

**U.S.-Russia Relations:
Energizing the Relationship**

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If you must pick one event in the least several months that is truly indicative of the tenor of the U.S.-Russia relationship, you need not look to the wooded hills of Camp David, or the gilded halls of the palaces around St. Petersburg, which were the sites of the last two presidential summits. Instead, you should look to the gasoline station on the corner of 10th Avenue and 24th Street in Chelsea on Manhattan. It was there on the morning of Sept. 26 that Russian President Vladimir Putin dropped in for a cup of coffee – with skim milk of course – and a Krispy Kreme doughnut. The station in question was the first Lukoil station to be opened in the United States, and Putin was there for the ribbon cutting ceremony. The U.S.-Russian effort to push energy ties is taking precedence over most other aspects of the relationship. The two sides continue to agree to disagree about Chechnya, Iran, and Iraq. NATO and Central Asia are still sore points. Trade issues and human rights to this day raise tensions in certain areas. But the energy relationship is global and strategic and it continues to grease the squeaky spots of this post-Cold War “partnership.” To truly understand why business and political leaders in Moscow and Washington still drown out the noises of discontent, look no further than the gas station on 10th Avenue and 24th Street.

The Dividing Issues

As the summer began, the war in Iraq continued to cast a shadow on the U.S.-Russia relationship. Washington was unhappy with what it felt was a lack of Russian cooperation, particularly as some officials felt that Russian intelligence knew the whereabouts of Saddam Hussein but was withholding information. Putin refused to sanction U.S. actions in Iraq and took a position alongside France and Germany. Although the United States announced that it would allow Russian businesses to operate in Iraq, it was vague on the future of Iraq’s oil contracts, angering many firms in Russia with deep ties and long experience in Iraq. Furthermore, the U.S. occupation authorities initially refused to guarantee the safety of Russian diplomatic personnel in Iraq.

Iran also has proven to be a major bone of contention between Moscow and Washington. In fact, Iran was a major part of the agenda between President Bush and President Putin at the late September Camp David summit meeting. Putin refused to make any pledges about curbing Russia’s nuclear cooperation with Iran, and only promised to call for Iran to adhere to international standards and submit to inspections. Russia’s assistance in

helping Iran to build a nuclear reactor at Bushehr goes back years, but the Bush administration is particularly anxious about Iran's intentions and even more so given the huge U.S. military and administrative presence in neighboring Iraq.

Washington is growing weary about the operation in Chechnya, where the situation is not in any way improving either for Moscow or for the Chechens themselves. In a speech to the Helsinki Commission (of the Organization for Security Cooperation in Europe) Steven Pifer, U.S. Deputy Assistant Secretary of State for European and Eurasian Affairs, stated bluntly that Russia's actions in Chechnya, "[complicate] both the war on global terrorism and our attempts to improve relations with the Russian Federation." Upping the rhetoric, President Putin later went on record as saying that although he supports the global war on terrorism, the Bush administration was guilty of unleashing Islamic extremism in Iraq and of possibly committing human rights violations in the war both in Iraq and in Afghanistan. Supposed U.S. "designs" in Central Asia and the Caucasus are given much play in the Russian press. Russian citizens and leaders alike have generally been ambivalent about the U.S. presence there, although shrewder observers in Russia recognize that the U.S. agenda in Central Asia is not necessarily in opposition to Russia's strategy there.

Another issue causing sensitivity on both sides is the broader issue of human rights and press freedoms in Russia. With each closure of a television station or news outlet, the Western press (particularly U.S. and British) increases its critical tone of what it sees as an impending political crackdown in Moscow. U.S. diplomats reportedly have quietly broached the topic with Russian counterparts, only to be met with uncomprehending shrugs. But as long as Russian political leaders continue to give tacit approval to U.S. policy in the Middle East and Central Asia, the issue of press freedom, along with the Chechen issue, can be expected to elicit only *pro forma* protests from the U.S. government.

