghanistan-related activities of the Organization for Security and Cooperation in Europe; increasing training for the Afghan National Army, police, and counter-narcotics personnel; and greatly increasing cooperation to halt illicit financial flows related to heroin trafficking in Afghanistan. The two sides also called for enhancing counter-terrorism cooperation between Afghanistan and Pakistan. President Obama stated that the new Bilateral Presidential Commission would discuss U.S.-Russian cooperation on training and other assistance for Afghanistan.

Alternative Supply Routes to Afghanistan

In late 2008, the United States and NATO stepped up efforts to develop supplemental air and land routes into Afghanistan because of growing problems in sending supplies through Pakistan. The Obama Administration considered increasing the number of troops in Afghanistan, which also spurred the search for alternate supply routes. A "northern supply route" was envisaged for transits through Russia or the South Caucasus to Central Asia and then to Afghanistan. The U.S. Manas airbase in Kyrgyzstan, established in late 2001, was to be a key part of this route. In February 2009, however, Kyrgyzstan announced that it intended to close the airbase, but an agreement was reached in late June 2009 to keep it open in exchange for higher U.S. rent and other payments.

As early as the April 2008 NATO summit, Russia's then-President Putin had offered to permit the shipment of non-lethal NATO goods through Russia to Afghanistan. NATO reached agreement with Russia on rail-transit in February 2009, and all the Central Asian states except neutral Turkmenistan also agreed to permit overland shipments. The first railway shipment from the Baltic states reached Afghanistan—after transiting Russia, Kazakhstan, and Uzbekistan—in late March 2009. In terms of air flights, Uzbekistan's president announced in May 2009 that the United States and NATO had been permitted to fly non-lethal supplies to the Navoi airport (located between Samarkand and Bukhara in east-central Uzbekistan) for follow-on land transport to Afghanistan. The extension of the lease on the Manas airbase ensured another air route.

At the U.S.-Russia summit meeting in early July 2009, Foreign Minister Lavrov and Undersecretary of State William Burns signed an agreement allowing up to 4,500 annual air flights of troops and lethal supplies through Russia to Afghanistan. Lauded by McFaul as "historic," the agreement complements the NATO-Russia arrangement reached in early 2009, under which the U.S. non-lethal equipment has been transiting Russia by land. The Administration reports that the new transit routes will save the United States government up to \$133 million annually in fuel, maintenance and other transportation costs, and this agreement is free of any air navigation charges. Reportedly, the first flight by the United States using this route took place in early October 2009.

Arms Control Issues⁵⁶

In 2001, the former Bush Administration conducted a Nuclear Posture Review and determined that strategic forces could be reduced to between 1,700 and 2,000 “operationally deployed nuclear warheads.” Although President Bush at first planned to make these reductions unilaterally, others in the Administration convinced him to negotiate with Russia on mutual reductions. Then-President Putin also called for a formal arms control agreement.⁵⁷ These negotiations bore fruit in May 2002 with the conclusion of the Strategic Offensive Reductions Treaty (also known as the Moscow Treaty). The Treaty achieved all the Administration’s key goals: deployed strategic nuclear warheads were to be reduced to 1,700-2,200 by 2012, with no interim timetable; there were no limits on the mix or types of weapons; and there was no requirement for destroying rather than storing warheads. On June 13, 2002, the U.S. withdrew from the Anti-Ballistic Missile (ABM) Treaty, which President Bush had termed a “Cold War relic” that constrained the Administration’s plans for national missile defenses. On the same day, Moscow announced that it would no longer consider itself bound by the provisions of the (unratified) START II Treaty, which had 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, then-Presidents Bush and Putin exchanged instruments of ratification allowing the Treaty of Moscow to enter into force.

