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

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Summary

Russia made some uneven progress in democratization during the 1990s, but according to many observers, this limited progress was reversed after Vladimir Putin rose to power in 1999-2000. During this period, the State Duma (lower legislative chamber) came to be dominated by government-approved parties and opposition democratic parties were excluded. Putin also abolished gubernatorial elections and established government ownership or control over major media and industries, including the energy sector. The methods used by the Putin government to suppress insurgency in the North Caucasus demonstrated a low regard for the rule of law and human rights, according to critics. Dmitriy Medvedev, Vladimir Putin’s chosen successor and long-time protégé, was elected president in March 2008 and immediately designated Putin as prime minister. President Medvedev continued Putin’s policies. In August 2008, the Medvedev-Putin “tandem” directed wide-scale military operations against Georgia and unilaterally recognized the independence of Georgia’s separatist South Ossetia and Abkhazia, actions denounced by most of the international community. In late September 2011, Putin announced that he would run in the upcoming March 2012 presidential election, and that Medvedev would then become prime minister. The two leaders claimed that they had agreed to consider this possible shift in roles in late 2007 when the two decided on their present arrangement.

Russia’s economy began to recover from the Soviet collapse in 1999, led mainly by oil and gas exports, but the decline in oil and gas prices and other aspects of the global economic downturn beginning in 2008 contributed to an 8% drop in gross domestic product in 2009. In 2010-2011, rising world oil prices have bolstered the economy. Russia continues to be challenged by an economy highly dependent on the production of oil, gas, and other natural resources. It is also plagued by an unreformed healthcare system and unhealthy lifestyles; low domestic and foreign investment; and high rates of crime, corruption, capital flight, and unemployment.

Russia’s military has been in turmoil after years of severe force reductions and budget cuts. The armed forces now number less than 1.0 million, down from 4.3 million Soviet troops in 1986. Troop readiness, training, morale, and discipline have suffered, and much of the arms industry has become antiquated. Russia’s economic growth during most of the 2000s allowed it to increase defense spending to begin to address these problems. Stepped-up efforts were launched in late 2007 to restructure the armed forces to improve their quality. Russia’s 2008-2009 economic downturn, opposition among some in the armed forces, mismanagement, and corruption have appeared to slow force modernization efforts.

After the Soviet Union’s collapse, the United States sought a cooperative relationship with Moscow and supplied over $18 billion in aid for Russia from FY1992-FY2011 to encourage democracy and market reforms and in particular to prevent the proliferation of weapons of mass destruction (WMD). U.S. aid to reduce the threat posed by WMD proliferation has hovered around $700 million-$900 million per fiscal year, while other foreign aid to Russia has dwindled. In past years, U.S.-Russia tensions on issues such as NATO enlargement and proposed U.S. missile defenses in Eastern Europe were accompanied by some cooperation between the two countries on anti-terrorism and non-proliferation. Russia’s 2008 conflict with Georgia, however, threatened such cooperation. The Obama Administration has worked to “re-set” relations with Russia. The Administration has hailed the signing of a new Strategic Arms Reduction Treaty in April 2010, the approval of new sanctions against Iran by Russia and other members of the U.N. Security Council in June 2010, and cooperation in Afghanistan as signifying the “re-set” of bilateral relations.
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Most Recent Developments

In a television interview in mid-October 2011 that some observers termed “astonishing,” Prime Minister Vladimir Putin argued that he had decided to return to the presidency and for current President Dmitriy Medvedev to head the ruling United Russia Party and become prime minister because Medvedev had been implementing successfully the country’s development program for 2020 (for background, see below, “The Putin-Medvedev Era”). This rationale appears to beg the question of why Putin would step down as prime minister, since he also is in charge of such implementation. Putin not only stressed his past successes as president, but emphasized that as prime minister, he had “saved whole industries that were on the brink of collapse,” as a result of the 2008-2009 global economic crisis, so that “we prevented a repeat of the 1998 crisis…. Today there are fewer unemployed than … before the crisis hit.” He urged voters to return him to the presidency because “political stability is essential … when the country faces hard times and is steering itself out of crisis,” as was the case when Franklin Roosevelt was elected president four times in the United States. Putin darkly warned that “things … could get worse” if he is not elected. He emphasized that the country might descend again into what he termed the chaos of the 1990s, when “we threw out the baby [the Soviet Union] with the bath water”, civil war loomed, and the economy and welfare system collapsed. He stressed his and Medvedev’s physical prowess and willpower, and appeared to state that they had been more efficacious in rebuilding Russia than former Soviet leaders in the aftermath of World War II.

Putin also proclaimed that if elected in 2012, he will “strengthen the foundations of our political system and our democratic institutions,” diversify the economy, and improve the quality of life. He asserted that he had not changed the constitution in 2007 to permit a third consecutive term as president in order to show that a democratic political succession could occur. He also stated that Russia was a democracy because the voters would decide on whether to accept or reject his return to the presidency. He even insisted that Russia is becoming even more democratic than many Western countries, where economic crisis has contributed to “a crisis in authority and in people's trust for the Western multi-party parliamentary system.” He claimed that some observers have warned that “this Western multi-party parliamentary democracy fails to offer the people a leader that will enjoy the trust of the majority of the population,” but that in Russia, the “Popular Front and the primaries are, to my mind, the tools that should help expand the foundation of real direct democracy….”

When asked by a reporter whether he and Medvedev differed on democratization, he responded that it was obvious that he and Medvedev were “two different people,” and that Medvedev had “humanize[d] some spheres of life.” He accused the reporter of once working for the CIA and appeared to argue that the reporter’s continued employment in media demonstrated that Medvedev and the “tandem” were liberalizing. He seemed to contrast this current period of liberalization to the previous period when he was president, when it was necessary to “tighten the screws” to combat the CIA, extreme federalism, and other “threats which were so formidable that the very existence of the Russian state was put in question.” He pledged that if returned to the presidency, “I will not dramatically alter the things Mr. Medvedev has done.”

Putin dismissed concerns that some countries viewed Russia as a second-tier world power, stating that “they are mistaken. Russia is not a country to be pushed around. Besides, we are not overeager to be accepted anywhere…. Our main task is to ensure this country's development and to improve people's living standards…. With a stable political situation at home, with an efficient
and growing economy, with a fully secured defense capability, we will rise to a stature where the choosing will be ours…. It would be a big mistake for us to give ourselves superpower airs or try to impose our will where a business in hand is of no concern for us. If, on the contrary, it is, then we will certainly do our utmost to defend our interests. But it is no good posing as a world policeman.” Putin also argued that “one of the key goals will be to build a sustainable political system [not dependent] on advice and orders from abroad. Our country cannot live as a satellite…. It is unacceptable for Russia to do as some of the countries from the former Warsaw Pact, or Eastern Bloc, or Soviet Bloc, do, [that] cannot even appoint a defense minister or a head of the general staff without consulting a foreign ambassador…. To preserve our independence and sovereignty, we need both a growing economy and a sustainable political system.”

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 has a major impact on U.S. national security interests 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 (WMD), and the fight against terrorism.

Russia is a potentially important trading partner. Russia is the only country in the world with a greater range and scope of 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 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 and Human Rights Developments

Background

Russia is a multi-ethnic state with over 100 nationalities and a complex federal structure inherited from the Soviet period that includes regions, republics, territories, and other subunits. 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 presidency, Vladimir Putin reversed this trend and rebuilt the strength of the central government vis-à-vis the regions. In coming decades, the percentage of ethnic Russians is expected to decline because of relatively greater birthrates among non-Russian groups and in-migration by non-Russians. In many of Russia’s ethnic-based republics and autonomous regions, ethnic Russians are becoming a declining share of the population, resulting in the titular nationalities becoming the majority.

populations. Implications may include changes in domestic and foreign policies under the influence of previously marginalized ethnic groups and federal devolution. Other consequences may include rising ethnic conflict and even separatism.

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 legislature and call for new elections and the obstacles preventing the legislature from dismissing the government in a vote of no confidence. The president, with the legislature’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. In November 2008, constitutional amendments extended the presidential term to six years and the term of Duma deputies from four to five years. These changes will come into effect after the late 2011 Duma election and the early 2012 presidential election.

The bicameral legislature is called the Federal Assembly. The State Duma, the lower (and more powerful) chamber, has 450 seats. In May 2005, a law was passed that all 450 Duma seats would be filled by party list elections, with a 7% threshold for party representation. 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 current 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 instead has been 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.

**Russia: Basic Facts**

**Area and Population:** Land area is 6.6 million sq. mi., about 1.8 times the size of the United States. The population is 138.7 million (World Factbook, mid-2011 est.). Administrative subdivisions include 46 regions, 21 republics, 9 territories, and 7 others.

**Ethnicity:** Russian 79.8%; Tatar 3.8%; Ukrainian 2%; Bashkir 1.2%; Chuvash 1.1%; other 12.1% (2002 census).

**Gross Domestic Product:** $2.2 trillion; per capita GDP is about $15,900 (World Factbook, 2010 est., purchasing power parity).

**Political Leaders:** President: Dmitriy Medvedev; Prime Minister: Vladimir Putin; Speaker of the State Duma: Boris Gryzlov; Speaker of the Federation Council: Valentina Matviyenko; Foreign Minister: Sergey Lavrov; Defense Minister: Anatoliy Serdukov.

**Biography:** Medvedev, born in 1965, received a doctorate in law from Leningrad (now St. Petersburg) State University in 1990. In 1991-1996, he worked with Vladimir Putin as an advisor to the mayor of Leningrad. In late 1999, he became deputy head of Putin’s presidential administration, and in October 2003, chief of staff. From 2000-2008, he also was vice chairman or chairman of the board of Gazprom. In November 2005, he became first deputy prime minister and was elected President in March 2008.

**The Putin-Medvedev Era**

Former President Boris Yeltsin’s surprise resignation in December 1999 was a gambit to permit then-Prime Minister Putin to become acting president, in line with the constitution, and
to situate him as a known quantity for election as president in March 2000. Putin’s electoral prospects were cemented by his depiction in state-owned television and other mass media as a youthful, vigorous, sober, and plain-talking leader; and by his decisive launch of military action against breakaway Chechnya. 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).

Putin’s priorities as president were strengthening the central government and restoring Russia’s status as a great power. His government took nearly total control of nation-wide broadcast media, shutting down or effectively nationalizing independent television and radio stations. In 2006, the Russian government forced most Russian radio stations to stop broadcasting programs prepared by the U.S.-funded Voice of America and Radio Liberty. Journalists critical of the government have been imprisoned, attacked, and in some cases killed with impunity.

A defining political and economic event of the Putin era was the October 2003 arrest of Mikhail Khodorkovskiy, CEO of Yukos, then the world’s fourth-largest oil company. Khodorkovskiy’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. Khodorkovskiy’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. In May 2005, Khodorkovskiy was found guilty on multiple criminal charges of tax evasion and fraud and sentenced to eight years in prison. Yukos was broken up and its principal assets sold off to satisfy alleged tax debts. Since then, the government has renationalized 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 installed senior officials to head these enterprises. This phenomenon of political elites taking the helm of many of Russia’s leading economic enterprises led some observers to conclude that “those who rule Russia, own Russia” (see also below). In December 2010, Khodorkovskiy was found guilty in a new trial on charges of embezzlement, theft, and money-laundering and sentenced to several additional years in prison. In February 2011, an aide to the trial judge alleged that the conviction was a case of “telephone justice,” where the verdict had been dictated to the court by higher authorities. In late May 2011, the Russian Supreme Court upheld the sentence on appeal.2

Another pivotal event was the September 2004 terrorist attack on a primary school in the town of Beslan, North Ossetia, that resulted in hundreds of civilian casualties. President Putin seized the opportunity provided by the crisis to launch a number of political changes he claimed were essential to quash terrorism. In actuality, the changes marked the consolidation of his centralized control over the political system and the vitiation of fragile democratic reforms of the 1980s and 1990s, according to many observers. The changes included abolishing the popular election of regional governors (replacing such elections with the appointment of presidential nominees that

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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, expressed the sense of the chamber that the prosecution of Khodorkovskiy was politically motivated, called for the new charges against him to be dropped, and urged that he be paroled as a sign that Russia was moving toward upholding democratic principles and human rights. S.Res. 65, introduced by Senator Wicker on February 17, 2011, expressed the sense of the Senate that the conviction of Khodorkovskiy and Lebedev constituted a politically motivated case of selective arrest and prosecution and that it should be overturned. For Congressional comments after Khodorkovskiy received a second sentence, see Senator Wicker, Congressional Record, January 5, 2011, p. S54; Representative David Dreier, Congressional Record, January 19, 2011, p. H329.
are confirmed by regional legislatures) and mandating that all Duma Deputies be elected on the basis of national party lists. 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 held a majority of Duma seats. 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.

The Kremlin decided to make the December 2007 State Duma election a display of Putin’s popularity. 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 (under the constitution, however, a sitting president is barred from also sitting in the Duma). Russian authorities effectively prevented the Organization for Security and Cooperation in Europe (OSCE) from sending observers 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 57 seats. Closing out its four-year term, elections to the Duma are scheduled for December 4, 2011. As mentioned above, this new Duma will serve for five years as a result of constitutional changes.

Barely a week after the 2007 Duma election, Putin announced that his protégé Dmitriy Medvedev was his choice for president. Medvedev announced that, if elected, he would ask Putin to serve as prime minister. This arrangement presumably was meant to ensure political continuity for Putin and those around him. The Putin regime manipulated election laws and regulations to block “inconvenient” candidates from running in the prospective March 2, 2008, presidential election, according to many observers. Medvedev garnered 70% of the vote against three candidates. As with the Duma election, the OSCE refused to submit to restrictions demanded by Moscow and did not send electoral observers.

The Impasse of Political Pluralism

Many observers had hoped that President Medvedev would be more democratic than former President Putin. Despite some seemingly liberal statements and decisions by President Medvedev, the main trend was a continuation of the political system honed by current Prime Minister Putin, according to most observers. In late 2008, President Medvedev proposed a number of political changes that were subsequently enacted or otherwise put into place. Observers regarded a few of the changes as progressive and most of the others as regressive. These included constitutional changes extending the presidential term to six years and State Duma deputies’ terms to five years, 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

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3 See CRS Report RS22770, Russia’s December 2007 Legislative Election: Outcome and Implications, by Jim Nichol.
5 Analyst Gordon Hahn argues that even though President Medvedev’s overall reform record is disappointing, some changes in the criminal code have been progressive. See “Assessing Medvedev’s Presidential Legacy,” Other Points of View, November 3, 2011, at http://russiaotherpointsofview.com.
parties to register, and abolishing the payment of a bond in lieu of signatures for participation in elections.

Seen by some observers as a possible sign of democratization, in February 2009 Medvedev revived a moribund “Presidential Council to Promote the Development of Civil Society Institutions and Human Rights.” He met with the Council in April 2009, at which criticism of the human rights situation in Russia included that NGOs were being harmed by the 2006 NGO law. Some amendments proposed by the Council were signed into law in July 2009. Changes included easing some reporting requirements and limiting the ability of bureaucrats to inspect NGO facilities. Restrictions on foreign-based NGOs were only slightly eased, however. Some critics viewed the approved amendments as mainly cosmetic.6 Seeming to be a sign of increasing 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 (in the 2007 election, a party had to get 7% or more of the vote to gain seats) to win one or two seats.

A possible regressive move, 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. At the end of 2010, Prime Minister Putin claimed that clan interests also tainted jury decisions. In February 2011, however, President Medvedev lamented that although jurors had many flaws, jury trials should not be abolished.7

President Medvedev authored an article in September 2009—“Go Russia”—that pledged that Russian democracy would be developed slowly so as not to imperil social stability and that “foreign grants” would not be permitted to influence the development of civil society (these views seemed to echo those of Central Asia’s authoritarian leaders). He hailed such changes as political party participation in the Duma (mentioned above) as marking progress in democratization, but also admitted that “we have only just embarked” on creating a judicial system capable of protecting citizens’ rights and freedoms.8 In the state of the nation address to the Russian Federal Assembly on November 11, 2009, President Medvedev called for 10 political reforms—such as standardizing the ratio of deputies to the voting populations of the regions, using the internet to disseminate legislative debates and campaign information, and eliminating the gathering of signatures by parties in order to qualify to run in elections—that were viewed by some critics as useful but minor.

In June 2010, the Presidential Council to Promote the Development of Civil Society Institutions and Human Rights sent a legal analysis to President Medvedev in opposition to a bill that criminalized disobeying an employee of the Federal Security Service (FSB) or hindering him in the performance of official duties. The bill also permitted the FSB to issue warnings to individuals or groups whose actions it felt might jeopardize national security, even if the actions were not crimes. The Council warned that “this kind of return to the worst and unlawful practices

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7 CEDR, February 14, 2011, Doc. No. CEP-46015. In May 2011, Supreme Court Chairman Vyacheslav Lebedev elucidated that such flaws included the weakness of jurors to lawyers who were “charming” debaters. CEDR, May 27, 2011, Doc. No. CEP-9017.
8 CEDR, September 10, 2009, Doc. No. CEP-378001.
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of a totalitarian state … cannot be perceived by society as anything other that legitimizing the suppression of civil liberties and dissent.”9 Despite this criticism, the FSB bill was approved with minor changes and signed into law.

In a September 2010 speech, President Dmitry Medvedev built on his “Go Russia” article by spelling out five requirements of democratization in Russia and other countries: the enshrinement of humanistic values in legislation; economic and technological modernization to ensure a decent standard of living; protecting citizens from terrorism, corruption, drug trafficking, and illegal migration; a high level of education and culture, including a culture of self-restraint; and a personal feeling that one is free, that one can solve one’s own problems, and that there is justice. He suggested that Russia is making progress in meeting these five standards since it rejected communism two decades ago, that it has some distance to travel, that the pace of change should be moderate to avoid social disruption, and that democratization is a process rather than an end point. He rejected the idea “that we are living under a police regime in an authoritative state,” or in a “decorative democracy.”10 In the state of the nation address to the Russian Federal Assembly on November 11, 2010, President Medvedev appeared to argue that his political reforms largely had been completed.11

In an assessment of democratization trends as of the end of 2010, Freedom House, an NGO, concluded that not only did Medvedev fail to fulfill his pledges to implement the rule of law, but human rights conditions appeared to even worsen by the end of the year. According to the NGO, political stability was increasingly ensured through repression, including assassinations of media and civil society personnel. Elections too were increasingly controlled by the authorities, so that more and more Russian citizens declined to vote. The judiciary remained subject to political pressure, and media faced ongoing restrictions on coverage. The NGO warned that if either Putin or Medvedev run in the upcoming 2012 presidential election, the current authoritarian system might be expected to continue for some time.12

In 2011, in a meeting with political parties in July, Medvedev endorsed easing requirements for the registering of political parties. The Memorial human rights NGO has called for writing a new political party law to guarantee the rights of millions of Russians who currently cannot form parties to represent their interests.13 President Medvedev signed legislation on October 19, 2011, to reduce the voting hurdle for party representation in the State Duma elected in 2016 from 7 to 5% (Putin had raised the limit from 5 to 7% in 2004). As with a similar move by President Nursultan Nazarbayev in Kazakhstan, the flip-flop in the percentage was proclaimed to mark advancing democratization. A draft law reportedly was being drawn up in the Justice Ministry in late October 2011 transferring responsibility for registering parties and NGOs to the tax authorities and for monitoring extremist activities to the Prosecutor General’s office. Observers

13 CEDR, August 26, 2011, Doc. No. CEP-950158.
have given mixed assessments about whether such changes will ease registration requirements or monitoring.