A recent crackdown on a certain Russian businessman, however, has served to raise eyebrows in Washington. The man in question is Mikhail Khodorkovsky, CEO of Yukos oil (now YukosSibneft) and a big proponent of strategic and economic cooperation with the United States. Although Khodorkovsky was never arrested, his business partner and closest confidante, Platon Lebedev, was and remains in custody to this day. The exact charges (corruption – which in Russia is equivalent to handing out speeding tickets at the Indy 500) are immaterial, but suffice it to say that the Kremlin has been unhappy with Khodorkovsky's high political profile, and he does not dance to the tune of the powers in charge. The issue is all the more intriguing and salient because Khodorkovsky oversees a vast energy empire whose network with the United States is growing ever larger. Khodorkovsky allegedly first reported Lebedev's impending arrest in July to U.S. Ambassador Alexander Vershbow, a personal friend of President George W. Bush. Officials in Washington have been following the Yukos affair closely and view it as a potential watershed for U.S.-Russian relations. An editorial in the *Washington Post* was an accurate barometer of how that city's political elite view the situation: "this affair should cause the administration to wonder whether Russia really is ready to be a stable

U.S. ally, as some believe, and whether it is correct to describe the country as a democracy, as is now customarily done.”

The late September summit at Camp David created little controversy, which is exactly what Putin wanted. As veteran Moscow columnist Pavel Felgenhauer wrote in the *Novaya Gazeta*, in preparation for the upcoming Duma and presidential elections in Russia, “Putin wanted a reiteration of warm relations...[however] the visit and the summit were supposed to confirm [the] independence of the president of Russia and his alliance with the leaders of France and Germany formed on the basis of their refusal to put up with the American aggression in Iraq.” Putin seems to have achieved both goals.

The Energy Element

Energy, however, continues to act as a balm for relations between Moscow and Washington. As a testament to this, throughout the summer U.S. officials and business leaders streamed to Sakhalin and Murmansk, Russia’s two major energy portals to the West. The second annual U.S.-Russia energy summit was convened in St. Petersburg in late September. There, American and Russian business executives and government officials were able to rub shoulders and dream up grand projects to further tie the two nations’ energy complexes together. “It’s not just oil,” said U.S. Deputy Energy Secretary Kyle McSlarrow during a visit to Murmansk, “natural gas is also going to be an important factor in our future energy relations.” Washington has been keen for decades to decrease its dependence on Middle Eastern oil, and Russia (like Mexico and the North Sea in the 1980s, and Africa and Central Asia in the 1990s) is seen as the best place to do so for the next decade or so. Russia’s oil reserves are vast; Russian natural gas deposits are even larger. The major problem is Russia’s deteriorated infrastructure. The peak extraction period in the Soviet Union was the late 1980s; now production capacity is sorely lacking. U.S. (and European) major oil companies have the pockets deep enough to modernize the energy complex in Russia. China and Japan have dreamed of doing so for several years, but the U.S. has clearly taken the lead (along with British Petroleum and Royal Dutch Shell).

At the St. Petersburg energy summit, U.S. Trade Secretary Donald Evans and Russian Economic Development Minister German Gref signed a joint statement pledging to enhance cooperation in the energy field by improving the investment climate. One of the boldest projects is to modernize the port of Murmansk and link it with pipelines running over 2,000 miles away to large oil and gas fields in Western Siberia. No less bold are the offshore projects off Sakhalin Island, and U.S. firms, including Exxon-Mobil, are developing some of these.

Both governments recognize the advantages of increasing energy cooperation and given the constitution of the current administration in the White House, it can be safely surmised that oil and gas will continue to be a major part of the bilateral cooperation between Moscow and Washington.

Although energy seems to be the most important issue on the agenda of U.S. and Russian leaders, two other areas continue to support the relationship. One of these is bilateral cooperation in the war on terrorism. A prime example of this cooperation was the arrest in New Jersey in August of a U.K. citizen, Hemant Lakhani, who tried to sell a Russian-made portable anti-aircraft missile to undercover FBI agents. The arrest was part of a sting operation that began in 2001 with a tip that Lakhani was seeking to buy weapons in St. Petersburg. Russian law enforcement authorities cooperated with FBI officials during the entire operation. Other cooperation in this war undoubtedly exists, only most of this information is classified and rarely, if ever, reaches the press.

U.S.-Russian cooperation in the nonproliferation field also continues, though there are hiccups such as the Iran case. In the summer it was announced that the U.S. and Russian governments approved a decade old deal that allows a key nonproliferation agreement to move forward. The 1993 Highly Enriched Uranium (HEU) Purchase Agreement requires the United States to purchase, over 20 years, 500 metric tons of highly enriched uranium (HEU) derived from Russian nuclear weapons. Russian firms will blend down the HEU to low-enriched uranium and ship it to the United States for use in commercial power reactors. Additionally the two governments cooperated in the repatriation of 14 kilograms of HEU from a Soviet-era reactor in Romania. This operation was part of the U.S. Department of Energy-funded Research Reactor Fuel Return (RRRFR) Initiative.

