

# Backgrounder

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## President Bush's Agenda for the G-8 Meeting in St. Petersburg

*Ariel Cohen, Ph.D.*

The G-8 meeting on July 15 and the Bush–Putin summit in St. Petersburg, Russia, may mark the most serious tests of U.S.–Russian and East–West relations since the collapse of the Soviet Union. Mutually amassed grievances have led some in Washington to question whether President George W. Bush should attend and whether Russia should remain in the G-8.

The United States has been highly critical of developments in Moscow's domestic and foreign policy, such as increased restrictions on democratic freedoms within Russia and increasingly assertive interventions in the political and economic affairs of former Soviet republics.

Russia, for its part, opposes discussion of further NATO enlargement to include Georgia and Ukraine and fears that Western support for Russian pro-democracy nongovernmental organizations (NGOs) might one day provoke a “color” revolution in Moscow. Russia also blames the U.S. for blocking its accession to the World Trade Organization (WTO), despite Russia's flagrant violations of intellectual property rights and severe limitations on foreign investment.

Mutual animosity notwithstanding, the U.S. and Russia have more to lose by antagonizing one another than by putting aside their differences on issues of utmost importance to both countries, especially the global war on terrorism, nonproliferation, and energy security.

At the summit, President Bush may ease the current atmosphere of tension between the two countries

### Talking Points

In St. Petersburg, President Bush should try to ease the current atmosphere of tension between the United States and Russia by:

- Focusing on the Iranian threat, stressing that a nuclear-armed Iran may support anti-Russian and radical Islamic forces in the Caucasus and Central Asia.
- Emphasizing the need for international firms to participate in large-scale Russian oil and gas projects.
- Proposing U.S. participation in confronting security threats emanating from the Caucasus and Central Asia, including the spread of radical Islamic terrorism; trafficking in drugs, weapons, and human beings; and proliferation of weapons-of-mass-destruction technology.
- Reassuring President Putin that political and media freedoms and human rights are a *sine qua non* for further Russian participation in the G-8.

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by focusing on the gains to be made through cooperation on these issues. Specifically, he should:

- **Focus on the Iranian issue** by stressing the danger that a nuclear-armed Iran poses to Russia, especially in the Caucasus and Central Asia.
- **Emphasize the need for international firms to participate** in large-scale Russian oil and gas projects.
- **Propose U.S. participation in confronting security threats** emanating from the Caucasus and Central Asia.
- **Reassure President Vladimir Putin** that U.S. support for political and media freedoms and human rights is not aimed at toppling the Putin regime, but that they are a *sine qua non* for further Russian participation in the G-8.

These actions may prove crucial in thawing the chill in the U.S.–Russian relationship, which threatens to do both sides more harm than good. Improved relations between Moscow and Washington may also help to justify Russia’s membership in the G-8 by confirming its dedication to cooperation on transnational issues.<sup>1</sup> Business cooperation, such as expanding sales of Russian uranium to the U.S. and U.S. civilian aircraft to Russia, and the lifting of U.S. objections to Russia’s storing of nuclear waste from third parties, such as Asian countries that operate American reactors, would contribute to improvement in relations.

### Cooling U.S.–Russian Relations

On May 4, 2006, Vice President Richard Cheney gave a speech in Vilnius lambasting Russian policies that have dashed U.S. hopes for a democratic, market-oriented, post-communist Russia,<sup>2</sup> revealing that the political capital granted to Russia when it was invited to join the G-7 in 1997 is nearly exhausted.

After the collapse of the Soviet Union, both Russians and Americans believed that the introduction of democracy and capitalism would bring Russia closer to the West materially, politically, and spiritually.

Some Russian pundits have suggested that capitalism and democracy have failed to deliver the peace and prosperity that Russians desired, leading many to suggest that a Western society requires underlying Western values, not Russian ones. They have since advocated pursuit of a distinctly Russian “third way” that involves increased state intervention in the economy.<sup>3</sup> Pursuit of this third way has thus far coincided with economic growth, relative stability, and international prestige—developments that were assisted by the exorbitant rise in oil and gas prices, which have fueled prosperity since 2000. However, this has come at the price of the democratic freedoms and human rights that Americans hold dear.