In 2006, in advance of the impending December 2009 expiration of the 1991 Strategic Arms Reduction Treaty (START), the United States and Russia began to discuss options for the future of their arms control relationship. Many analysts had expressed concern that the two nations would not be able to monitor compliance with the 2002 Moscow Treaty without START, as the newer Treaty lacked any verification provisions. They, and others who saw arms control as a key feature of U.S.-Russian relations, hoped the two sides would agree to either extend or replace START. Others suggested the two sides no longer needed to regulate their competition with arms control agreements, and favored a posture that would allow START to lapse and allow both sides to pursue nuclear force postures that met their own national security needs. When the discussions began in 2006, Russia sought to replace START with a new, formal treaty that would include many of the same definitions, counting rules, and restrictions as START, albeit with lower levels of nuclear forces. The Bush Administration rejected this approach and offered, at most, to attach an informal monitoring regime to the 2002 Moscow Treaty. When the Bush Administration ended, the two sides had not agreed on whether or how to advance their arms control relationship.

The Obama Administration came into office with a pledge to pursue arms control negotiations with Russia and to, specifically, negotiate a new treaty to replace START. In April 2009, Presidents Obama and Medvedev agreed that their nations would pursue stepped-up negotiations toward this end, and that they would discuss progress in reaching such an agreement at a summit in Moscow in early July. The presidents agreed that a new treaty would address deployed strategic offensive nuclear forces, leaving discussions on nonstrategic nuclear weapons and warheads in storage to a future agreement, and to reduce their deployed forces to levels below those set by the 2002 Moscow Treaty.

⁵⁶ Prepared by Amy Woolf, Specialist in Nuclear Weapons Policy.

⁵⁷ For details, see CRS Report R40084, *Strategic Arms Control After START: Issues and Options*, by Amy F. Woolf.

At their summit in July 2009, the Presidents signed a joint understanding that identified the general form that the new treaty would take. They agreed to reduce their forces to between 500 and 1,100 deployed delivery vehicles, with between 1,500 and 1,675 deployed warheads on those vehicles. They noted that the Treaty would also contain provisions for calculating these limits and provisions on “definitions, data exchanges, notifications, eliminations, inspections, and verification provisions.” This joint understanding indicates that the new treaty will contain far more detail than the 2002 Moscow Treaty, but the scope and impact of its limits will not be evident until the two sides establish these many provisions. As a result, it is not yet clear that they will be able to complete a new treaty before START expires in December 2009.

Cooperative Threat Reduction

Since 1992, the United States has spent over \$8 billion to help Russia and the other former Soviet states dismantle nuclear weapons and ensure the security of nuclear weapons, weapons-grade nuclear material, other weapons of mass destruction, and related technological know-how. This funding supports the Cooperative Threat Reduction Program (CTR) managed by the Department of Defense, along with nonproliferation programs managed by the Departments of Energy and State. These programs have made significant progress over the years, helping to eliminate nuclear weapons and delivery vehicles in Ukraine, Belarus, and Kazakhstan, and helping to transport, store, and eliminate weapons in Russia. During the Bratislava Summit in 2005, Presidents Bush and Putin agreed to enhance their cooperation and move more quickly in securing weapons and materials. As a result, the Department of Energy has nearly completed its efforts to secure nuclear warheads in storage in Russia and nuclear materials at a number of critical sites. The two sides have also cooperated to construct a chemical weapons destruction facility in Shchuch’ye, which, after overcoming congressional concerns between 2000 and 2002, is nearing completion.

The focus of U.S. threat reduction and nonproliferation assistance has changed over the years. Initially, many in Congress saw U.S. assistance as an emergency response to impending chaos in the Soviet Union. Even after the sense of immediate crisis passed in 1992 and 1993, many analysts and Members of Congress remained concerned about the potential for diversion or a loss of control of nuclear and other weapons. Now, much of the work on strategic offensive arms reductions has been completed, and the United States has allocated a growing proportion of its funding to projects that focus on securing and eliminating chemical and biological weapons and securing storage sites that house nuclear warheads removed from deployed weapons systems. Further, in recent years, the United States has increased funding for projects that seek to secure borders and track materials, in an effort to keep weapons of mass destruction away from terrorists. This has directed a growing proportion of the funding to nations other than Russia.

Many analysts in the United States see the U.S. threat reduction and nonproliferation programs in Russia as a model for U.S. nonproliferation and anti-terrorism assistance to nations around the world. Some who support this expansion of U.S. threat reduction assistance argue, however, that the United States should not increase funding for other nations at the expense of funding for programs in Russia because Russia is still home to large stocks of insecure nuclear materials.

