



U.S.-Russia Relations:  
The Kremlin Sizes up Obama

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The bilateral dialogue in the first quarter of the year was cordial, if somewhat distant. The administration of President Barack Obama sent clear and positive signals to the Kremlin. At times President Dmitry Medvedev and Prime Minister Vladimir Putin reciprocated with positive language; at times Moscow's negative rhetoric reappeared. Clearly the Russian leadership has been making a cautious assessment of the new U.S. leader. Optimism was again evident at the London meeting between Obama and Medvedev on the eve of the G20 summit on global economic issues. In London, the two leaders pledged cooperation on a variety of issues, centering on arms control. There has been nothing positive in the bilateral relationship to report since last April when then-President George W. Bush visited then-President Putin at Sochi. Since that time, the relationship has plunged to depths unseen since the Cold War. Although many observers wish to see progress (and have come to forecast it), there is clearly much work to be done to repair the rift that has developed over the past six years.

**A “re-boot” for the relationship**

In February when Vice President Joe Biden gave a speech at a security conference in Munich, he uttered a phrase that spawned an entire cottage industry for analysts, linguists, and policy wonks – the likes of which we have not seen since the first person uttered the phrase, “Whither [insert country]?” In his speech, Biden suggested that the U.S. needed to press the “reset” button when it comes to relations with Russia. Since that time news articles, press releases, television news reports, and speeches from the top levels (both President Obama and President Medvedev used the term) have borrowed Biden's phrase and reiterated it *ad infinitum*. When Secretary of State Hillary Clinton met Foreign Minister Sergei Lavrov in Geneva in March, she famously – or infamously – presented Lavrov with a box containing a button inside with the ostensible translation for the Russian word for “reset” [*perezagruzka*]. Unfortunately the translation was botched and the red button indicated “overload” [*peregruzka*], much to the bemusement of the Russians and the embarrassment of the State Department.

Nevertheless, the sentiment expressed by Washington was sincere and was not lost in translation for Moscow; Russia's leaders seemed to have taken the signal to heart. A series of exchanges began with the February trip by former ambassador and current U.S. Undersecretary of State William Burns to Moscow for talks on arms control agreements, the most prominent of which (START 1) is due to expire at the end of the year. On the eve of a March meeting between Clinton and Lavrov, the *New York Times* reported that Obama had sent Medvedev a secret letter. The letter was said to have offered a grand compromise on the missile defense issue: the U.S.

would desist from the development of the controversial system should Moscow convince the Iranians to give up their incipient ballistic missile and nuclear programs. The White House denied such a bargain was offered, but clearly Obama had indicated his willingness to reach out to Moscow. Russia's response has been ambivalent, at least until the recent meeting in London.

Other high-profile U.S. visits to Russia included a delegation led by former Sens. Chuck Hagel and Gary Hart, which was able to meet with President Medvedev. Henry Kissinger led a group of "wise men" to Moscow in March. This group – which included former Secretary of State George Schulz, former Secretary of Defense William Perry, and former Senator Sam Nunn (James Baker traveled to Moscow on his own) – managed not only to meet Medvedev, but Kissinger also dined with Vladimir Putin. The luminaries all brought to Moscow the same message of Washington's eagerness to improve relations with Russia. The much-anticipated meeting between Obama and Medvedev finally took place in London on April 1. The two presidents had traveled there to attend the G20 summit on the global economic situation. Fittingly the meeting took place before the actual G20 summit, where all the distractions were bound to have taken from the time and energy of the two leaders.

After the meeting in London, Obama and Medvedev issued a joint statement that went a long way toward the "reset" that Washington desires. The statement called on the two nations to "move beyond Cold War mentalities" and to work together on arms control, missile defense, nuclear proliferation, international terrorism, Iran policy, Korea policy, and Russia's World Trade Organization membership. Obama also announced that he would visit Moscow in July for a state visit. The big focus, predictably, was on arms control, specifically the need to find a replacement for the soon-to-expire START 1 treaty. The statement, which ran close to 1,500 words, devoted close to half the text to arms control and nuclear proliferation. Negotiators from both sides reportedly have until July to come up with an alternative or temporary replacement treaty for the START 1.

### **Economic crisis**

As recently as last fall the Russian government had been touting the imperviousness of the Russian economy to the global crisis. In October, both Medvedev and Putin assured the Russian people that the crisis would not affect them too badly. There is now no question that Russia has been as badly hit as any other nation – and in some cases perhaps worse. The *ruble* has plummeted against the dollar by approximately 50 percent, and as the price of oil continues to hover around the \$40-50 level, the state budget suffers. There are over 6 million unemployed and this figure could rise to 10 million by the end of the year (of a population of 140 million). Public protests have arisen across Russia, although they are neither particularly widespread nor dangerous at this point. But Putin seemed to have received a shock. When he gave a speech at the World Economic Forum in Davos in January, his tone was severely subdued in comparison to his speeches of years past. He stated that Russia was "seriously affected" by the economic fallout and promised that Russia would work together with the rest of the world to address the necessary issues.

Between bailing out banks and protecting the *ruble*, the Russian government's foreign exchange reserves have dropped from roughly \$600 billion last fall to under \$380 billion in March.

Inflation could reach as high as 13 percent in 2009; industrial output could be down as much as 8 percent. Foreign investment is decreasing; capital flight is increasing. Meanwhile, the economy is predicted to shrink between 2 and 4 percent this year (in March GDP contracted 5.4 percent); in nominal dollar terms it could contract as much as 20 percent.

This dire economic situation has taken a certain bark out of official Russian rhetoric, which has been anti-U.S. for the past several years. Ironically, the bilateral economic date from 2008 began to show positive signs. Two-way trade between Russia and the U.S. amounted to \$36.1 billion, up from \$27 billion in 2007. Although the amount pales compared to other bilateral trading partners (U.S.- China trade totaled \$387 billion in 2007; EU-Russia trade totaled approximately \$364 billion), it was one positive sign amid a bundle of negative data. But for the economic relationship to mature further, the status of Russia's WTO membership needs to be resolved. Russia is the largest economy that is not involved in the WTO. Although the U.S. favors Russian membership, Washington has done little to facilitate Moscow's entry as evidenced by the continued existence of the Jackson-Vanick amendment that forces the executive branch to certify to Congress that Russia no longer restricts the emigration of Jews from Russia. As long as this amendment exists, Russia will only have conditional normal trade relations (NTR) with the United States. The U.S. and other WTO members are concerned about access for their exports to the Russian market and about integrating WTO provisions into Russian domestic law. Washington is also concerned about the lack of enforced intellectual property rights in Russia and the lack of a bilateral investment treaty. Once these issues are resolved, Russia will be on track to gain WTO membership.

## **Arms control**

In many ways, it was easy – and predictable – for the two governments to focus first on arms control as a method of getting relations back on track. Arms control issues represent the low-hanging fruit of bilateral cooperation, borne of the Cold War years when this was the only issue the two governments could speak about civilly. START 1 is due to expire at the end of this year. This 1991 treaty, which stipulated no more than 6,000 deployed long-range nuclear warheads on each side, is in some ways already outdated. The Moscow Treaty, signed by both sides in 2003, pledged to decrease deployed warheads to between the 1,700-2,200-level for each side. In fact, the U.S. has already met this commitment, as was announced in February by the *Washington Post*. Many in Moscow – including Foreign Minister Lavrov – are calling for a new treaty to replace START 1, rather than a blanket extension at the end of the year. START 2 negotiations were suspended in 2002 at Moscow's insistence, due to the unilateral U.S. withdrawal from the 1972 ABM Treaty. A new treaty could lower the level of operational warheads to 1,000 for each side. Both sides have publicly discussed such an option, including most recently President Obama on his European tour. Russia has also made it clear that it wants any new treaty to include delivery vehicles – even those carrying conventional munitions – and not just operational nuclear warheads.

As for missile defense, it appears that the two sides still have much to discuss. Earlier in March, it had been reported that Obama penned a private letter to Medvedev offering to halt the construction of the missile and radar facilities in Poland and the Czech Republic if Moscow could help persuade Iran to give up its nuclear and ballistic missile ambitions. Later, the White

House denied such an offer. While visiting Spain, Medvedev denied a concrete offer from Obama, and ruled out a “swap” between missile defense and Iran. In Russia, many experts insisted that Russia had little – if any – influence when it comes to Iran and suggestions of a grand bargain were brushed aside. This was all put to rest in April. In a speech in Prague on April 5, Obama said that he would move forward with the planned East European shield, despite Russian objections. “Let me be clear: Iran’s nuclear and ballistic missile activity poses a real threat, not just to the United States, but to Iran’s neighbors and our allies.” Moscow’s response has not been made public, but it will undoubtedly be negative.

Ironically, just as pundits in Moscow were claiming that Russia wields little influence over Iran, the chief of the government atomic agency (*Rosatom*) Sergei Kiriyeenko announced the completion of Iran’s first nuclear energy facility at Bushehr. The plant was built by Russian engineers and will be manned initially by Russian experts who will train Iranian staff. Additionally, Kiriyeenko announced that Russia would supply Bushehr with nuclear fuel for at least 10 years and that *Rosatom* hopes to build more reactors in Iran. Also, in late February, Iranian Defense Minister Mostafa Mohammad Najjar arrived in Moscow to try to secure an *S-300* air-defense system, for which reportedly the Iranian government signed a contract to buy at the end of 2008. But reports from the Russian daily *Kommersant* stated that the Kremlin informed Najjar that the deal was put on hold, due to “political considerations.” In 2007, Russia supplied Iran with advanced *Tor-M1* short-range anti-aircraft missile systems that Tehran plans to deploy around its nuclear site at Bushehr. The *S-300* system is a step above the *Tor-M1* in capability and sophistication – it can target missiles as well as aircraft. Meanwhile, Moscow continues to hold the all-important UN Security Council veto, which can be used to defend any possible sanctions against Iran. These facts and events suggest that the “conventional” wisdom in Moscow that Russia has no influence over Iran is partly mistaken. Clearly, some people in the Obama administration feel that a deal is possible with Moscow over missile defense and Iran, but the Kremlin is not ready to act.

## **Afghanistan and Eurasia**

Afghanistan garnered mention in the joint statement issued from London, but it was clearly not as high a priority as arms control. This was fairly surprising to observers, as the run-up to the summit included extensive analysis of how the two leaders planned to address the issue of cooperation against terrorism across the globe and in Afghanistan. It was announced, however, in early March that the first train carrying a cargo of nonmilitary goods to U.S. troops in Afghanistan passed from Latvia through Russia and into Kazakhstan and Uzbekistan. Russian Defense Minister Anatoly Serdyukov also announced that German troops and military cargo would be transported to Afghanistan by rail. Serdyukov hinted that in the future Moscow could allow the same privilege to other NATO member nations, including the United States. The U.S. has been looking for alternative routes into Afghanistan in the aftermath of attacks against supply convoys transiting Pakistan. Any route transiting Central Asia must have the tacit support of Moscow, as evidenced by the recent decision of the Kyrgyz government to shut down the NATO supply base at Manas. This decision was taken by the Kyrgyz government in February, after Moscow had announced a handsome aid package for Bishkek to the tune of \$2 billion. Afghanistan has become the crucial battleground for the Obama administration in the war on

terror. Any cooperation from Moscow could be the key to success there; any obstruction could prove extremely harmful to the NATO effort.

Discussion about NATO expansion was also conspicuously thin at the London meeting. Membership for Georgia and Ukraine remains on the backburner, but the potential admission of these two states will remain a point of great concern for Moscow. After the meeting, Obama addressed these issues. “It is important for NATO allies to engage Russia and to recognize that they have legitimate interests. In some case, we have common interests, but we also have some core disagreements.” Georgia is one of these disagreements. At the NATO summit that convened in Strasbourg on April 3 on the occasion of the 60<sup>th</sup> anniversary of the alliance, Obama declared, “I was a critic of the Russian invasion of Georgia. I continue to believe that ... we have not seen a stabilization of that situation.” He added, “I think we have to send a very clear message to Russia, that we want to work with them, but we can’t go back to old ways of doing business.” In his famous “reset” speech in Munich in February Vice President Biden said that the U.S. would “not agree with Russia on everything.” “For example,” he said, “[we] will not... recognize any nation having a sphere of influence.”

## **Northeast Asia**

The two nations also evidently do not agree about the extent of the threat from North Korea. The U.S. and its allies in the Six-Party Talks roundly denounced the April 4 launch of a rocket by the DPRK. The UN Security Council called an emergency session to come up with a response. But both Moscow and Beijing were nonplussed by the launch and called for restraint so as not to upset the delicate six-party mechanism. Although Moscow claims it has little influence with Tehran, in the case with Pyongyang this is true. Russia has had almost no constructive role in the Six-Party Talks.

Similarly, Russia has had little positive interaction recently with another six-party partner – Japan. Nevertheless, in February, Japanese Prime Minister Aso Taro visited Sakhalin Island, becoming the first Japanese leader to do so since the end of World War II. He was there at the invitation of President Medvedev to participate in a ceremony marking the opening of the Prigorodnoye gas liquefaction plant near the port of Korsakov, south of Yuzhno-Sakhalinsk. The plant is the partial culmination of the Sakhalin-2 project, a \$22 billion consortium composed of two Japanese trading houses (Mitsubishi and Mitsui), the Anglo-Dutch energy giant Shell, and Gazprom. Exports of liquefied natural gas (LNG) began in April with the first shipment going to Japan. At the Sakhalin ceremony, Aso stated that the Japanese government would assist with the construction of a bridge linking Vladivostok to Russky Island, site of the 2012 APEC summit. Bilateral trade has risen six-fold since 2002, topping \$30 billion in 2008. As much as Tokyo wants to achieve a political settlement on the “Northern Territories,” Moscow is content to let economic cooperation take the lead role in relations. It appears that Moscow continues to hold the upper hand in relations with Tokyo, in spite of the fall of energy prices and the subsequent economic crisis. As much as the Japanese government and Japanese interest groups would love to keep the territorial dispute at the center of Japanese-Russia relations, the fact is each passing day takes them further from a settlement.

## **Looking ahead**

It appears that thus far the leadership in both the U.S. and Russia is utilizing the tried and tested method of arms control to settle into bilateral interaction and cooperation. The Obama administration is wise to do so. Politically it is noncontroversial and at home it is easier for both leaders to sell this to domestic opponents. But the more difficult issues – such as Iran, Afghanistan, missile defense, and North Korea – will need to be addressed sooner rather than later. Rather than settling for a mere extension or successor to START, the leadership of the two nations needs to be prepared to take advantage of this honeymoon period to tackle the tough issues. In this way, Obama and Medvedev can make their own imprint on U.S.-Russia relations.

### **Chronology of U.S.-Russia Relations January-March 2009**

**Jan. 1, 2009:** The Russian government-controlled gas giant Gazprom refuses to offer the Ukrainian government a new contract for gas deliveries. This shutting of gas supplies to Ukraine launches the “Gas War” between Moscow and Kyiv.

**Jan. 13, 2009:** Before the Senate Foreign Relations Committee, President-elect Obama’s choice for secretary of state, Hillary Rodham Clinton, criticizes the outgoing Bush administration for having downgraded the role of arms control in Russia policy.

**Jan. 20, 2009:** Barack Obama is sworn in as the 44<sup>th</sup> president of the United States.

**Jan. 26, 2009:** Russian President Dmitry Medvedev telephones Barack Obama to congratulate him on his swearing in as president. They agree to meet soon.

**Jan. 26, 2009:** In an interview, Russian Prime Minister Vladimir Putin blames George Bush and the U.S. for the Russo-Ukrainian gas war that threatened supplies to Europe over the New Year.

**Jan. 28, 2009:** The Kremlin announces that it is putting on hold plans to deploy medium-range *Iskander* missiles to Kaliningrad, the Baltic enclave located between Poland and Lithuania.

**Feb. 4, 2009:** The Kyrgyz government announces that it will be closing the NATO airbase at Manas, a vital supply depot for U.S. and NATO forces in Afghanistan.

**Feb. 7, 2009:** While attending a security conference in Munich, Vice President Joseph Biden suggests that it is time for Washington to press the “reset” button in relations with Moscow. He also signals that the Obama administration is open to compromises with the Kremlin over issues such as missile defense and Iran.

**Feb. 10, 2009:** Russian Foreign Minister Sergei Lavrov announces that Moscow is ready for strategic arms talks with Washington.

**Feb. 11, 2009:** Undersecretary of State William Burns arrives in Moscow to seek Russian cooperation on nuclear arms reduction and the stabilization of Afghanistan.

**Feb. 13, 2009:** ExxonMobil complains that the Russian government is preventing the firm from continuing to develop a multibillion-dollar project off of Sakhalin Island.

**Feb. 18, 2009:** Japanese Prime Minister Aso Taro visits Sakhalin – the first Japanese leader to do so since the end of the Second World War – to participate in a ceremony marking the opening of an LNG plant that will export gas to Japan.

**Feb. 19-20, 2009:** NATO defense ministers meet in Cracow, Poland. U.S. Defense Secretary Robert Gates repeats the U.S. intention to “reset” relations with Moscow.

**Feb. 19, 2009:** It is reported that two-way trade between Russian and the U.S. grew 35.3 percent in 2008 to \$36.11 billion.

**Feb. 25, 2009:** The U.S. State Department issues its annual report on human rights. The report states that in Russia civil liberties are “under siege, reflecting an erosion of the government’s accountability to its citizens.”

**Feb. 25, 2009:** The agency *Rosatom* announces that it has completed the construction of Iran’s first nuclear power plant at Bushehr and is launching start-up operations.

**March 2, 2009:** Foreign Minister Lavrov says that Russia is more in favor of new arms control agreements than an extension of the START 1 treaty that is due to expire in December 2009.

**March 3, 2009:** The *New York Times* reports that President Obama sent a secret letter in February to President Medvedev offering to halt the construction of a missile defense system if Moscow helps suppress Iran’s missile threat. The White House denies the offer of such a deal.

**March 3, 2009:** Defense Minister Anatoly Serdyukov states Russia will not deploy missiles to Kaliningrad if the U.S. ceases plans to build a missile defense system in Eastern Europe.

**March 6, 2009:** Secretary of State Clinton meets Foreign Minister Lavrov in Geneva, marking the first high-level talks between the two nations in 2009.

**March 6, 2009:** The Kyrgyz Parliament officially approves legislation closing Manas Air Base, a major NATO supply base for Afghanistan.

**March 10, 2009:** In Moscow, President Medvedev meets members of a U.S. commission on Russia policy, chaired by former Sens. Chuck Hagel and Gary Hart.

**March 19, 2009:** In Moscow, former U.S. Secretary of State James Baker gives a speech at a conference organized by the American Chamber of Commerce in Russia. He says that the “stakes are too high” for U.S.-Russia relations to go adrift.

**March 20, 2009:** Henry Kissinger leads a delegation of former U.S. officials to Moscow to meet with President Medvedev and Prime Minister Putin. The group includes former Secretary of State George Shultz and former Senator Sam Nunn.

**March 24, 2009:** The Czech government suspends the ratification of its agreement with the U.S. on the deployment of a missile tracking radar.

**March 27, 2009:** Senate Foreign Relations Committee Chairman John Kerry delivers a speech entitled, “A New Partnership for a New Moment in U.S.-Russian Relations.”

**March 27, 2009:** The Shanghai Cooperation Organization (SCO) convenes in Moscow to discuss the situation in Afghanistan. Both Iran and the U.S. send representation.

**April 1, 2009:** In London, President Obama meets President Medvedev for the first time ahead of a G20 summit to address the global economic crisis.

**April 1, 2009:** Russia starts exporting liquefied natural gas from Sakhalin.

**April 3, 2009:** NATO holds its 60<sup>th</sup> anniversary celebration at a summit in Strasbourg, France.