**Government Moves Against Non-Favored Political Parties and Leaders**

In February 2011, the then-head of the Just Russia Party and Speaker of the Federation Council, Sergey Mironov, stated that his party had decided not to endorse any presidential candidate nominated by United Russia and instead might nominate its own candidate. In mid-March 2011, he accused United Russia of becoming a “trade union of bureaucrats, which has united capital and power and developed a strategy for enriching itself at people's expense.” Putin—then the chairman of United Russia, although not a formal member—appeared to question one of Mironov’s remarks as extremist during a meeting in early April 2011, perhaps marking a loss of confidence by Putin in Mironov’s leadership. Within days of this meeting, Mironov announced that he was stepping down as chairman of Just Russia. According to one interpretation, Mironov stepped down as chairman as a means to quell growing criticism by United Russia and others that an increasingly vocal political oppositionist should not also be the head of the Federation Council (senators in the Federation Council, the majority of which are United Russia Party members, elected him as chairman; also, senators are supposed to be nonpartisan in the performance of their duties). United Russia, however, had decided to seek Mironov’s ouster as head of the Federation Council, and its members in the St. Petersburg legislature led an overwhelmingly successful May 18 recall vote. Some critics argued that the Kremlin, which had created Just Russia in 2006 as a harmless foil to United Russia, had become incensed that Just Russia was becoming a real opposition party by fits and starts and was gaining in popularity. Mironov subsequently filled a seat in the Duma vacated by a fellow Just Party deputy on his behalf. St. Petersburg Mayor Valentina Matviyenko—who helped orchestrate Mironov’s ouster from the Federation Council—subsequently became its new head. A Just Russia is running on an anti-corruption platform in the December 2011 Duma election.

At a meeting of United Russia on May 6, 2011, Prime Minister Putin called for the creation of a “broad popular front [of ] like-minded political forces,” to participate in the Duma election, including United Russia and other political parties, business associations, trade unions, and youth, women’s and veterans’ organizations. Non-party candidates nominated by these various organizations would be included on United Russia’s party list, he stated. Following Putin’s speech, a headquarters and regional branches, leadership, and a website were quickly set up. Deputy prime minister and chief of government staff Vyacheslav Volodin has been named the head of the popular front headquarters. Critics objected that it is illegal for government resources and officials to be involved in political party activities. They also have claimed that the idea of the “popular front” is reminiscent of the one in place in the German Democratic Republic when Putin served there in the Soviet-era KGB.

A prospective pro-democracy party, the People’s Freedom Party—co-headed by former Prime Minister Mikhail Kasyanov and liberal activists Vladimir Ryzhkov and Boris Nemtsov—submitted signatures in late May 2011 to gain registration, but was turned down on the grounds

15 RIA-Novosti, the government press agency, quoted unnamed Kremlin officials as terming Mironov’s proposal that the assets of officials suspected of corruption be confiscated as “strange,” “populist,” and “unconstitutional.” CEDR, April 3, 2011, Doc. No. CEP-950042.
that many of the signatures were invalid. According to some reports, authorities had pressured some individuals to repudiate their signatures. The U.S. State Department criticized the refusal to register the party as a setback for democratization in Russia.

Another party, Right Cause, had been set up with reported Kremlin support in early 2009 as a pro-government liberal party. In May 2011, the Kremlin allegedly picked Russian businessman Mikhail Prokhorov to head Right Cause, but he began to criticize the Kremlin’s control over the party, and according to his account, was forced to step down in mid-September 2011. Among his allegations, he claimed that Russian presidential administration official Vladislav Surkov was dictating who the party could field as candidates in the upcoming Duma election and otherwise attempting to maintain control over the “puppet” party.17

Putin's September 2011 Announcement of Candidacy for the Presidency

On September 24, 2011, at the annual convention of the ruling United Russia Party, Prime Minister Putin announced that he would run in the March 2012 presidential election. President Medvedev in turn announced that he would not run for reelection, and endorsed Putin’s candidacy. Putin stated that he intended to nominate Medvedev as his prime minister, if elected. The two leaders claimed that they had agreed in late 2007, when they decided that Medvedev would assume the presidency, that Putin could decide to reassume it in 2012. Until these announcements, the United Russia Party had left the leading slot open on its proposed party list of candidates for the planned December 2011 State Duma election. Putin suggested that Medvedev head the party list. All these announcements were acclaimed by the assembled delegates. In his speech to the delegates, Putin warned that global economic problems posed a severe test for Russia, implying that Russia needed his leadership to solve these problems. In his speech, Medvedev pledged that he would continue to modernize the political system, the judiciary, and the economy, would combat corruption, and strengthen the military. The official news service hailed the continuation of the “effective” and “successful” Putin-Medvedev “tandem” as the best assurance of Russia’s future modernization, stability, and “dignity.”18 Another meeting of United Russia delegates reportedly will be held to formally nominate Putin as the party’s presidential candidate.

Just after the party convention, Medvedev fired Russian Finance Minister and Deputy Prime Minister Alexey Kudrin after Kudrin stated that he would not serve under Medvedev as prime minister (according to some reports, Kudrin may have expected to be named prime minister in a future government). Russian analyst Pavel Baev has stated that the legitimacy of Putin’s return to the presidency “is seriously compromised because the spirit, if not the letter, of the constitution [which sets a limit of two presidential terms] is clearly violated.”19 Some critics have warned that Putin might well feel free to fill out another two terms as president until the year 2024, making his term in office longer than that of former General Secretary of the Soviet Communist Party Leonid Brezhnev, who served for 18 years and who was remembered for the “era of stagnation” during the latter period of his rule. One critic, referring to the Soviet period, has predicted that Putin will choose to serve for life.

18 ITAR-TASS, September 25, 2011.
In mid-October 2011, Medvedev unveiled his idea of “big government,” involving the setting up of a group of his supporters, somewhat like the Public Chamber. He stated that during his presidency, he had “tried to develop our party and political system. This was not entirely successful and there were some failures, but nevertheless this is what I tried to do.” He also argued that his government had worked to combat corruption and encourage the development of civil society and economic modernization, and should be endorsed by the electorate to continue such work. Some observers suggested that by forming such a group, Medvedev aimed to attract more liberal voters who might not normally support United Russia but had favorable views toward Medvedev.

One observer argues that United Russia is conducting a low-key campaign, since a low electoral turnout—where mainly government and military personnel and pensioners vote—will ensure a majority vote for the party. Although some opposition groups are urging a boycott of the Duma election, others are calling for voting for any party but United Russia as a protest vote.

A popular front program was released on October 24, 2011. Although there were some plans for the program to be the main document used in the elections, the United Russia Party decided after the September 2011 convention to use a compilation of Putin’s and Medvedev’s speeches, with the program serving a supporting function. The program calls for setting up a retirement system that pays larger pensions to those who voluntarily delay their retirements, lowering taxes on businesses and increasing alcohol and tobacco taxes, creating reverse mortgages, raising the drinking and smoking ages, and drawing up an ostensibly more humane criminal code. Despite these possibly positive proposals, the program appears to emphasize the “stability” of the existing political and economic system over “modernization” initiatives as urged by Medvedev.

The OSCE’s Office for Democratic Institutions and Human Rights (ODIHR) has been negotiating with Vladimir Churov, the head of Russia’s Central Electoral Commission, on the size of the short- and long-term ODIHR delegations that plan to observe the State Duma and presidential elections. As a concession to Russia—in the face of its refusal to host what it considered overly large ODIHR delegations in 2007-2008—ODIHR proposed sending 60 long-term observers (to arrive a month beforehand) and 200 short-term observers (to arrive a few days beforehand) to monitor each election. Churov insisted on even fewer observers, and the sides finally agreed to 40 long-term and 160 short-term observers.

All the seven currently registered political parties are participating in the State Duma election (the four parties already in the Duma were automatically eligible, and the three not in the Duma were deemed to have submitted enough valid signatures).

**Human Rights Problems**

According to the State Department’s *Country Reports on Human Rights Practices for 2010*, there were numerous Russian government human rights problems and abuses during the year. There were numerous reports that police engaged in torture, abuse, and violence to coerce confessions from suspects, and there were allegations that authorities did not consistently hold police accountable for such actions. During the year, reports by refugees, non-governmental organizations (NGOs), and the press suggested a pattern of police beatings, arrests, and extortion.

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when dealing with persons who appeared to be of Caucasus, Central Asian, African, or Romani ethnicity. Government forces engaged in the conflict in the North Caucasus reportedly tortured and otherwise mistreated civilians. Authorities selectively detained and prosecuted members of the political opposition. Human rights organizations and activists identified the following individuals during the year as political prisoners: Aleksey Sokolov, Igor Sutyagin, Zara Murtazaliyeva, Valentin Danilov, Mikhail Khodorkovskiy, and Platon Lebedev.

There were reports of attacks on and killings of journalists by unidentified persons for reasons apparently related to their activities. According to the Russian Glasnost Defense Foundation, an NGO, a number of journalists were killed during the year, possibly for reasons related to their professional activities, and there were 58 attacks against journalists, approximately the same level as in 2009. The government officially reopened investigations into the killings of several journalists from previous years, and there was an arrest in one case, that involving the killing of Novaya Gazeta reporter Anastasiya Baburova and lawyer Stanislav Markelov.

The government controlled many media outlets and infringed on freedoms of speech and expression. It harassed and intimidated some journalists into practicing self censorship and pressured major independent media outlets to abstain from critical coverage with regard to the conduct of federal forces in the North Caucasus, human rights, high-level corruption, and opposition political views. In some cases the government used direct ownership, or ownership by companies with government links, to control or influence media outlets, especially television. The federal government owned one of the six national television stations and had a controlling interest in one other. State-owned or state-affiliated companies owned controlling interests in three others, and the Moscow city administration owned the sixth. Approximately two-thirds of the other 2,500 television stations in the country were completely or partially government-owned. More than 60 percent of the country's 45,000 registered local newspapers and periodicals were government-owned or controlled. The government maintained ownership of the two largest radio stations. According to media NGOs, some authorities used the media's widespread dependence on the government for transmission facilities, access to property, and printing and distribution services to discourage critical reporting.

Local authorities continued to restrict freedom of assembly. According to the Russian human rights NGO AGORA, more than 3,160 civil activists were arrested following public events during the year. Demonstrations that took place without official permission were often broken up by police, who frequently detained demonstrators. Many observers noted a selective and consistent pattern of encouraging rallies friendly to the government—while preventing politically sensitive demonstrations.

Rule of law and due process violations remained a problem. Judges remained subject to influence from the executive, military, and security forces, particularly in high profile or politically sensitive cases, such as the Khodorkovskiy case. Despite recent increases in judges' salaries, reports of judges accepting bribes continued. Legal limitations on detention were generally respected outside of the North Caucasus, and judges occasionally suppressed confessions of suspects if they were taken without a lawyer present. They also at times freed suspects who were held in excess of detention limits. Authorities did not provide adequate protection for witnesses and victims from intimidation or threats from powerful criminal defendants. During 2010 the European Court for Human Rights found 84 violations by the country involving the right to a fair trial and 29 violations involving proceedings that exceeded a "reasonable" length of time.
The government made it difficult for some nongovernmental organizations (NGOs) to carry out their work. Unidentified assailants physically attacked NGO leaders who took positions opposed to government policies or private interests. Security services and local authorities at times fabricated grounds for legal justification for searches and raids on civil society groups. Authorities subjected some NGOs with foreign funding to lengthy financial audits or delayed the registration of their foreign-financed programs.21

Responding to the State Department’s human rights report, Mikhail Fedotov, head of the Presidential Council to Promote the Development of Civil Society Institutions and Human Rights, stated that it had overstressed problems of human rights in Russia and had not focused on positive signs such as the holding of some rallies, the opening of new television stations with diverse programming, and a Russian Supreme Court decision in 2010 that widened freedom of the media. He urged that “our council would like to see an appreciation of positive changes taking place in our country in the field of human rights. We have lots of problems, but it is important to see the trend and the direction in which we are trying to make our movement proceed. Perhaps we do not always succeed, but we do try.”22

Among recent actions bearing on human rights taken by Russia, a Working Group on Civil Society, part of the U.S.-Russia Bilateral Presidential Commission (see below, “The Obama Administration “Re-sets” Bilateral Relations”), held its first U.S. meeting in late January 2010. As per agreement, the working group is composed mainly of government officials and a few NGO representatives. The officials and NGO representatives met in separate sessions, and then the two groups compared notes. The topics of discussion included countering corruption, protecting children, prison reform, and rights of immigrants (the White House subsequently has described these topics as discussed by separate subgroups). Some Members of Congress had called in December 2009 for the Administration to boycott the meetings until Russia changed its head of the group.23 In late May 2010, the Working Group held another meeting in Vladimir, Russia.24 During the presidential summit in Washington, DC, in June 2010, a semi-official meeting of civil society groups took place on the sidelines of the summit. Follow-on meetings of civil society groups took place in several Russian cities in October 2010.25 A meeting of civil society groups took place in late May 2011, followed a week later by a session of the Working Group in Washington, DC. One Russian human rights activist not involved in the session, Lev Ponomarev, complained that the working group session was top-heavy with officials.26

As mentioned above, in June 2010, the Duma passed on first reading (introduced) amendments to the Law on the FSB that permitted the FSB to issue a warning to a person or group “on the impermissibility of actions that would comprise grounds and create conditions for the commission of crimes.” Another amendment would introduce a fine by the FSB for “disobeying

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22 CEDR, April 11, 2011, Doc. No. CEP-950198.
the legal instruction or directive of an FSB official.” Prime Minister Putin admitted that he authored the bill. The bill elicited widespread public criticism, so that it was slightly altered in its second reading on July 9, 2010 (considered the main vote, with a third reading being the final vote). Critics raised concerns that major rationales for the language included further restricting the ability of individuals or groups to hold demonstrations and of media to operate freely. The bill received final approval and was signed into law by President Medvedev on July 29, 2010, despite the urging of human rights groups that it be reconsidered.

In February 2011, Medvedev signed into law an initiative to require police—renamed from their former title of militia(men)—to follow stricter legal principles during such operations as searches and by launching a recertification process to eliminate corruption and criminality from police ranks. According to some public opinion polls, these reforms have resulted in more positive views of the police.

The death of Sergey Magnitskiy—a lawyer for the Hermitage Fund, a private investment firm—in November 2009 after being detained for 11 months has been a highly visible example of the failure of the rule of law in Russia, according to many observers. He had been detained on tax evasion charges after he alleged that police and other officials had illicitly raided Hermitage assets. Medvedev ordered an official investigation into Magnitskiy’s death, and in early July 2011 these investigators narrowly concluded that his death was due to the negligence of prison doctors. The next day, however, the Presidential Council to Promote the Development of Civil Society Institutions and Human Rights issued a report providing evidence that Magnitskiy’s arrest was unlawful, that he had been beaten and possibly tortured while in detention (including just before his death), and that prison officials and possibly higher-level officials had ordered doctors not to treat him. The Russian Prosecutor-General’s Office and Interior Ministry have rejected the findings of the Presidential Commission.

In the 112th Congress, H.R. 1575 (McGovern), introduced on April 15, 2011, and S. 1039 (Cardin), introduced on May 19, 2011, impose sanctions on persons responsible for the detention, abuse, or death of Sergei Magnitskiy, for the conspiracy to defraud the Russian Federation of taxes on corporate profits through fraudulent transactions and lawsuits against Hermitage, and for other gross violations of human rights. The State Department announced that some unnamed Russian individuals they deemed responsible for Magnitskiy’s detention and death would under existing law be subject to visa restrictions. In support of the bills, a Russian human rights group issued an expansive list of over 300 individuals it deemed had violated Magnitskiy’s rights or those of other human rights activists. This latter list incensed some Russian officials who appeared to believe that it had become part of the State Department action. The State Duma began consideration of retaliatory legislation to ban entry to Russia for foreigners who had inflicted property or “emotional” damage on Russian citizens. In late October 2011, Foreign Minister Lavrov reported that some U.S. citizens had been placed on a Russian visa ban list (another ministry officials reportedly stated that the listed U.S. citizens had been involved in incidents linked to the Guantanamo Bay detention facility).

In December 2010, a series of riots took place in Moscow targeting dark-skinned Caucasian and Central Asian individuals. President Medvedev convened a joint session of the State Council and the Commission for the Implementation of Priority National Projects and Demographic Policy in late December to discuss the riots. He appeared to stress migration into Russia as a major source

of inter-ethnic tensions. He called for officials to encourage inter-ethnic harmony, for educational curricula to be altered to stress tolerance, for youth sports to be expanded, for a crackdown on illegal immigration, and for police to quell “ignorant rabble-rousers.” Prime Minister Putin called at the session for the development of “all-Russian patriotism,” as a substitute for Soviet nationality policy, which he claimed had “created an atmosphere of inter-ethnic and inter-faith peace.” President Medvedev agreed that a statist identity needed bolstering, but stressed that during the Soviet period, inter-ethnic stability was ensured through “severe” methods, whereas in post-Soviet times, “other methods” needed to be developed to encourage ethnic peace. In January 2011, Medvedev stressed that “we must give attention to our multi-ethnic culture, but without any doubt, we must give particular attention to Russian culture.”

On October 1 and 22, 2011, ultra-nationalists held “Do Not Feed the Caucasus” rallies in Moscow to call for cutting economic support for the region. On October 20, 2011, President Medvedev reportedly denounced such sentiments as common to “not very bright people or outright provocateurs.” He argued that most regions of Russia depend on subsidies from the federal budget, and that the North Caucasus is a “fortress,” whose citizens mainly assist Russia in countering international terrorist infiltration. In a speech at the Federation Council on October 17, 2011, Medvedev called for the parties running in the Duma election to eschew ultranationalist rhetoric, stating that “the use of the nationalist card and fanning inter-ethnic conflicts and religious discord are crimes…. And even if it is committed during the election campaign, it will be given the appropriate legal assessment, without reductions for democracy or freedom of speech.”

However, some elements of the United Russia and popular front allegedly are making ultranationalist appeals. Ultranationalists plan to hold their yearly November 4 “Russia March,” in central Moscow, even if a permit is not approved.