Russia and Missile Defense⁵⁸

Successive U.S. governments have supported the development of a missile defense system to protect against long-range ballistic missile threats from adversary states. The Bush Administration believed that North Korea and Iran represented strategic threats and questioned whether they could be deterred by conventional means. In 2007, the Bush Administration proposed deploying a ground-based mid-course defense (GMD) element of the larger Ballistic Missile Defense System in Europe to defend against a possible Iranian missile threat. This “European Capability” (EC) system would include 10 interceptors in Poland and a radar in the Czech Republic. Both countries signed agreements with the Bush Administration permitting GMD facilities to be stationed on their territory; however, the two countries’ parliaments decided to wait to ratify the accords until after the Obama Administration clarified its intentions on missile defense policy.

The Duncan Hunter National Defense Authorization Act for FY2009 provided \$618 million for the EC program and placed several restrictions on it. There is a general limitation on all EC procurement, site activation, construction, preparation of equipment and deployment until the Czech Parliament has first ratified the radar basing agreement. Funding for the interceptor site will only be available after both the Czech and Polish parliaments ratify their respective ballistic missile defense agreements. Additionally, no funds can be expended on the acquisition and deployment of operational interceptors (except for initial long-lead procurement) until the general limitations on host nation ratification are met and the Secretary of Defense (after receiving views of the Director of Operational Test and Evaluation) certifies to Congress that the proposed interceptor has successfully demonstrated operationally realistic flight testing and a high probability of working in an operationally effective manner.

Because neither host nation has ratified their ballistic missile defense agreements, the only activities currently funded are ongoing facilities design and planning for the 2-stage ground-based interceptor. Additionally, implementing arrangements to iron out actual work details between the countries remains on hold until the formal agreements have been ratified by Poland and the Czech Republic. The Missile Defense Agency has said that the current lull will not adversely affect the EC program until about May 2010, when ratification delays will become problematic.

The EC program has significantly affected U.S.-Russia relations. At the February 2007 Wehrkunde security conference in Munich, former President Vladimir Putin strongly criticized the Bush Administration’s proposal, maintaining that it would lead to “an inevitable arms race.” Russia has threatened to abrogate the 1987 Intermediate-Range Nuclear Forces Treaty, and also announced that it had suspended compliance with the Conventional Forces in Europe Treaty. In August 2008, following the signing of the U.S.-Poland agreement, Russia once more vociferously objected to the missile defense plan; a Russian general stated that Poland’s acceptance of the interceptors could make it a target for a nuclear attack.

Some analysts argue that Russia has other motives for raising alarms about the U.S. missile defense system: to foment discord among NATO member states, and to draw attention away from Russia’s suppression of domestic dissent, its aggressive foreign policy actions, and its nuclear technology cooperation with Iran. Observers point out that Russian acceptance of NATO enlargement in 2004 was conditioned on a tacit understanding that NATO or U.S. military

⁵⁸ Prepared by Carl Ek, Specialist in International Relations, and Steve Hildreth, Specialist in Missile Defense.

expansion into the new member states would not occur. The European GMD in this regard is seen as unacceptable to Russia.

On November 5—the day after the 2008 U.S. presidential elections—President Medvedev stated that Russia would deploy short-range Iskander missiles to the Russian exclave of Kaliningrad, which borders Poland and Lithuania, if the EC was built. In late January 2009, however, the Russian media reported that Moscow had “suspended” plans to move short-range missiles to Kaliningrad because the Obama Administration was not “pushing ahead” with the EC deployment. However, there were reports that President Medvedev at the July 2009 G-8 (Group of eight highly industrialized nations) summit may have intimated that the Iskander deployment was still an option.