As the U.S. and Russia have pursued their own, at times contradictory interests, they have clashed. The U.S. has pushed NATO’s borders uncomfortably close to Russia and is promoting NATO membership for Ukraine and Georgia, which Russia opposes. The U.S. has supported the Rose, Orange, and Tulip Revolutions in Georgia, Ukraine, and the Kyrgyz Republic, respectively, which ousted regimes loyal to Moscow and raised the specter of a similar upheaval in Russia. Washington has also sought closer ties with the strategically located and energy-rich states of Central Asia, much to the Kremlin’s chagrin.

On the other hand, Russia has irritated the U.S. by:

- Refusing to cooperate on the Iranian nonproliferation issue and selling conventional arms to Iran;
- The virtual absence of the rule of law, including politically motivated, heavy-handed interventions in business and financial markets;

1. U.S. Department of State, Bureau of International Information Programs, “What Is the Group of 8,” at [usinfo.state.gov/ei/economic\\_issues/group\\_of\\_8/what\\_is\\_the\\_g8.html](http://usinfo.state.gov/ei/economic_issues/group_of_8/what_is_the_g8.html) (June 28, 2006).

2. Richard Cheney, “Vice President Cheney’s Remarks at the 2006 Vilnius Conference,” Vilnius, Lithuania, May 4, 2006, at [www.whitehouse.gov/news/releases/2006/05/20060504-1.html](http://www.whitehouse.gov/news/releases/2006/05/20060504-1.html) (June 28, 2006).

3. MosNews, “Pro-Kremlin United Russia Sees Way of Growth in State Regulation of Economy,” November 26, 2005, at [www.mosnews.com/news/2005/11/26/unitedrussia.shtml](http://www.mosnews.com/news/2005/11/26/unitedrussia.shtml) (June 19, 2006).

- Locking Western energy majors out of oil, gas, and pipeline projects in Russia and the former Soviet Union;
- Continued efforts to monopolize the transportation of energy to Europe from energy-rich Central Asian states, such as Kazakhstan and Turkmenistan;
- Using energy as a political and economic weapon to intimidate neighbors, such as Georgia and Ukraine;
- Supporting secessionist regions in former Soviet republics (i.e., Abkhazia and South Ossetia in Georgia, Nagorno-Karabakh in Azerbaijan, and Transdnestr in Moldova);
- Pressuring Kyrgyz and Uzbek officials to force the U.S. military to evacuate bases at Manas international airport and Karshi-Khanabad,<sup>4</sup> respectively;
- Consolidation of Kremlin control over political parties, regional governments, television and print media, domestic and foreign NGOs, and “strategic assets” (e.g., oil, gas, telecommunications, and minerals).

Neither side’s actions are exclusively intended to provoke the other. The provocations are side effects of their pursuit of competing interests. Recognizing this fact and seeking common interests may be key to avoiding a Cold War–style rift between the two powers.

### The Sources of Russian Foreign Policy Behavior

After World War II, with Stalin’s Red Army victorious in Middle Europe and Mao’s revolutionaries gaining the upper hand in China, the forces of capitalism and communism seemed evenly matched, and the ideological chasm seemed unbridgeable. Today, Russia’s position in the global hierarchy has different roots and therefore poses a whole new range of challenges to U.S. policymakers.

With the price of oil over \$70 a barrel, Russia is flush with cash, and great revenues call for “great deeds.” These include funding new ballistic missiles, new nuclear submarines, and separatist militias in Transdnestr and Abkhazia, which threaten the stability of Moldova and Georgia and the wider Black Sea–Caucasus region.

Another obstacle to U.S.–Russian cooperation is the political culture among elites, which exhibits a KGB and *militia* (police) ethos, mixed with some 1990s “wild East” Moscow capitalism. Neither these *siloviki* nor their oligarchic business partners favor “democrats” or Yankees who demand access to oil and gas patches—the “patrimony of the people”—that the Russian government controls.

Communist ideology has been replaced with a revived Moscow-centric Russian Orthodox worldview. This quasi-religious geopolitical system of beliefs views Russia as the heir of Byzantium, the Third Rome, which is always apart from Europe and America.

This places Russia closer to the “East” (China and the Muslim world) than to the materialistic post-modern West, which is said to lack soul and spirit. Islam is hailed as an “authentic” religion of Russia, which recently has become an observer in the Organization of the Islamic Conference and the Arab League.<sup>5</sup> Russia has also pursued diplomatic cooperation with the Iranian ayatollahs and Hamas. This rapprochement with the Muslim world risks driving a wedge between allies in the global war on terrorism.