**Insurgency in the North Caucasus**

Some observers have argued that Russia’s efforts to suppress insurgency in the North Caucasus—a border area between the Black and Caspian Seas that includes the formerly breakaway Chechnya and other ethnic-based regions—have been the most violent in Europe in recent years in terms of ongoing military and civilian casualties and human rights abuses. 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. After his death, his successor, Doku Umarov, declared continuing jihad to establish an Islamic fundamentalist Caucasus Emirate in the North Caucasus and beyond.

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28 *Opening remarks at Joint Meeting of State Council and Commission for Implementation of Priority National Projects and Demographic Policy, The Kremlin, President of Russia, December 27, 2010; Meeting with Leaders of the Federal Assembly, The Kremlin, President of Russia, January 17, 2011.*
29 *CEDR, October 20, 2011, Doc. No. CEP-950226.*
30 *CEDR, October 17, 2011, Doc. No. CEP-950131.*
31 For background information, see CRS Report RL32272, *Bringing Peace to Chechnya? Assessments and Implications*, by Jim Nichol.
Russia’s pacification policy in Chechnya 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 have committed flagrant abuses of human rights, according to myriad rulings by the European Court of Human Rights and other assessments.

Terrorist attacks in the North Caucasus have appeared to increase every year since 2007. Although the rate of increase of terrorist incidents may have lessened in 2010 from the high rate of increase in 2008-2009, the rate of civilian casualties substantially increased throughout the North Caucasus in 2010 and a rising number of terrorist incidents took place outside of Chechnya. Analyst Gordon Hahn has reported that for the first half of 2011, there was an “unprecedented” increase in terrorist incidents in the North Caucasus (344 attacks). As was the case last year, the insurgents appear to be focusing more on killing civilians. There were larger numbers of civilians killed in the first half of 2011 than in the same period of 2010. The greatest number of terrorist attacks was in Dagestan, as in 2010, he states.

Among recent terrorist incidents, on March 29, 2010, suicide bombings in Moscow’s subway killed 39 people and wounded dozens. Prime Minister Vladimir Putin condemned the attack and pledged that law enforcement personnel would “track down the organizers of the crime [and] scrape them from sewer bottoms and bring them into God’s light of day.” Another suicide bombing in Russia’s North Caucasus region of Dagestan two days later claimed 12 lives. Putin suggested that the bombings in Moscow and Dagestan were linked and that both were “crimes against Russia.” President Dmitriy Medvedev vowed to “eliminate the terrorists” responsible for the bombings, to strengthen security forces in the North Caucasus, and to continue to carry out “pinpoint strikes” there to destroy terrorists “and their shelters.” He also stressed that “resolving social and economic problems is in many respects the key to bringing about change in the situation,” in the North Caucasus republics. Umarov took responsibility for the Moscow bombings. President Obama condemned the “outrageous” bombings in Moscow and classed them with other “violent extremism and heinous terrorist attacks that demonstrate ... disregard for human life.”

On September 9, 2010, a car-bomb attack occurred at a crowded marketplace in Vladikavkaz, the capital of North Ossetia, killing 19 adults and children and injuring over 190. President Medvedev responded that “we will certainly do everything to catch these monsters, or in the case of resistance or other cases,” to eliminate them. The Caucasus Emirate’s Ingush Vilayet reportedly took responsibility, stating that the attack was aimed against “Ossetian infidels” on “occupied Ingush lands.”

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On January 24, 2011, a suicide bombing in a publicly accessible area of Moscow’s Domodedovo international airport resulted in over 40 reported deaths and nearly 200 injuries. Doku Umarov took responsibility. Caucasian terrorists also had taken responsibility for the 2004 bombing of two airplanes that had taken off from the same airport. President Obama reportedly telephoned President Medvedev the next day to offer condolences to the victims and to offer assistance in apprehending the perpetrators. In a speech to the FSB on January 25, President Medvedev stated that “terrorism remains a major threat to the security of our country, the main threat for Russia, for all our citizens.” Claiming that the terrorist threat is greater in Russia than the United States, he denounced Russian security efforts that he claimed had not matched those of the United States. He condemned lapses in police and other agency protection at the airport and pledged to prosecute or dismiss those responsible for lapses.

Many observers suggested that the bombings were further evidence that Moscow’s ongoing security operations in the North Caucasus—which have resulted in many human rights abuses—as well as its efforts to boost the regional economy have not yet ameliorated instability there.

On June 23, 2010, Secretary of State Clinton designated Caucasus Emirates leader Doku Umarov as a terrorist under Presidential Executive Order 13224, which targets terrorists and those providing support to terrorists or acts of terrorism, to help stem the flow of financial and other assistance to Umarov. In the Congress, H.Res. 1315 (Hastings), introduced on April 29, 2010, had called on the Secretary of State to designate the Caucasus Emirate as a foreign terrorist organization. On May 26, 2011, the United States similarly designated the Caucasus Emirate under Presidential Executive Order 13224 as a Specially Designated Global Terrorist group, and included Doku Umarov in its “Rewards for Justice” program, offering a reward of up to $5 million for information leading to his location.

At a May 2010 meeting of the Presidential Council to Promote the Development of Civil Society Institutions and Human Rights, President Medvedev argued that there needed to be a youth policy for the North Caucasus, including to ameliorate the 20% unemployment in the region, which heavily impacted youth. He also requested his presidential staff to study the issues of dwindling schooling and healthcare in the region. He dismissed calls to investigate past extrajudicial killings and urged focusing on the future. He also rejected use of the term “guerrillas” instead of “terrorists.” He called for forging a new “Russian identity” in the region that would reduce inter-ethnic conflict.

An official North Caucasus development strategy was promulgated in September 2010. It sets forth goals through 2025, stressing investments in agriculture, tourism, health resorts, energy and mining, and light industry. It also calls for encouraging ethnic Russians to resettle in the area, including by initially setting employment quotas for ethnic Russians. Eventually, by encouraging inter-ethnic harmony, the strategy suggests, the practice of allocating jobs by ethnicity and clan rather than merit might be eliminated. The strategy sets forth an optimum scenario where average wages increase by 250% and unemployment decreases by 70% by 2025. An inter-agency commission to carry out the strategy was formed with Prime Minister Putin as its head. At a May 2011 session, Putin announced that 30 agriculture, tourism, and information technology development projects were moving forward, but he criticized progress in extending loan guarantees for private enterprise development. Regional Development Minister Viktor Basargin

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stated that $9.7 billion would be budgeted for development projects in the North Caucasus through 2013.38

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 less than 1.0 million at present—the Russian military remains formidable in some respects and is by far the largest in the region.39 Because of the deteriorating capabilities of its conventional forces, however, Russia relies 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).40 The passage of legislation in October 2009 providing for the Federation Council to authorize the use of troops abroad to protect its “peacekeepers” and citizens, and to combat piracy at sea, appears to underline that Russia might 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 rising world oil and gas prices, enabled Russia to reverse the budgetary starvation of the military during the 1990s. Defense spending increased substantially in most of the 2000s, and even continued to increase slightly after the global financial crisis of 2008 impacted Russia’s economy. Even factoring in purchasing power parity, however, 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. 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 a transformation of the armed forces from a mobilization model—large divisions only partially staffed and dependent upon the mobilization of reserves during emergencies—to permanently staffed smaller brigades. Problems of force composition, training, command and control, equipment, and doctrine were highlighted during the August 2008 Russia-Georgia conflict.41 Partly in response, a reform plan entitled “The Future Outlook of the Russian Federation Armed Forces and Priorities for its Creation for the period of 2009–2020” was launched in October 2008 that called for accelerating planned cuts in the bloated officer corps, revamping the training of non-commissioned officers, cutting the number of personnel at the Defense Ministry and General Staff, and reducing the number of higher military schools. Also, the four-tier command system of military districts, armies, divisions, and regiments would be altered to a three-tier system of strategic and tactical commands and brigades. The total size of the armed forces would be reduced from 1.2 million to under 1 million.

38 Interfax, May 4, 2011.
39 For more detail, see CRS Report R42006, Russian Military Reform and Defense Policy, by Jim Nichol.
40 Members include Armenia, Azerbaijan, Belarus, Moldova, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Ukraine, and Uzbekistan. Georgia withdrew following the August 2008 Russia-Georgia conflict.
41 The Military Balance, p. 211.
During 2009, the brigade system for ground forces was set up and other reforms were carried out. Some reports suggested that many or most of the new brigades were not adequately supplied with weapons. Similarly, the Chief of the General Staff, Army General Nikolay Makarov, stated in February 2010 that the transition to professional (contract) soldiers had largely failed. Critics argued that the sums paid to contractees were far below adequate wages, so that the quality and number of contractees had remained low. Critics also alleged that large sums in the 2004-2007 defense budgets for transitioning to contracts had been pilfered. The armed forces now face a crisis in finding enough young men to conscript for a one-year term of service given a sharp decline in births in past years and unhealthy living conditions. Alternatives include officially acknowledging and adjusting to an armed forces perhaps well below 1 million or increasing the length of service.

In July 2010, Makarov announced that the existing six military districts would be consolidated into Western, Eastern, Southern and Central military districts. Reportedly, these four districts were established by mid-October 2010. A massive weapons modernization plan for 2011-2020 also was launched. Substantial modernization is contingent on rebuilding the largely obsolete defense industrial complex. Some observers have argued that Russia is seeking as a partial alternative purchasing some advanced military weapons and technology from abroad. Beginning in 2009, Russia negotiated with France over the purchase of a newly designed French amphibious assault warship, called the Mistral. Some Members of Congress raised concerns with France over the Mistral negotiations, as did the country of Georgia, which feared that Russia might in the future use the ship against it. In mid-June 2011, Russia’s Rosoboronexport (Russian Defense Export firm) General Director Anatoly Isaikin signed a contract with France’s DCNS (Direction des Constructions Navales) Director Patrick Boissier on the purchase of two Mistral-class warships. The agreement calls for technology transfers necessary for the construction of the hulls and for information management and communications, but for no weapons systems to be transferred. The completed warships may be deployed to the Pacific Fleet. Two more Mistrals reportedly will be built in new shipyard facilities in Kronstadt, Russia, after which the facilities will be used to build other warships.

As part of the Obama Administration’s “reset” in U.S.-Russia relations, 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 United States has pursued these relations in order to promote cooperation in counter-terrorism and international peace-keeping, including Russia’s support for U.S. and ISAF operations in Afghanistan, to advocate democracy and respect for human rights within Russian military, and also to assess Russian military reforms and civil-military relations. In September 2010, the United States and Russia signed a military cooperation agreement during a visit by Serdyukov to the United States that replaced a 1993 agreement. Reportedly, 67 events, exchanges, exercises, and consultations between the armed forces are planned for 2011. The two sides also issued a declaration of cooperation and agreed to form the Working Group on Defense Relations—as part of the U.S.-Russia Bilateral Presidential Commission—to meet annually. Eight subgroups also were formed, ranging from logistics to strategy, which have held several meetings and have permitted the two countries to compare policies and practices. The brief public accounts of these meetings

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42 CEDR, June 24, 2010, Doc. No. CEP-358007.
seem to indicate that Russia seeks knowledge of best practices as part of the reform effort. Bilateral military cooperation also has been evidenced by the signing of a memorandum of understanding on counter-terrorism cooperation in May 2011 by Makarov and the Chairman of the Joint Chiefs of Staff, Admiral Mike Mullen. Although agreeing at the July 2009 summit to also renew the activities of the Joint Commission on POW/MIs—that seeks 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—Russia only moved in June 2011 to appoint its co-chair, Defense Ministry official Yekaterina Priyezzheva, and 30 commissioners.

**Trade, Economic, and Energy Issues**

**Russia and the Global Economic Crisis**

The Russian economy was hit hard by the global financial crisis and resulting economic downturn. The crisis exposed weaknesses in the economy, including its significant dependence on the production and export of oil and other natural resources and its weak financial system. Russia shows signs of economic recovery, but persistent flaws in the economy could limit the recovery’s depth and length.

Before the global financial crisis, Russia experienced a decade of strong economic growth. From 1999 to 2008, Russia’s gross domestic product (GDP) increased 6.9% on average per year in contrast to an average annual decline in GDP of 6.8% during the previous seven years (1992-1998). The surge in economic growth—largely the result of increases in world oil prices—helped raise the Russian standard of living and brought a large degree of economic stability that Russia had not experienced since the collapse of the Soviet Union at the end of 1991. Russia’s government revenues increased, and that, together with fiscal discipline, allowed the government to generate budget surpluses after years of large deficits. Economic growth also contributed to strong popular support for Vladimir Putin and Dmitriy Medvedev.

However, in 2008, Russia faced a rapid decrease in the prices for oil and other commodities. It also faced investor unease caused in part by Russia’s military confrontation with Georgia in August 2008 and also by the Russian government’s reassertion of control over major industries, especially in the energy sector. Along with these events, the global financial crisis hit Russia in the latter part of 2008 as foreign banking credits, on which many Russian companies depend, decreased. As a result, Russia’s period of economic growth came to an abrupt end. Although Russian real GDP increased 5.6% in 2008 as a whole, it did not grow at all during the fourth quarter of 2008. Russian GDP declined 7.9% in 2009. The decline occurred across most sectors of the economy, with manufacturing, construction, and transportation hit especially hard.

The economic downturn also exposed Russia’s dependence on the production and export of oil, natural gas, and other fossil fuels for economic growth and government revenues. On July 4, 2008, the price of a barrel of Urals-32 (the Russian benchmark price for oil) peaked at $137.61 and declined to a low point of $34.02 by January 2, 2009—a drop of 75.3% in six months. The

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45 Prepared by William H. Cooper, Specialist in International Trade and Finance.
46 Economist Intelligence Unit.
47 CRS calculations based on data from the U.S. Department of Energy, U.S. Energy Information Administration, (continued...)
fuels accounted for about two-thirds of Russia’s export revenues and for more than half of
government revenues. Such a sharp drop in oil prices, along with heightened government
expenditures to stimulate the economy, forced the government to incur its first budget deficit in
10 years in 2009—a deficit equivalent to 5.9% of GDP.\(^{48}\)

The Russian government responded in 2008-2009 to the global financial crisis with various fiscal
measures including heavier spending and tax cuts equivalent to more than 6% of GDP. These
measures were designed mostly to support the banking system, increase social expenditures, and
assist large state enterprises. The stimulus also included monetary measures that included
reducing refinance rates by the Central Bank of Russia (CBR).\(^{49}\) The CBR also drew down
foreign reserves in order to defend the ruble against rapid depreciation.

Russia is slowly emerging from its recession. Russian real GDP is estimated to have increased by
4.0% in 2010, according to the Economist Intelligence Unit, as demand for Russian exports has
increased and oil prices have risen. In 2010, the manufacturing and transport sectors rebounded,
but construction continued to decline.\(^{50}\) During the summer of 2010, Russia experienced a record-
breaking heat wave that adversely affected crops, including wheat, causing the government to
impose a ban on wheat exports. Some companies, including auto manufacturing firms, closed
down operations temporarily because of concerns for the health and safety of its workers, but
these events are not expected to have a permanent effect on the Russian economy.\(^{51}\) Nevertheless,
in the long term, unless Russia can reduce its dependence on the production of oil and other
commodities and diversify and reform its economy, any recovery will likely remain fragile.\(^{52}\) On
several occasions, President Medvedev has expressed the need for Russia to diversify its
economy. As part of that effort, he visited Silicon Valley in California during his June 2010 trip to
the United States in order to persuade U.S. high-tech companies to invest in Russia.\(^{53}\) The
Russian government also announced that it planned to sell some of its shares in major companies,
including several major banks and oil companies, beginning in 2011.\(^{54}\)

**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. Russia has been 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 European Union (EU). WP members have raised concerns
about Russia’s IPR enforcement policies and practices, sanitary and phytosanitary (SPS)
regulations that may be blocking imports of agricultural products unnecessarily, and Russia’s

(...continued)

http://www.eia.doe.gov.


\(^{49}\) IMF, *Russian Federation: 2010 Article IV Consultation—Staff Report; and Public Information Notice on the
Executive Board Discussion*, July 2010, p. 8.


demand to keep its large subsidies for its agricultural sector. The United States has also raised issues regarding the role of state-owned enterprises (SOEs) in the Russian economy and Russian impediments to imports of U.S. products containing encryption technology.

Prime Minister Putin’s June 9, 2009, announcement that Russia would be abandoning its application to join the WTO as a single entity and would instead pursue it with Belarus and Kazakhstan as a customs union seemed to set back the accession process. However, after meeting resistance from WTO officials, Russia and the other two countries decided to pursue accession separately but with common proposed tariff schedules for the three countries. On June 24, 2010, during their meeting in Washington, DC, President Obama and President Medvedev pledged to resolve the remaining issues regarding Russia’s accession to the WTO by September 30. The United States also pledged to provide technical assistance to Russia to speed up the process of Russia’s accession, taking into account its customs union with Belarus and Kazakhstan. On October 1, 2010, USTR announced that the United States and Russia had resolved some key issues, including those related to IPR and the use of restrictive regulations on meat imports. In addition, Russia completed negotiations with the EU. Russia also appears to have completed negotiations with the WTO working party. A meeting of the working party is scheduled for November 10-11, 2011 meeting which may result in a completion of the working party report and other steps paving the way for Russia to be invited to join the WTO during the December 15-17 Ministerial meeting in Geneva.

The WTO requires that each member grant to all other members “unconditional” most-favored-nation (MFN), or permanent normal trade relations (PNTR) status, the term used under U.S. law. WTO rules require that mutual PNTR must convey between WTO members to enable them to have the relationship within the WTO framework. If the United States has not given PNTR to a new WTO member, it must invoke the WTO’s non-application clause, which would essentially preclude the United States and Russia from having a trade relationship under WTO rules. This would mean, for example, that the United States could not pursue dispute settlement action on discriminatory treatment against imported U.S. cars.

Normal Trade Relations (NTR) status is used under U.S. law 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 possible 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. No such legislation was introduced in the 111th Congress. However, as Russia’s accession to the WTO approaches, legislation to do so could be introduced in the 112th Congress. Russian leaders consider the absence of PNTR an affront and the Jackson-Vanik amendment to be a relic of the Cold War that should no longer apply to U.S.-Russia trade relations, especially since such still ostensibly communist countries as China and Vietnam are afforded PNTR status by the United States.
Medvedev's Modernization Initiative\textsuperscript{55}

Toward the end of his presidency, Vladimir Putin called for an updated economic strategy to the year 2020 to guide his chosen successor, Dmitriy Medvedev. The goal of the strategy was to make Russia one of the five major economic powers in terms of technological innovation, energy development, and finance. The global financial crisis led the Medvedev government to promulgate an “anti-crisis plan” in early 2009, but it pledged to retain the goals of “Strategy 2020.” In May 2009, Medvedev complained that technological innovation was lagging, including because private businesses were not making long-term investments, and he decreed the establishment of a “Presidential Commission on Modernization and Technological Development of the Russian Economy.” The foci of the meetings of the Modernization Commission are on medical technology, pharmaceuticals, energy efficiency, nuclear technology, computer hardware and software, space technology, and telecommunications. It has a yearly budget for providing seed money for innovative projects.

In September 2009, Medvedev published the article “Go Russia!” (mentioned above) that deplored the economic downturn in Russia and called for stepped-up efforts to boost technological innovation. In a subsequent state of the nation address to the Russian Federal Assembly (legislature) in November 2009, he further spelled out his plans for technological modernization.

The Medvedev government has compiled a list of countries that are advanced in high technology of interest and has been inviting these states to invest in Russia. In a foreign policy speech in July 2010, President Medvedev argued that the global economic crisis had brought about a “paradigm shift in international relations [which] opens for us a unique opportunity to put Russia’s foreign policy instruments to the most effective use possible to assist the country’s modernization.” He called for his diplomats and trade officials to forge a “modernization alliance” with Western democracies, such as the European Union and the United States, and other countries.\textsuperscript{56}

In a September 2010 speech, Medvedev stressed that the purpose of technological innovation was to raise living standards. If existing government rules and regulations are rigorously applied and living standards are improved, he appeared to argue, then there is progress in democratization. He did not mention the need for progress on free elections, freedom of assembly, or other civil or human rights as components of democracy, according to some critics.\textsuperscript{57}

During a meeting of the Modernization Commission and an associated trade show in late October 2011, President Medvedev attempted to dispel rumors that government funding for modernization initiatives would be reduced because of budget deficits. However, Russian media reported that the Finance Ministry planned to substantially reduce the budget for the Modernization Commission in 2013-2014, and that the overall budget for innovation was being reduced from $2.3 billion in 2012 to $900 million in 2013 and even less thereafter. One Russian official explained that innovation funding was being transferred to military acquisition. According to one report, the frequency of meetings of the Modernization Commission and its sub-groups have fallen off, and

\textsuperscript{55} Prepared by Jim Nichol, Specialist in Russian and Eurasian Affairs.

\textsuperscript{56} CEDR, June 24, 2010, Doc. No. CEP-4950250; The Kremlin, Speech by Dmitri Medvedev, President of the Russian Federation, at the Meeting with Russian Ambassadors and Permanent Representatives to International Organizations, July 12, 2010.

\textsuperscript{57} CEDR, September 13, 2010, Doc. No. CEP-4013; Doc. No. CEP-4009.
the public has become disillusioned, since they have not seen any benefits from Medvedev’s modernization initiative. Medvedev stated that he did not think that “modernization is no longer fashionable since it cannot bring political dividends…. Modernization is fashionable and it can bring political dividends,” even during an election season.58

U.S. critic Leon Aron argues that in order to modernize, Russia must stop persecuting Russian businessmen, strengthen democratic institutions, protect property rights, and withdraw its troops from Georgia.59

The Skolkovo Center for Innovation

At a meeting of the Presidential Commission on Modernization in February 2010, Medvedev announced that a campus for high technology research and commerce would be constructed outside of Moscow near the town of Skolkovo. To attract domestic and foreign firms, tax benefits have been offered. Construction began in 2011. Critics have argued that the project has been slow to get off the ground.

Russian media have reported that planned government spending on the Skolkovo Center will be reduced in 2013. Officials at Skolkovo argue that the government funds are being reduced as per long-term planning as private funding increases. Presidential aide Arkady Dvorkovich has called for prospective President Putin to continue to support the Skolkovo Center.

According to U.S. critic Matthew Jojansky, Russia is unlikely to be successful in creating a Silicon Valley-like environment at Skolkovo, because Russia “does not have the rule of law climate, it does not have the investor-friendly climate, [and] it does not have the capital, [so] it has to attract it from abroad.” Also, he stressed, Medvedev aimed to create Skolkovo by bureaucratic fiat, rather that “growing this thing organically by approaching the root-level drivers of innovation and profitability and commercialization of high technology…. He wants to create a little bubble outside of Moscow in which the rule of law, [such as] protections for intellectual property, will all be there within this bubble but not … in the rest of Russia.”60

U.S. Interest in Skolkovo

The United States and other countries and international corporations have pledged to become involved in the Skolkovo Center for Innovation, and many others have indicated interest in the project. After visiting Silicon Valley on June 24, 2010, President Medvedev traveled to Washington, DC, for a presidential summit meeting and a conclave hosted by the U.S. Chamber of Commerce. At the summit, the two presidents issued a “Joint Statement on a Strategic Partnership in Innovation” that expressed the intent of the two sides “to begin new and dedicated efforts to promote collaboration in the areas of development of civil technologies, open standards, and innovation and technology policy.” The Skolkovo Innovation Center appeared to be referenced when the two sides pledged to develop “cooperation on innovation in science and

58 CEDR, October 26, 2011, Doc. No. CEP-46004 and CEP-950089.
59 Leon Aron, Dmitry Medvedev’s Modernization Thaw: Objectives, Actions, and Policy Tests, American Enterprise Institute, Summer 2010.
technology through both existing mechanisms of strategic partnership and through new cooperation instruments at the level of government institutions, non-governmental organizations, and the private sector.” At the “U.S.-Russia Business Summit” hosted by the Chamber of Commerce, President Obama specifically mentioned the Skolkovo Innovation Center, stating that he had “pledged to President Medvedev that the United States wants to be Russia’s partner as he pursues his vision of modernization and innovation in Russia, including his initiative to create a Russian Silicon Valley outside of Moscow. American companies and universities were among the first to invest in this effort.” Among recent interest, in late October 2011, President Medvedev witnessed the signing of an education and research agreement between the Skolkovo Center and the Massachusetts Institute of Technology.

**Russian Energy Policy**

The Russian oil and natural gas industries are important players in the global energy market, particularly in Europe and Eurasia. In 2010, Russia had by far the largest natural gas reserves in the world, possessing nearly 24% of the world’s total. It was seventh in the world in oil reserves, with over 5% of the global total. Firms in these industries are either directly controlled by the Russian government or are subject to heavy Russian government influence. The personal and political fortunes of Russia’s leaders are tied to the energy firms. Russian government revenues (in 2010, 46% of total Russian government revenue came from oil and gas taxes) and Russia’s economic revival in the Putin/Medvedev era have been heavily dependent on the massive wealth 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 claimed that European dependence on Russian energy and Russia’s growing influence in large segments of Europe’s energy distribution infrastructure poses a long-term threat to transatlantic relations. Russia accounts for about one-quarter of the EU’s natural gas supplies. Analysts have noted that Russia 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.”

Concerns about Russian energy policy have centered largely on Russia’s natural gas supplies to Europe. The state-controlled Russian natural gas firm Gazprom halted all gas supplies transiting Ukraine for nearly three weeks 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. A similar Russian-Ukrainian dispute had led to a gas cutoff to Europe at the beginning of 2006. In 2010 and 2011, disputes between Russian and Belarus over a variety of issues, including energy prices, debts owed by Belarus, and transit fees paid by Russia for the use of Belarusian pipelines, led to temporary reductions of oil and natural gas supplies to Belarus and

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61 The White House, Office of the Press Secretary, Joint Statement by the Presidents of the United States of America and the Russian Federation on a Strategic Partnership in Innovation, June 24, 2010; Remarks by President Obama and President Medvedev of Russia at the U.S.-Russia Business Summit, June 24, 2010.
62 Prepared by Steven Woehrel, Specialist in European Affairs.
neighboring countries. These incidents have provided further evidence of Russia’s unreliability as an energy supplier, according to some observers.

On the other hand, concerns about the reliability of gas transit through Ukraine and Belarus have caused Russia and some European countries to support new pipeline projects to bypass these two countries, as well as others in central and eastern Europe. In October 2011, Gazprom began transporting natural gas directly from Russia to Germany under the Baltic Sea via a new pipeline, known as Nord Stream. When a second pipeline is completed in late 2012, Nord Stream will have a total capacity of 55 billion cubic meters (bcm) per year, as compared to the Ukrainian pipeline system, which usually delivers 120-130 bcm per year. Russia has raised the possibility of a third Nord Stream pipeline, but Germany has rejected the idea so far.

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 under the Black Sea to Bulgaria, with branches to Austria, Italy, and Greece. Serbia and Hungary have also signed on to the project. Russia plans to start construction of South Stream in 2013, and begin deliveries in 2015. Like Nord Stream, South Stream would bypass Belarus, Ukraine, Poland, and other central European countries. The pipeline has a projected capacity of 63 bcm per year.

Many European Union countries are concerned about the possible consequences of overdependence on Russia for energy. The EU has called for the building of a “Southern Corridor” of pipelines circumventing Russian territory that would transport Central Asian gas supplies to Europe. The largest EU-supported project in the Nabucco pipeline, which could have a capacity of 31 bcm per year. It is expected to get its supplies from Azerbaijan’s Shah Deniz field (Stage 2) through pipelines in Georgia and Turkey. Turkmenistan and Iraq may also supply gas to Nabucco. It is hoped that work on the pipeline could begin in 2013, with the first gas supplies available by 2018. Other, smaller, EU-backed projects for Central Asian gas include the Trans-Adriatic Pipeline (TAP) and the Interconnector Turkey-Greece-Italy (ITGI). Both are competing with Nabucco for access to Shah Deniz 2 gas.

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. It has tried to cast doubt on the legality of the planned and EU-supported Trans-Caspian Pipeline, which would transport gas from Turkmenistan to Nabucco.

In order to build political support for South Stream, Russia has enticed key western European companies to participate in the project. It has also discussed the possibility of modifying the pipeline’s route in order to play potential transit countries off against each other. However, some observers are skeptical about South Stream’s prospects as well, pointing to its projected cost. Observers also question Russia’s ability to significantly expand its gas production so that it can fill current and planned pipelines. Russia could also free up supplies for export by curbing growing domestic demand for gas through raising domestic prices, but it has put off doing so, perhaps for political reasons.

While building pipelines that would circumvent Ukraine, Russia continues its long-standing efforts to gain control of Ukraine’s pipeline system. Ukrainian President Viktor Yanukovych has expressed concern about the impact of Nord Stream and South Stream on transit volumes through
Ukraine’s pipeline system. He has offered Russia partial ownership of the Ukrainian pipeline system in exchange for a share in natural gas fields in Russia and guaranteed transit volumes through Ukraine’s pipelines. So far Russia has not accepted Kyiv’s terms. Instead, Moscow proposed the merger of Gazprom with Naftohaz, Ukraine’s gas company. Ukraine has rejected this approach, noting that it would amount to a Russian takeover of Naftohaz, given Gazprom’s vast size.

Russia has repeatedly rejected Ukraine’s demands to renegotiate the current gas supply contract in order to cut the price Kiev pays for gas. However, Ukraine’s seemingly desperation to secure lower gas prices could still induce it to give Gazprom de facto control over its pipelines in exchange for cheaper gas. On the other hand, if Ukraine breaks the contract unilaterally, some observers see the possibility of another gas supply cut-off to Ukraine and perhaps to western Europe as well.

Russia has had more success in gaining control of Belarus’s gas infrastructure. In October 2011, Gazprom was near to completing a deal to buying all the shares of Beltransgaz, Belarus’s gas pipeline transport company, in exchange for reduced gas prices. The Yamal-Europe gas pipeline, which runs through Belarus and Poland, has a capacity of 33 bcm.

Russia’s formerly dominant role in the transport of Central Asian energy supplies faces challenges not only from projects like Nabucco, but also from demand in Asian countries. A pipeline from Turkmenistan to China opened in 2009, which will deliver 40 bcm of gas per year. Turkmenistan has also expanded its gas pipeline capacity to Iran to reach 20 bcm.

Other factors could diminish Russia’s leverage over Eurasian natural gas supplies. The development of previously difficult-to-develop “unconventional” gas deposits, including shale gas, in Europe and elsewhere could diversify supplies and keep prices down. The growth of the spot market for natural gas and the development of liquefied natural gas infrastructure in Europe could also help diversify supplies as well as reduce dependence on Russian-controlled pipelines. Western European countries have sought a reduction in gas prices from Gazprom, and less reliance on long-term, inflexible “take or pay” contracts. In September 2011, investigators in 10 EU countries raided Gazprom offices as part of an EU Commission investigation into Gazprom’s business practices, which are widely viewed as non-transparent. Russian officials assert that the investigation is a thinly veiled attempt to pressure Gazprom to reduce gas prices.

Russia has threatened to ship more gas to China and other Asian countries if Europe does not exempt Gazprom from the EU’s Third Energy Package, which bars companies from controlling both the production of energy supplies and their transport and distribution. However, Russia’s threat may be hard to implement, given that China has been unwilling to pay as much as Europe does for Gazprom’s gas.

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, including 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 the 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. 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.\textsuperscript{64}

**Foreign Policy**

**Russia and the West**

After the collapse of the Soviet Union and the turmoil associated with the Yeltsin period, a consensus emerged as the Putin era began on reestablishing Russia’s global prestige as a “great power” and its dominance in “the former Soviet space.” 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, had taken 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 officials and observers in Europe and the United States expressed growing concern about what they viewed as an increasingly contrarian Russian foreign policy. This was evident in recent years in Russia’s 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 Dmitri Trenin, then-President Putin became greatly alarmed following the “orange revolution” in Ukraine in 2004-2005 and the “tulip revolution” in Kyrgyzstan later in 2005, and his attitude toward the United States hardened. Trenin claims that 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.... At worst, they constituted a dress rehearsal for ... installing a pro-U.S. liberal puppet regime in the Kremlin.”\textsuperscript{65} In February 2007, at the 43\textsuperscript{rd} annual Munich Security Conference, President Putin delivered a particularly harsh speech attacking Bush Administration policies and condemning the “unipolar” world he alleged the United States was creating.\textsuperscript{66}

In contrast to Putin, President Medvedev has been considered by some observers to be a potentially pragmatic leader who could shift Russia’s attitudes more positively toward the United States and the West. However, during Medvedev’s first year or so in office, Russia’s relations with the West became increasingly tense. In the aftermath of the August 2008 Russia-Georgia conflict, relations between Russia and the West reached what many considered to be their lowest point since the Cold War. Russia continued to voice strong opposition to NATO enlargement to Georgia and Ukraine; invaded Georgia and occupied two of its regions; refused to recognize

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\textsuperscript{64} Morningstar’s testimony before the House Foreign Affairs Committee Subcommittee on European and Eurasian Affairs, June 2, 2011; Senate Foreign Relations Committee hearing “$150 Oil: Instability, Terrorism, and Economic Disruption, July 16, 2009; and State Department Foreign Press Center Briefing, June 23, 2009.

\textsuperscript{65} Dmitri Trenin, “Russia’s Spheres of Interest, not Influence,” \textit{The Washington Quarterly}, October 2009.

\textsuperscript{66} The full text of Vladimir Putin’s speech at the 43\textsuperscript{rd} Munich Conference on Security Policy, February 10, 2007, can be found at http://www.securityconference.de.
Kosovo’s independence; cut off or reduced energy supplies in disputes with Ukraine and Belarus; boosted ties with Cuba and Venezuela; and attempted to end the use of airbases in Central Asia by the United States and NATO.

Responding in part to the Obama Administration’s efforts to “re-set” relations, Russia has appeared somewhat more conciliatory toward the EU and the United States in recent months. An alleged Russian Foreign Ministry document leaked to the media in May 2010 called for the government to adopt a more conciliatory foreign policy toward the West in order to attract foreign investment. Similarly, Russian analyst Igor Yurgens has argued that the Russian leadership no longer is concerned that the West seeks to foment “colored revolutions” in Russia, stating that “there is no danger that someone from the West will want to rock the situation in our country.”

According to Polish analyst Adam Balcer, in the future Russia may seek to develop a strategic partnership with the EU (and the United States) in order to counter growing Chinese influence on Russia, including in the economic realm. A variant situation might be more pragmatic Russia-EU (and U.S.-Russia) relations, whereby China’s dominant influence over the Russian economy moderates Russia’s formerly ultra-nationalistic and exceptional foreign policy toward the West.

**NATO-Russia Relations**

Post-Cold War efforts to build a cooperative NATO-Russia partnership have had mixed results, at best. Russian views toward NATO, particularly since the beginning of the Putin era, have been marked predominantly by suspicion and skepticism regarding NATO’s intentions. However, since NATO-Russia relations reached a new low in the wake of Russia’s 2008 invasion of Georgia, the two sides have renewed efforts to strengthen ties. At NATO’s November 2010 Summit in Lisbon, Portugal, NATO Heads of State met with Russian President Medvedev to mark what they hoped would be the beginning of a new era NATO-Russia relations, based on practical cooperation on common security challenges. Observers point out though that while Russian officials have welcomed some NATO and U.S. overtures, they remain critical of many aspects of NATO policy. Similarly, some NATO members continue to disagree on their assessment of Russian intentions.

The principal institutional mechanism for NATO-Russia relations is the NATO-Russia Council (NRC), established in May 2002. Recognizing that both NATO and Russia face many of the same global challenges and share 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.”

Most observers agree that despite having advanced NATO-Russia cooperation in some key areas, the NRC has failed to live up to its potential. The NRC’s perceived shortcomings are often attributed to Russian suspicion about NATO’s long-term intentions. Many in Russia viewed NATO’s 1999 and 2004 enlargements to 10 former Soviet satellite states as a serious affront to Russian power and prestige and Russian leaders continue to oppose the idea of NATO.

69 Prepared by Paul Belkin, Analyst in European Affairs.
enlargement to former eastern bloc countries. The establishment of U.S. and NATO airbases in Central Asia for operations in Afghanistan after the September 11, 2001, terrorist attacks and a United States decision to establish military facilities, albeit non-permanent, in Bulgaria and Romania after NATO’s 2004 enlargement were viewed by some in Moscow as further evidence of an encirclement of Russia by NATO and the United States.

Tensions between Russia and NATO escalated in the wake of Russia’s August 2008 invasion of Georgia, after which the two sides suspended formal ties in the NATO-Russia Council. Russia’s actions sparked a strong debate within the alliance over how Europe should react to what many considered a new, more aggressive Russian foreign policy intended to reestablish a Russian sphere of influence along its border with Europe. Some allies argued that NATO’s inability or unwillingness to prevent Russia from moving to establish a permanent military presence in Abkhazia and South Ossetia could lead some to question the credibility of the alliance’s core principle of collective defense, as enshrined in Article 5 of the North Atlantic Treaty. Although Georgia is not a member of the alliance, they contended that NATO had given the impression that it could concede to Russian demands in its relations with aspiring alliance members. Several Central and Eastern European allies also expressed concern about a reported lack of NATO contingency planning in response to the possibility of future Russian action against a NATO ally or partner.

More recently, Russian leaders appear concerned by NATO and U.S. plans for a ground-based missile defense system in Europe and NATO insistence that the alliance will not recognize a Russian sphere of influence along its borders. Moscow has criticized NATO member states for their refusal to recognize the Russian-encouraged independence of Abkhazia and South Ossetia and for their reluctance to establish alliance relations with the Russian-led Collective Security Treaty Organization (CSTO members include Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan). In 2007, Russia suspended compliance with the Treaty on Conventional Armed Forces in Europe (CFE Treaty); it has vocally opposed proposals to enhance NATO ties with Georgia and Ukraine; and Russian officials have said the country would develop offensive nuclear forces if the two sides were not to agree to a framework for cooperation on missile defense. Finally, Russian proposals for an alternative European security architecture have been viewed by many as an attempt to undermine NATO and to increase Russian influence in European affairs. Moscow has also been critical of those who have suggested a more formal role for NATO in European energy security issues.

The allies have consistently sought to assure Moscow that NATO does not pose a security threat to Russia. In addition, the allies have emphasized the two sides’ shared interests and have agreed to make these interests the basis for enhanced cooperation. Since resuming meetings of the NATO-Russia Council in April 2009, NATO and Russia have developed a Joint Review of 21st Century Security Challenges, intended to serve as a platform for future cooperation. The shared assessment was formally adopted by NATO Heads of State and Russian President Medvedev at an NRC meeting at NATO’s November 2010 summit in Lisbon. Common security challenges identified include: ongoing instability in Afghanistan; terrorism; the proliferation of weapons of mass destruction; piracy; and natural and man-made disasters. In Lisbon, NATO and Russia pledged to pursue formal cooperation on missile defense, to support the Afghan government and promote peace and stability in the region, to enhance joint counterterrorism efforts, and to jointly

70 The Czech Republic, Poland, and Hungary joined the alliance in March 1999; Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia joined in March 2004.
combat piracy and armed robbery at sea, among other things. NATO-Russia cooperation in some of these areas has expanded in 2011, while NRC working groups have had difficulty making progress in other areas.

Allied officials point to several areas of enhanced NATO-Russia cooperation over the past several years, and particularly since the Lisbon Summit. Russia has allowed the establishment of air and land supply routes for the NATO mission in Afghanistan on its territory and has agreed to bolster training for Afghan and regional counter-narcotics officers. Russian helicopters, operated by civilian crews, have also begun providing transport in Afghanistan, and the NRC has established a Helicopter Maintenance Trust Fund. The Helicopter Maintenance Fund, jointly funded by NATO and Russia, will provide maintenance and repair support to the Afghan National Security Forces. In April 2011, the NRC approved a new Action Plan on Terrorism, designed to improve both sides’ capabilities to deter, combat, and manage the consequences of terrorist attacks. Joint activities include exchange of classified information, development of technology to detect explosive devices, and improved protection of critical infrastructure. In early June 2011, NATO and Russian fighter aircraft held their first ever joint exercise over Poland and the Black Sea, as part of the Cooperative Airspace Initiative (CAI), aimed at preventing attacks like those of September 11, 2001, through coordinated interception of renegade aircraft.71

Observers point out that while progress has been made in some of the aforementioned areas, disagreement both within the alliance and between NATO and Russia persists on some core issues. NATO and Russia’s November 2010 agreement to pursue cooperation missile defense was seen as a significant breakthrough in NATO-Russia ties and recognized as one of the biggest achievements of the Lisbon Summit. Analysts caution, however, that the two sides may face significant obstacles in reaching agreement on the conditions for such cooperation (discussed in more detail below). In addition, little, if any, progress has been made on the issue of Georgia’s territorial integrity and NATO membership prospects, the unratified CFE Treaty, and Russian calls for more influence within the Euro-Atlantic security architecture.

President Medvedev introduced the idea of a new Euro-Atlantic security architecture in June 2008. He has argued that the United States, through its membership in NATO, continues to exercise disproportionate influence in European affairs and that Russia should have a more formal role in the current European security architecture. While Russian officials claim that a new security architecture would improve trust among Euro-Atlantic governments and reduce the risk of internal European conflicts, many in the United States and Europe view the Russian proposals as attempts to weaken NATO, constrain the OSCE, and stop further encroachment of these organizations on Russia’s borders. The United States and most European countries maintain that any dialogue on the future of European security must build upon the existing Euro-Atlantic institutions.

NATO’s ongoing efforts to enhance NATO-Russia ties appear in line with the Obama Administration’s stated intention to pursue a path of constructive engagement with Russia. U.S. officials have emphasized the need to engage Russia in an effort to improve U.S.-Russia and NATO-Russia cooperation in areas ranging from the NATO mission in Afghanistan and counter-terrorism, to arms control and non-proliferation and international efforts to curb Iran’s nuclear

program. At the same time, NATO and U.S. officials stress that they will continue to oppose Russian policies that they perceive as conflicting with the core values of the alliance. They say, for example, that NATO will not recognize a Russian sphere of influence outside its borders and will continue to reject Russia’s recognition of Georgia’s breakaway regions, Abkhazia and South Ossetia. There continues to be concern among some NATO allies that Russia has not changed its fundamental view of NATO as a security threat and that unresolved issues will continue to plague NATO-Russia relations. Observers and officials in some allied nations—notably Poland and Lithuania—have at times expressed concern that NATO’s reengagement with Russia could signal that the alliance is not serious about standing up to Russian behavior it has deemed unacceptable. In this vein, they have urged the United States Administration to consider the interests and views of all NATO allies as it seeks to improve relations with Russia.

Russia and the European Union

Attitudes and outlooks on Russia differ considerably among the 27 member states of the European Union (EU). The governments of some countries, such as Germany, France, and Italy, are inclined to an approach based on pragmatism and engagement. They believe that the maintenance of extensive ties and constructive dialogue is the most effective way to influence Russia. Supporters of this approach also argue that Russia should be viewed as a strategic partner and observe that Russian cooperation is important on issues such as energy, Iran, climate change, and arms control. Countries such as Poland and the Baltic States, on the other hand, tend to view Russia more as a potential threat to themselves and their neighbors. Difficult relations between these countries and Russia are deeply rooted in the historical experiences of the Soviet domination of Eastern Europe. A partial Polish-Russian rapprochement that unfolded in spring 2010 reportedly diminished some of the sharpness of inter-European divisions about Russia, although some bilateral tensions between the two countries remain.

As a result of its internal differences, the EU has had difficulty developing coherent and robust common policies on Russia, and critics note that the EU lacks a comprehensive strategic approach to its eastern neighbor. The EU was critical of Russia’s actions during the August 2008 conflict with Georgia and continues to object to Russia’s support of Georgia’s breakaway provinces. EU leaders also routinely express concerns about human rights, political pluralism, and rule of law in Russia, but critics note that the EU’s attempts to influence Russia in such areas have been largely ineffective.

Relations between the EU and Russia revolve largely around energy and economics. Russia supplies the EU with more than one-quarter of its total gas and oil supplies, and some EU member states are almost completely reliant on Russian energy. As discussed above (see “Russian Energy Policy”), energy dependence and aggressive Russian energy policies contribute to the tensions felt by some of the countries of central and eastern Europe with regard to Russia. The EU’s energy dependence on Russia is expected to grow substantially over the next 20 years and the apparent Russian inclination to use energy supplies as an instrument of foreign policy has raised concerns about potential vulnerabilities that could arise from this trend. Many officials and analysts agree on the need for the EU to further diversify its energy supply, but the EU has

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73 Prepared by Derek E. Mix, Analyst in European Affairs.
struggled to formulate a common strategic energy policy. According to some observers, the willingness of numerous EU member states to conclude bilateral energy deals with Russia has served to undermine the prospects of developing a stronger common policy.

To some extent, however, the EU-Russia energy relationship works two ways: while Russia is a crucial energy supplier for Europe, Europe is also a vital energy market for Russia. In terms of trade and investment, the EU is an even more important partner for Russia, accounting for more than half of Russia’s trade and three-quarters of its foreign direct investment (FDI).74 Russia, in turn, is the EU’s third-largest trade partner (behind the United States and China); EU-Russia trade totaled some €245 billion (approximately $343 billion) in 2010.75

The EU and Russia have been negotiating a new framework agreement to replace the EU-Russia Partnership and Cooperation Agreement (PCA) that came into force in 1997.76 Progress was long slowed by contention over Russia’s bid for membership in the World Trade Organization (WTO), but the two sides have resolved all outstanding bilateral issues and EU leaders have expressed hopes that the remaining multilateral WTO negotiations might be completed quickly. Under the original PCA, the EU and Russia launched efforts in 2003 to develop a more open and integrated Common Economic Space (CES) and to establish deeper cooperation on issues such as rule of law, human rights, research, education, crisis management, and non-proliferation.77 The 2010 EU-Russia Summit launched a “Partnership for Modernization” in which the EU pledged to help develop and diversify the Russian economy while encouraging reforms related to governance and rule of law.78

Russian leaders have been particularly interested in the potential economic and technological benefits of the Partnership for Modernization, including loans from the European Investment Bank (EIB) and possible cooperation in areas such as Russia’s Soyuz space program and the EU’s Galileo global positioning systems. At the same time, increased investment in Russia by the private sector of the EU’s member states does not appear to be immediately forthcoming, due in no small part to concerns over the rule of law in Russia’s business environment. The two sides have also been discussing concerns such as the “frozen conflicts” in Transnistria, Nagorno-Karabakh, and Georgia and negotiating about a possible visa-free travel regime, an issue that has long been a priority for Russian leaders.

**Russia and the Soviet Successor States**79

Russia’s July 2008 Foreign Policy Concept and the May 2009 National Security Strategy hail cooperation within the CIS as “a priority foreign policy direction.” The latter document proclaims

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76 The PCA was valid for an initial period of 10 years. Since 2007, it has been renewed on an annual basis.


79 Prepared by Jim Nichol, Specialist in Russian and Eurasian Affairs, and Steven Woehrel, Specialist in European Affairs.
that the Collective Security Treaty Organization (CSTO; composed of CIS members Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan) is “the main interstate instrument” to combat regional military threats.\textsuperscript{80} The February 2010 Military Doctrine states that the priorities of military-political cooperation are Belarus (formally part of a union with Russia), the CSTO, and the CIS. Despite Russia’s emphasis on interests in the CIS, there has long been scant progress toward overall CIS integration. Many 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.

In early October 2011, Prime Minister Putin published an article calling for the creation of a “Eurasian Union” of Soviet successor states. This “Eurasian Union” would be integrated economically, politically, and militarily, and would unite the structures and functions of the CIS, the Union State between Belarus and Russia, and the CSTO, as well as the Common Economic Space between Russia, Belarus, and Kazakhstan that is planned to be inaugurated at the beginning of 2012. Putin raised the hope that the Soviet successor states would be able to integrate more rapidly than states forming the EU. The “Eurasian Union” would forge close links with the EU, he argued. The argument’s strong presumption appears to be that economic and other contacts between Soviet successor states and the rest of the world (including the EU) would be mediated by Russia. One Russian critic dismissed the article as campaign rhetoric, arguing that in his past elections, Putin had attempted to attract the votes of those nostalgic for the Soviet era.\textsuperscript{81}

In a speech in mid-October 2011, Prime Minister Putin elucidated that elements of the “Eurasian Union” concept had originated in 2002, when he met with visiting presidents Kuchma (Ukraine), Nazarbayev (Kazakhstan), and Lukashenko (Belarus) to discuss economic integration. He stated that “it does not take an expert to realize that combining our capabilities in such areas as technology, infrastructure, transport, energy, mineral resources, labor, and territory, in addition to our shared language … will result in a sharp increase in our competitiveness…. We will do away with various limitations between our countries, including customs, currency rates and multiple approaches toward technical regulations. And so on, and so forth. We will remove bureaucratic hurdles in the economy and form a single, essentially shared market for the free movement of goods, human resources and capital; we will introduce standard economic regulations, enhance the security of our outer borders, primarily the economic security, and will become more efficient and more attractive to our foreign partners.” He argued that “we are not talking about … the revival of the Soviet Union,” claiming that centralized decision-making in the EU is now greater than what existed in the Soviet Union, and “no one talks about imperial ambitions” in such integration.\textsuperscript{82}

The CSTO was formed in 2002 with a headquarters in Moscow.\textsuperscript{83} An airbase at Kant, Kyrgyzstan, was designated in 2002 to provide support for Central Asian rapid reaction forces, but the base has housed Russian troops. President Medvedev called in February 2009 for forming a new and


\textsuperscript{81} Vladimir Socor, “Putin’s Eurasian Manifesto Charts Russia’s Return To Great Power Status,” Eurasia Daily Monitor, October 7, 2011; Pavel Felgenhauer, “Putin Prioritizes Rebuilding the Lost Empire,” Eurasia Daily Monitor, October 6, 2011.


\textsuperscript{83} The Collective Security Treaty was signed in 1992 and renewed in 1999.
sizeable CSTO rapid reaction force based in Russia, which he claimed would rival NATO. Uzbekistan raised concerns that the force could be used by Russia to intervene in its internal affairs, and refused to sign a June 2009 agreement on the formation of the force. Belarus too balked at signing the agreement until October 2009. Despite the lack of consensus within the CSTO, Russia moved forward unilaterally, assigning the 98th Airborne Division and the 31st Airborne Assault Brigade (reportedly 8,000 troops) to the force. Although Russia welcomed Belarus as a member of the force in October, the Belarusian constitution forbids the use of its troops abroad. The rapid reaction force ostensibly is to be used to repulse military aggression from outside the CSTO, react to natural disasters, and to combat terrorist groups, trans-national organized crime, and drug traffickers. The force may be used outside the CSTO at the aegis of the U.N. The decision to use the rapid reaction force is made by the presidents of the member-states at the request of one or a group of member states. The worth of the CSTO has been a matter of debate among its members and others, since it has not been efficacious in protecting borders or halting internal disorder. The CSTO’s worth appeared to be placed in added question in June 2010 when Russia and other members balked at Kyrgyzstan’s request for troops to quell inter-ethnic conflict in southern Kyrgyzstan.

Russian policy toward Belarus has been focused on gaining control of Belarus’s key economic assets, while limiting subsidies to the Belarusian economy. Moscow has forced Belarus to sell the Beltransgaz natural gas firm (which controls the pipelines and other infrastructure on Belarusian territory) to Russia by threatening steep gas price rises if it did not. Moscow has also manipulated the issue of export duties on and the price of Russian crude oil delivered to Belarusian refineries. Inexpensive and duty-free crude oil supplies, long a key de facto subsidy to Belarus’s economy, have declined. In June 2011, the Russian-led Eurasian Economic Community offered Belarus a three-year, $3 billion loan to bolster the country’s rapidly deteriorating foreign exchange position, but in return Belarus had to agree to privatize $7.5 billion in state-owned assets. Russia and Belarus are close to reaching agreement on the sale to Russia of the half of Beltransgaz that Russia does not already own. Russian businessmen are seeking to buy Belaruskali, the state-owned potash firm, and are also reportedly interested in opportunities in the banking sector.

Lukashenko has pointed to close military cooperation between the two countries and Belarus’s geographical position between NATO and Russia as reasons for Russia to subsidize energy supplies to Belarus. Belarus is a member of the Russian-dominated Collective Security Treaty Organization (CSTO), which Russia hopes to make into a counterweight to NATO influence. However, Belarus has distanced itself from the CSTO’s rapid reaction force, saying that Belarus would not deploy its forces outside its borders. Lukashenko has also agreed that Belarus will further integrate its economy with Russia’s in a regional “Single Economic Space.” On the other hand Belarus has shown independence from Moscow on some issues, such as refusing to recognize the independence of Georgia’ breakaway regions of Abkhazia and South Ossetia, despite Russian pressure. In other circumstances, recent Russian economic pressure on Belarus could have caused Minsk to seek closer ties with the United States and EU, but relations with the West were seriously damaged by Lukashenko’s repression of opposition groups in the wake of Belarus’s fraudulent December 2010 election. However, many observers believe Moscow is now easing pressure on Belarus in the run-up to the 2012 Russian presidential election.

Russian forces remain in the Transnistria region of Moldova against the wishes of the Moldovan government (and in violation of Russia’s 1999 commitment under the adapted CFE Treaty to withdraw the forces). Russia has also provided economic subsidies to bolster the pro-Russian separatist regime in Transnistria. The United States and the EU have called upon Russia to withdraw its forces from Moldova. Russian leaders have sought to condition the withdrawal of
their troops on the resolution of Transnistria’s status. Transnistrian leaders have sought Russia’s recognition of their independence, without success. Formal talks on Transnistria were held for the first time in five years in September 2011. Observers believe that Russia pressured Transnistrian leaders (who have sought and failed to receive Russian recognition of their independence) to return to the negotiating table in part due to Germany’s influence. In June 2010, German Chancellor Angela Merkel and Russian President Dmitri Medvedev agreed in Meseberg, Germany, on a memorandum that appeared to offer German support for the creation of an high-level EU-Russia Political and Security Committee in exchange for Russian support for restarting settlement talks and achieving “tangible results.” Some experts believe Russia may be pushing for a Transnistria settlement that would give the pro-Russian enclave effective veto power over Moldova’s foreign and domestic policies, which could stymie Moldovan efforts toward European integration. In 2003, Russia offered such a proposal, called the Kozak Memorandum, that Moldova ultimately rejected.

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 put back in place as the 2000s progressed. On July 29, 2005, the Uzbek government directed the United States to cease 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 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, reportedly angering Putin. In the wake of the “re-set” in U.S.-Russia relations since 2009, however, there has appeared to be increasing cooperation from Russia regarding the transit of materiel and the provision of other assistance to support U.S. and NATO military operations in Afghanistan and the continued (temporary) presence of U.S. and NATO bases in Central Asia.

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. Russia and Georgia have yet to reestablish diplomatic relations that Georgia broke off following the August 2008 conflict. From March-October 2011, Switzerland mediated talks.

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between Georgia and Russia to address Georgia’s calls for customs control along its borders between Russia and the breakaway regions, as a condition for Georgia’s consent for Russia’s joining the World Trade Organization. President Medvedev reportedly stated on November 3, 2011, that Russia would accept some private third-party monitoring of the border and electronic data on trade, resolving this issue blocking WTO accession.

During the presidency of Viktor Yushchenko from 2005 until February 2010, Russia’s relations with Ukraine were often tense due to differences over such issues as the supply of Russian energy through Ukrainian pipelines (leading to shut-offs of natural gas to Europe in 2006 and 2009), Russia’s conflict with Georgia in 2008, the status of the Russian Black Sea Fleet in Ukraine’s Crimea region, and Yushchenko’s advocacy of NATO membership for Ukraine. The victory of the pro-Russian Viktor Yanukovych in Ukrainian presidential elections in February 2010 led to a rapid improvement in Russian-Ukrainian relations. Yanukovych dropped Yushchenko’s NATO membership aspirations, saying that the country will remain outside all military blocs. Russia and Ukraine have agreed to extend the stay of the Russian Black Sea Fleet in Crimea until 2042, from the original withdrawal date of 2017. In exchange, Russia is providing Ukraine with discounted prices for natural gas supplies for 10 years, a benefit that the two sides estimated as worth $40 billion. However, rising global energy prices have negated much of the savings Kyiv counted on from the Black Sea Fleet accord, and Yanukovych continues to seek further gas price reductions from Russia. This situation may give Moscow more leverage to secure additional foreign policy and economic concessions from Kyiv. Russian firms, with Russian government support, have sought to buy key industrial assets in Ukraine since Yanukovych has come to power.

Some of Russia’s boldest proposals appear to have gone further than Kiev can support. Ukraine has rebuffed Russian suggestions that it join the CSTO. It has not accepted Russia’s proposal that that it join the customs union with Russia, Belarus and other former Soviet countries, which would conflict with Ukraine’s WTO membership and its professed desire for a free trade agreement with the European Union. Russia has tried to dissuade Ukraine from signing a free trade agreement with the EU. Former Ukrainian Prime Minister Yuliya Tymoshenko’s sentencing in October 2011 to seven years imprisonment by a Ukrainian court for abuse of power provoked a sharp reaction from the EU. As a result, it is unclear whether the EU will sign the free trade agreement with Kyiv (or the association agreement of which it is a part). If the EU agreement is not signed, Moscow hopes that Ukraine will change its mind on the customs union.

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.86 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 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.

86 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.
The Obama Administration “Re-sets” 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 was an early sign 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 and on U.S.-Russia relations.

In their joint statement on U.S.-Russia relations, the two presidents 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.87

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.88

At the July 2009 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 re-set 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 at the summit 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 Michael McFaul, the Senior Director for Russian and Eurasian Affairs on the National Security Council, the main topics at the summit were Iran, a major U.S. concern, and missile defense, a

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

At the July 2009 summit, President Obama stated that one area where the two presidents “agreed to disagree” was on Georgia. McFaul 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.

Secretary of State Hillary Clinton reported that her visit to Russia on October 12-14, 2009, had resulted in progress in negotiations to replace the expiring Strategic Arms Reduction Treaty (START), support for the Global Initiative To Combat Nuclear Terrorism, and cooperation in Afghanistan. Discussions about Iran’s nuclear proliferation threat revealed ongoing differences, with Foreign Minister Lavrov stating that tightened sanctions against Iran were premature while diplomatic efforts were 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.

During her visit, Secretary Clinton and Foreign Minister Lavrov convened the first meeting of the U.S.-Russia Bilateral Presidential Commission. They agreed to create added working groups on counterterrorism, the environment, and on military-to-military ties. Several of the co-chairs of working groups attached to the commission also met. McFaul, who co-chairs the civil society working group, reportedly stated that government officials and representatives of non-governmental groups would meet separately. Some Russian human rights groups criticized their exclusion from the working group. 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, DC, in late September. At the latter working group meeting, Russia urged the United States to greatly step up poppy eradication efforts in Afghanistan.

Meeting on November 15, 2009, on the sidelines of the Asia-Pacific summit in Singapore, Presidents Obama and Medvedev continued discussions on START and Iran. President Obama reported that he had again stressed to Medvedev that added international sanctions should be applied to Iran if it continued to defy its international obligation not to develop nuclear weapons.

The Obama Administration’s National Security Strategy, released in May 2010, asserts that the United States endeavors “to build a stable, substantive, multidimensional relationship with Russia, based on mutual interests. The United States has an interest in a strong, peaceful, and prosperous Russia that respects international norms.” The strategy calls for bilateral cooperation with Russia—termed one of the 21st century centers of influence in the world—in bolstering global nonproliferation; in confronting violent extremism, especially in Afghanistan; in forging new trade and investment arrangements; in promoting the rule of law, accountable government, and universal values within Russia; and in cooperating as a partner in Europe and Asia. At the
same time, the strategy stresses that the United States “will support the sovereignty and territorial integrity of Russia’s neighbors.”

President Medvedev visited the United States on June 22-24, 2010, to focus on business and technology ties between the two countries. In 11 joint statements, the two presidents pledged further cooperation to achieve stability in Afghanistan, to foster open government, and to strengthen counter-terrorism cooperation, among other issues. In a joint statement on strategic stability, they vowed to continue “the development of a new strategic relationship based on mutual trust, openness, predictability, and cooperation.” President Obama also called for accelerating efforts with other members of the World Trade Organization (WTO) to complete the steps necessary for Russian accession to the WTO. He announced that Russia had agreed to purchase 50 Boeing aircraft, worth $4 billion, and that the two countries had reached an agreement that would permit U.S. poultry products to again be exported to Russia.

Just days after Medvedev’s U.S. visit, the United States announced on June 28, 2010, the arrest of 11 Russian spies (one spy was outside the United States and apparently escaped). Some of the spies had been paired as couples by the Russian Foreign Intelligence Service. The spies had lived in several U.S. metropolitan areas for up to 10 years or longer. They were arrested on charges that included money-laundering and not registering as foreign agents. An FBI investigation against the “deep cover” agents reportedly had been ongoing for several years. The timing of the arrests may have been determined by suspicions of one of the agents that her cover had been blown. The 10 agents were swapped in Vienna, Austria, on July 9 for four Russian citizens whom Moscow had alleged were U.S. or British spies. Some U.S. observers suggested that the focus of the 10 Russian agents on seemingly public information gathering was a reflection of the paranoia and myopia of Russia’s political leaders. Some observers in the United States and Russia speculated that the quick resolution of the spy case indicated a concerted effort among policymakers in both countries to preserve the “re-set” in bilateral relations.

In November 2010, Presidents Obama and Medvedev met on the sidelines at the Group of 20 industrialized states in Seoul, South Korea, at the Asia-Pacific Economic Summit in Yokohama, Japan, and at the NATO-Russia summit in Lisbon, Portugal. At the session of the NATO-Russia Council in Lisbon, the heads of state agreed to work on cooperation on common security challenges, to resume theater ballistic missile defense exercises, to identify opportunities for Russia to cooperate with NATO’s new territorial missile defense capability, to expand Russia’s support for NATO operations in Afghanistan, and to explore revitalizing and modernizing the Conventional Forces in Europe (CFE) Treaty. President Obama hailed the agreements as part of the re-set in NATO-Russia relations and as indicating that Russia is a partner rather than an adversary of NATO. The 112th Congress may hold oversight hearings on all of these issues.

In early December 2010, Secretary Clinton attended the OSCE Summit in Astana, Kazakhstan. On the one hand, Russia and the United States reportedly clashed, with Russia objecting to the establishment of an OSCE mission in Georgia that would have a mandate that included Georgia’s breakaway Abkhazia and South Ossetia and the United States objecting to Russian calls for a new European security treaty. Secretary Clinton also stressed that all OSCE members should fully

91 Financial Times (London), July 1, 2010.
implement their pledges to democratize and respect human rights. On the other hand, President Medvedev and Secretary Clinton joined in calling for the peaceful settlement of the Armenia-Azerbaijan conflict over the breakaway Nagorno Karabakh region, and the Astana summit declaration called for opening negotiations in 2011 on revitalizing the CFE Treaty.

In May 2011, Presidents Obama and Medvedev met on the sidelines at the Group of 8 industrialized states in Deauville, France. The main topics discussed included U.S. plans for missile defense deployments in Central Europe, counter-terrorism cooperation, and economic issues, including Russia’s efforts to obtain entry into the World Trade Organization (WTO). President Medvedev indicated that Russia would continue discussions about its concerns over NATO missile defense plans, but stated that there was no breakthrough at the talks and suggested that progress might have to be deferred to 2020 (the final phase of missile deployments) and to “other politicians.” Seemingly in contrast, National Security Council official Michael McFaul asserted that there was progress in discussing cooperation on missile defense. McFaul stated that a major part of the discussion of WTO was concerned with Georgia’s concerns. The two presidents also discussed the “Arab Spring,” Iran’s nuclear program, and NATO actions in Libya. In regard to the latter issue, McFaul indicated that the views of the two presidents did not widely diverge, and Deputy National Security Advisor Ben Rhodes stated that President Obama agreed to consult with the Russians about events in Libya.

The two sides signed or issued nine agreements, statements, memoranda of understanding (MoU), and reports, including a protocol of cooperation on the global eradication of polio; statements of cooperation on visa issues, on counter-terrorism, and on the Bering Strait Region; memorandum of understanding on cooperation on civil aviation security, on “smart grid” energy, and on medical research; and reports on the progress of the U.S.-Russia Presidential Commission and on assessing future missile challenges (the presidents stated that the latter report had been finalized, but it was not released). It also was announced that two new working groups had been created at part of the bilateral Presidential Commission, a working group on innovation and a working group on the rule of law. The former group is headed by the U.S. Under Secretary of State and a Russian presidential advisor and the latter group is headed by the Russian Justice Minister and the U.S. Attorney General. According to McFaul, a major goal of the working group on innovation is to assist in Medvedev’s modernization campaign, including investment at the Skolkovo Center (see below), and a major goal of the working group on the rule of law is to strengthen legal institutions in Russia to facilitate investment.92

Secretary Clinton and Foreign Minister Lavrov met in Washington, D.C. on July 13, 2011. They signed a long-anticipated adoptions agreement and a protocol to extend research on the effects of radiation. In addition, they announced an agreement on visa liberalization and on a new Air Navigation Services agreement. Secretary Clinton and Foreign Minister Lavrov also reviewed cooperation under the Presidential Commission and exchanged diplomatic notes to bring into force the U.S.-Russian Plutonium Management and Disposition Agreement.

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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 long argued that Iran would 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 a signatory of the Nuclear Non-Proliferation Treaty (NPT), and that the light water reactor built by Russia is 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 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 (UNSC) sanctions related to Iran’s nuclear infrastructure, including asset freezes and trade bans targeting certain Iranian entities and individuals. 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 January 2011, Russia’s permanent representative to NATO, Nikolay Rogozin, alleged that a computer virus had delayed the start-up of the reactor. Reportedly, some damaged systems had to be replaced, but Russian officials announced that the reactor had begun operation on May 8, 2011. The plant began supplying power to the electric grid on September 3, 2011.

On September 21, 2009, Iran informed the 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.” In a meeting with concerned nations on October 1, 2009 (now termed the Sextet, consisting of the United States, United Kingdom, France, Russia, China, and Germany), Iran agreed to a late October IAEA inspection of the Qom enrichment site and initially appeared positive toward a plan to export most of its low-enriched uranium to Russia or France to be further enriched to fuel the Tehran Research Reactor. After inspecting the enrichment plant near Qom, the IAEA concluded that it was in an advanced stage of completion and that Iran’s efforts to hide it for years heightened IAEA concerns that other nuclear facilities were being hidden. Russia reportedly mediated with Iran to urge it to accept the research reactor fuel deal, but on November 18, 2009, Iran rejected the deal. On November 27, Russia joined other representatives of the IAEA in censuring Iran for concealing

94 Interfax, January 27, 2011.
the enrichment plant near Qom. In February 2010, Iran stated that it would start enriching uranium to 20% to fuel the Tehran Research Reactor.

On June 9, 2010, the IAEA reported that the United States, Russia, and France had raised joint objections to a uranium swap deal reached by Brazil and Turkey to supply nuclear fuel for the Tehran research reactor. Objections included that Iran had a larger amount of low-enriched uranium than was considered under the swap deal (and under the October 2009 proposal mentioned above).

Also on June 9, 2010, Russia supported the approval of UNSC Resolution 1929, which expressed growing international concern with Iran’s lack of compliance with ensuring that its nuclear program is peaceful and directed an expanded international arms embargo and added restrictions on commerce dealing with “proliferation-sensitive activities” in Iran. Explaining Russia’s vote for the resolution, U.N. ambassador Vitaliy Churkin stated that “it has become inevitable that additional restrictive measures should be adopted to constrain development in those Iranian activities that run counter to the task of strengthening the non-proliferation regime.”

Perhaps also a significant factor, simultaneously with Russia’s agreement on the draft resolution, its state arms export agency, Rosoboronexport, and other Russian firms were removed from U.S. lists of sanctioned entities. Appearing to be one strategy to deflect Iran’s anger, Russia has denounced added sanctions imposed by the United States, the EU, and other countries in the wake of the approval of UNSC Resolution 1929.

After CIA revelations about Iran’s possession of highly enriched uranium, President Medvedev concurred in July 2010 that “Iran is nearing the possession of the potential which in principle could be used for the creation of a nuclear weapon.” He also stated that “we should not forget that Iran’s attitude [toward cooperation with the international community] is not the best one.”

Causing further strains in Russian-Iranian relations, in September 2010 President Medvedev signed a decree banning the supply of the S-300 surface-to-air missile system to Iran, asserting that the weapons transfer to Iran was blocked by UNSC Resolution 1929.

In testimony in December 2010, Under Secretary of State William Burns asserted that “Russia’s partnership [with the United States] in the diplomacy which led to Resolution 1929 and to its own decision to cancel the S–300 sale was crucial. Without Russia’s partnership, I don’t think we would have had Resolution 1929 [or] as significant a set of measures from the EU and from many others. So that painstaking effort to work together with regard to a shared concern about Iran’s nuclear ambitions has been right at the core of our relationship with Russia over the last couple of years.” At the hearing, some Members raised concerns that Russia’s past and ongoing support for Iran’s civil nuclear program might have facilitated its nuclear weapons ambitions. Under Secretary Burns argued that Russia and other countries have become increasingly worried about Iran’s nuclear intentions and have intensified their support for countervailing international actions.

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In January 2011, Russia joined the other members of the Sextet at a meeting with Iran in Istanbul to urge Iran to commit to a modified agreement worked out by Russia, the United States, and France to exchange the bulk of Iran’s low-enriched uranium for fuel rods for the Tehran research reactor. Iran raised preconditions to such an agreement that were rejected by the Sextet. Just before the meeting, Russia joined the Sextet in calling for fully implementing the sanctions under UNSC Resolution 1929, but again refused to join what it termed “unilateral sanctions” beyond those agreed to by the UNSC. On January 27, 2011, President Medvedev stated that “Iran needs to dispel the international community’s doubts in relation to its nuclear program. It [Iran] should persuade us that this program is of a peaceful nature.”

The final declaration issued at the May 2011 meeting of the heads of state of the Group of 8 industrialized countries in France warned that “the severe proliferation challenges ... in Iran and North Korea ... pose a threat to global stability.”

On June 1, 2011, Lavrov stated that because the United States and European countries imposed added sanctions on Iran after the approval of UNSC Resolution 1929—sanctions that he claimed they had agreed to forego during negotiations prior to the approval of the resolution—Russia would not agree to further UNSC sanctions. That same day, the Russian Foreign Ministry reported that Lavrov rejected a call by visiting Israeli Deputy Prime Minister Moshe Ya’alon for concerned countries to warn Iran that it faces military reprisals if it proceeds with its nuclear weapons development program. According to the Foreign Ministry, Lavrov reiterated Russia’s views that concerns about Iran’s nuclear program should be resolved exclusively through negotiations and that Iran has the right to pursue a peaceful nuclear program.

On June 9, 2011, the Sextet issued a statement calling for Iran to hold discussions on many unresolved concerns to rule out a military component to Iran’s nuclear program. The statement was issued in response to an announcement by Iran that it would greatly increase the amount of uranium it would enrich to 20%.

In October 2011, Russia’s Foreign Ministry called for the IAEA to delay the planned release of a report on Iran’s nuclear program, claiming that the issuance of the report might interfere with restarting the Sextet talks, which had not been held since January. At the same time, the Foreign Ministry asserted that Russia has the same goal as others in the Sextet, to diplomatically engage with Iran to encourage it to “answer[] the international community's questions and eliminate[e] concerns in the context of the Iranian nuclear program.” Reportedly, the report may warn that Iran has intensified its nuclear weapons development program.

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. 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 communiqué praised the efforts of the International Security Assistance Force (ISAF) in Afghanistan but offered no substantive assistance. At the July 2009 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 OSCE; 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.

The State Department reported that an agenda-setting meeting of the Counter-Terrorism Working Group took place in Berlin in November 2009. The Russian permanent representative to NATO, Dmitry Rogozin, and Moscow Regional Governor Boris Gromov (the former commander of Soviet forces in Afghanistan) called in January 2010 for NATO forces not to “withdraw without victory” in Afghanistan. They asserted that the “Russian position” is that NATO should ensure political stability in Afghanistan and claimed that Russia is forming the CSTO’s rapid reaction forces to protect Central Asia as a hedge against NATO’s failure in Afghanistan. In late March 2010, Rogozin suggested that Russia should link its cooperation as a transit state for supply shipments to Afghanistan (see below) to a NATO pledge to combat drug trafficking into Russia. Seeking to elevate its status, the CSTO repeated a call for NATO to formally cooperate with it in order to stanch drug trafficking from Afghanistan and to defeat the Taliban.105

In January 2011, Russia’s ambassador to Afghanistan, Andrey Avetisyan, stressed that NATO forces should not leave Afghanistan until the country is able to defend itself. He stated that Russia was ready to assist Afghanistan in rebuilding infrastructure and facilities that had been constructed by the former Soviet Union, but that such rebuilding would need international financing. He also renewed Russia’s call for NATO to combat drug production. He also dismissed what he claimed were U.S. arguments that combating poppy growing in Afghanistan was complicated because it risked antagonizing farmers, stating that “the money made on the production of drugs … finances the militants … and part of the Afghan heroin also goes to Europe and the United States.”106

**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 incoming Obama Administration also planned increasing the number of troops in Afghanistan, which also spurred the search for alternate supply routes. A “northern supply network” 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...

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106 Interfax, January 27, 2011.
component 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. In late 2008, Russia also permitted Germany to ship weapons and other equipment by land to its troops in Afghanistan. NATO reached agreement with Russia in February 2009 on the land transit of non-lethal supplies to Afghanistan, 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—at first transit Russia, Kazakhstan, and Uzbekistan—in late March 2009.

At the U.S.-Russia summit meeting in early July 2009, Foreign Minister Lavrov and Under Secretary of State Burns signed an agreement allowing up to 4,500 annual official air flights of troops and lethal supplies through Russia to Afghanistan, and unlimited numbers of commercial charter flights of nonlethal supplies. Lauded by McFaul as “historic,” the agreement complements the NATO-Russia arrangement reached in early 2009 on land transit. The Administration reports that air transit through Russia could save the United States government up to $133 million annually in fuel, maintenance and other transportation costs, and that this agreement would be free of any air navigation charges.

Reportedly, the first flight by the United States using this route took place in early October 2009, and another took place in November 2009. Allegedly, Russia was slow in facilitating such flights, and the United States and NATO used alternative air transit through the Caspian region to reach Afghanistan. According to Assistant Secretary of State Philip Gordon, these air transit problems were resolved. He stated in mid-2010 that “on average, two U.S. planes a day to fly over Russia carrying troops and supplies in support of the mission in Afghanistan. To date, over 275 flights have carried over 35,000 passengers and valuable cargo. Russia’s rail network has facilitated transit of more than 10,000 containers of supplies…. About 30% of cargo to Afghanistan goes through the Northern Distribution Network (NDN) and 60% of the NDN [cargo] goes through Russia.” An April 2011 Administration factsheet stated that 1,000 U.S. official flights over Russia had carried over 150,000 passengers and cargo. The factsheet also stated that more than 25,000 containers had transited Russia under the NATO-Russia transit agreement.

A June 2010 Administration factsheet on the results of the “re-set” gave some information on Russian commercial support for the Afghan conflict. It stated that Russian companies had made over 12,000 flights in support of U.S. operations in Afghanistan and Iraq, had supplied over 30% of the fuel U.S. military troops use in Afghanistan, and provided over 80 MI-17 helicopters to the Afghan National Army, Afghan National Police, and Afghan Drug Interdiction Forces.

During his confirmation hearing in July 2011 as Commander of the U.S. Transportation Command, Gen. William Fraser stated that the aim was to boost the percentage of surface transit

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through the NDN. Part of this growing significance of Russia is as an egress route for materiel as the United States draws down its military operations in Afghanistan.

Russia is a substantial supplier of jet fuel for U.S. and NATO operations in Afghanistan. This relationship became more apparent in September 2011 when the US Defense Logistics Agency placed its first order for fuel with the Gazpromneft-Aero-Kyrgyzstan joint venture, which is majority-owned by Russia’s Gazprom state-controlled gas firm, to initially supply 20% of the aviation fuel needs of the Manas Transit Center in Kyrgyzstan. The Transit Center is the main U.S. airbase in Central Asia, and provides major aerial refueling services over northern Afghanistan. According to one report, the fuel is directly supplied from Gazprom’s oil refineries and transported by the Russian Transoil company to the transit center.

**Bilateral Relations and North Korea**

Russia has expanded its ties with North Korea in recent years as part of its policy of strengthening its role as an Asia-Pacific power. Russia stresses a negotiated settlement of the Korean conflict that protects the stability of its eastern regions and ensures a draw-down of U.S. forces in South Korea. Russia also seeks the continuation of the six-party talks on North Korea’s denuclearization (see below) as a means of containing, if not reducing, the threat posed by a nuclear-armed Pyongyang, according to some observers. Russia prefers that the transition of power from Kim Jong Il to his son be relatively peaceful, rather than involve a regime collapse that could involve refugee flows into Russia or other trans-border problems, or the occupation of North Korea by South Korea or China, according to some observers. Moscow will seek to retain effective relations with Pyongyang throughout the succession period, in this view. Russia seeks working relations with South Korea for many of the same reasons—the pursuit of Asia-Pacific regional influence and stability in areas near its borders—as well as for economic and trade benefits.

A phase of closer Russia-North Korea ties was launched in February 2000, when the foreign ministers of the two countries signed a Treaty on Friendship, Good-Neighborly Relations and Cooperation. Then-President Vladimir Putin visited Pyongyang in July 2000 and Supreme Leader Kim Jong Il visited Russia in August 2001. Because of the closer bilateral ties, North Korea insisted in 2003 that it would not take part in multinational denuclearization talks unless Russia also participated. These six-party talks (including the two Koreas, the United States, Russia, China, and Japan) opened in August 2003. Russia-North Korea relations appeared strained somewhat after Russia supported UNSC Resolution 1718 in October 2006 that criticized a North Korean nuclear test and applied sanctions. In February 2007, North Korea pledged to shut down and dismantle its Yongbyon nuclear facilities in exchange for humanitarian and developmental assistance, but further progress evaporated and six-party talks have been halted since December 2008. In April 2009, North Korea announced its withdrawal from the talks.

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110 U.S. Senate, Committee on Armed Services, Confirmation Hearing for William M. Fraser to be Commander, U.S. Transportation Command, August 2, 2011. See also Subcommittee on Seapower, Hearing on the FY2012 Budget Request for Strategic Airlift Aircraft, July 13, 2011.


Russian-North Korean tensions increased in April-May 2009 after Russia supported the UNSC in approving Resolution 1874 that condemned North Korean missile and nuclear tests and increased sanctions on North Korea. Russia’s Permanent Representative to the U.N., Vitaliy Churkin, stressed that the sanctions excluded military force and argued that they would be reviewed once North Korea renewed cooperation within the format of the six-party talks. Russia and China insisted that a UNSC Presidential Statement issued in July 2010 not assess blame for the sinking of the South Korean naval corvette Cheonan. Russia argued that its stance of not assessing blame would help “de-escalate tensions on the Korean Peninsula, restore dialogue and interaction between North Korea and South Korea, and resume the six-party talks.”

Seemingly taking a stronger stance than in the case of the attack on the Cheonan, Russian Foreign Minister Lavrov immediately condemned the North Korean artillery attack and the loss of life on South Korea’s Yeonpyeong Island in late November 2010, but also called for restraint by both sides. He similarly expressed “profound concern” over revelations by North Korea in November 2010 that it was enriching uranium as part of a civil nuclear power program, and termed such enrichment a violation of UNSC resolutions and the 2005 denuclearization statement.

In mid-May 2011, the head of Russia’s Foreign Intelligence Service, Mikhail Fradkov, visited North Korea, perhaps indicating that Pyongyang continues to consider contacts with Russia as well as China as means to engage the outside world, according to some observers. The heads of state of the Group of 8 industrialized nations issued a statement in late May 2011 warning that the nuclear programs of North Korea and Iran are a threat to global stability. In early June 2011, Russian Deputy Prime Minister Sergei Ivanov appeared to claim that Russia has little influence over North Korea. He stated that “Russia plays its role as much as we can [in the six-party talks]. Currently we have nearly no trade or connection with North Korea despite our common border.”

In late August 2011, Supreme Leader Kim Jong-II met with President Medvedev in the southeastern Russian town of Ulan-Ude. Kim Jong-II reportedly reiterated a proposal to return to the six-party talks “without preconditions,” while accepting a moratorium on nuclear tests and production after the resumption of the talks. The U.S. State Department issued a statement that “any engagement with the North Koreans should be conducted in a way that does not detract from the international community’s clear message of concern about the North’s weapons programs, and the necessity for Pyongyang to do what is necessary to return to the Six-Party talks.” The Russian ambassador to South Korea admitted that the announcement by North Korea that it would resume six-party talks “without preconditions” was a repudiation of U.S. and South Korean calls for North Korea to halt all of its nuclear activities and allow U.N. inspectors to verify the suspension before the resumption of talks. He asserted that Russia agrees with the other

116 Question & Answer Session with Russian Deputy Prime Minister Sergei Ivanov and Singapore Defense Minister Dr. Mg Eng Hen at the Sixth Plenary Session of the 10th IISS Asia Security Summit, The International Institute for Strategic Studies, June 5, 2011.
117 U.S. Department of State, Office of the Spokesperson, Taken Question: Russia/North Korea: Joint Naval Exercises in 2012, September 15, 2011.
Russia’s Role in the Middle East Quartet

Russia is a member of “the Quartet” (formed in 2002 by Russia, the United States, the EU, and the U.N.) that mediates between Israel and the Palestine Liberation Organization (PLO), chaired by President Mahmoud Abbas. Russia supported the holding of the U.S.-brokered Annapolis Conference in 2007 on a two-state solution, and the Quartet has agreed in principle to a Russian proposal to hold a follow-on conference in Moscow at some point.

According to Russian analyst Dmitriy Trenin, Russia seeks to present itself as an unbiased arbiter in the Quartet, and participates in order to demonstrate its status as a great power. Russian Foreign Minister Lavrov met with Hamas leader Khaled Meshaal in 2006 to discuss the future of the peace process after Hamas won a majority of seats in the Palestinian National Authority Legislative Council. Russia argues that Hamas has popular support among Palestinians and that Russian contacts with Hamas enable Russia to urge Hamas to moderate its behavior and take part in the establishment of a peaceful Palestinian state. The other members of the Quartet maintain that there should be no engagement with Hamas until it forswears terrorism, recognizes Israel’s right to exist, and supports the Middle East peace process as outlined in the 1993 Oslo Accords. Russian President Medvedev met with Meshaal during his May 2010 trip to Syria. Israel condemned Medvedev’s meeting with Meshaal.

Russia and other members of the Quartet urged the resumption of direct talks between the PLO and Israel after the last such talks in 2008. The sides agreed to resume direct talks in August 2010 and PLO chairman Mahmoud Abbas and Israeli Prime Minister Benjamin Netanyahu met on September 2, 2010, in Washington, DC. Just days before the end of Israel’s moratorium on settlements on the West Bank, the Quartet met and issued a statement on September 21, 2010, calling for the moratorium to be continued.

In January 2011, President Medvedev met with President Abbas in Jericho, where Medvedev did not declare recognition of Palestinian statehood but reaffirmed a statement of such support made by the former Soviet Union in 1988. At this Quartet meeting, Secretary Clinton, Russian Foreign Minister Lavrov, EU High Representative for Foreign Affairs and Security Policy Catherine Ashton, and U.N. Secretary General Ban Ki-moon issued a statement urging the immediate resumption of peace talks, given the civil turmoil in the Middle East. On February 18, 2011, the United States vetoed a UNSC draft resolution supported by Russia that the United States termed “unbalanced and one-sided” in its condemnation of all Israeli settlements established in occupied Palestinian territory since 1967 as illegal.

Russia supported the signing of the agreement in May 2011 between Fatah and Hamas on forming a power-sharing Palestinian Authority government for the West Bank and the Gaza Strip. Russia endorses the formation of a cabinet composed of “technocrats” rather than politicians who

will “base their policies on the platform of the PLO and on the Arab peace initiative,” including the recognition of Israel, rejection of violence, and adherence to the Quartet decisions. Following the formation of the cabinet of technocrats, legislative and presidential elections are proposed to be held within one year.121 On May 20, 2011, the Quartet issued a statement of support “for the vision of Israeli-Palestinian peace outlined by U.S. President Barack Obama on May 19, 2011. The Quartet agrees that moving forward on the basis of territory and security provides a foundation for Israel and Palestinians to reach a final resolution of the conflict through serious and substantive negotiations and mutual agreement on all core issues.”122 Deputy Prime Minister Moshe Ya’alon visited Russia in early June 2011 and reportedly praised Russia’s participation in the Quartet, but stressed that “Hamas cannot be a partner for negotiations [and] cannot be recognized as the legitimate authority in Gaza until it recognizes the State of Israel and renounces terror entirely.”123 The United States has rejected dealing with Hamas unless it renounces terrorism and meets other principles enunciated above by the Quartet, and has been wary of French and Russian proposals for convening international conferences until the Israelis and the Palestinians themselves make progress toward reopening talks.

The Obama Administration opposed the application for U.N. membership submitted by Palestine to the UNSC on September 23, 2011, a submission supported by Russia. After the submission, the Quartet issued a statement that acknowledged the submission, but stressed the resumption of direct bilateral Israeli-Palestinian negotiations without delay or preconditions. The Quartet called for progress on settling issues of territory and security within a few months, and it endorsed Russia’s call for convening a Moscow conference to examine progress.

The UNSC is holding discussions and may in coming weeks schedule a vote on recommending Palestine’s U.N. admission, which then would be forwarded to the U.N. General Assembly, where approval requires a two-thirds majority vote. Russia has indicated that it will vote to recommend admission in the UNSC, but President Obama has stated that if necessary the United States will exercise its veto in the UNSC.

Holding the presidency at the 187th session of the UNESCO Executive Board in September-October 2011, Russia recommended that the UNESCO General Conference at the end of October vote to admit Palestine as a member. The United States voted against admission and later announced that under current U.S. law, it would halt financial contributions to UNESCO. Foreign Minister Lavrov explained that Russia accepted the argument of Palestine that admission would not substitute for reaching a negotiated peace settlement with Israel, and “regretted” the U.S. decision to halt contributions.124

123 CEDR, June 1, 2011, Doc. No. CEP-365001.
124 For details, see CRS Report R42022, Palestinian Initiatives for 2011 at the United Nations, by Jim Zanotti and Marjorie Ann Browne.
Arms Control Issues

Cooperative Threat Reduction

Since 1992, the United States has spent over $9 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 helped to eliminate nuclear weapons and delivery vehicles in Ukraine, Belarus, and Kazakhstan, and to transport, store, and eliminate weapons in Russia. They have also funded improvements in security at storage areas for both nuclear weapons and nuclear materials. 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.

The New Strategic Arms Reduction Treaty

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

125 Prepared by Amy Woolf, Specialist in Nuclear Weapons Policy.
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 pledged 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 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.

After nearly a year of negotiations, the United States and Russia signed the New START Treaty on April 8, 2010. This treaty limits each side to no more than 800 deployed and nondeployed ICBM and SLBM launchers and deployed and nondeployed heavy bombers equipped to carry nuclear armaments. Within that total, each side can retain no more than 700 deployed ICBMs, deployed SLBMs, and deployed heavy bombers equipped to carry nuclear armaments. The treaty also limits each side to no more than 1,550 deployed warheads. The new treaty also contains a number of complex and overlapping monitoring provisions that will help each side verify the other’s compliance with the treaty. Many analysts believe that this verification regime is particularly important because it mandates transparency and cooperation between the two sides.

The Obama Administration has argued that the New START Treaty will strengthen U.S. security and contribute to the “re-set” in relations with Russia. The Administration has also noted that the treaty contributes to U.S. nuclear nonproliferation goals by indicating that the United States and Russia are both committed to meeting their disarmament obligations under Article VI of the Nuclear Nonproliferation Treaty. Some, however, have questioned whether the United States and Russia need a treaty to maintain stability in their relationship and reduce their nuclear weapons. They note that Russia is already reducing its forces as it retires aging systems. Moreover, some question whether arms control agreements between the United States and Russia will have any affect on the goals and interests of nations seeking their own nuclear weapons. The Foreign Relations Committee, Senate Armed Services Committee, and Senate Intelligence Committee held a total of 21 hearings and briefings with Administration officials, senior statesmen, and outside analysts between April and July, 2010. Most witnesses praised the treaty, and, although recognizing that it contains only modest reductions in U.S. and Russian nuclear weapons, argued that, on balance, it will enhance stability and predictability. Many also noted that its verification regime will restore the ability of the United States and Russia to monitor each other’s strategic forces. Some, however, questioned whether the treaty might restrain U.S. missile defense programs. The Administration sought to alleviate this concern by noting that the treaty contains no limits on current or planned missile defense programs and simply acknowledges that robust missile defenses can undermine offensive forces. Others have noted that the treaty does not address Russia’s stockpile of nonstrategic nuclear weapons. Treaty supporters agree with this point but argue that the United States and Russia cannot move on to a treaty that will address these weapons until the parties ratify and implement New START. On September 16, 2010, the Senate Foreign Relations Committee approved the Resolution of Ratification on the New START by a vote of 14-4. The full Senate approved the treaty’s ratification by a vote of 71-26, on December 22, 2010.
Russia and Missile Defense

**Background: Recent U.S. Missile Defense Plans**

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 argued 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 (BMD) system in Europe to defend against a possible Iranian missile threat. This “European Capability” (EC) system would have included 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.

In September 2009, the Obama Administration canceled the Bush-proposed European BMD program. Instead, Defense Secretary Gates announced U.S. plans to further develop a regional BMD capability that could be surged on relatively short notice during crises or as the situation might demand. Gates argued this new capability, known as the Phased Adaptive Approach (PAA), would be based initially around existing BMD sensors and Patriot, THAAD and Aegis BMD interceptors, and would be more responsive and adaptable to growing concern over the direction and pace of Iranian short- and medium-range ballistic missile proliferation. The Administration plans for the PAA to evolve and expand over the next decade to include BMD against intermediate- and long-range Iranian ballistic missiles. This effort is largely supported by the Congress. Phase 1 of the Administration's European Phased Adaptive Approach will be completed as planned by the end of December 2011.

**The Russian Response**

The EC program significantly affected U.S.-Russia relations. At the February 2007 Wehrkunde security conference in Munich, then-Russian President Vladimir Putin strongly criticized the Bush Administration’s proposal, maintaining that it would lead to “an inevitable arms race.” Russia 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 Bush Administration’s 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 argued that Russia had 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 past nuclear technology cooperation with Iran. Observers pointed out that Russian acceptance of NATO enlargement in 2004 was conditioned on a tacit understanding that NATO or U.S. military

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126 For additional information, see CRS Report RL34051, *Long-Range Ballistic Missile Defense in Europe*, by Steven A. Hildreth and Carl Ek.
127 Prepared by Steven A. Hildreth, Specialist in Missile Defense.
128 Prepared by Carl Ek, Specialist in International Relations.
expansion into the new member states would not occur. The proposed European GMD in this regard was seen as unacceptable to Russia.

On November 5, 2008—the day after the U.S. presidential election—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 were 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, 2009, at the annual Wehrkunde conference, 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.” However, the Obama Administration also indicated that it was 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.

In early March 2009, the media reported that President Obama had sent a letter to President Medvedev offering to stop the development of the EC if Russia cooperated with international efforts 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.”

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.

132 “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 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. However, the Russian government also stated that it still might deploy Iskander missiles to Kaliningrad if the United States were to transfer Patriot missile batteries to Poland.133

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.134

As noted above, in September 2009 the Obama Administration’s announced a new program for a European-based BMD. In Russia, President Medvedev called the change “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.”135 In addition, Moscow appeared to back away from its earlier signal that it might deploy Iskander missiles to Kaliningrad. In November, the U.S. ambassador to Ukraine quashed rumors that the United States had been discussing with Kiev deployment of missile defense facilities in Ukraine.

Some analysts on both sides of the Atlantic, however, argued that cancelling the Bush Administration’s BMD plan could be viewed by Moscow as a climb-down resulting from Russia’s incessant diplomatic pressure.136 Further, some critics faulted the White House for not having gained anything from Moscow in exchange for its change in policy. However, Obama Administration supporters maintained that Russia likely would not have wished to reveal an obvious *quid pro quo* immediately; Administration backers advised critics to wait and see what actions Russia would take, particularly with respect to cooperation with the United States on policy toward Iran.