On February 7, at the 2009 Wehrkunde security conference in Munich, Vice President Biden stated that “we will continue to develop missile defenses to counter a growing Iranian capability.... We will do so in consultation with our NATO allies and Russia.”⁵⁹ However, the Obama Administration has indicated that it is prepared to open talks with Tehran if it is willing to shelve its nuclear program and renounce support of terrorism. During a February 10 visit to Prague, Secretary of State Hillary Clinton said that any change in U.S. policy on missile defense would depend on Iran, but that “we are a long, long way from seeing such evidence of any behavior change” in Iran.⁶⁰

In early March 2009, media reported that President Obama had sent a letter to President Medvedev offering to stop the development of the EC if Russia cooperated to halt Iran’s nuclear weapons and missile programs. President Obama denied such a *quid pro quo*, stating that “what I said in the letter was that, obviously, to the extent that we are lessening Iran’s commitment to nuclear weapons, then that reduces the pressure for, or the need for a missile defense system. In no way does that diminish my commitment to [the security of] Poland, the Czech Republic and other NATO members.”⁶¹

In a joint statement issued at their “get acquainted” meeting on April 1, 2009, Presidents Obama and Medvedev acknowledged that differences remained in their views toward the placement of U.S. missile defenses in Europe, but pledged to examine “new possibilities for mutual international cooperation in the field of missile defense.” Later that month, however, Russian Deputy Foreign Minister Sergey Ryabkov charged that “[U.S.] work in the missile defense has intensified, including in the NATO format.” Shortly thereafter, in a Russian media interview, Ryabkov was asked to comment on U.S.-Russia-NATO cooperation on missile defense through the use of Russian radar installations. He explained that the Russian offer was predicated on the fulfillment of “certain preliminary stages,” including the U.S. cancellation of the EC program, followed by a threat assessment, and then by political and economic measures to eliminate the threat.⁶²

⁵⁹ Vice President Joseph Biden’s speech at the 45th Munich Security Conference, http://www.securityconference.de/konferenzen/rede.php?menu_2009=&menu_konferenzen=&sprache=en&id=238&

⁶⁰ “Clinton Says Missile Shield Hinges in Part on Iran,” *Reuters*, February 10, 2009; “Obama Seen Unlikely to Hedge on Missile Defense,” *Associated Press*, February 13, 2009.

⁶¹ The White House. Office of the Press Secretary. Remarks By President Obama and British Prime Minister Gordon Brown After Meeting, March 3, 2009.

⁶² “President Obama, Russian President Medvedev Commit To Reduce Nuclear Arms, Reset Relationship,” *US Fed News*, April 11, 2009; “Russia Warns U.S. Stepping Up Shield Plans – Agency,” *Reuters*, April 21, 2009; Russian Ministry of Foreign Affairs. *Interview of Russian Deputy Minister of Foreign Affairs Sergey Ryabkov on Disarmament* (continued...)

In May 2009, the East-West Institute, a joint U.S.-Russian research organization, released a report which concluded that (1) Iran likely would not be able to acquire both nuclear weapons and delivery systems within the next five years, and (2) the missile defense system proposed by the Bush Administration for deployment in central Europe would be ineffective against eventual Iranian missiles outfitted with decoy devices and other countermeasures. Critics, however, point to Iran's mid-May missile test launch and to other evidence as proof that Teheran is actively developing ICBMs.⁶³

In early June 2009, a Russian official indicated that Moscow would not likely be willing to reduce its nuclear weapons arsenal unless the United States were to scrap plans to establish its missile defense site in Poland and the Czech Republic. The Obama administration has emphasized that it has not abandoned the Bush Administration's missile defense plan, and has denied that it might use the program as a bargaining chip with the Russians on other issues, such as arms control. The Russian government also indicated that it might deploy Iskander missiles to Kaliningrad if the United States were to transfer Patriot missile batteries to Poland.⁶⁴

In mid-June testimony before Congress, Deputy Defense Secretary William Lynn stated that the administration regarded the EC program as one of several possible options for defense against ballistic missiles; a review of those options is expected to be complete by summer's end.⁶⁵ Another Defense official testified that, while the administration appreciates Russia's offer to share the use of radar in Azerbaijan and/or southern Russia, such facilities would be "viewed as a complement to a third site in Europe." At the end of the month, Admiral Mike Mullen, Chairman of the Joint Chiefs of Staff, was dispatched to Moscow to discuss missile defense prior to the President's visit.⁶⁶