East Asian Insecurities

Moscow and Washington interests in East Asia tend to coincide, at least for the moment. Although Russian leaders are somewhat put-off by the overbearing attitude of the Bush administration, the majority of them recognize that the long-term strategic interests of Russia in East Asia dictate a smooth relationship with Washington in this region. Russian leaders are quite anxious about the situation on the Korean Peninsula and recognize that miscalculations could lead to a bloody conflict that would be disastrous for the Russian Far East. As such they are eager to act as intermediaries between Pyongyang and Washington. But at the same time, Russian leaders recognize that North Korea could be the key to Russia's diplomatic reemergence in the region. Russian diplomats, led by Deputy Foreign Minister Aleksandr Losyukov, were reportedly instrumental in getting the six-party talks launched.

Russia has demonstrated its desire to cooperate with the United States on the Korean Peninsula. The United States, long lukewarm on Russian participation in Korean security talks, has changed its tune of late. U.S. Ambassador Vershbow, in an address at a nonproliferation conference in Moscow, said the United States, "looks to Russia to help convince the North Koreans that there will be no business as usual in Russian-North Korean relations unless Pyongyang accepts complete, irreversible and verifiable elimination of its nuclear weapons program." At the Camp David summit, Presidents Bush and Putin called on North Korea to terminate its nuclear weapons program, "transparently and irreversibly." The *Wall Street Journal*, however, suggested that Putin "tweaked" Bush on North Korea, suggesting that Pyongyang be given security guarantees

in return for ending its weapons program, a step the Bush administration has so far been unwilling to embrace.

U.S. leaders have undoubtedly watched with great interest the competition between China and Japan over a Russian oil pipeline linking potentially rich Siberian oil and gas fields with the two nations' energy complex. China and Russia had originally signed a deal to begin cooperating in the laying of an immense pipeline infrastructure from Russian fields in Angarsk to the Chinese city of Daqing. But beginning earlier this year Japan began an intensive lobbying campaign, with promises of great financial incentives, were Russia to extend a pipeline instead to the pacific port of Nakhodka, south of Vladivostok. The economics (in short, not enough guaranteed oil) should dictate a Chinese route to Daqing. However, Japanese diplomats have been persuasive enough to catch the ear of Vladimir Putin and Russian Prime Minister Mikhail Kasyanov, who feel that a decision should not be rushed. This in and of itself should give some credence to the theory that Russian leaders are extremely anxious about China's growing economic and political might in Northeast Asia. Economics say Daqing; geopolitics say Nakhodka. *[Editor's note: for a different interpretation on this tug of war, see Yu Bin's assessment of China-Russia relations elsewhere in this journal.]* Chinese officials were upset that Kasyanov was unable to give a firm answer during his recent trip to Beijing. Meanwhile, as one Japanese diplomat confided to the *Wall Street Journal*: "We feel the wind from Russia is blowing our way now." In the words of Hong Kong journalist Frank Ching, Moscow must "walk a fine line" between the two.

The United States, like Japan, would also undoubtedly prefer a pipeline to Nakhodka, from whence Russian oil and gas could be transported all over the Asia-Pacific region, including the U.S. (and China). Either way, Washington will continue to develop its energy ties with Russia, both as an antidote to OPEC, and as a way to help bolster the beleaguered Russian Far East.

Chronology of U.S.-Russia Relations July-September 2003

July 2, 2003: Russian businessman Platon Lebedev is arrested and imprisoned in Moscow on charges of fraud and embezzlement. Lebedev is the deputy and confidante of Yukos (YukosSibneft) CEO Mikhail Khodorkovsky.

July 12, 2003: Ambassador Vershbow announces that Washington cannot guarantee the safety of Russia's embassy in Baghdad, prompting an angry response from Moscow. In April, Russian diplomats had allegedly been wounded by U.S. troops during the early days of the war. Vershbow also suggested that Russian diplomats in Baghdad might know the whereabouts of Saddam Hussein.

July 22, 2003: A high-level U.S. Energy Department delegation, led by Deputy Energy Secretary Kyle McSlarrow, visits Murmansk, the Russian port from which Washington eventually hopes to import Russian crude. Two days earlier McSlarrow signed a protocol

with Russian Deputy Energy Minister Oleg Gordeyev aimed at strengthening cooperation in oil field development.

July 24, 2003: Russian Deputy Foreign Minister Aleksandr Losyukov says that though Russia is not happy about the U.S. military presence in Central Asia, he thinks it is justified.