In October 2009, during a visit to Warsaw by Vice President Biden, Polish President Donald Tusk announced that Poland would participate in the Obama Administration’s new BMD program by hosting SM-3 short- to medium-range missiles.137

(...continued)


In December 2009, NATO foreign ministers commented favorably on the new U.S. missile defense plan, and reiterated the alliance’s willingness to cooperate with Russia on the issue, stating that they reaffirmed “the Alliance’s readiness to explore the potential for linking United States, NATO and Russian missile defense systems at an appropriate time. The United States’ new approach provides enhanced possibilities to do this.” The Russian media reported that NATO and Russia had formed a working group to study the issue. In a speech shortly thereafter, NATO Secretary General Anders Fogh Rasmussen said that he hoped the alliance and Russia would have a joint system by 2020.138

Before long, however, Russia began to criticize the new U.S. plan for missile defense against Iran, reviving the argument that it would compromise Russia’s nuclear forces. In late December Prime Minister Putin tied discussions over missile defense to the renegotiation of START. He asserted that Moscow would need to beef up its offensive nuclear weapons forces in order to “preserve a strategic balance” with the planned U.S. missile defense system. A State Department spokesperson acknowledged the relationship between offensive and defensive missile capabilities, but maintained that the two countries should discuss missile defense “in a separate venue.” The Administration also said that it would “continue to reject any negotiated restraints on U.S. ballistic missile defenses.”139 Observers assert that Putin’s intervention would not likely affect the disarmament talks. Regarding missile defense, in January 2010 Russian Foreign Minister Lavrov stated that Russia had “told the U.S. and NATO that it is necessary to start everything from scratch – to jointly analyze the origin and types of missile proliferation risks and threats.”140

Also in January 2010, the United States and Poland announced that, under the terms of the August 2008 agreement between Warsaw and Washington, a battery of short-range, surface-to-air Patriot missiles—along with a crew of about 100 U.S. service personnel—would be rotated from Germany to Poland in June and stationed close to Poland’s border with Kaliningrad. Foreign Minister Lavrov claimed that he “doesn’t understand” the apparent need for Poland to defend itself from Russia. In response to the planned deployment of the Patriots, a Russian official indicated that Moscow might strengthen its Baltic fleet. In February 2010, a Polish official expressed doubts that the Patriots would be stationed permanently in Poland.141

On February 4, 2010, the U.S. and Romanian governments announced that Bucharest had agreed to host U.S. short-to-medium-range interceptor missiles to extend missile defense into southern Europe. The Romanians reportedly hope that the deployment will help cement bilateral ties, as well as protect Romanian territory—the Bush Administration’s plan would only have covered the western part of the country from a possible Iranian missile launch. A State Department


spokesperson and Romanian President Traian Basescu both stated that the system was not intended to guard against Russia.

Russian officials, including the chief of Russia’s general staff, countered that the missile defense system was indeed directed at Russia, and that the proposed deployment likely would delay negotiations in arms talks between Russia and the United States. Moscow also expressed vexation over the possibility of U.S Aegis anti-missile ships patrolling the Black Sea. Nevertheless, commenting on Iran’s stepped-up uranium enrichment activities, the head of Russia’s National Security Council appeared to confirm international concerns about whether Iran’s eventual goals are scientific or military; he stated that doubts about Iran’s intentions “are fairly well-grounded.”

However, Dmitry Rogozin, Russia’s ambassador to NATO, stated that “maybe [U.S. BMD] is against Iran, but this system could be aimed against any other country, including against Russia’s strategic nuclear potential.” The ambassador took a rather truculent attitude toward the planned deployment. Writing in Twitter, Rogozin, who reportedly has a reputation for being outspoken, responded to the Romanian announcement by stating “the Americans and their allies want to surround the cave of the Russian bear? ... How many times must they be reminded how dangerous this is!? The bear will come out and kick the ass of these pathetic hunters.”

Some analysts have argued, however, that the interceptors planned for Romania would not be able to take out a Russian ICBM launched at the United States. A Russian military analyst, writing in RIA Novosti, conceded that the Obama-proposed SM-3 interceptors stationed anywhere in Europe would be incapable of downing Russian long-range ballistic missiles. He argued that Moscow’s main objections were that 1) it had not been consulted on the decision, and 2) the U.S. system might be subject to change. On the first point, a spokesperson for the Romanian Foreign Ministry maintained that Russia had been kept in the loop, stating that “information coming from our American partners indicate that in the time that followed the September 2009 announcement by the U.S. president, the U.S. had detailed consultations with Russia concerning their plans for the anti-missile defense system.” Also, on February 16, U.S. Under Secretary of State for Arms Control and International Security Ellen Tauscher stated that Russia had been told of the planned deployment to Romania. On the latter point, Russia is concerned that the SM-3 interceptors could eventually be upgraded to bring down ICBMs without Russia’s knowledge, as the United States is not required to share information about its missile defense system.

On February 12, Bulgaria’s prime minister announced that he supported participation in the U.S. missile defense system; the U.S. ambassador to Bulgaria confirmed that discussions on such a deployment were in their early stages with Bulgaria—and with other countries. Bulgaria’s foreign minister noted that the missile shield would also protect Russia from the threat of Iranian missiles. Russia, however, professed that it had been caught unawares by the announcement; Foreign Minister Lavrov stated that “we have already questioned our U.S. partners in Washington

... as to the meaning of this, and why we have this Bulgarian surprise after the Romanian surprise.” Russian NATO Ambassador Rogozin tweeted that “Bulgarians are our brothers, but politically they are promiscuous.” A few days later, Russia turned aside an apparent offer by Transnistria, a breakaway region of Moldova, to host Russian Iskander missiles.\textsuperscript{144}

It has been argued that the new U.S. focus on Southern Europe is likely viewed with less alarm by Russia than the former plan, which included Poland and the Czech Republic. However, a member of the Russian Duma claimed that the possible deployments do not square with the Obama Administration’s intention to improve relations with the Russian Federation. Konstantin Kosachyov, chairman of the Duma’s International Affairs Committee, stated on February 16 that “the most regrettable thing is that these plans [to deploy missile defense facilities] do not fit the well known ‘reset’ program in Russian-American relations in any way.”\textsuperscript{145}

Russia sought to tie discussions over missile defense to the renegotiation of START, contrary to the July 2009 agreement reached by Presidents Obama and Medvedev not to link the two. However, the United States refused to accede to the Russian position, and on April 8, 2010, the two governments signed the New START Treaty, which was ratified by the U.S. Senate in December and by the Russian Duma in January 2011. The agreement acknowledges that there is a relationship between offensive and defensive systems, but does not place any limits on missile defense or on the expanded system that has been proposed by the Obama Administration.\textsuperscript{146}

On July 3, 2010, Secretary of State Clinton and Polish Foreign Minister Radek Sikorski signed an annex to the 2008 U.S.-Poland agreement permitting the deployment of U.S. BMD in Poland. The amendment provided approval for the deployment of SM-3 missiles, rather than silo-based interceptors. After the signing ceremony, Sikorski stated that Russia would be permitted to inspect the facilities. Russian Deputy Foreign Minister Ryabkov declared that Moscow did not believe that the potential threat from Iran warranted an anti-missile system such as the Obama Administration was planning to put in place; Foreign Ministry Spokesman Andrei Nesterenko echoed these comments, and also complained of insufficient consultation. However, a Russian parliamentarian stated that “there will be detailed discussions [concerning the proposed SM-3 deployment], but they will not be confrontational.”\textsuperscript{147}

Also in July 2010, it was reported that NATO Secretary General Rasmussen hoped not only to have the Obama Administration’s PAA adopted as an additional alliance capability, but also to have Russia participate with NATO in missile defense. Partnering with Russia would, in Rasmussen’s words, “demonstrate that missile defence is not against Russia, but to protect Russia.”\textsuperscript{148} In September, Russia was invited to attend the Lisbon summit meeting in November.


\textsuperscript{146} CRS Report R41251, Ballistic Missile Defense and Offensive Arms Reductions: A Review of the Historical Record, by Steven A. Hildreth and Amy F. Woolf.


Rasmussen indicated he hoped that cooperation on missile defense could be taken up by the NATO-Russia Council. Although some Russian officials continued to express misgivings about the U.S./NATO missile defense plans, on October 20, 2010, President Medvedev announced that he would attend the meeting in Lisbon.149

At their November 19-20, 2010, summit in Lisbon, NATO heads of state and government officially identified territorial missile defense as a core alliance objective, and adopted it as a NATO program in response to the threat of ballistic missile proliferation by potentially unfriendly regimes. The NATO-Russia Council (NRC) meeting, held in conjunction with the alliance meeting, endorsed cooperation between NATO and Moscow in the area of missile defense. The NRC Joint Statement declared that

[w]e agreed to discuss pursuing missile defense cooperation. We agreed on a joint ballistic missile threat assessment and to continue dialog in this area. The NRC will also resume Theater Missile Defense Cooperation. We have tasked the NRC to develop a comprehensive Joint Analysis of the future framework for missile defense cooperation. The progress of this Analysis will be assessed at the June 2011 meeting of NRC Defense Ministers.150

The NATO-Russia accord did not constitute immediate full collaboration; rather, Russia approved the involvement of Russian technicians in the planning and development of the system. President Medvedev cautioned that missile defense cooperation must eventually amount to “a full-fledged strategic partnership between Russia and NATO.” However, a State Department official emphasized that, although Russia would be involved in the program, the United States would “continue to reject any constraints or limitations on our missile defense plans.” In a televised interview with Larry King, Prime Minister Putin indicated that if Russia perceives that the PAA/NATO missile defense program is compromising Moscow’s nuclear deterrent, “Russia will just have to protect itself using various means, including the deployment of new missile systems to counter the new threats to our borders.”151

Analysts have argued that, despite its often-voiced reservations, Moscow may have believed itself compelled to cooperate on missile defense; because Russia could “neither block the [emergence of missile defense] in Europe nor restrict its capacity by means of treaty constraints, [instead] the only way ... to influence its shape is to join the [missile defense] program on as favorable terms as can possibly be snatched.”152 On December 20, 2010, Foreign Minister Lavrov indicated that Russian acceptance of and participation in NATO missile defense would be fundamental to the

(...continued)

October 2010.


success of such a system—and for improved Russia-NATO relations. Although details as to how Russia might cooperate technologically remain to be seen, it is clear that NATO and the United States want to find ways to engage Russia in partnership on BMD.

In an address to the nation on November 30, 2010, Russian President Medvedev buttressed his case for striking a deal with Washington on missile defense. The Russian leader emphasized that the absence of such an agreement might lead to a new arms buildup—one that a financially strapped Russia could ill afford: “We will either come to terms on missile defense and form a full-fledged joint mechanism of cooperation or ... we will plunge into a new arms race and have to think of deploying new strike means, and it’s obvious that this scenario will be very hard.” A Russian political analyst noted that “we know that it was the arms race that led to the disintegration of the Soviet Union.... Russia is not ready financially for a new arms race.”

At the Lisbon summit, Medvedev suggested without elaborating that Moscow preferred a “sectoral” approach to missile defense. The plan was later clarified as one under which Russia and NATO would guard the airspace above their respective territories: Russia would be responsible for taking out missiles crossing its territory toward Europe, while NATO countries would shoot down over Europe any missiles headed toward Russia. Moscow reportedly is seeking agreement on such a plan because it remains concerned that the Phased Adaptive Approach might eventually compromise Russia’s nuclear forces.

Although Moscow is advocating a “common” system with sectoral defense responsibilities, NATO Secretary General Rasmussen has insisted that NATO and Russia must maintain independent systems, and that cooperation will consist of information sharing. The Russian proposal reportedly is unacceptable to NATO for reasons of both sovereignty and capabilities. According to Rasmussen, NATO “is responsible for protecting the territory of NATO member states and for the safety of their populations. We do not intend to transfer that responsibility to anyone else.” In addition, analysts note that current Russian missile defense technology lags far behind that of the NATO countries. But Moscow has stated that it wants specific details about the arrangement. Russian leaders claim that they have not received “a direct and clear” description of Russia’s role. Moscow is also now seeking written assurances from the United States and NATO that the interceptors not be aimed at Russia.

In March 2011, the Russian media reported a view that appeared to be somewhat at variance with other comments of the country’s political and military leaders. According to an official within the

Russian general staff, interceptors deployed in Poland would not represent a threat to Russia’s nuclear force, as they would only be capable of shooting down mid- and short-range missiles.158

Negotiations over a new missile defense architecture continued through the first half of the year. Vice President Joseph Biden met with President Medvedev and Prime Minister Putin in mid-March 2011, and Admiral Mike Mullen, then Chairman of the Joint Chiefs of Staff, met with his Russian counterpart in early May 2011, and at the end of the month, President Obama and Medvedev discussed the issue during the G-8 meeting in Deauville, France.

On June 1, 2011, during a meeting in Bulgaria of a working group on missile defense, Russian Duma International Affairs Committee Chairman Konstantin Kosachyov warned that the European missile defenses would be inoperable without Russian participation. He also questioned whether the presumed threat justified the “colossal” costs of deploying a missile defense system. On June 2, President Medvedev expressed impatience with the pace of ongoing negotiations, stating “So far, I’m not pleased with how the U.S. and all NATO countries reacted to my proposals because we are losing time.”159

Russia also expressed objections to the announcement in that Turkey would permit missile defense radar to be based on its soil, and to Spain’s decision in October to permit Aegis ships to be stationed at its the naval port at Rota.160

Discussions in the second half of 2011 have centered around two major sticking points: Moscow’s proposal for sectoral missile defense, and its insistence upon written legal guarantees that the missile shield will not be directed against Russia. Both proposals are unacceptable to NATO. As Secretary-General Rasmussen noted, acceding to the first demand would violate the very concept of Article 5, NATO’s mutual defense clause, and would be equivalent to “outsourcing” missile defense for the treaty area. Similarly, the alliance has rejected the demand for written legal guarantees because it would permit Russia to determine alliance defense doctrine and would tie the hands of future political and military leaders. As an alternative, U.S. Under Secretary of State Ellen Tauscher proposed that Russia be offered “written assurances” that EPAA would not be directed against Russia.

Some observers have questioned whether the Russian leadership might have realized at the outset that their proposals would be unacceptable, but stuck to them anyway because they never intended to cooperate on missile defense and wished to portray the alliance as unreasonable. Other observers point out that Russia will have presidential elections in 2012, and speculate that the hard-line stance might be motivated by domestic political considerations. Finally, some argue that Russia may be hoping to create a rift within NATO; they note that in June, Russian Defense Minister Anatoly Serdyukov stated that the missile defense debate depended on Washington’s views, claiming that “[t]his is a U.S. position. There is a number of [NATO] countries expressing only concern. We could have received their support.”161

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158 “US Plans To Deploy ABM In Poland ‘No Threat To Russia’ – Russian Source,” Interfax, March 5, 2011.
161 “Russia May Develop Nuclear Offensive,” RIA Novosti, June 8, 2011.
U.S.-Russia Economic Ties\textsuperscript{162}

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.-Russian trade, at least U.S. imports, has grown appreciably. The surge in the value of imports is largely attributable to the rise in the world prices of oil and other natural resources—which comprise the large share of U.S. imports from Russia—and not to an increase in the volume of imports. U.S. exports span a range of products including meat, machinery parts, and aircraft parts. U.S. imports increased more than 244\%, from $7.8 billion to $26.8 billion from 2000 to 2008, and U.S. exports rose 343\%, from $2.1 billion to $9.3 billion. However, U.S. exports and imports with Russia declined substantially in 2009, as a result of the global financial crisis and economic downturn, but increased in 2010 as both countries have shown signs of recovery.

Table 1. U.S. Merchandise Trade with Russia, 1993-2010

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<tr>
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\textbf{Source:} Compiled by CRS from U.S. Department of Commerce, U.S. Census Bureau data. FT900.

\textbf{Note:} Major U.S. exports: machinery; vehicles; meat; aircraft. Major U.S. imports: mineral fuels; inorganic chemicals; aluminum; steel.

Russia accounted for 1.3\% of U.S. imports and 0.5\% of U.S. exports in 2010, and the United States accounted for 3.1\% of Russian exports and 5.1\% of Russian imports.\textsuperscript{163} Russia was the 37\textsuperscript{th}-largest export market and 17\textsuperscript{th}-largest source of imports for the United States in 2010. According to Russian government data, by the end of 2010, the United States accounted for less than 2.5\% of total accumulated foreign direct and portfolio investments in Russia and was the However, the first three countries were Cyprus (20.7\%), the Netherlands (13.5\%), and Luxembourg (11.7\%), suggesting that at least 50\% of the investments might have been repatriated Russian funds.\textsuperscript{164}

\textsuperscript{162} Prepared by William H. Cooper, Specialist in International Trade and Finance.
\textsuperscript{163} World Trade Atlas. Global Trade Information Services, Inc.
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 adventurous 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 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.

**U.S. Assistance to Russia**

U.S. assistance to Russia as a percentage of all aid to Eurasia has declined over the years, but historically Russia has received about one-half of all U.S. assistance to Eurasia. From FY1992 through FY2011, the U.S. government has budgeted over $18 billion in assistance to Russia. The bulk of this assistance (nearly 60%) has been expended on CTR (Nunn-Lugar) and other security-related programs aiming to prevent the proliferation of WMD, combat drug-trafficking and transnational crime, foster law enforcement and criminal justice sector reforms, and support reconciliation and recovery efforts in Chechnya and other areas of the North Caucasus. Other aid has been provided for democratization, market reform, and health needs.165

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 act and each year thereafter, prohibiting any aid to the central government (local and regional government assistance is permitted) unless the President certifies that Russia has not implemented a law discriminating against religious minorities. Other democratization and human rights conditions were added for FY2008 and retained thereafter in the face of abuses during the run-up to the December 2007 State Duma election. Although religious freedom has been generally respected in recent years, successive administrations have issued waivers to overcome the

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restrictions on aid because of ongoing problems of democratization and other human rights.

- Since FY1996, direct assistance to the government of Russia has hinged on whether it is continuing the sale of nuclear reactor technology to Iran. As a result, 60% of planned U.S. assistance to Russia’s central 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 in subsequent years.

- A condition in the FREEDOM Support Act prohibits aid to a Soviet successor state that has violated the territorial integrity of another successor state. A presidential waiver for Russia has been exercised, most recently in May 2011.
Table 2. U.S. Government Funds Budgeted for Assistance to Russia, FY1992-FY2009
(in millions of dollars)

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<td>1.25</td>
<td>1.41</td>
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<td>944.66</td>
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<td>883.39</td>
<td>1190.11</td>
<td>17982.32</td>
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</table>

Source: U.S. Department of State, Office of the Coordinator of U.S. Assistance to Europe and Eurasia. Includes Freedom Support Act and other program and agency assistance.
Table 3. Assistance to Russia, FY2010-FY2011, and the FY2012 Request

(in millions of dollars)

<table>
<thead>
<tr>
<th>Fiscal Year/Program Area</th>
<th>FY2010 Actual</th>
<th>FY2011 Estimate*</th>
<th>FY2012 Request</th>
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<td>Economic Growth</td>
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<td>0.5</td>
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<tr>
<td>Governing Justly &amp; Democratically</td>
<td>37.021</td>
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<td>35.434</td>
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<tr>
<td>Investing in People</td>
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<td>--</td>
<td>19.34</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>71.5</strong></td>
<td><strong>66.1</strong></td>
<td><strong>64.635</strong></td>
</tr>
</tbody>
</table>

As Percent of Eurasian Assistance

|                | 12 | 12 | 13 |

Sources: U.S. Department of State. Congressional Budget Justification for Foreign Operations, Annex: Regional Perspectives, FY2012, April 8, 2011; U.S. Department of State, Office of the Coordinator of Assistance to Europe and Eurasia.

Notes: Includes the Assistance for Europe, Eurasia, and Central Asia (AEECA) Account, Foreign Military Financing (FMF), Global Health and Child Survival (GHCS) funds, International Military Education and Training (IMET) funds, and the State Department’s Non-proliferation, Anti-terrorism, Demining, and Related Programs (NADR). Does not include Defense or Energy Department programs.

* $54.35 was funded under the AEECA Account, $8.49 million under GHCS-USAID, $2.3 million under GHCS-State, and $1.0 million under NADR.

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