At the July 2009 U.S.-Russia summit, the two presidents declared in a joint statement that their governments "plan to continue the discussion concerning the establishment of cooperation in responding to the challenge of ballistic missile proliferation," and that both countries would task experts "to work together to analyze the ballistic missile challenges of the 21st century and to prepare appropriate recommendations, giving priority to the use of political and diplomatic methods." One day after the meeting, however, Russian Foreign Minister Sergey Lavrov stated that if the Obama administration decided to pursue missile defense unilaterally, Russia might be reluctant to reduce its nuclear arsenal.⁶⁷

On September 17, 2009, the Obama Administration announced it would cancel the Bush-proposed European missile defense program. Instead, Defense Secretary Gates announced U.S. plans to develop and deploy a regional missile defense capability that can be deployed around the

(...continued)

Issues, April 23, 2009.

⁶³ U.S.-Russian Team Deems Missile Shield In Europe Ineffective. *Washington Post*. May 19, 2009. See also Iran's Nuclear and Missile Potential. EastWest Institute. May 2009. <http://docs.ewi.info/JTA.pdf>

⁶⁴ Russian General Links Arms Cuts To Missile Shield. *Associated Press*. June 5, 2009. Russian Source: Patriot Missiles To "Cloak" Strategic Effort. *Interfax: Russia & CIS Military Newswire*. May 22, 2009.

⁶⁵ A Russian news service quoted a "military diplomatic source" as suggesting that alternate locations might include Turkey or the Balkans. *Interfax Russia & CIS Military Daily*. July 13, 2009.

⁶⁶ US Military Chief To Talk Missile Defense In Russia Visit. *Agence France Presse*. June 24, 2009.

⁶⁷ Joint Statement By Dmitry A. Medvedev, President of the Russian Federation, and Barack Obama, President of the United States, On Missile Defense Issues. *Targeted News Service*. July 6, 2009. Russia Warns US Over Missile Shield. *AP*. July 7, 2009.

world on relatively short notice. Gates argued this new capability, based primarily around current missile defense sensors and interceptors, would be more responsive and adaptable to growing concern over the direction of Iranian short- and medium-range ballistic missile proliferation. This capability would continue to evolve and expand over the next decade.

In Russia, President Dmitry Medvedev called the decision “a responsible move,” adding that “we value the responsible approach of the U.S. President to our agreement. I am ready to continue our dialogue.”⁶⁸ In addition, Moscow appears to be backing away from its earlier signal that it might deploy short-range Iskander missiles to the Russian exclave Kaliningrad, which borders Poland. Some analysts on both sides of the Atlantic, however, argued that the abandonment of the Bush Administration’s proposal could be viewed by Moscow as a climb-down resulting from Russia’s incessant diplomatic pressure.⁶⁹

Further, some critics have faulted the White House for not having gained anything from Moscow in exchange for its walk-back on missile defense. However, Obama Administration supporters maintain that Russia likely would not wish to reveal an obvious *quid pro quo* immediately; Administration backers advise critics to wait and see what actions Russia takes in coming months, particularly with respect to cooperation with the United States on policy toward Iran.

U.S.-Russia Economic Ties⁷⁰

U.S.-Russian trade and investment flows have increased in the post-Cold War period, reflecting the changed U.S.-Russian relationship. Many experts have suggested that the relationship could expand even further. U.S. imports from Russia have increased substantially, rising from \$0.5 billion in 1992 to a peak of \$26.8 billion in 2008. The large increase in U.S. imports reflects not so much an increase in the volume of trade but the rise in world prices of raw materials, particularly oil, that comprise the bulk of those imports (64% in 2008). U.S. exports have increased from \$2.1 billion in 1992 peaking at \$9.3 billion in 2008. Major U.S. exports to Russia consist of machinery, vehicles, and meat (mostly chicken).⁷¹

Table I. U.S. Merchandise Trade with Russia, 1992-2008
(in billions of dollars)