Russia’s truculent treatment of Georgia and Ukraine—interruptions in gas supplies and stoking of separatism—have further irked Washington. The orchestrated eviction of the U.S. military from the Karshi-Khanabad base in Uzbekistan, conducted in cooperation with China, marked the flowering of a “beautiful friendship” between Moscow and Beijing aimed at undermining Washington’s interests.<sup>6</sup>

4. Vladimir Socor, “Moscow’s Central Asian Friends Campaign Against U.S. Bases,” *Eurasia Daily Monitor*, August 11, 2005, at [www.jamestown.org/edm/article.php?volume\\_id=407&issue\\_id=3434&article\\_id=2370142](http://www.jamestown.org/edm/article.php?volume_id=407&issue_id=3434&article_id=2370142) (June 19, 2005).

5. Yin Gang, “Russia, Sole Winner of the Iran Crisis,” Common Ground News Service, April 19, 2006, at [www.commongroundnews.org/article.php?sid=1&id=1644](http://www.commongroundnews.org/article.php?sid=1&id=1644) (June 19, 2006).

Russia's diplomatic ambivalence over the Iranian nuclear program, demonstrated by chumminess with Iranian President Ahmadinejad, whose presence at the July 2006 Shanghai Cooperation Organization summit was highly publicized, is exhausting the White House's patience.<sup>7</sup> The suspicion is that the Kremlin, together with Beijing, is willing to provide Ahmadinejad with the same political cover that Saddam Hussein purchased with oil-for-food contracts—except that this time, Russia will be paid in multibillion-dollar nuclear reactor contracts, air defense missiles, submarine sales, and bribes.

Russian–Iranian plans to squeeze the U.S. out of the Persian Gulf are also a source of concern, not just in Washington, but in Europe, Japan, and the Gulf itself. As roughly two-fifths of the world's oil passes through the Strait of Hormuz,<sup>8</sup> edging America's military power out of the Gulf would leave European and East Asian energy security at the mercy of nuclear-armed Shi'a radicals in Tehran, supported by Moscow and Beijing.

Finally, the Kremlin has done little to assuage foreigners' fears of investing in Russia. The YUKOS affair, in which politically motivated Russian officials targeted Russia's most efficient energy company, communicated to investors that their property rights were not secure. More recently, in March 2006, Interior Ministry agents seized a shipment of 167,500 Motorola mobile phones worth an estimated \$17 million. Roughly 50,000 were destroyed for being “hazardous to users' health,” and the remaining 115,000 remain in legal limbo

for unspecified reasons.<sup>9</sup> Arbitrary regulations, rampant corruption, and legal irregularities raise concerns about the reliability of Russian markets.

Furthermore, Russian officials have recently confirmed that foreign companies will be restricted to minority ownership in any deposits of oil and gas deemed “strategic”<sup>10</sup> and have repeatedly delayed a crucial decision regarding which U.S. companies will be allowed to participate in developing the Shtokman gas field. Some analysts suspect that the participation of U.S. companies in developing Shtokman and the sale of Boeing civilian jets to Russia will be contingent on Russian accession to the WTO.<sup>11</sup> Squeezing out Western companies from choice Russian energy developments and other investments only exacerbates investors' fears, and politically motivated restrictions on market participation strengthen U.S. reservations about Russian WTO membership.

### What the U.S. Should Do

In dealing with Russia, the U.S. needs to keep in mind some basic economic and geopolitical realities:

- Russian leaders will continue to pursue optimization of their global power by leveraging energy resources.
- The West remains Russia's principal customer for its energy and raw materials.
- Despite strained relations with the U.S., Russian officials understand that provoking an outright global confrontation with the U.S. and its