July 24-25, 2003: Deputy Secretary of State Richard Armitage meets in Moscow with Russian First Deputy Foreign Minister Vyacheslav Trubnikov for talks preceding the September summit of Presidents Bush and Putin at Camp David. Trubnikov announces, "The threat of terrorism is at the center of the Russia-U.S. dialogue."

Aug. 3, 2003: Chevron-Texaco announces that it is in talks to take a 25 percent stake in Yukos, Russia's second biggest oil company, in a deal worth up to \$6 billion. Speculation in Russia is that the Kremlin will scupper the deal, as it is unhappy with Yukos CEO Khodorkovsky. Eventually Yukos merges with the Russian oil company Sibneft.

Aug. 8, 2003: Secretary of State Colin Powell announces that the State Department has designated Chechen rebel leader Shamil Basayev a threat to U.S. security; a move long called for by the Russian government.

Aug. 12, 2003: In New Jersey, FBI agents arrest Hemant Lakhani, a U.K. citizen of Indian descent, trying to sell a Russian-made portable anti-aircraft missile, in a sting operation that began in 2001 with a tip that Lakhani was seeking to buy weapons in St. Petersburg. Russian law enforcement authorities cooperate with FBI officials during the operation.

Aug. 15, 2003: Sen. Richard Lugar, chairman of Senate Foreign Relations Committee, visits Moscow to promote the continuation of the Nunn-Lugar program to destroy Soviet-era nuclear weapons.

Aug. 19, 2003: U.S. F-15s and F-16s make their first appearances in Russian skies at the Moscow International Air Show. B-52 makes an appearance on the second day.

Aug. 20, 2003: State Department Spokesman Richard Boucher, says that Russian support for nuclear activity in Iran has decreased as a result of U.S. diplomatic efforts.

Aug. 27, 2003: First two of six Russian fighter aircraft arrive in Indonesia. The two *Sukhoi* Su-27s mark a swing for Indonesia from the U.S. as the country's main supplier of weaponry.

Aug. 26, 2003: A U.S. congressional delegation, led by Curt Weldon (D, PA), visits a production and storage site for Russian weapons-grade plutonium, an unprecedented visit to this top-secret nuclear facility.

Aug. 26, 2003: Under Secretary of State John Bolton meets with Nuclear Energy Minister Alexander Rumyantsev in Russia. Bolton also meets with Deputy Foreign Minister Sergei Kislyak; reportedly they exchange views about Iran and North Korea.

Aug. 27-29, 2003: Six-nation negotiations on Pyongyang's nuclear programs begin in Beijing.

Sept. 11, 2003: At a meeting of the 35-nation board of governors of the International Atomic Energy Agency, diplomats from the U.S., France, and Germany press Russia to back a UN nuclear resolution giving Tehran until Oct. 31 to prove it has no secret atomic weapons program.

Sept. 12, 2003: Former U.S. President George W.H. Bush meets with Putin at the Black Sea resort of Sochi during an informal trip to Russia.

Sept. 16, 2003: In a statement to the Helsinki Commission, Deputy Assistant Secretary of State for European and Eurasian Affairs Steven Pifer says the situation in Chechnya poses a serious challenge to the U.S.-Russian partnership.

Sept. 17, 2003: Bolton meets with Russian Deputy Foreign Minister Sergei Kislyak to discuss arms control issues primarily concerning Iran and North Korea.

Sept. 17, 2003: State Department announces sanctions on the Russian state-owned arms manufacturer Tula Instrument Design Bureau for alleged sales of hardware to Iran.

Sept. 21, 2003: Putin holds a four-hour round table interview with U.S. journalists in Moscow before his journey to the U.S.

Sept. 22-23, 2003: The second annual U.S.-Russia energy summit is held in St. Petersburg and is attended by U.S. Commerce Secretary Donald Evans, U.S. Energy Secretary Spencer Abraham, Russian Energy Minister Igor Yusufov, and 500 leading executives and officials from the oil and gas industry.

Sept. 25, 2003: Putin begins his three-day visit to New York and Camp David, Maryland. He gives speeches at the UN General Assembly, the New York Stock Exchange and Columbia University.

Sept. 27-28, 2003: At their summit meeting at Camp David, Putin tells Bush that he will not cancel Russia's lucrative contract to help Iran build a nuclear energy reactor, though he promises to convince Iranian leaders to abide by IAEA inspections and standards.

Sept. 30, 2003: First Lady Laura Bush visits Moscow on a "fence-mending mission." She discusses with Russian first lady Lyudmila Putin a campaign to promote literature and education.