Year	U.S. Exports	U.S. Imports	U.S. Trade Balances	Year	U.S. Exports	U.S. Imports	U.S. Trade Balances
1992	2.1	0.5	1.6	2001	2.7	6.3	-3.5
1993	3.0	1.7	1.3	2002	2.4	6.8	-4.4
1994	2.6	3.2	-0.6	2003	2.4	8.6	-6.2
1995	2.8	4.0	-1.2	2004	3.0	11.9	-8.9

⁶⁸ Obama Cancels Bush Plan For European Missile Shield That Had Soured Relations With Russia. *AP Newswire*. September 17, 2009. Medvedev Praises Obama’s Move On Europe Missile Shield. *RIA Novosti*. September 17, 2009.

⁶⁹ Russia Could Scrap Baltic Missile Plans Following U.S. Move. *RIA Novosti*. September 18, 2009.

⁷⁰ Prepared by William H. Cooper, Specialist in International Trade and Finance.

⁷¹ CRS calculations based on data from the Department of Commerce, Bureau of the Census. Global Trade Information System.

Year	U.S. Exports	U.S. Imports	U.S. Trade Balances	Year	U.S. Exports	U.S. Imports	U.S. Trade Balances
1996	3.3	3.6	-0.3	2005	3.9	15.3	-11.3
1997	3.4	4.3	-0.9	2006	4.7	19.8	-15.1
1998	3.6	5.7	-2.1	2007	7.4	19.4	-12.0
1999	2.1	5.9	-3.8	2008	9.3	26.8	-17.5
2000	2.1	7.7	-5.6				

Major U.S. exports: machinery; vehicles; meat; aircraft. Major U.S. imports: mineral fuels; inorganic chemicals aluminum; steel.

Source: Compiled by CRS from U.S. Department of Commerce, U.S. Census Bureau data. FT900.

Despite the increase in bilateral trade, the United States and Russia still account for small shares of each others' trade. In 2008, Russia accounted for about 0.7% of U.S. exports and 1.3% of U.S. imports. It was the 17th largest source of imports and 28th largest export market for the United States. The United States accounted for 3.4% of Russian exports and 5.4% of Russian imports. It was the fifth largest source of imports and 10th largest export market for Russia.⁷²

According to Russian government data, by the end of 2008, the United States accounted for 3.3% of total accumulated foreign direct and portfolio investments in Russia and was the eighth largest source of foreign investment. However, the first three countries were Cyprus (21.5%), the Netherlands (17.5%), and Luxembourg (13.0%), suggesting that at least 50% of the investments might have been repatriated Russian funds.⁷³

Russia and the United States have never been major economic partners, and it unlikely that the significance of bilateral trade will increase much in the near term. However, in some areas, such as agriculture, Russia has become an important market for U.S. exports. Russia is the largest foreign market for U.S. poultry. Furthermore, U.S. exports to Russia of energy exploration equipment and technology, as well as industrial and agricultural equipment, have increased as the dollar has declined in value. Russian demand for these products will likely grow as old equipment and technology need to be replaced and modernized. Russia's significance as a supplier of U.S. imports will also likely remain small given the lack of international competitiveness of Russian production outside of oil, gas, and other natural resources. U.S.-Russian investment relations could grow tighter if Russia's business climate improves; however, U.S. business concerns about the Russian government's seemingly capricious intervention in energy and other sectors could dampen the enthusiasm of all but adventuresome investors.

The greater importance of Russia's economic policies and prospects to the United States lies in their indirect effect on the overall economic and political environment in which the United States and Russia operate. From this perspective, Russia's continuing economic stability and growth can be considered positive for the United States. Because financial markets are interrelated, chaos in even some of the smaller economies can cause uncertainty throughout the rest of the world. Such was the case during Russia's financial meltdown in 1998 and more recently with the 2008-2009 crisis. Promotion of economic stability in Russia has been a basis for U.S. support for Russia's

⁷² Global Trade Information Systems, Inc. World Trade Atlas.

⁷³ *Tendentsii I perspectiva (Trends and Outlook). Russian Economic Report.* April 2006. p. 24..

membership in international economic organizations, including the IMF, the World Bank, and the WTO. As a major oil producer and exporter, Russia influences world oil prices that affect U.S. consumers.

Bilateral economic issues appeared to be placed in the background at the July 2009 U.S.-Russia Summit agenda in Moscow, at least for the time-being. Nevertheless, some economic issues received mention during the course of President Obama's visit. For example, a business development and economic relations working group, co-chaired by Minister of Economic Development Elvira Nabiullina and Commerce Secretary Gary Locke, and an agriculture working group, chaired by Agriculture Minister Yelena Skrynnik and Secretary of Agriculture Tom Vilsack, were established as part of the U.S.-Russia Bilateral Presidential Commission announced during the summit. In addition, President Obama stressed at a meeting of U.S. and Russian business leaders that the United States and Russia should increase economic cooperation to allow bilateral trade and investment to increase to their potential.⁷⁴

U.S. Assistance to Russia

From FY1992 through FY2008, the U.S. government budgeted almost \$17 billion in assistance to Russia, including for democratization, market reform, and humanitarian needs. The bulk of assistance (over one-half) went for CTR (Nunn-Lugar) and other security-related programs. (See **Table 1.**) But Russia's share of assistance fell from about 60% in FY1993-FY1994 to 17% in FY1998 and has been between 15%-22% since then.⁷⁵

Annual foreign operations appropriations bills have contained 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. Former Presidents Clinton and Bush 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.

⁷⁴ White House. Remarks by the President at Parallel Business Summit. July 7, 2009.

⁷⁵ See CRS Report RL32866, *U.S. Assistance to the Former Soviet Union*, by Curt Tarnoff.

Table 2. U.S. Government Funds Budgeted for Assistance to Russia, FY1992-FY2008
(million dollars)

Fiscal Year/ Program Area	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 Prelim.	Total
Economic Growth	84.68	137.21	1,187.92	231.37	72.69	39.35	51.21	74.01	58.65	60.13	60.62	54.47	33.93	9.54	7.71	3.41	0.01	2,166.9
Governing Justly & Democr.	33.93	66.13	242.86	74.15	50.68	38.45	69.58	85.64	68.26	82.06	79.89	79.98	64.31	63.8	78.7	55.96	65.21	1,299.57
Humanit. Asst.	167.89	1,060.4	39.49	48.44	35.34	0.93	6.34	1,167.34	243.1	92.37	23.83	26.1	19.97	1.5	13.23	0.0	0.0	2,946.27
Investing in People	13.1	8.31	79.85	12.67	10.98	10.59	10.55	15.42	15.88	26.1	27.41	24.36	24.02	35.47	28.3	23.95	21.79	388.76
Peace & Security	28.81	182.71	361.69	203.19	323.18	456.29	461.36	790.05	667.52	694.86	822.79	727.59	802.43	897.75	854.8	926.11	752.8	9,953.84
Program Support	0.0	0.0	4.0	0.44	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.24	1.1	6.78
Total	328.42	1,454.75	1,915.79	570.26	492.86	545.52	599.04	2,132.47	1,053.41	955.52	1,014.54	912.5	944.67	1,008.06	982.74	1,010.66	840.91	16,762.12

Source: U.S. Department of State, Office of the Coordinator of U.S. Assistance to Europe and Eurasia.

Author Contact Information

Jim Nichol, Coordinator
Specialist in Russian and Eurasian Affairs
jnichol@crs.loc.gov, 7-2289

William H. Cooper
Specialist in International Trade and Finance
wcooper@crs.loc.gov, 7-7749

Carl Ek
Specialist in International Relations
cek@crs.loc.gov, 7-7286

Steven Woehrel
Specialist in European Affairs
swoehrel@crs.loc.gov, 7-2291

Amy F. Woolf
Specialist in Nuclear Weapons Policy
awoolf@crs.loc.gov, 7-2379

Steven A. Hildreth
Specialist in Missile Defense
shildreth@crs.loc.gov, 7-7635

Vincent Morelli
Section Research Manager
vmorelli@crs.loc.gov, 7-8051

Acknowledgments

Some portions of this report are based on the work of former Specialist in Russian and Eurasian Affairs Stuart Goldman.