6. Stuart D. Goldman, “Russia,” Congressional Research Service *Report for Congress*, May 8, 2006, [www.fas.org/sgp/crs/row/RL33407.pdf](http://www.fas.org/sgp/crs/row/RL33407.pdf) (June 20, 2006), and Ariel Cohen, Ph.D., “Uzbekistan's Eviction Notice: What Next?” Heritage Foundation *Executive Memorandum* No. 978, August 18, 2005, at [www.heritage.org/Research/RussiaandEurasia/em978.cfm](http://www.heritage.org/Research/RussiaandEurasia/em978.cfm).
7. Ariel Cohen, Ph.D., “Bear and Dragon Summit,” Heritage Foundation *Commentary*, June 14, 2006, at [www.heritage.org/Press/Commentary/ed061406b.cfm](http://www.heritage.org/Press/Commentary/ed061406b.cfm) (June 20, 2006).
8. U.S. Department of Energy, Energy Information Administration, “Persian Gulf Oil and Gas Exports Fact Sheet,” *Country Analysis Brief*, September 2004, at [www.eia.doe.gov/emeu/cabs/pgulf.html](http://www.eia.doe.gov/emeu/cabs/pgulf.html) (June 19, 2006).
9. Steven Lee Myers, “Phone Seizure Seen as Example of Russian Corruption,” *The New York Times*, June 14, 2006, p. A3, at [www.nytimes.com/2006/06/14/world/europe/14russia.html?pagewanted=all](http://www.nytimes.com/2006/06/14/world/europe/14russia.html?pagewanted=all) (June 28, 2006; subscription required).
10. Guy Chazan, “Russia to Tighten Access to Oil and Gas Reserves,” *The Wall Street Journal*, June 14, 2006, at [online.wsj.com/article/SB115023865846579404.html?mod=todays\\_asia\\_economy\\_and\\_politics](http://online.wsj.com/article/SB115023865846579404.html?mod=todays_asia_economy_and_politics) (June 28, 2006; subscription required).
11. Stephen Boykewich, “Shotkman Gas Project Linked to WTO Fight,” *The St. Petersburg Times*, April 14, 2006, [www.sptimes.ru/index.php?action\\_id=2&story\\_id=17321](http://www.sptimes.ru/index.php?action_id=2&story_id=17321) (June 20, 2006).

allies is beyond the country's economic capabilities and counter to its long-term interests.

- Russia's full economic integration into the world is in the U.S.'s strategic interest.
- For the U.S., simultaneously taking on global terrorism, Iraq, Iran, Russia, and China may constitute a dangerous global overreach.

Armed with this understanding at the upcoming meeting with President Putin and the G-8 summit, President Bush should:

- **Focus on the Iranian threat** by stressing that a nuclear-armed Iran may support anti-Russian and radical Islamic forces in the Caucasus and Central Asia. The President should also warn Putin that the continued flow of Russian technology and assistance to Iran's nuclear and missile programs, along with insufficient Russian cooperation on restraining Iran's nuclear efforts, is souring Russia's relations with its Western partners and may lead to expanded sanctions against Russian companies that are involved in such transfers of technology.
- **Emphasize the need for international firms to participate in large-scale Russian oil and gas projects**, including the Shtokman gas field in the Barents Sea. The massive investments, technology, and expertise required to develop Russia's hard-to-reach oil and gas resources indicate that Russia would be wise to court foreign investors, not exclude them, while oil prices are high. Discrimination against foreign companies and businessmen may further delay Russia's membership in the WTO.
- **Propose U.S. participation in confronting security threats** emanating from the Caucasus

and Central Asia, including the spread of radical Islamic terrorism; trafficking in drugs, weapons, and human beings; and proliferation of weapons-of-mass-destruction technology. The U.S. and Russia should launch a joint threat assessment and task the joint U.S.–Russian anti-terrorism task force chaired by Undersecretary of State Nicholas Burns and Russian Deputy Foreign Minister Sergei Kislyak with putting together a policy package to be implemented in this area.

- **Reassure President Putin** that U.S. support for political and media freedoms and human rights is not aimed at toppling the Putin regime, but that they are a *sine qua non* for further Russian participation in the G-8.

## Conclusion

At the G-8 and Bush–Putin summits, the U.S. should endeavor to pursue the diplomatic and strategic cooperation that characterized U.S.–Russian relations during the 1990s and after 9/11, but on a new level. This new paradigm should take into account Russia's current role as an energy giant while recognizing U.S. interests vis-à-vis Iran, Iraq, and Eurasia.

However, the U.S. cannot wait forever. If no positive changes are in evidence, the U.S. may recommend expanding the G-8 to include China, India, and Brazil on the economic tier while returning to the G-7 format on the political tier.

—Ariel Cohen, Ph.D., is Senior Research Fellow in Russian and Eurasian Studies and International Energy Security in the Douglas and Sarah Allison Center for Foreign Policy Studies, a division of the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation.