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RUSSIA'S POLICIES TOWARD THE AXIS OF EVIL: MONEY AND GEOPOLITICS IN IRAQ AND IRAN

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BEFORE THE

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RUSSIA'S POLICIES TOWARD THE AXIS OF EVIL: MONEY AND GEOPOLITICS IN IRAQ AND IRAN

WEDNESDAY, FEBRUARY 26, 2003

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to call, at 10:15 a.m. in Room 2172, Rayburn House Office Building, Hon. Henry J. Hyde (Chairman of the Committee) presiding.

Chairman HYDE. The Committee will come to order. I have a feeling that the weather, which is very unseemly for Washington, DC, not so much for Siberia but for Washington, has held some of our Members from getting in. I hope they come.

The subject of today's hearing is of great immediacy as the deadline for action regarding Iraq fast approaches. Given the United States' attempts to obtain broad international cooperation to compel Iraq to disarm and our efforts to secure a new United Nations Security Council resolution, Russia's policy toward the Persian Gulf region is a key consideration in U.S. policy, especially as Russia has the power to veto any Security Council resolution.

Seen within the larger context of President Putin's realignment of Russian foreign policy in the direction of greater cooperation with the United States and the West in the aftermath of September 11th, Moscow's policies toward Iraq and Iran constitute a troubling exception. Russia's support of France's efforts to hinder action by the U.S. and Britain regarding Iraq is an unfortunate development, along with other policies, such as its construction of the nuclear reactor in Iran, constitutes major impediments to good relations between our two countries.

The motivations behind Russia's policies toward Iran and Iraq, as well as North Korea and other states of concern, have been the subject of considerable debate. While some see geopolitical considerations and an opposition to U.S. influence as primary, others regard economic considerations as paramount. The latter point to Putin's statements that Russian's principal concern is economic growth and that its foreign policy may be aimed at securing the means by which this goal can be attained.

Well, we are very fortunate today in having before us all of our panelists, who are already distinguished in this subject and who I believe will be indispensable in assisting this Committee and this House in achieving a better understanding of Russian's foreign policy in the Persian Gulf and elsewhere.

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We are particularly fortunate and honored to have before us Mikhail Margelov, the Chairman of the Committee on Foreign Affairs of the Federation Council of the Russian Federation.

As you are aware, the Federation Council is the upper House of the Russian parliament, and Chairman Margelov is in a position to give us a well-informed and candid assessment of the thinking of Russia's policymakers on these and other subjects.

It is rare that we have the opportunity to hear from so senior an individual from a foreign government, and I wish to extend my personal thanks to you, Chairman Margelov, for your gracious acceptance of our invitation to appear before our Committee.

I will now turn to Mr. Lantos, the Ranking Member and senior Democrat, for any remarks he chooses to make.

Mr. LANTOS. Well, thank you very much, Mr. Chairman, and I want to add my warmest welcome to Chairman Margelov. We are delighted and honored to have you, Mr. Chairman, and we know you will come back frequently to visit us. We look forward to seeing you in Moscow.

Mr. Chairman, I would like to ask for your indulgence in giving me more than the usual amount of time because I just returned from Moscow last night, and obviously I would like to express some thoughts stemming from my most recent visit to Moscow and my meetings with your friends, colleagues, and associates, Chairman Margelov.

Chairman HYDE. Take as much time as you would like.

Mr. LANTOS. I am deeply grateful, and I won't abuse the privilege, Mr. Chairman.

Let me begin by sharing with Chairman Margelov the historical fact that I knew Moscow before you knew Moscow, because I first went to Moscow in 1956 when you were not even a gleam in your parents' eyes. I have had the great pleasure of going back on a regular basis, and as always, the visits to Russia are extremely interesting and valuable, and it certainly was on this occasion.

Although this was not a cultural trip, may I just congratulate you, Chairman Margelov, that Boris Godunov and the Bolshoi are as good as ever, and we had the great pleasure of seeing Boris Godunov in the Bolshoi as well as a new ballet by your outstanding company. And let me report to you, Mr. Chairman, that cultural life in Russia is at an all time high. It is a remarkable phenomenon.

I am delighted that the personal relationship between President Bush and President Putin is as good as it has become, and I want to give the President credit for recognizing that in the post-Soviet era, Russian-American friendship will be a very important cornerstone of a more civilized and peaceful and prosperous and better world for all of us.

I have had the occasion in the last few days, Mr. Chairman, to have extensive discussions with the Foreign Minister of Russia, Mr. Ivanov, the Minister of Atomic Energy, Mr. Rumyantsev, and a wide range of leading political and economic figures across the political spectrum.

I am extremely optimistic about the long range relationship between Russia and the United States, but I do see some problems

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in the near future. I would like to raise some of these in the hope that Chairman Margelov might choose to react to these.

I believe that the very complex and nebulous cell of statements by our Russian friends concerning the issue that preoccupies all of us, namely Iraq at the moment, would be very different if Mr. Chirac and Mr. Schroeder would not be providing very convenient cover for the Russian government to play an ambivalent game.

I am convinced that in the final analysis Russia will not oppose the resolution that our British and Spanish friends and we introduced a couple of days ago, and I think it is even possible, and I hope it is possible, that our Russian friends will join us in an affirmative vote. But I am convinced that there will not be a Russian veto, and that is somewhat encouraging.

I also think that the very excellent cooperation that we received from President Putin in the wake of September 11th, with the Russian President being the first one to telephone our President and assure us of Russian solidarity and cooperation, could be extended to our determination to remove all weapons of mass destruction from Iraq. It is self evident that all of us want to achieve this by peaceful means.

Only an idiot would prefer war to peace, and when public opinion polls ask people whether they wish peace or war, and the answer is 95 percent peace, sign me up on that side, Mr. Chairman, because if that is the option, we all choose peace.

The question is whether we remember Chamberlain bringing back peace in our time from his meeting with Hitler, because that peace was not worth the paper it was written on. So the question is, are we in favor of a meaningful peace or a propaganda peace?

Certainly the American government and our British friends and the large number of other countries, from Australia to Bulgaria, have chosen to stand with us in favor of peace of a substantive and real kind, and we are somewhat disturbed that Mr. Putin and our Russian friends are playing an ambivalent game at this time. I very much hope, when the final decisions are made, Mr. Putin and the Russian government will clearly come down on the side of a meaningful peace.

Now, I fully understand the enormous economic pressures which are operating on Russia. Russian products basically are noncompetitive in the global marketplace, except for armaments, nuclear technology, and oil. Since both Iran and Iraq represent the market for Russia in the field of armaments and nuclear technology, it is a fact of life, in my judgment, deeply deplorable but perhaps understandable, that despite repeated assurances our Russian friends are continuing very questionable trading relations with these countries whom the President properly labeled parts of the Axis of Evil.

It is incomprehensible to the rational mind that Iran would need developments in the nuclear field for energy purposes, and it is self-evident to a child that Iran's determination to develop its nuclear technology is militarily oriented. In the last few weeks, Iran announced that it will participate by itself in the full nuclear cycle. I notice in your written statement, Chairman Margelov, you talk about Iran's nuclear program being at a germinal stage. It is way beyond a germinal stage.

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The Soviet era support for Iran's nuclear program should have been stopped a long time ago by this government. I had a lengthy discussion with the Minister of Atomic Energy, Mr. Rumyantsev, on this subject. I don't think I made any more headway than other American political leaders who go to Moscow and meet him. The only benefit I got is that I have a necktie here from the Ministry of Atomic Energy, which in your honor I have put on this morning.

But that doesn't carry us very far, Mr. Chairman. So may I just say, we feel, at least I feel, that the Russian political leadership should look beyond the immediate modest commercial benefit that cooperation with Iran and Iraq offers our Russian friends, and they need to recognize that the long-term economic and political benefits to Russia of becoming true partners of the United States infinitely outweigh the short-term financial gains of dealing with Iran or Iraq.

I also understand, Mr. Chairman, that Iraq owes Russia somewhere in the neighborhood of $8 or $9 billion, and I think we have an opportunity of assuring our Russian friends that in the post-Saddam era we will see to it that this debt is paid and that the Russian energy sector will have its proper place, an important place in the development of Iraqi oil resources.

Finally, let me just repeat what you and Members of this Committee have heard often from me. I do believe Jackson-Vanik should be terminated. I think it is a bone that sticks in the Russian throat. The goals of Jackson-Vanik have been achieved. And I, as you know, Mr. Chairman, introduced legislation at the President's request to put an end to Jackson-Vanik. I hope that during the current session of Congress we will be able to achieve that.

In conclusion, if I may, let me again welcome our distinguished guests. I have enormous optimism with respect to the future of Russian-American relations; and I earnestly hope that the misguided policies of Chancellor Schroeder and President Chirac will not have an undue influence on our Russian friends, and they may recognize that Russia's long-term future is best predicated on a truly solid relationship with the United States.

Thank you, Mr. Chairman.

Chairman HYDE. Without objection, every Member's opening statement, if they have one, will be made a part of the record.

Today we first welcome Mr. Mikhail Margelov, who has served as Chairman of the Committee on Foreign Affairs of the Federation Council of the Russian Federation since November, 2001.

This January, he became Vice President of the Parliamentary Assembly of the Council of Europe. Previously Chairman Margelov held senior positions in President Vladimir Putin's 2000 presidential campaign and in President Yeltsin's 1996 reelection campaign and served as Deputy Head of the Public Relations Department of the Office of President.

Chairman Margelov has a long-standing interest in the Middle East, and I am told, I hope correctly, that he speaks fluent Arabic. But we will not take advantage of that skill.

But we welcome you, Mr. Chairman, very much. And would you please make such statement as you choose to make?

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STATEMENT OF THE HONORABLE MIKHAIL MARGELOV, CHAIRMAN, COMMITTEE ON FOREIGN AFFAIRS, FEDERATION COUNCIL OF THE RUSSIAN FEDERATION

Mr. MARGELOV. Thank you, Mr. Chairman. It is my pleasure and it is my honor to be here. I have to mention that for the first time in our bilateral relations between the two parliaments we have a unique opportunity to take part in the hearings here in Washington. I hope we continue that practice at the hearings on Russian-American relations in Moscow.

We started discussing that project, if I may use that word, here last autumn with our partners in the U.S. Senate and here in the House of Representatives. I think we need more contacts, we need more interaction, we need more interdependence. The more interdependence we have, the more firm is our partnership.

Mr. Chairman, and dear colleagues, Russia, as you know, maintains relations with Iran, Iraq and North Korea. It is not a secret for our partners, for our allies, including the United States of America. Our relations with these countries do not contradict in any way our international obligations, including those within the framework of the antiterrorist coalition.

I know that in the United States of America these countries are often defined as Axis of Evil. I used to be much involved in the Soviet propaganda machine, and later I worked for some American consulting companies for some 5 years. Therefore, I understand that directly defining the enemy facilitates many goals, particularly in the sphere of public relations.

However, I believe that politicians and especially lawmakers should not allow themselves to oversimplify the situation. Simplification can be a serious sin when long-term decisions are at stake. And it is about the taxpayers' money too, since in the end it is the taxpayer who will finance our conclusions.

The top priorities of Russia's foreign policy, during the last 2 years at least, are pragmatism, economic effectiveness, and addressing national issues. Thanks to this, Russia today is gaining a new position in the world, and I would like to comment on one of the points which was made by Mr. Lantos. We recognize the value of our strategic partnership with the United States of America, and it is our strategic choice. It is not just tactics in order to achieve the new position in the world that we had to waive the whole system of stereotypes. Although this process is not simple and not completed yet, the benefits of such an approach are doubtless.

After all, refusal from the mythology of confrontation between the two superpowers led to changes drastically in Russian-American relations in the last 1½ years. Not hidden ambitions, but principles of economic effectiveness form the basis of our relations with countries which we label as countries of the Axis of Evil. That these relations do not threaten anyone's security is our firm belief. We would like to maintain and strengthen our positions in these markets to secure a number of important export items, which means maintaining income sources for our state treasury, which is still too small to meet our country's obligations.

But that is not all. We would like to make our enterprises work at full capacity, including those in the defense industry, which often influence strongly the well-being of the cities in Russia.

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I think you and the United States also know how the military sector of the economy was suffering after the end of the Cold War. That is the heritage of the economy of socialism, which will echo for quite a long time.

To obtain a clear picture of how difficult this situation is, let me remind you of the U.S. military bases in the states from where many, many of you were elected. I think you would agree that shutting down those bases often endangers the future of those families involved in their maintenance. Who of you will lightheartedly agree to drive them to unemployment and poverty?

I would like to remind you of the National Security Advisor to the President, Condoleezza Rice's, well-known words: The threat for the national security of the United States is not in Russia's strength, but in its weakness.

I have no reason to argue with Dr. Rice in this regard. We also think likewise Russia's weakness is not an option. That is why we are striving for a competitive economy, a strong and modern state. Only a strong one is able to actually protect its freedom. I don't think I should convince Americans that it means that the interests of the United States and Russia at least do not contradict each other.

Constant and effective dialogue between our leaders supported by consultation at all levels allows us to predict and prevent the emergence of strong contradictions. That is why I would like to say again that I am pleased to address you today. That is why we hope to hold in the near future in Moscow joint hearings on bilateral relations together with our colleagues from the U.S. Senate. As far as discussions, they are absolutely normal things between partners.

I would like to comment now on some statements which were made by Mr. Lantos. First of all, I would like to say that I also saw Boris Godunov on the 21st of February, and I confirm that the cultural life in Moscow is in good shape. You have a necktie from our Nuclear Ministry. I don't have one. You are lucky, so you are in a preferable position.

Mr. LANTOS. I hope it will give me some influence with the Minister of Atomic Energy.

Mr. MARGELOV. I hope so, too. I cannot share in your thought of seeing Russia in the year of 1956 because I was born in 1964.

Mr. LANTOS. You didn't miss much.

Mr. MARGELOV. Well, some people will disagree with you, particularly in Moscow. But representing the new political generation, which is coming out on the stage in Russia, I would like to make some points which I consider to be of crucial importance. Russia does not play an ambivalent game today. We managed to improve our relations with the United States of America dramatically. We managed to come to an agreement that we can disagree, but not become enemies.

I think it is a great achievement in our bilateral relations. We had a second, and I think I might be wrong, but maybe the last chance to change the character of our relations. We did not use that opportunity quite well after the August coup d'etat in Moscow in 1991. We have such an opportunity after the tragic events of 9/11, so we must work together. We must be interdependent. We must cooperate.

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And I think that today Russia is in a very unique position in comparison with what we could see in Soviet foreign policy. I was accompanying President Putin on his visit to France last week. That is one of the reasons we couldn't meet in Moscow, Mr. Lantos.

I can feel the rise of anti-American feelings in Western Europe. That concerns us. We do not need anti-American feelings in Europe. We do not need that. We can work as a bridge between the United States of America and old Europe.

The choice is for partnership with the United States, and I would like to stress it again and again here, it is our strategic choice. We have a common enemy as we did in 1941–1945. My grandfather, who was a commander-in-chief of Soviet paratroopers for 25 years, and who was one of the most distinguished Soviet Cold War generals, had two American World War II medals. And even during the difficult time of the Cold War in Moscow, he liked to have some vodka with American military attaches. It was strictly prohibited, but he was doing that because they were brothers-in-arms.

And I think today having a common enemy, having the common threat facing us, the same challenges, we must be together. I am very optimistic about the discussion which we see in the Security Council. We have two papers on the table. These texts do not conflict dramatically. Both texts have an indication that if Saddam Hussein does not cooperate with the international community, they can go ahead with the use of force.

I have a very strong message here on the Hill and also in the State Department that the United States of America wants to stay under the U.N. umbrella. I think it is of crucial importance. We have not invented any substitute for the United Nations as a mechanism for consultations during crises here in difficult situations. We all need it. We all need to have the United Nations modified, but we need it effective.

Then I would like to say again we agree that we can disagree, but not to become enemies. But our partnership needs more to be firm and solid. We need new substance for our relations. We need a new agenda. We will ratify this very soon. I know that you are intending to do it rather soon here in Washington, as we are in Moscow. We stopped counting our warheads. Enough is enough. This chapter is closed.

But what is the new substance of our relations? What is the new agenda? Do we know it? Can the intellectual communities, can the two parliaments, can the business communities assist our Presidents in their contexts, which are really excellent, to have new substance for Russian-American relations? Are we efficient in working out the new agenda?

I think we are at the very preliminary stage, and that is why I think we have to institutionalize that kind of dialogue. And I definitely should mention in particular the situation around Iraq as an Orientalist, as a specialist in the Middle East problems. I am very much concerned about the day after. I am very much concerned about the fact that we did not have joint strategic planning. We did not do any early crisis prediction. We did not do much thinking about the day after.

If we do not preserve the territorial integrity of Iraq, the whole region can explode. If the Kurds get the wrong signals that they

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can get independence as a result of military conflict, that can explode Iran—it can explode Turkey and Syria. And I don't think that the international community is ready to redraw the post-British, post-French, post-Colonial map of the Middle East.

I don't think we are in a position where we can play such a game and be successful. I fully agree with Mr. Lantos saying that only idiots would prefer war if there is an opportunity for peace.

I seriously think that even today we have not exhausted all the opportunities to make Saddam cooperate with the international community; and I think that if we look at inspectors acting in Iraq today, we can compare them with policemen. Let us imagine that inspectors act as policemen. Everybody knows that if a policeman is watching a criminal, watching him carefully, very attentively, he controls what the criminal can be doing, but if the criminal commits a crime the policeman shoots.

So I think that the inspectors are still in a position that they can watch what is happening inside Iraq carefully, and they can try to make Saddam cooperate. If not, we all have seen two texts, the American resolution draft and the statement made by Germany, France and Russia. Both texts do not exclude the military option, so to speak.

And concluding my remarks, again and again, I would like to stress Russian policy is not aimed at provoking disagreement between Europe and the United States of America. Russia's goal is stability and strength of the antiterrorist coalition. Please do not forget we have a common threat, we have a common enemy. You know that—we know that. And let us work together.

Thank you.

[The prepared statement of Mr. Margelov follows:]

PREPARED STATEMENT OF THE HONORABLE MIKHAIL MARGELOV, CHAIRMAN, COMMITTEE ON FOREIGN AFFAIRS, FEDERATION COUNCIL OF THE RUSSIAN FEDERATION

RUSSIA'S POLICY TOWARD IRAQ, IRAN AND NORTH KOREA

Mr. Chairman and Members of the Committee,

Russia maintains relations with Iran, Iraq and North Korea. It is not a secret for our partners, including the United States. Our relations with these countries do not contradict in any way our international obligations, including those within the framework of antiterrorist coalition.

I know that in the United States these countries are often defined as "Axis of Evil". I used to be much involved in the Soviet propaganda machine, later I worked in an American consulting company. Therefore I understand that directly defining the enemy facilitates many goals, particularly in the sphere of public relations. However, I believe that politicians and especially lawmakers should not allow themselves to over-simplify the situation. Simplification can be a serious sin when long-term decisions are at stake. And it's about the taxpayers money too, since in the end it is the taxpayer who will finance our conclusions.

Iraq

On February 14, 2003, the UN Security Council was urgently convened at a Foreign Ministers level to address the most crucial challenge—to settle the Iraq issue. It is the in UN and the Security Council framework that all states have an opportunity to seek solutions to the problems pertaining to interests of global security on the basis of equality and fairness.

It is quite obvious that there are all necessary conditions for the UNMOVIC and the IAEA to fulfill the tasks before them. All Security Council members are ready to facilitate improvement of these conditions. Daily inspections by international inspectors are being conducted in cooperation with the Iraqi side. Recently this cooperation has notably intensified. Free access to all facilities is provided in accordance with the UN Security Council Resolution 1441. At present there are no obsta-

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cles to conduct air surveillance of the Iraqi territories by American U–2, French Mirage and Russian AN–30B aircraft as well as to interview Iraqi scientists. The Iraqi side provided the UNMOVIC with a number of new documents concerning its previous military programs, created two commissions that will deal with the search for additional materials. On February 14 Iraq passed the law prohibiting any development of weapons of mass destruction.

We have a unique chance—which should not be missed—to settle this vexed international problem by political means in strict accordance with the UN Charter. One can resort to force, but only when all other means have been exhausted. I would hope this will not happen.

We are concerned with the future of Iraq under any scenario. We are concerned with the uncertainty of the US plans with regard to this future. Can anyone guarantee that a military intervention in Iraq will neither lead to a collapse of this country nor its transformation into a fundamentalist dictatorship with all corresponding consequences? Can we guarantee that military action specifically against Saddam Hussein will not result in a new outbreak of violence? How will the Arab world react after military action in Iraq has started? What will happen to Iraq after this military operation has been completed? Now there is a military dictatorship, one step away from a fundamentalist one. Use of force can compel Iraq to make this step.

US military operation in the Middle East will definitely affect oil prices on the global market. Russia will not benefit either from a sharp drop in oil prices or a sharp rise in those prices—both are bad for our economy. Instability is a synonym for risk. Russia considers such risk excessive for its security. However, instability is not a good thing for any economy. Russia as other players in the oil market has got its own interests in Iraq, but these interests do not include turning it into a zone of unpredictability.

Russian position is that it is necessary to make Iraq as transparent as possible to the rest of the world. That is why we need UN inspections. At least they should become the first step in that direction.

The purpose of the antiterrorist partnership is to overcome the remaining consequences of the Cold War, which, to a great extent, was the source of international terrorism. An attempt to settle all the problems at once and by force can lead to a new cold war—this time with the whole world.

History shows that totalitarian regimes can transform themselves while they are being involved into the world economy. Regimes may change and their leaders may leave. Now since Russia and the United States are not strategic rivals any more we have got a unique chance to promote the establishment of a new world order with no threat to both our own future and the future of other nations. Is it worth losing this chance by starting a war with unknown consequences?

We share Washington's concerns about the risk of Iraq's remilitarization. But is an attack truly an adequate response to such a threat? Today the antiterrorist coalition relies on the consensus of the UN Security Council. We believe we should treasure this consensus. It will let us gain transparency in Iraq without threatening international stability.

Iran

Iran is an important regional partner of Russia. This country plays significant role in Asian affairs as well as in the Muslim world. Our experience of cooperation particularly in Tajikistan and Afghanistan confirms that this country is able to take a constructive part in resolving conflict situations. We encourage more active engagement of Iran in the international affairs, with a special emphasis on such areas as counter-terrorism, drug trafficking, disarmament, nonproliferation and export control issues.

We know that there are certain concerns in the United States about our cooperation in the nuclear field. These concerns have reached such a level that our scientific institutions are permanent subjects of sanctions. However we do not believe that there is a reason for such concerns. Nuclear program of Iran is in its germinal stage and Teheran is prepared to demonstrate maximum transparency in its nuclear activities. Iran is ready to contribute to the program enhancing efficiency of the IAEA guarantees. Russia supports it in every possible way. As to military cooperation, Russia only sells defensive weapons to Iran. There is a number of unsettled controversial issues in our relations with Iran, as well as with other neighboring countries of the former USSR, particularly the division of the Caspian Sea basin. Settlement of these issues is a priority for Russia.

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North Korea

More than one and a half years ago Thomas Graham—who needs no introduction for this audience—wrote in his article "Rethinking relations between the USA and Russia" that "stable balance will be complicated if Russian presence in Asia is weakening". I agree completely with this thesis. We believe that our efforts aimed at getting over the current crisis around North Korea would promote not only improvement of the situation on the Korean Peninsula and the rapprochement between Pyongyang and Seoul but also strengthening the global stability. This very logic stood behind the contacts of Russian President Vladimir Putin and North Korean Leader Kim Chong-Il followed by recent negotiations between Special representative of the Russian President Alexander Losyukov and the leadership of the DPRK. China, European Union and ASEAN demonstrate the same approach.

Russia conducts a balanced policy on the Korean Peninsula. We are equally interested in promoting the military-technical cooperation both with North and South Korea. Herewith exports of our weapons are set up in such a way that not to damage the security of either side. Believe me, we keep this under strict control. Thus it should not provoke concerns in Washington.

As you know, Russia does not consider it necessary at this point to bring the Korean issue to the United Nations Security Council. The essence of this position is similar to the medical principle "not to cause harm". The North Korean crisis is expanding in close vicinity to our borders. This can not help causing our concern. We take this very seriously. The Iraqi problem should not eclipse the Korean one. We are convinced that it is necessary to use all the opportunities for settlement which could be opened within the framework of the direct dialogue between Pyongyang and Washington. Russia supports the "package settlement" of the North Korean issue, main point of which is to provide Pyongyang with reliable security guarantees in exchange for its refusal from nuclear weapons programs. I will try to make our logic clear. The process of reunification of two Koreas has been going on for too long to let it be frustrated by rash steps. We need to use caution and step-by-step approach. Providing the DPRK with reliable security guarantees in exchange for its refusal from production of weapons of mass destruction would simultaneously guarantee the continuation of the historic reunification process which is of enormous importance not only for the peoples of both Koreas but for the entire world.

Ladies and Gentlemen,

The top priorities of Russia's foreign policy are pragmatism, economic effectiveness and addressing national issues. Thanks to this Russia today is gaining a new position in the world. In order to achieve that we had to waive the whole system of obsolete stereotypes. And although this process is not simple and not completed yet, benefits of such an approach are doubtless. After all refusal from mythology of confrontation between the two superpowers allowed to change drastically the Russian-American relations in the last one and a half years. Not hidden ambitions but principles of economic effectiveness form the basis of our relations with countries which were too hurriedly labeled as members of an "Axis of Evil". These relations do not threaten anyone's security. We would like to maintain and strengthen our positions on these markets, to secure a number of important exports items which means maintaining income sources for our state treasury—still too small to meet our country's obligations. But that is not all. We would like to make our enterprises work at full capacity including those in the defense industry which often influence strongly the well-being of the whole cities in Russia. That is the heritage of the economy of socialism which will echo for quite a long time. To obtain a clear picture of how difficult this situation is let me remind you of the US military bases in the states from where many of you were elected. I think you would agree that shutting down these bases often endangers future of thousands of families involved in their maintenance. Who of you will lightheartedly agree to drive them to unemployment and poverty?

I would like to remind you of the National Security Assistant to the President Condoleezza Rice's well known words: "The threat for the national security of the United States is not in Russia's strength, but in its weakness". I have no reason to argue with Dr. Rice in this regard. We also think likewise. Russia's weakness is not an option. That is why we are striving for a competitive economy, a strong and modern state. Only a strong one is able to actually protect its freedom. I don't think I should convince Americans of that. It means, that interests of the United States and Russia at least do not contradict each other. Constant and effective dialogue between our leaders, supported by consultations at all levels, allows us to predict and prevent the emergence of strong contradictions. That is why I am pleased to address you today. That is why we hope to hold in the near future in Moscow joint hearings on bilateral relations together with our colleagues from the US Senate. As for "discussions", they are absolutely normal thing between partners.

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Chairman HYDE. Thank you very much, Chairman Margelov. The procedure in this Committee is that you get 5 minutes for questions of the witness in the order in which you arrive to the hearing, which is a little more democratic than just going by seniority. So we will observe that. And for 5 minutes the gentleman from Nebraska, Mr. Bereuter.

Mr. BEREUTER. Thank you very much, Mr. Chairman.

Chairman Margelov, thank you very much for your testimony. I think it is an advance when senior members of the parliamentary body in Russia have an opportunity to directly engage in dialogue with us.

I happen to have the privilege of being the President of the NATO Parliamentary Assembly, and when I took that position in November, I had three priorities staked out. One of them was to increase our positive contact between the NATO Parliamentary Assembly and Russia, and certainly the parliamentary body with the first emphasis within Russia.

I think it complements NATO's effort to develop a strong NATO-Russia Council, and I would hope that we will have better success than the previous effort, and I expect that we will. I believe that the United States wants to invigorate that Russia-NATO Council relationship, and you are right to watch that development, as we will watch it.

I spent time taking the NATO parliamentary delegation to Brussels at the same time that the EU Summit was underway, coincidentally, for our annual meetings. At that time, of course, it was the heart of the debate before the North Atlantic Council, and then ultimately a decision taken to something unusual, the "Defense Planning Committee." As you know, France is not a part of the military structure of NATO as it opted out of the defense component 35 years ago.

I believe that an objective observer of what is happening in Europe today would conclude that while it is not to be demonized, France clearly wants to marginalize the influence of the United States within Europe and wants to reduce the influence of NATO and accentuate the influence of the European Union. Now that is a legitimate objective on their part. It just happens to be probably counter to our interests.

As I visited Slovakia, the first of the seven aspirant states I will visit in the course of this year, the views I heard there were commonly expressed across the band of countries that wish to accede to the European Union. The seven that have been granted accession opportunities for NATO see things much differently than the French and Germans, who want to provide their vision of what Europe will be like.

I believe that it is important that the ties between Russia and the nations of Central and Western Europe are strengthened. I like some of the things that are underway in Russia. We have some concerns that I hope you will look at, which include the still very large stock of biological and chemical weapons in Russia.

I want my colleagues to know that I think what we are doing on Nunn-Lugar is exceedingly important, and we should not allow some of our colleagues on the Armed Services Committee to place unreasonable impediments in the way of President Bush as we at-

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tempt to marshal resources from throughout the area to assist the Russians on the destruction of some of these weapon stocks.

So I thank you for your cooperation. I would ask you what you can tell us further about the knowledge and commitment of the Russian government to stop the transfer by Russian firms of components that will assist Iran in developing its own stock of weapons of mass destruction, including a nuclear program.

Mr. MARGELOV. Thank you. Well, as already mentioned, I did not have the privilege to meet with our Nuclear

Minister——

Mr. LANTOS. I will try to arrange it for you next time.

Mr. MARGELOV. Thank you. Well, you know, my perception of the development of Russian cooperation with Iran is the following. We look at Iran as our important regional partner. Iran can play its role in the war on terrorism. Iran is the country which you cannot neglect when you are talking about a Middle Eastern settlement.

And I think that it is in the best interests of the current Iranian government to cooperate with the international community, because they have the Iraqi example, because I think they understand that if their country is not transparent to the international community, the international community will change its style in dealing with Iran. That is my first point.

My second point, we know that during the last 12 years there was some kind of leakage of technology, and there was a kind of brain drain. We know that it was, let's say, one of the results of the end of the Cold War, the scientists, the engineers, the research institutes had to survive. And they were cooperating with those who were offering to them such an opportunity to cooperate.

We definitely do not want Iran to have nuclear weapons, because we have another dangerous example in the region. When the war on terrorism started in Afghanistan, we all were concerned about the nuclear power in Pakistan, and we had to watch it carefully. That is why we understand the danger of the proliferation of nuclear weapons in the region. We are watching carefully what is happening in our cooperation in Iran, but I would like to stress here that our nuclear sector needs contracts.

And if the United States of America, if other Russian partners in the antiterrorist coalition can offer such contracts that can be good for our nuclear industry, that will I think limit its cooperation with Iran. They have to survive. So try to help them.

Chairman HYDE. Mr. Lantos of California.

Mr. LANTOS. I was very pleased to hear your last observation, Chairman Margelov, because I opened that subject with your Minister of Atomic Energy. We do realize that your nuclear industry needs to survive, but there are certainly more creative ways of helping to achieve that survival than to close our eyes to exports to Iran, which we view as extremely, extremely dangerous and destabilizing.

Let me share with you, if I may, what Admiral Wilson, who is Director of our Defense Intelligence Agency, says. He believes that Tehran is likely to reexport sensitive Russian technology for weapons of mass destruction it obtains to militant Muslim regions or terrorists groups in other countries.

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I mean, that is our considered view. If Iran gets nuclear technology from Russia, that nuclear technology will not remain in Iran, it will be shared with dangerous terrorist groups and countries that harbor terrorism. Our whole war against terrorism globally, the war we will be engaged in many years to come, has as its focus to prevent weapons of mass destruction falling into terrorist hands.

And while we are very sympathetic to the Russian nuclear industry's need to have jobs and contracts, it is up to the West to see to it that these jobs and contracts do not involve sales to countries such as Iran. Our view of Iran, according to the State Department, is that Iran is the most dangerous state sponsor of terrorism on the face of this planet as we meet here this morning. That is the official view of our State Department.

Clearly terrorists who use airplanes as their weapon would love to have the use of nuclear weapons, and we are determined to stop that.

If I may come back to your observations concerning Iraq, and I deeply appreciate the candor with which we can share views. I find it very ironic that both our French and German and Russian friends point to some marginal progress which is being made as a result of inspectors being in Iraq. Well, let me point out, and I know you agree with me, that the inspectors are in Iraq today not because Mr. Putin arranged for them to be there, not because Mr. Chirac arranged for them to be there, not because Mr. Schroeder arranged to have them there, but because the American military has an incredible armada on the Iraqi border, and Saddam in an attempt, in a last minute desperate attempt to prevent his own replacement, has opened the country up to inspectors.

So I don't think it is realistic to claim credit for the work of inspectors and fail to recognize that it is American foreign policy which put them there. Point one.

Point two, with great respect, we disagree with you that the inspectors are there as policemen. They are not there as policemen. They are there to receive the voluntary, full and immediate compliance of Iraq in turning over all weapons of mass destruction and all credible evidence that some weapons may have been destroyed already. They are not policemen. They are not detectives. They are unable, whether there are 100 of them, 200 of them, or 2,000 of them, to find in a huge country weapons of mass destruction which are hidden. That is simply unrealistic.

The final comment I would like to make, and I would be grateful if you would react to that, you emphasize the importance of the United Nations, and I fully share with you the view that we need the United Nations for a wide variety of purposes in a complex world. But I think it is extremely important not to paint a picture of the United Nations that does not exist.

The one thing the United Nations does not have is moral authority. The United Nations has, as Chairman of its Human Rights Commission, Libya.

Come May, the United Nations will have as Chairman of the Disarmament Committee—hold on to your hats—Iraq. So the notion that the United Nations somehow represents a superior moral authority is absurd, and we here, most of us at least, reject it.

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Secondly, I think while we clearly prefer to have the imprimatur of the United Nations for various actions, the United States Government in my judgment quite properly stated that if it becomes necessary to move against a regime such as that of Saddam Hussein, we are ready to do so with a coalition of the willing, with or without United Nations support.

It is our judgment that Resolution 1441 does provide U.N. approval of such action and no additional resolution is called for, but we would be pleased to get one. I wonder if you could respond.

Mr. MARGELOV. Thank you. Well, first of all, with all of my respect, I would like to disagree with you saying that inspectors are in Iraq because American armada is near Iraq. Inspectors are in Iraq because there were extreme international efforts inside the United Nations and outside of the United Nations to put pressure on Saddam Hussein. The American armada is important, but I also think that what was done and still is being done in the political field, in the field of diplomatic pressure, is also important. And if there was only armada but no diplomatic pressure, I don't think that without diplomatic pressure, Saddam Hussein would allow inspectors in.

Then, as for the United Nations, on the one hand, I would not overestimate the effectiveness of the United Nations during the last years. On the other hand, I would not agree with some of my friends from the Israeli Knesset who call the U.N. the United Nothing.

While I think that today we have a major problem with all international institutions, all international institutions which we have, including NATO, including OSCE, including the United Nations, are inherited from the time of the Cold War. They are inherited from the post-World War II world.

And the technology they are using, the way they are structured, the way they operate, is still not very efficient. And they are, let's say, kind of old-fashioned, if I can use that word, speaking about international politics. Definitely we have to think about the reshaping, the restructuring of the way the system of international institutions works.

During NATO enlargement, I was saying—during the last stage of NATO enlargement—I was always saying that I am against that enlargement for only one reason. It produces again and again the old technology of preserving international stability. We are not creative. We are not looking for new options. We are not looking for new mechanisms. Will NATO become more strong after the 4,000-man Estonian army joins it? I doubt that.

And that is why I think that it is also another part of our whole work which has to be done together. We have to think of the new or maybe old but modernized international institutions, which can be more efficient.

Chairman HYDE. Thank you. Thank you, Mr. Chairman.

Mr. SMITH OF NEW JERSEY. Thank you Mr. Margelov. Thank you for being here and for your insights. I, like many other Members of this House and the Senate as well, welcome areas where we can cooperate. I have been a member of the Helsinki Commission now for 23 years and frequently meet with friends from the Duma and OSCE Parliamentary Assembly members. We have been trying for

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years to encourage the Russians to enact a comprehensive law on trafficking.

We did this in our Congress in the year 2000, a sweeping effort to stop that modern day slavery, and I am happy to say Elena Mizulina, who I know and worked with for years, has introduced a comprehensive bill. I do hope your government will adopt it and aggressively implement it.

I chair the Veterans' Affairs Committee, and I have met with many of your Duma members to talk about some of the programs that have worked well in our country, particularly the Home Loan Program, which has created the modern day middle class, and the GI College Education Program that might be considered on a pilot basis in Russia. So my sense is one of cooperation to the greatest extent possible going forward.

Having said that, I am very deeply concerned about a couple of items, and it was mentioned earlier by some of my colleagues, this cooperation with Iran. We know that Khatami visited St. Petersburg and toured a nuclear facility. Ariel Cohen in his testimony spoke about this very troubling trend, and spoke of purchasing or buying a nuclear facility; that, in a land, Iran, where natural gas is in great abundance and nuclear energy is highly questionable in terms of merit. There are other more nefarious purposes for that fuel, and we are deeply concerned about it.

You mentioned what happens the day after. What happens the day after Iran announces they have nuclear weapons and the capability to deliver them?

The second issue I would like to raise is Belarus. As we all know, Alexander Lukashenko remains one of the last Ceaucescus, Milosevics, a terrible, despicable leader, who tortures his own opposition, and has shut down the independent media. Independent candidates who would like to run for office are routinely disqualified, and he runs a barbaric country, sadly, of some 10 million.

Many of us have been concerned, however, about the pass-through of Soviet or Russian weapons from Minsk to Baghdad, often under the guise of humanitarian flights, and that even broke into a Newsweek article that was published on February 13th. What can you tell us about that?

There are many, as we know, joint Belorussian-Russian military cooperations. We know that Belarus remains one of the largest importers of Russian weapons for a country of 10 million with no apparent enemies. For what purpose are there arms transfers occurring? What is Russia doing to try to stop it?

Again, those weapons will be used if there is a war, the anti-aircraft weapons and alike, against Americans and allied forces, which would be unconscionable if there were some complicity by our friends in Russia.

Mr. MARGELOV. Thank you. First of all on Iran and nuclear power, you raised that problem, Mr. Lantos was also saying about the threat of nuclear. I don't think that you can find any politician in Moscow who will applaud the idea of nuclear terrorism. We understand quite well that we have two major challenges today. One is international terrorism and another one is proliferation of the weapons of mass destruction. And you can hardly find advocates either in the Duma or in the Federation Council, either in the gov-

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ernment or in the presidential administration, who will say that the nuclear terrorism is something which is supported by anybody in Moscow. I think it is absolutely impossible. And that is why seriously we are watching and we will be watching very carefully and very precisely the character of the cooperation of our nuclear industry with Iran and all other countries, not only Iran.

As for the situation around Belorussia, I represent the Pskov region. In is in the Councilar Federation in the northwest of Russia on the border of Latvia, Estonia and Belorussia. My knowledge from what I know from different people from Belorussia, from different representatives of Belorussian business, is that there is no transfer of military technology or weapons from Belorussia to Iraq. And I think so and I really think that if there is such a transfer, Russia would do anything it could to stop such a transfer.

Mr. SMITH OF NEW JERSEY. If you could take back to your friends and colleagues in Russia information on whatever could be done to ensure that those humanitarian flights are not exploited to carry cargo that would be military in nature, because access to those flights is very limited and needed for other means. This is a very, very high priority to many of us here. Thank you.

Mr. MARGELOV. I got the message.

Chairman HYDE. The gentleman from Ohio, Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman. Chairman Margelov, thank you for joining us. It is good to welcome Celeste Wallander here, too, and thank you and other panelists for joining us.

I find it interesting that we are sitting here to criticize Russia's policy toward the Axis of Evil. We are going to hear from panelists that Russian interests in Iraq are largely motivated by oil. They will discuss how terrible it is for Russia to deal with such a nation with the implication that opposition to U.S. military action in Iraq is based upon selfish economic interests.

The nerve of the Russians that they have economic petroleum interests in the Middle East. It is not as if our country's President and Vice President are oilmen who have done quite well in the Middle East. It is not as if Halliburton had millions of dollars in contracts with Iraq as recently as 2000 while Vice President Cheney was at the helm. It is not as if Secretary Rumsfeld met with Saddam Hussein in 1983 to help normalize U.S.-Iraqi relations. It is not as if Secretary Rumsfeld visited Iraq at a time when Hussein was using chemical weapons, as the Washington Post said, on an almost daily basis. It is not as if our country—our own country—does not continue amicable relations with Saudi Arabia, one of our chief oil suppliers and the homeland of 15 terrorists who attacked our country.

According to oil industry executives and U.N. records from 1997 to 2000, Halliburton held stakes in two firms that signed contracts to sell more than $73 million in oil production equipment and spare parts to Iraq, while later Vice President Cheney was Chairman and CEO of that company. Mr. Cheney oversaw Halliburton's acquisition of Dresser Industries, who with Ingersoll-Rand created two subsidiaries, Dresser-Rand and Ingersoll-Dresser, that sold sewage treatment pumps, spare parts for oil facilities, pipeline equipment to Baghdad through French affiliates while we had sanctions against Iraq from 1997 to 2000.

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I do not like what Russia is doing. I make that clear, and I think that people's objections on this Committee are right on target. But I don't know how that is a whole lot different from what Vice President Cheney has done. The Russians have an interest in Iraqi oil. They have contracts and infrastructure agreements, but the U.S. has an interest in Iraqi oil as well, probably quite similar to Halliburton's from 1997 to 2000.

Iraq's proven oil reserves are estimated at 110 billion barrels, enough to meet U.S. needs for decades. Much of Iraq has not been explored. Probable reserves may be 300 billion barrels and American oil companies are taking tickets to line up to rebuild an Iraqi infrastructure that will be damaged or destroyed by a military campaign and ensuring a hand in Iraqi production for the foreseeable future.

Historically, Mr. Chairman, the United States and our allies have stood united and proudly against tyrants like Saddam Hussein, and make no mistake he is that. In the past we worked with our allies and we respected the United Nations, we built on relationships developed over the course of decades. We did see the U.N. as a moral force. Most of us still do. Now we are berating those allies with petty insults: My way or the highway, you are either with me or against me, you are on our side or your are not on our side.

There is no objective, rational analysis coming out of the White House. There is only adolescent fingerpointing and adolescent bullying. The Administration has not even attempted to answer important questions that may be addressed. Will attacking Iraq reduce the threat of terrorism? Our CIA thinks not. What is the Administration's plan for reconstruction and humanitarian aid in Iraq? We haven't seen a plan. How much will the war in reconstruction cost? The Administration won't tell us. If we are to apply the justifications for military action against Iraq to the rest of the world, to Iran, to North Korea, to Pakistan and other countries, the United States would likely find itself involved in more wars at one time than all wars it has fought previously.

North Korea, as we know, 2 days ago launched a test missile into the Sea of Japan. It was not a coincidence that this occurred simultaneously with the inauguration of South Korea's new President and no accident that our own Secretary of State was there at the time. We know North Korea has nuclear capabilities; meanwhile, we do not address the North Korean crisis. We sit in Washington and question our allies for not supporting our war, accusing all too many of our own citizens of lack of patriotism and accusing other nations of bad motives—France, Russia, Germany, and China and dozens of other nations.

My question is—and there is a question, believe it or not—my question, Mr. Chairman, what do the Russians think about what seems to me is our incompatible positions on Iraq and North Korea?

Mr. MARGELOV. Well—good question. First of all, I think that the Iraqi crisis should not let us forget about the situation in North Korea. The priorities to my mind should be as far as: Definitely Iraq is a burning issue, but North Korea is as burning as Iraq. I think that more efforts and more steps should be done in the field of diplomacy. The Speaker of the upper house of the Russian Par-

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liament, Sergei Mironov, has recently been to Seoul accompanied by the Deputy Foreign Minister, Mr. Losyukov. They were discussing the situation in the Korean Peninsula there. When the Japanese Prime Minister Koizumi was in Moscow, 50 percent of the time was dedicated to the discussion about the situation on the Korean Peninsula.

I think that what is happening there is very dangerous and the fact that North Korea has or might have nuclear weapons is very destabilizing factor in Asia. And definitely talking about Iraq, discussing the situation around Iraq, discussing the day after in Baghdad, we should pay very serious attention to the North Korean peninsula. My concern is that sometimes I feel I might be wrong, when we are in a very emotional discussion on Iraq and what happens there, we pay less attention to North Korea, which is a mistake to my mind.

Chairman HYDE. The gentleman from California, Mr. Royce.

Mr. ROYCE. Thank you. Welcome, Chairman Margelov. It is good to see you here. I had the opportunity once to testify as a Member of Congress before a committee at the Duma in Moscow, and I want to express to you our appreciation for your testimony here today.

At times, given the emotional testimony on Iraq, one would think that the United States had a history of colonizing the many countries that we have liberated throughout our history, and I just wanted to make the point that we did not colonize Kuwait. Nor did we colonize, of course, Germany or Italy or Japan.

I would like to ask you a question first about Kim Jong-Il. In August 2002 he visited the Russian Far East, and we have read accounts of his trip in his private railcar. He met with President Putin at that time, and President Putin expressed political support for Kim Jong-Il and the hope for an expanded economic cooperation between the two countries.

I thought I would ask you about the extent of these contacts today, and I thought I would just make the point that all of North Korea's neighbors will lose if the North is allowed to pursue its nuclear weapons program. And I thought I would ask what the extent of Russia's cooperation with the United States is right now in terms of trying to address this threat from North Korea.

The other question I would like to ask you has to do with something off of this topic, but it is the scope of something we have been discussing. I Chair the Africa Subcommittee, and we have been working hard on conflict resolution in three countries: Sierra Leone, Ivory Coast and Democratic Republic of Congo. One of the many factors fueling these conflicts is the flow of illegal small arms. All of the weapons come from outside the continent. Many of these weapons originate in former Eastern Bloc countries, especially in the Ukraine, and one weapons dealer in particular, Victor Bout, has gained international notoriety for his activities throughout this continent. I was wondering if you have any thoughts about the problem that you could share with this Committee and how Russia is addressing this particular concern about small arms trafficking, which is fueling these conflicts on the African continent.

Thank you very much.

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Mr. MARGELOV. Thank you. As far Russian-American cooperation and discussing the situation on the Korean Peninsula, I think it is and it will be much more efficient than it was in 1945–1949.

As for our economic relations with North Korea, well, I think that our approach is following: The more the regimes like in P'yongyang are plugged into the world economy, the more they are interdependent with the entire world, the more transparent they will be. And I do not think that either American or Russian diplomacy can say that it knows 100 percent of what is happening inside North Korea and the peculiarities of its political life. So I think the only option to make such states more transparent and less dangerous for the entire world is to try to plug it into the world economy.

I think that definitely the nuclear sector of North Korea is our major concern, and it is our mutual concern. I hope that we shall expand our cooperation in monitoring the situation on the Korean Peninsula.

As for small arms trafficking, I fully agree with you that small arms trafficking feeds the regional conflicts in Africa, in Asia. You guys wanted the Soviet Union to collapse, so I could not be responsible for the Ukraine. It is not a Soviet republic anymore. I understand quite well that there is much trafficking from the former Warsaw Pact countries in small arms. We all understand that. It is also one of the results of the Cold War. It is one of the remnants of the global Cold War and arms race.

I think what we need, we need to raise that issue as a serious issue, as a serious threat for international stability, and one of the possible mechanisms for such a discussion can be a Russian-NATO Summit and a format of the Russian-NATO Council. We have to bring substance to this new relationship, and I think that the issue of small arms trafficking can be one of the real things that can be discussed in that format.

Mr. ROYCE. I appreciate it and I wanted to make sure that my comment about Victor Bout or the Ukraine was not a pointed comment about the Russian position, but it was a request for cooperation with respect to Victor Bout. Thank you very much.

Chairman HYDE. The gentleman from Florida, Mr. Wexler.

Mr. WEXLER. Thank you, Mr. Chairman, and I too want to thank you for your very forthright discussion this morning. I think it is hopefully mutually beneficial, but certainly beneficial for those of us on this Committee to hear your thoughts. I would like to follow Mr. Bereuter's comments earlier with respect to what appears to be Mr. Chirac's aspirations of creating an enhanced EU to be somewhat of a counterweight to the United States, what appears to be Mr. Chirac's pursuit of Mr. Schroeder to be a part of that effort.

I am curious if you could share with us from two different perspectives: One, what is Russia's role in that context? Mr. Putin, of course, President Putin, met with Mr. Schroeder and Mr. Chirac and signed a joint declaration. What is Russia's role? What will it be in that context?

And two, from a totally different perspective, if you could offer us some candid advice as to why it is that the divide between the United States and our traditional allies in Europe seems to be becoming greater. Is it inevitable? Is it substance over style or style

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over substance? Is it a matter more than anything else American arrogance or perceived American arrogance? Or is it from your perspective a fundamental difference in world view? I would be curious if you could share with us your thoughts.

Mr. MARGELOV. Thank you. Well, I think that Russia's role today, in contradiction with the role of the Soviet Union during the Cold War time when the Soviet Union was trying to deepen the gap between Western Europe and the United States of America—trying to play the game with the contradictions between Western Europe and the United States of America—Russia's role is different. Russia can work as a bridge, Russia can work as a communication tool. And I think that Putin managed to reduce the level of anti-American rhetoric during his visits to France.

I don't think that it is in Russia's best interest to inspire anti-American feelings in Western Europe when we are all facing a common threat.

The question why, I think, shouldn't be addressed to a Russian parliamentarian, but should be addressed to American politicians first. But to the parliamentarian angle I would like to criticize you a little bit for not paying much attention in dealing with the European parliamentarians in the format of the Council of Europe. The Council of Europe, where the United States has the status of observer, can be an interesting stage to bring your thoughts to your European colleagues.

You know, I was taking part in a discussion on the report on terrorism in Strasbourg in the Parliamentary Assembly of the Council of Europe in January, and I was surprised a year ago with the rate of anti-American feeling among the European parliamentarians and almost everybody. When we were discussing the problem of international terrorism, almost everybody was criticizing the U.S. for putting the terrorists in Guantanamo Base in Cuba. I stood up and I said we have at least four Russian citizens there. I want them there. I do not want them back in Moscow. I might not sound democratic or politically correct, but that is my perception and people and my constituents will understand that.

I think that if you will allow me to switch a little bit to the discussion around Iraq, I think that the United States of America managed to win the PR campaign inside the country, but the United States of America did not have a good PR campaign in Western Europe.

It seems like maybe some European leaders think that it is high time for them to change the position which they had during the last 50 years. They might have some external reasons but they also have some internal reasons in their perception of the situation around Iraq. The rise of Islamic populations in Western Europe is a serious internal political factor. And definitely I think that some West European politicians have to keep in mind the feelings of the Islamic voters.

So I think that the situation is rather complicated, and I think that Russia can play its role in, you know, strengthening the bridge between Western Europe and the United States of America. So let us work together. Let us work hard.

Chairman HYDE. The gentleman from Michigan, Mr. Nick Smith.

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Mr. SMITH OF MICHIGAN. Mr. Chairman, thank you for being here. Thank you for your testimony and thank you for the honor you show this Committee by presenting it and with such excellent English.

You point out in your testimony a lot of the potential dangers of military force in Iraq, and I agree. You mentioned the danger of it turning into a fundamentalist dictator, possibly even more challenging is a fundamentalist Muslim democracy. And I appreciate, and I think most of us do, the challenges of the aftermath of a military conflict.

But still it seems to me we have got to look at the consequences of doing nothing, and I am convinced for one that the consequences of doing nothing is going to mean that negotiating with Kim Jong-Il and what we do in North Korea is going to be that much more difficult. If the consequences are nothing in Iraq, then our chances of doing something in dismantling the weapons of mass destruction in North Korea are going to be also minimized as far as having a lesser chance of succeeding in that arena.

Do you think that we would be where we are today in terms of inspectors, in terms of the allowance of U–2 flights or flights over that area if it was not for the potential of military force, if it was not for, in effect, President Bush holding a gun to the head of that leadership saying we have got to do something? And so I want to know what your ideas are of doing nothing? Do you suggest that the United States pull its troops out? Do you suggest the United States back off from the potential of military conflict? Do you think we would go back to where we were from 1992 until 2002?

Mr. MARGELOV. Well, first of all, I think that the consequences of doing nothing can be really bad, but the consequences of doing anything without good preparation can be even worse, and that is why I am stressing again and again that to my mind we were not doing our homework well. We are facing a squeeze at end of the term and we still did not discuss much this situation in Iraq the day after.

We hope that Saddam Hussein cooperates with the international community, but I think that let's say I give 90 percent for the fact that the war will break out and that is why, you know, I think we have to discuss today not the fact does the war start or not, but the fact what do we want to see in Iraq the day after. We have to discuss what kind of state the international community wants to see, how to preserve its transparency, how to preserve its disarmament.

Mr. SMITH OF MICHIGAN. Specifically, would you suggest that the United States pull its troops back out of the area, that we change our potential threat of using military force?

Mr. MARGELOV. Well, I think that——

Mr. SMITH OF MICHIGAN. And do you think the United States should take this role by itself?

Mr. MARGELOV. Okay. If I were in a position of advising the U.S. Administration of withdrawing or deploying the troops, I would be working in the White House but not in the Federation Council in Russia.

Well, I think that it is important——

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Mr. SMITH OF MICHIGAN. My question really is what does Russia and France and Germany, in their suggestion that we do not go to use military force and that we put it off, would you really suggest that we pull back from the threat of that military force? That the United States, since we are pretty much funding the cost of that gun to Saddam Hussein's head at the moment which has resulted, I think, in some positive consequences, do we back off or should the United States continue to carry this financial military burden essentially by itself and with Great Britain?

Mr. MARGELOV. I think we have to continue putting pressure on Saddam Hussein, military pressure, diplomatic pressure, but I think that one can shoot only after all the peaceful arguments are exhausted. I think we still have some time to try to convince Saddam to cooperate. But if not, look at both texts, the Anglo-American draft resolution and the Russian-French-German statement. Both texts say that if all peaceful means are exhausted, there will be a military solution.

Mr. SMITH OF MICHIGAN. And Russia would cooperate in that military solution? I mean, it is so arbitrary in making that kind of a judgment. Let me ask you just one last question, Mr. Chairman, and that is, would you suggest that the United States and Great Britain and Spain pull back and not introduce the resolution? And if you suggest that the resolution go ahead and be introduced, would you suggest to President Putin that Russia abstain or vote no or vote yes?

Chairman HYDE. None of these are tough questions, Mr. Chairman.

Mr. MARGELOV. Sure, sure. I would suggest to the diplomats to work hard during the coming week or 2 weeks and make one text of the two texts. That is my only suggestion to the diplomats.

You know, I think that we have the possibility to bring the two positions together, and I think we have to watch carefully the process of consultations inside the building on the East River. I don't think that the Council of the Federation will be giving any advice to our President on how to instruct our Foreign Minister how to vote in the United Nations. According to the Russian Constitution, the President is a key figure in determining the foreign policy. And if not, I don't think that our partnership with the United States of America would have developed as fast as it is being developed under President Putin.

Mr. SMITH OF MICHIGAN. Thank you. Your diplomacy is as excellent as your English.

Chairman HYDE. The gentleman from California, Mr. Sherman.

Mr. SHERMAN. Thank you, Mr. Chairman. And thank you, Mr. Chairman, for coming across the Atlantic and further to be with us.

We confront terrorism. Russia confronts terrorism. How would you explain to the American people what you confronted in Chechnya and was the United States helpful or harmful with regard to—I believe it is called the Pankisi Gorge in the neighboring country of Georgia? And have steps been taken to make sure that cross-border terrorism from Georgia into Chechnya and into the rest of Russia is contained?

Mr. MARGELOV. Well, as for the situation in Chechnya, we have started the very difficult process of consultations and negotiations

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between different Chechen influence groups, between different Chechen political groups. We were inspiring them to cooperate with each other, and as a result of that I hope we will have the referendum on Chechnya on the 23rd of March. We will welcome the OSCE and the Council of Europe's presence at the referendum. We will look at the referendum as not the end but the starting point of the political settlement process in Chechnya. We do not want to "Chechenize" the war, we want to "Chechenize" the peace process. And you know, we definitely do not need a hotbed of war there in the Caucasus.

I think that we are facing today the situation that there is serious evidence of a linkage between some Chechen terrorist groups and the terrorists international. Let me put it this way. I know that there will be a statement from the State Department that three Chechen terrorist organizations are now on the list of terrorist organizations in the United States of America and this process will be developing. Right after the tragic events at the theater complex in Moscow at the end of October last year, I wrote a letter to Secretary Powell encouraging him to include these Chechen organizations on the list of terrorist organizations and, well, it is being done now.

If you remember during the terrorist attack at the theater complex at the end of October, there were not only Chechens inside that theater complex among the terrorists; there were Chechens, there were some Arabs, there were people of other nationalities. We are working against the terrorist international there. We are not acting against the Chechen nation, not at all. Chechnya is part of Russia and we want it to be part of Russia.

As far as the situation in the Pankisi Gorge, we have started a process of dialogue between Russian and Georgian parliamentarians. We have formed a working group with two delegations and the Council of Europe. I am interacting with Zurab Zhvania. There was a fact-finding mission that was sent to the Pankisi Gorge by the Council of Europe. I do not say that the mission was very successful, but it is a first step.

We will be proposing to have a meeting of Russian and Georgian parliamentarians in Buryatiya, which is very close to Chechnya, which is close to the Pankisi Gorge, and I had a discussion with the Ingush President, Murat Zyazikov about it. So I think we are in a very difficult process of building bridges between Russian and Georgian political elites. But we understand that we want a successful federal state in Georgia on our borders. We are a federation. We want to have another successful federation. If not, it will be a wrong and bad example for Russian politicians in different regions. And in that case I would say that we will definitely work with our Georgian counterparts, and we welcome all international efforts which can assist us in that work.

Chairman HYDE. The gentleman from South Dakota, Mr. Janklow.

Mr. JANKLOW. Thank you, Mr. Chairman. Sir, I would like to thank you for learning our language as well as you have, because we are far too cavalier in this country to believe that we ought to learn other people's languages. So the best chance we have to communicate with others is to have them learn our language until we

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change or culture and our habits. You are a brilliant spokesperson for your country and its interests.

I had dinner one evening years ago in South Dakota with Mikhail Gorbachev as he spoke at a university. I told him that I thought America and Russia should have a permanent relationship and he leaned over and he tapped me on the hand and he said, governor, countries do not have permanent relationships. They have permanent interests, was his response, and I have always been awestruck by the thoughtfulness of that response.

We understand that Iran is as close to you geographically as Canada and Mexico are to the United States. We understand that that gives you a feeling of uniqueness with respect to the type of relationship you have to have which may be far more significant than countries that are farther away, even though we all live in a world today that becomes very small, that is becoming much smaller very, very quickly.

We talk about our friends in Europe and our disagreements, and we hear some people suggest that maybe we ought to cancel attendance at air shows and do things of that kind of nature. I think the reality of this situation is that not unlike the people from Russia, there are an awful lot of people in the United States that feel that developing our relationship with Europe, where most of us, not all of us, but most us have a common ethnic heritage, a national heritage, it is just as deep in terms of the blood that we have shed to assist them throw off the yoke of tyranny and oppression over the years, and it isn't just at Normandy Beach.

I listened to the Belgians—I do not remember from my history studies anyone from Belgium standing at Bastogne when the Battle of the Bulge was taking place. It was the Americans who were there surrounded with other allies and who refused to yield an inch. But the Belgians were not there even though it was their country. We have tens of thousands of Americans buried in France. Some of us feel very strongly about that because they are our relatives, some of them that are only one generation from us.

My point is the President of Germany says one thing, but at the same time recently he has ordered 80 million doses of smallpox vaccine for his people. So I think what he is saying is, and I would interpret it to mean, we trust what is going on in the world in terms of inspections but in case we are wrong we better get the vaccines that are necessary for our people.

You made the statement, sir, in your comment today that we can make Saddam cooperate. I thought the mandate that the world community and he had agreed upon is that he was cooperating and his responsibility was to show us what it is that he had done to dispose of his weapons of mass destruction, not in having the world community make him cooperate.

In the briefing papers that were sent to us before the meeting, one of the comments in the paper says the Iranian President announced February 9th of 2003 that Iran had found and was mining uranium domestically, was building two uranium processing plants and intended to retain control of the entire fuel cycle from mining and processing the uranium ore to reprocessing the spent fuel. And this was preceded by a sentence that said, following U.S. revela-

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tions in December 2002 that Iran was clandestinely building uranium processing plants.

In your remarks you said that Tehran is prepared to demonstrate maximum transparency in its nuclear activities. Iran is ready to contribute to the program enhancing the efficiency of the IAEA guarantees. Those two statements seem inconsistent. You made one of them, but the two statements taken together appear to be inconsistent.

We hear criticism about America's activity toward North Korea, but the fact of the matter is, sir, we all understand nuclear proliferation is starting to break out of the cage. India, Pakistan, North Korea, Iran, Iraq's efforts. I think the genie is headed out of the bottle, while we all debate what are the proper procedures to follow.

My final comment on this is that America has not had an enemy soldier in this country since the War of 1812, a long time. The ocean has protected us. These oceans have protected us. They no longer do from biological and chemical and nuclear activity. You had a general in your country named Lebed, I believe, I may be mispronouncing his name. He was a great warrior, a great general, he passed away. But that general made the statement that Russia had missing nuclear weapons, a small number of missing artillery nuclear weapons——

Chairman HYDE. The gentleman's time has expired. Would the Chairman care to make some comment?

Mr. MARGELOV. Just two brief comments. I really welcome your concern about the nonproliferation issues. I seriously think that the proliferation of the weapons of mass destruction is one of the two major challenges and two major threats to the civilization today. The first is international terrorism, the second is the proliferation of the weapons of mass destruction.

And if you allow me, just a brief comment on American-European relations. I have been to Arromanche last summer with my family and the Museum of Embarkation, the D-Day Museum, and I have seen American military cemeteries there in Europe. I seriously think that the disputes which we hear today between American and West European politicians, I would not say they should be stopped, but they should not damage the structure of international security. They should not damage the antiterrorist coalition. And I think that much of the efforts should be put not to damage the coalition today.

Chairman HYDE. The gentleman from California, Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much. I apologize for being late. I am the Chairman of the Space and Aeronautics Subcommittee. We had a meeting with Admiral Gehman, who is investigating the space shuttle Columbia's tragedy, and it was important that I participate in that.

Yes, I believe that governments have no permanent friends and have interests, but I think that people in government have friends and I think that we have a good friend with us today and appreciate your being here.

I don't believe that the United States has treated Russia as a friend. I think the United States has come short in these last 12

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years when the people of Russia have reached out to us in so many ways to try to work with us to build a better world. I think we have fallen short.

I think some of the things that we are facing today reflect the fact that we have not reached out to President Putin and the people of Russia to maximize the benefit of that positive relationship that we could have had and hopefully that we will have in the future.

Let me just note that I think that space cooperation is an area now, especially after this tragedy with the space shuttle Columbia, that will reflect the type of cooperation that we can have just to get over a problem situation, but also to take humankind up to new levels. We should not just look at it that we are going to go to our Russian friends only at a time when we need their help or at a time of crisis. And I hope that we would have full space cooperation during this time, but I hope we also establish a systematic way of working together to carry on a mutual space program.

The Iranian problem that is getting in the way of that deals with Russia's continuing work with Iran on the nuclear power plant. Let me just say that I do not personally blame the Russian people who are involved in that project for trying to do some business and make some money. The bottom line is that Russia is going through very hard times economically, and I understand earlier in the hearing that you mentioned that perhaps if Russia had some alternatives being offered, some contracts to build power plants elsewhere, that that would be a good incentive for Russia to give us that contract and to go some place else and make just as much money, if not more. I think our government, the United States Government, has been remiss in trying to make demands on Russia without offering positive alternatives. And I think that here again, if we were doing what was right, we would be working with our Russian friends to try to give a positive alternative rather than making demands.

First of all, I would like your comment on that. And finally, just to say that I believe that we could have a lot closer ties in dealing with Iraq now. Only you yourself have indicated to us that we needed to reach out and to consult with your President and your government to a great degree in approaching Iraq to make sure that Russia was included, and Russia would not be excluded in a post-Saddam government or situation there and that Russia would not lose financially because of what we are doing.

Now, have we given you those guarantees? And have we done enough in those areas? Had we done more, do you think there would be a better, more cooperative relationship at this moment?

Mr. MARGELOV. Thank you. It is always a pleasure to see Dana Rohrabacher both in Washington and in Moscow. Thank you for your statement.

Well, I think if we talk about Russian economic interests in Iraq, first of all, and it was mentioned by Congressman Lantos, there was a debt. Let's say between 8 and 9 billion U.S. dollars of Iraqi debt to Russia. It definitely should be repaid, and definitely this is the amount of money which is of crucial importance to the Russian economy.

We have our interests in the oil sector——

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Mr. ROHRABACHER. Has the United States Government done anything to address that yet, that very point that you made? Given any guarantees?

Mr. MARGELOV. We are raising that point all the time in our consultations with our American partners, and I know that all the key players in the NSC and the State Department are aware of that problem, the debt problem.

Mr. ROHRABACHER. We need to make sure, if we expect the Russians to work with us, this is a very important point to their economy. If they are going to work with us, they have got to understand that we are taking them into consideration as well. And I hope that this point does not pass our decision makers by and that this isn't taken lightly.

Excuse me.

Mr. MARGELOV. Thank you. Well, the second point is definitely Russian interests in the oil sphere in Iraq. And please do not forget that Iraq and this region has a wholesale market for Russian commodities. You can hardly sell Russian trucks in Western Europe with all the limits which are normally being put by the European Union, but you can sell them there, and Russian industry needs that market. So I think that our economic interests in Iraq are much wider than just the oil sector. It is a huge market even for Russian consumer goods. So I think it should be taken into consideration.

I don't know whether there are any written or oral guarantees to our President about the protection of Russian interests in Iraq. I have no idea. But I think that our partners should understand that we being pragmatic and being well, let's say, realistic in our foreign policy. We see our national economic interests as the cornerstone of our foreign policy. Last year, President Putin was addressing all the Russian Ambassadors who had gathered in Moscow for a huge conference, and he said that the Russian Foreign Ministry should work hard to protect Russian interests abroad. It is really important for us.

Then definitely Russia should not feel that it is excluded from the process of consultations, and I think that Russia is not excluded. The United Nations might not be an ideal mechanism but it still works, and that is why I am saying again and again we haven't exhausted all the possibilities for our consultations there. I am happy that our American partners understand that. I got very strong messages in the State Department about it yesterday.

So, then you mentioned the cooperation in the sphere of space exploration. I would like to use that opportunity first of all to express my deep condolences with the tragedy of the space shuttle. We in Russia had several catastrophes of the same kind previously and we understand what it is.

I think that today we have a very interesting and I think a unique opportunity to inspire our cooperation in the sphere of space exploration. We have many good examples of such cooperation starting with the 1975 Apollo-Soyuz test project. And definitely that sphere can be one of the spheres where our interests do not contradict at all. They coincide. And I fully agree with President Gorbachev, who said that in foreign policy there is no friendship, there are interests, and we are in a unique position that on most

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issues Russian-American interests do not contradict or coincide. We have to use that opportunity.

Thank you.

Mr. SMITH OF NEW JERSEY. [Presiding.] Chairman Margelov, thank you very much for your testimony, for being here for the best part of an hour and 45 minutes. I think the exchange was very mutual, and Chairman Hyde asked me to convey to you his deep sense of gratitude. We look forward to working with you as we go forward.

Mr. MARGELOV. Thank you, Mr. Chairman. It was my real pleasure and real honor to be here and I hope we shall continue such a practice, and I welcome you all in Moscow for the same procedure. Please be ready and study Russian. Thank you very much.

Mr. SMITH OF NEW JERSEY. I would like to welcome our second panel. We will first hear from Dr. Ariel Cohen, who has been a Senior Research Fellow at the Heritage Foundation since 1992, where his work is focused on the countries of the former Soviet Union, especially Russia and Russian foreign policy. Dr. Cohen's responsibilities also include many aspects of the war on terrorism, U.S. energy security, and the Middle East. He is often called on to provide commentary on Russian and Russian foreign policy for the U.S. and Russian media and is a weekly contributor to the Voice of America. Dr. Cohen received his Ph.D. at the Fletcher School of Law and Diplomacy at Tufts University.

We will then hear from Dr. Celeste Wallander, who directs the Russian and Eurasia Program at the Center for Strategic and International Studies. Before joining CSIS, she was a Senior Fellow at the Council on Foreign Relations here in Washington, DC. Prior to that she was Associate Professor of Government at Harvard University and Faculty Associate at the Davis Center for Russian Studies at the Center for International Affairs. Dr. Wallander is the founder and executive director for the program On New Approaches to Russian Security, a network of the leading researchers on politics, economics, and foreign policy in Russia and Eurasia. Dr. Wallander received her B.A. in political science from Northwestern University, summa cum laude, and her Ph.D. in political science from Yale University.

And finally we will hear from Dr. Eugene Rumer, who is a Senior Research Fellow at the Institute for National Strategic Studies, the INSS, at the National Defense University, again here in Washington, DC. Dr. Rumer is a specialist on Russia and other states of the former Soviet Union. Prior to joining INSS he served as Visiting Scholar at the Washington Institute for Near East Policy, as a member of the Secretary's policy planning staff at the Department of State and Director for Russian, Ukrainian and Eurasian Affairs at the National Security Council. He holds degrees in economics, Russian studies, and political science from Boston University, Georgetown, and MIT.

Dr. Cohen, if you could proceed.

STATEMENT OF ARIEL COHEN, PH.D., SENIOR POLICY ANALYST, THE HERITAGE FOUNDATION

Dr. COHEN. Thank you, Mr. Chairman. I would like to thank the staff for working with me and providing me with this opportunity.

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I also apologize that, due to a conference at the Heritage Foundation, I may depart a little bit early before the closure of the session and ask your forgiveness.

I would also ask the remarks to be entered in the record. You have a copy of the remarks.

Mr. SMITH OF NEW JERSEY. Without objection, yours and the full statements of all of our witnesses will be made a part of the record.

Dr. COHEN. Thank you. We have a unique window of opportunity, Mr. Chairman, to develop a relationship with Russia that President Bush characterized as a strategic relationship. Economic drivers of this relationship are extremely important for both countries, on the U.S. side because of our need to shift our energy away from the politically unstable Middle East, and on the Russian side in order to further integrate into the global economy and have a strong economic as well as a political partner in the United States.

However, there are some warning signs that this relationship is not going as well as we all hope. The signs of Russia's discontent because of the lack of tangible economic benefits include Moscow's threats that would veto a potential U.N. Security Council resolution authorizing the use of force to disarm Saddam Hussein, and its de facto alliance with France and Germany in opposing U.S. policy.

Today the question is whether the U.S. will offer Russia significant political and economic incentives to bolster the strategic partnership between the two countries in the war on terrorism and against the rogue regimes. Otherwise, Putin's foreign policy will tilt toward the EU core, France and Germany, and Russia's oil companies with large production contracts in Iraq, and the Soviet era anti-American elite, which includes the top brass in the Russian nuclear industry ministry, the Minatom, will influence that policy to the extent it will be detrimental to American national interests.

I would like to focus with your permission on Iran and Iraq briefly. In Iraq Russia had three major interests: Number one, the Soviet era debt that historically—around 1985—was about 7 to 8 billion U.S. dollars. The accounting there is fuzzy. Maybe they should hire Arthur Andersen to sort it out. But adjusted for inflation, Mr. Chairman, it is probably close to 11 billion today.

Secondly, they have exploration and production contracts in Iraq that they would like to secure in full or at least partially. And finally, they would like to continue the economic involvement in trade with the Iraqis that historically developed during the Soviet era.

The Russians were not very efficient in formalizing their concerns and presenting them to the United States to be grandfathered by any kind of an arrangement that will take place in Iraq if and when Saddam is removed. However, I would also point out that the United States did not directly link Russian support in the United Nations or Russian participation and assistance in post-war policing and administration of post-Saddam Iraq to addressing these Russian interests.

In the interest of time, I would now move on to Iran and point out that Secretary of Energy Spencer Abraham stated in Moscow on August 1, 2002 that, "Iraq is aggressively pursuing nuclear weapons as well as other weapons of mass destruction." Secretary

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Abraham further said that we have consistently urged Russia to cease all nuclear cooperation with Iran, including its assistance to the civilian nuclear power reactor in the port of Bushehr.

Furthermore, civilian commercially available satellite photography indicates that the Iranians are building a heavy water production facility and a uranium enrichment plant. The Chairman of International Atomic Energy Agency, the IAEA, Mohamed ElBaradei, said that he is very concerned about the usage of these facilities, and when he visited Iran last weekend he said that IAEA will provide inspections on one of these facilities, but not on the other one.

Iran also did not comply with the 93+2 Protocol on enhanced safeguards for these facilities. On the other hand, top Iranian leadership, including Supreme Leader Ayatollah Khamenei said that Iran is, "entitled to have nuclear weapons and is willing or wishing to"—again quoting Khamenei—"to eradicate the State of Israel from the face of the Earth." So quite worrisome intentions are being articulated by the top Iranian political leadership. And by cooperating with Iran in the nuclear area, Russia's credibility as a U.S. strategic partner in the war on terrorism is on the line, and President George W. Bush and President Putin have worked diligently to improve bilateral relations and must now work more diligently to deal with the Iranian nuclear program, which is a threat to both countries.

Mr. Chairman, I believe that a nuclear armed Iran may trigger an international crisis in comparison to which North Korea will look like a school picnic.

Russia also participated, or Russian entities participated, in providing some missile technology to the Islamic republic of Iran and all Iranian leadership, elected and unelected, including President Khatami, is involved in developing this strategic relationship with Russia.

Khatami was in St. Petersburg, where he purchased the nuclear reactor for Bushehr and is working on an additional two nuclear reactors. All of this is indeed a threat to the United States' interests, and while we have the explanation this is all done to secure employment and in order to keep the huge Russian nuclear energy entity, Minatom, afloat, there is a geopolitical threat to the stability of the Middle East coming from the possibility of Iran armed with nuclear weapons and ballistic missiles.

Real quick on North Korea and I will end. I believe that the Russians are interested in economic development in North Korea. They often articulate the concern that they were pushed out of the nuclear reactor market by us in North Korea, when we provided in the 1990s the lightwater reactor to North Koreans. I think there is a potential to work together with Russia, Japan, and China to resolve that.

And just in terms of concluding and policy recommendations, I can say that the Iraqi economic package needs to be addressed, including the debt. The debt can be recognized and then discounted from the Russian debt to the Paris Group of creditor countries to Russia. At least some of the oil contracts need to be examined because there will be an examination of all the contracts that Saddam signed, and I believe that some of these contracts were signed

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as bribery to the permanent members of the Security Council, Russia, China, and France. If you look at the list of the countries that got the largest contracts, you will see that these are all the permanent members of the Security Council that are now trying to veto our language of the resolution.

On Iran, we may be considering or we should be considering an economic package that will bring to closure Russian nuclear cooperation with Iran, will provide full disclosure of prior cooperation and will finalize a list of unstable or terrorist-supporting countries that the Russians should not sell nuclear dual use or military technology. But there are plenty of opportunities to develop mutually beneficial economic relations between American firms and Russian firms, and we can assist with that.

Thank you, sir, for giving me this opportunity.

[The prepared statement of Dr. Cohen follows:]

PREPARED STATEMENT OF ARIEL COHEN, PH.D., SENIOR POLICY ANALYST, THE HERITAGE FOUNDATION

RUSSIA AND THE AXIS OF EVIL: MONEY, AMBITION AND U.S. INTERESTS

INTRODUCTION

The window of opportunity for the U.S. to develop a closer relationship with Russia has not closed, at least not yet. There are, however, warning signs that the lack of concrete, visible economic and geopolitical benefits for Moscow, or at least the perception of the absence of these benefits—could derail the strategic foreign policy cooperation between the two countries envisaged by Presidents Bush and Putin in their latest summit meetings. Combined with the anti-Americanism of many of Russia's politicians and top bureaucrats, the lack of visible advantages to Russia poses a threat to the relationship.

The signs of Russia's discontent include Moscow's threats that it would veto a potential U.N. Security Council resolution authorizing the use of force to disarm Saddam Hussein of Iraq and its alliance with France and Germany. Today, the question is whether the U.S. will offer Russia sufficient political and economic incentives to bolster the strategic partnership between the two countries in the war on terrorism and against rogue regimes. Otherwise, Putin's foreign policy will tilt towards the E.U. core (France an Germany); Russia's oil companies with large production contracts in Iraq; and by the Soviet-era anti-American elite which includes the top brass in the nuclear-industrial complex and weapons manufacturers, who dream of huge sales to the Middle East.

In September 2002, Moscow declared that it would sign a forty billion-dollar, 10-year trade agreement with Iraq, and sell five more nuclear reactors to the ayatollahs in Tehran. Russia also reportedly signed a multi-billion dollar weapons deal with China; and in August 2002, North Korea's "Dear Leader," Kim Jong Il, visited Russia and met with President Putin.[1] To some observers, it may appear as though Russia is returning to a position that the Soviet Union occupied in the past—that of patron saint of the Axis of Evil. This is not the case, however, at least not yet.

RUSSIA-IRAQ: THE LONG GOODBYE?

The Russian elite is split on Iraq. In private interviews in Moscow conducted in the fall of 2001 and spring 2002, many of Russia's pro-Putin parliamentary leaders and presidential policy advisers indicated that protecting Russia's multibillion-dollar interests in Iraq remains a priority, regardless of who is in power in Baghdad. Nevertheless, when faced with the choice between Saddam's friendship and America's good will, they indicated they would support, or at least not oppose, the U.S. policy to remove Saddam from power. This major policy shift would entail breaking the friendly ties Moscow has maintained with Baghdad since the 1960s, especially under former Prime Minister Evgeny Primakov. Primakov was Russia's top Arab affairs expert in the late 1960s through the 1980s. In the late 1980s, he served as Chairman of the upper house of the USSR's Supreme Soviet.

Moscow has important economic assets in Iraq:

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[1] http://www.korea-np.co.jp/pk/183rd_issue/2002090401.htm

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A Soviet-era debt of $7 billion to $8 billion, generated by arms sales to Iraq during the 1980–1988 Iran-Iraq war. Adjusted for inflation, that debt is worth from $10 billion to $12 billion today.

Lucrative contracts to develop giant oil fields and wells in Iraq, signed by Russia's major oil company, LUKoil, and the government-owned Zarubezhneft and other companies. These contracts, worth as much as $30 billion over 20 years, include the Western Qurna oil field and wells already developed by the Russian oil companies Slavneft and Tatneft.

Trade in Russian goods under the U.N.-sponsored oil-for-food program, worth between $530 million and $1 billion for the six months ending in December 2001 (the volume of illegal trade between Russia and Iraq is not known).

Economic interests on this scale clearly pose significant impediments to the severance of ties between Moscow and Iraq. As these issues were not fully addressed, the U.S. Administration found it difficult to bring Russia into a coalition to remove Saddam from power. U.S.-led coalition to change the political landscape in Iraq would have benefited from Russia's support. Russian participation in such an effort would provide President Putin an avenue to disengage from Saddam, which would be in line with his policy towards Cuba, Vietnam and other former Soviet imperial assets. However, as Russian oil interests are involved, it should have been anticipated that Putin would have needed and expected a quid pro quo for his policy of cooperation with the U.S.

Breaking with Baghdad. Since 9/11, Moscow has supported the U.S.-led war on terrorism. Moscow, long Baghdad's main arms supplier and business partner, began supporting United States policies against Saddam at the time of the U.S.-led coalition in the Gulf War. Soviet President Mikhail Gorbachev and his Foreign Minister Eduard Shevardnadze cooperated with the U.S. despite Primakov's efforts to protect Saddam. Still, the Iraqi dictator was able to curry diplomatic and economic favor in Moscow throughout the 1990s by providing preferential treatment for Russian companies in oil drilling and refining and by promising billion-dollar contracts to the influential Russian military industrial complex.

Moreover, according to Vyacheslav Kostikov, one of former president Boris Yeltsin's aides, Saddam bought the support of politicians such as Vladimir Zhirinovsky and his anti-American Liberal Democratic Party outright. The Iraqi dictator also paid for the lobbying efforts of Russian business tycoons and former senior officials, who make millions of dollars reselling Iraqi oil in the gray market and who supply Iraq with legal and illicit goods, including military equipment banned under U.N. resolutions. Representative Curt Weldon (R–PA) is among those who have accused Russia, Belarus, and Ukraine of supplying Baghdad with ballistic missile gyroscopes, biological warfare manufacturing equipment, and sophisticated surface-to-air missiles, a business connection that will require deep determination to break. Others report that Ukraine sold Baghdad an anti-stealth aircraft radar system called Kolchuga.

Iraq is trying to take advantage of Russia's economic ties with Saddam's regime and the desire of the post-Soviet military-industrial complex to boost sales to the Middle Eastern weapons markets. At one point, Saddam floated the idea of buying 4,000 Russian battle tanks upon the termination of the U.N. sanctions regime. On August 19, 2002, Iraq's ambassador to Moscow, Abbas Khalaf, announced in Moscow that Russia would sign a $40 billion, 10-year economic cooperation pact with Saddam.[2] Since then, no contract has been signed. Does this mean President Vladimir Putin supports Iraq against a possible U.S. military operation? Not necessarily.

The Russian-Iraqi agreement had been in the works for two years. It was announced as the clouds over Baghdad were getting darker—and the life expectancy of Saddam's regime growing shorter. The Iraqi leader, realizing that he is about to be sunk by a U.S. attack, is grasping at straws in the hope of finding shelter and support through his former patron. However, the Iraqi-Russia economic pact is largely a fantasy. The figures certainly do not add up. If Russian-Iraqi trade now stands at about $1 billion per year, it would need to quadruple in order to meet $40 billion over the 10 year period. This is simply not about to happen.

However, the astronomical figure may well be a signal to Washington that Russia wants to be compensated if Saddam is removed. At the recent G–8 summit, Putin reportedly told Bush that Moscow will shed no tears over Saddam, provided Iraq repays the Soviet era $7 billion debt formerly owed the USSR. In addition, if oil prices go down as Iraq starts to pump more oil to pay for post-war reconstruction, Moscow will lose some of its oil-export revenues, perhaps as much as $4 billion a year. Over 10 years, that's $40 billion—the magic figure.

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[2] "Iraq has no intention of using Russia as a Trojan horse," http://english.pravda.ru/diplomatic/2002/08/19/34808.html

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The Russia-Iraq trade agreement was rammed through the Russian bureaucracy by one of Russia's oil giants, LUKoil. The company, owned by an Azeri billionaire, Vagit (Wahid) Alekperov, has signed promising agreements with the Ba'ath regime in Baghdad, including one to develop the giant West Qurna field, which has up to 1 billion barrels worth of resources. LUKoil, which recently purchased close to 1,300 Getty gas stations in the U.S., is also hoping to preserve its strategic investment in Iraq. However, Lukoil's oil holdings were temporarily annulled by Saddam's regime, when the Russia U.N. veto began to look doubtful.

Slavneft was another company with interests in Iraq, and active on Saddam's behalf in Moscow. Until its recent acquisition by Sibneft in December 2002, the company had close ties to the fiercely anti-American ultra-nationalist politician Vladimir Zhirinovsky. As noted earlier, Duma and government sources in Moscow have repeatedly alleged that Zhirinovsky and his Liberal Democratic Party (which in reality is neither liberal nor democratic) is supported by Saddam.

Pavel Felgengauer, a well-known Russian security analyst, said recently in a BBC broadcast that it is not clear which Russian foreign policy is served by the recently announced agreement—that of President Putin, or that of LUKoil. "We have several foreign policies," Felgengauer said. Other Moscow-based analysts, who requested not to be identified, said that LUKoil has exercised undue influence over the Russian Foreign Ministry. Some observers were almost proud that private interests now influence Russian foreign policy, "just like in any other state . . . It is safer that companies influence our decision making. In the past it was all done behind the closed doors of the Politburo," one observer said.

However, the problem in articulating the new Russian foreign and defense policy still worries Putin's advisers in Moscow and Russia-watchers in Washington. Foreign Minister Igor Ivanov, ex-Prime Minister Evgeny Primakov's appointee, reflects the moderately anti-American, pro-Arab opinions of Soviet-era diplomats like himself as well as his own pro-EU views. Ivanov is not trusted by Putin's inner circle, but he has not been replaced, as he provides Putin with an alibi vis-a-vis the EU core, while Putin is delaying a purge of the foreign ministry.

The Ministry of Defense is controlled by a Putin confidante, ex-KGB general Sergey Ivanov. Ivanov is Russia's first "civilian" Defense Minister, but reforms are slow in coming and the old-style anti-Americanism still lingers. While Bush and Putin seemto have hit it off, the bureaucrats are not thrilled.

RUSSIA-IRAN: SEEING THE RUBLE SIGNS

For U.S. policy planners, the geopolitical dimension of Russian-Iranian rapprochement and nuclear and missile connections may actually be more worrisome than Moscow's ties with Saddam.

Washington and Moscow must prevent a future crisis over Moscow's assistance to the Iranian nuclear weapons program. Russian nuclear exports, which, if left unaddressed, could surpass the current U.S.-North Korean nuclear weapons disagreement, derail U.S.-Russian relations, and destabilize the uneasy geopolitical equilibrium in Eurasia.

The White House and the Kremlin should cooperatively develop a package of transparent and verifiable measures to stop Iranian attempts to acquire nuclear weapon technology. They should also find private sector-driven economic substitutes for Russia's exports of nuclear technology to terrorist-supporting states—of equal or greater monetary value than Russian nuclear exports to Iran. Simultaneously, the U.S. and Russia should agree on a list of countries to which Russia will not export nuclear technology.

Damning Evidence. Secretary of Energy Spencer Abraham stated in Moscow on August 1, 2002 that Iran is aggressively pursuing nuclear weapons as well as other weapons of mass destruction. "We have consistently urged Russia to cease all nuclear cooperation with Iran, including its assistance to the civilian nuclear power reactor in the (Southern Iranian port of) Bushehr," Abraham told CNN.

On February 9, 2003 Iranian President Mohammad Khatami announced that Iran is mining its own uranium and will process its own spent fuel, raising concerns of a robust Iranian nuclear weapons program. Last December 13, CNN published commercially available satellite imagery of two Iranian installations involved in uranium enrichment in Arak and Natanz. State Department spokesman Richard Boucher stated that that "Iran is actively working to develop nuclear weapons capability" and declared, in the CNN interview December 13, that Iran's energy needs do not justify these nuclear facilities Moreover, Boucher said that Iran flares more natural gas annually than the equivalent energy its future reactor could produce. Thus, the alleged power-generation applications of the Bushehr nuclear plant and two follow-up nuclear reactors at $800 million each do not seem either economically

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justified or truthful According to U.S. intelligence and defense officials quoted in the New York Times on December 16, Iran is actively working on a nuclear weapons program—with Russian help. Like North Korea, officials said, Iran seems to be pursuing both enriched uranium and plutonium options for its nuclear weapons.

In an interview with CNN's Christian Amanpour, International Atomic Energy Agency Chairman Mohammed ElBaradei said on December 13, that the alleged uranium enrichment plant could produce highly enriched uranium for nuclear bombs and the heavy water plant could to be used in the production of weapons-grade plutonium. Since then, only the uranium enrichment plant has been open to IAEA inspections February 22, during ElBaradei's visit to Iran

Denials, Denials. After visiting Iran in December 2002, MINATOM Minister Alexander Rumyantsev elaborated on Iranian peaceful intentions to the media: "Iran is using nuclear energy exclusively for peaceful purposes. There are no programs to create nuclear weapons or develop sensitive nuclear technologies." Rumyantsev, however, failed to explain why Iran is refusing to sign an agreement to return all spent fuel to Russia for reprocessing. Moscow, in the meantime, is going ahead with construction.

IAEA safeguards may not be sufficient in preventing Iran from acquiring nuclear bomb. Iran refused to sign the 1997 IAEA Model Protocol Additional for the Application of Safeguards (sometimes referred to as the "93+2" protocol on enhanced safeguards), which would allow intrusive inspections by the international agency.

Henry Sokolski, the former Deputy Assistant Secretary for non-proliferation in the first Bush Administration has suggested at the American Enterprise Institute panel February 20 that IAEA nuclear safeguards are not sufficient to prevent Iran from (coming within in weeks of having a large arsenal of nuclear weapons") building nuclear weapons and that the Bushehr light water reactor, designs for a heavy water reactor which Moscow has sold to Tehran, and uranium enrichment technology, all have military applications.

Today, Russia's credibility as a U.S. strategic partner in the war on terrorism is on the line. Presidents George W. Bush and Vladimir Putin have worked diligently to improve bilateral relations between Russia and the U.S Now they must work even harder to prevent this strategic relationship from derailing over the Iranian nuclear weapons program, which is a threat to both countries.

The U.S. should not stand idle while the mullahs in Tehran build their nuclear arsenals, just as Washington has not acquiesced to Saddam Hussein's build up of weapons of mass destruction. Today, Russia's credibility as a U.S. strategic partner in the war on terrorism is on the line. Presidents George W. Bush and Vladimir Putin have worked diligently to improve bilateral relations between Russia and the U.S Now they must work even harder to prevent this strategic relationship from derailing over the Iranian nuclear weapons program, which is a threat to both countries.

Missile Cooperation. Moscow helped Iran develop its Shahab-3 IRBM, which is based on North Korean No Dong and Soviet SCUD technology, has a range of 1,200 kilometers, and is capable of hitting targets throughout the Middle East, including Saudi Arabia and Israel.[3] Russia also facilitated the sale of technology to Iran that is used in the manufacture of Soviet-era SS–4 intermediate range ballistic missiles (IRBMs). An Iranian Shahab-4 will be able to reach most of Western Europe and Russia.

In early 1997, then-Foreign Minister Evgeny Primakov and his Iranian counterpart, Ali Akbar Velayati, issued a joint statement calling the U.S. presence in the Persian Gulf "totally unacceptable." Primakov sought to build a Eurasian counterbalance to the Euro-Atlantic alliance, to be based on a coalition including Russia, China, India, and Iran.[4] These efforts made it likely that the United States and its allies would eventually become the target of Russian-Iranian military cooperation.

While the Iraqi dimension of Russian foreign policy is primarily about oil and Saddam's generous lobbying in Moscow, the connection between the Russian Federation and the Islamic Republic is broader and deeper. They cooperate over a broad range of policy issues, with military and nuclear industry ties being an important aspect in relations between the two countries.

Since the collapse of the Soviet Union, Russia has been attempting to stem the export of radical Islam to the former Soviet Union, especially to the Caucasus and Central Asia. Iran has indeed refrained from actively promoting its brand of Islamic radicalism in the former Soviet republics. Despite having granted itself the title of

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[3] The Shahab-4, with a range of 2,000 kilometers, is in advanced stages of development. A space launch vehicle with ICBM capability, the Shahab-5, is also under development.

[4] Ariel Cohen and James Phillips, "Russia's Dangerous Missile Game in Iran," Heritage Foundation *Executive Memorandum* No. 503, November 13, 1997.

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"defender of all Muslims," Tehran kept silent when the Russian military slaughtered tens of thousands of primarily Muslim civilians in the first Chechen war (1994–1996). The Iranians only lodged weak protests about Moscow's excessive use of force in the second Chechen war (1999–2001). Moscow and Tehran cooperated against Afghanistan's radical Taliban regime, Tehran having supported the anti-Taliban Northern Alliance opposition coalition. Moscow and Tehran also support Armenia rather than pro-Turkish, pro-Western Azerbaijan, and they managed to delay, if not to completely block, a "western" route for exporting oil from the Caspian Sea basin through Georgia to Turkey.

Some Russian officials recognize that cooperation with Iran, however, has its limits. As Alexei Arbatov, Deputy Chairman of the Duma Defense Committee, representative of the reformist Yabloko party, and arms control expert has warned, Russia's technology transfers to Iran may backfire. He predicts that within 10 to 15 years, Russian technology could be used by radical Islamic terrorists or in Iranian, Algerian, Saudi, Egyptian, and Libyan missiles and other weapons aimed at Russia.[5]

Concerns over Russia's increasing military ties with Iran, especially in the area of weapons proliferation, have grown since 1994, when senior Iranian officials first took steps to establish relations with Russian bureaucrats in charge of nuclear and missile programs in the post-Soviet military-industrial complex. Up to $25 million allegedly changed hands to facilitate Tehran's access to advanced Russian technology.[6]

The U.S. quickly communicated its concerns to the Yeltsin government. After intensive consultations, Vice President Al Gore and Russian Prime Minister Viktor Chernomyrdin signed a confidential agreement on June 30, 1995, in which Moscow agreed to limit sales of arms to Iran. Russia agreed to supply only weapons specified under the 1989 Soviet-Iranian military agreements and promised not to deliver advanced conventional or "destabilizing" weapons to Iran. Finally, Russia agreed not to sell any weapons to Iran beyond December 31, 1999.[7] The terms of the agreement were not met. With sales exceeding $4 billion between 1992 and 2000, Iran is now Russia's third largest weapons customer. The weapons systems Russia supplied to Iran in the 1990s include three Kilo-class attack submarines, which could be used to disrupt shipping in the Gulf; eight MiG-29 fighter bombers; 10 Su-24 fighter bombers; and hundreds of tanks and armored personnel carriers.[8]

Cooperation between Moscow and Tehran increased after the election of President Vladimir Putin in the spring of 2000, and culminated in November 2000, when Moscow renounced the 1995 Gore-Chernomyrdin Agreement.[9] Anticipating lucrative arms sales, a large number of Russian hard-line politicians and generals have endorsed Russia's rapprochement with the Islamic Republic.[10]

A Boost from Khatami's Visit. Russia's then-Defense Minister Marshal Igor Sergeev's visit to Tehran in December 2000, was a major breakthrough in the military relationship between the two governments. It was the first visit by a Russian defense minister to the Islamic Republic since Ayatollah Ruhollah Khomeini seized power in 1979.

During his visit to Iran, Sergeev, former commander of the Russian Strategic Rocket Forces, toured Iranian aerospace, electronics, and missile facilities, and consulted with top Iranian leaders on strategic cooperation in the Middle East and Cen-

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[5] "Putin Is Warned That Aid to Iran Could Backfire," *Middle East Newsline*, at *http://www.menewsline.com/* (March 14, 2001).

[6] Konstantin Eggert, "Meteor'dlia Ayatoll," (A 'Meteor' for the Ayatollahs), *Izvestiya*, October 21–22, 1998, p. 5.

[7] Larry James, "Russia/US/Iran", Correspondent Report, FAS News, Federation of American Scientists, November 23, 2000, ="http://www.fas.org/news/russia/2000/russia-001123.htm"MACROBUTTONHtmlResAnchor*www.fas.org/news/russia/2000/russia-001123.htm* and "Russia Confirms Intent to Resume Military-Technical Cooperation with Iran," Interfax, November 23, 2000, 08:40GMT

[8] Elena Antonenko, "Russia's Military Involvement in the Middle East."

[9] "Russia Confirms Intent to Resume Military-Technical Cooperation With Iran," Interfax, November 23, 2000.

[10] Among prominent Russians who stressed the need to build military cooperation with Teheran and to disregard U.S. concerns were General Andrey Nikolaev, Chairman of the Duma Defense Committee and the pro-Putin People's Deputy group in the Duma; General Valery Manilov, First Deputy Chief of the Russian General Staff; and General Leonid Ivashov, head of the Russian Defense Ministry International Cooperation Department. In addition, Ilya Klebanov, Deputy Prime Minister in charge of the military-industrial complex; communist leader Gennady Zyuganov; Vladimir Zhirinovsky, Deputy Speaker of the Duma and chief of the nationalist Liberal-Democratic Party; and Marshal Victor Kulikov, former commander of the Warsaw Pact forces, strongly support military cooperation. See "State Duma Committee Chief Favors Russia's Military Cooperation with Iran," Interfax, November 24, 2001.

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tral Asia.[11] He and his Iranian counterpart discussed a 10-year arms and military technology program worth over $3 billion that would include training for Iranian military officers and engineers at Russian military academies. The representatives agreed that their governments would consult each other on "military doctrines, common challenges and threats," effectively bringing their status closer to that of an informal alliance.[12] Sergeev bluntly rejected U.S. concerns about the relationship, telling the Iranian media upon his arrival that "Russia . . . intends to pursue its own ends."[13]

President Khatami reciprocated with a state visit to Moscow in March 2001. During President Khatami's stay, Putin reiterated that Russia has the right to defend itself. Iranian officials toured a Russian missile factory and agreed to buy Osa and TOR–M1 surface-to-air missiles, which have missile defense capabilities.

Khatami also toured a nuclear reactor plant in St. Petersburg and signaled that his country would buy another reactor from Russia. Since Iran already controls some of the world's largest natural gas reserves, the need for the additional Busheh nuclear reactors—at a total cost of $1.8 billion—is questionable at best.

Moscow is about to conclude a deal to prevent military technology transfer to Tehran, Russia continues to sell its most sensitive and destabilizing technology to the Islamic Republic despite U.S. concerns.

Why Russia Is Dealing with Iran

The Iranian nuclear contract, announced in August 2002, was lobbied for by MinAtom, the Soviet-era nuclear ministry, which is trying to keep its many factories, involving tens of thousands of jobs, afloat. MinAtom's bureaucrats were raised on a diet of anti-Americanism, but view themselves, first and foremost, as industrial competitors of Western nuclear technology and products. The main motivation behind the transaction is the nuclear ministry's desire to keep the Iranian market and preserve jobs. True, in the long term, a nuclear armed Iran on Russia's borders would make it a difficult neighbor. Tehran could stir up unrest in the Muslim areas of the Caucasus and Central Asia, immune from Russian retaliation behind its Moscow-supplied nuclear missile shield. But it is short term greed—and millions of dollars in bribes—that have kept the Iranian contract on track despite America's loud protestations.

Russia has found in Iran a large, oil-rich customer for its military industrial complex, on which over 2 million jobs depend. Russian leaders hope that export revenues will help them sustain the research and development capabilities and technology base they inherited from the Soviet Union, which can then be used to develop new major weapons systems for the Russian armed forces and foreign customers. To achieve economies of scale, however, Russia needs access to large arms markets, such as China, India, and Iran.

The state-owned arms exporter, Rosoboronexport, is pursuing such former Soviet clients in the Middle East as Algeria, Libya, and Syria, as well as the conservative Gulf States, and is developing markets for arms in Latin America and East Asia, from Malaysia to Vietnam. Senior Russian officials reportedly have taken bribes from foreign customers anxious to gain access to Russia's sensitive technologies.[14] Moreover, direct payments from foreign customers are often put in offshore bank accounts, from which some funds then find their way into private pockets.

Before 9/11, Moscow had two strategic goals in pursuing a military relationship with Iran: (1) keeping its own military-industrial complex solvent, and (2) building a coalition in Eurasia to counterbalance U.S. military superiority. By failing to effectively oppose Al Qaeda in Afghanistan and allowing U.S. military deployment in Central Asia, President Putin had, for a time, effectively abandoned this geopolitical confrontation. His current attempt to revive a European-Russian cooperation to oppose the U.S. action against Iraq may signal a return to a more geopolitical view of the world—absent a clear deal with the U.S.

The Threat to U.S. Interests

Iran's military build-up poses direct threats to U.S. interests in the Middle East. Iran has long aspired to play a dominant role in the Middle East and the Islamic world. Under the late Shah as well as the current leadership, Iran has sought to build up its military capabilities and its ability to defend itself from Iraq. However, today its aspirations go beyond legitimate self-defense. Iran's robust medium and

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[11] "Russian Minister Says His Country Will Abide by International Agreement on Iran Arms Sales," Associated Press Worldstream, December 27, 2000,

[12] "Russia, Iran to Resume Large-Scale Military Cooperation," RIA, December 28, 2000.

[13] "Russia Set to Develop Military Cooperation with Iran," Interfax, December 26, 2000.

[14] Eggert, "Meteor dlia Ayatoll," p. 5.

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long range missile program, growing naval warfare capabilities, and likely nuclear weapons program is a testimony to the ayatollahs' intentions. Militant Islamic leaders in Iran make no effort to hide the fact that they want to destroy the United States and its ally, Israel.

For example, senior Iranian officials, including the Supreme Leader Ayatollah Ali Khamenei, have repeatedly denied Israel's right to exist and described the tiny state as a "cancerous tumor." In the 1998 parade in Teheran , the Shahab-3 missile carrier prominently displayed an inscription that read, "Israel should be wiped off the map."[15] By opposing Arab-Israeli peace negotiations and maintaining a militant anti-Israeli posture, Tehran hopes to build support for its leadership role in the Arab and Muslim world.

According to the U.S. Department of State Patterns of Global Terrorism report, "Iran remained the most active state sponsor of terrorism in 2001."[16]

Iran backs the Hizbollah (Party of God) terrorist organization, which is based in Lebanon. Iran has supplied Hizbollah with thousands of short range rockets, and has shipped anti-tank missiles, mortars and plastic explosives to Yassir Arafat's Palestinian Authority. It also funds Palestinian Islamic Jihad (PIJ), Hamas, and the Popular Front for the Liberation of Palestine—General Command, all organizations on the U.S. Department of State terrorism list.

A more aggressive, nuclear Iran would cause further political instability which, in turn, is likely to lead to high oil prices thatwould benefit both Russia and Iran as producers. Moreover, a nuclear- and missile-armed Iran could directly intimidate America's allies and major oil exporters in the Gulf. Iran could use its missile capabilities, and eventually its nuclear potential, to blackmail the West, deter the United States and its allies from deploying forces to defend oil shipping routes, or deny the U.S. Navy access to the Gulf itself.

According to Admiral Thomas R. Wilson, Director of the Defense Intelligence Agency, Tehran is likely to re-export the sensitive Russian technology for weapons of mass destruction it obtains to militant Muslim regimes or terrorist groups in other countries, from Algeria to Sudan.[17] If America's diplomatic efforts to limit the proliferation of weapons and weapons technologies from China, Russia, and other countries to Iran fail, then the United States will have little recourse but to impose sanctions on the violators. The U.S. must be prepared to take other measures to punish countries that proliferate weapons of mass destruction, in order to prevent the most dangerous weapons from falling into the hands of the most dangerous regimes.

The Bush Administration faces many challenges in dealing with the issue of strategic military cooperation between Russia and Iran. It inherited an ineffective policy from the Clinton Administration, which attempted to reason with Russia to limit arms proliferation to Iran. The United States spent $5 billion to secure Russia's nuclear arsenal, however, Moscow still sold its sensitive nuclear and ballistic technology to China and Iran, as well as some parts and components to Iraq and other rogue states. In addition, American companies paid Russia $2 billion for commercial satellite launches authorized by the Clinton White House as compensation for Moscow's agreement to give up its arms trade with Tehran.[18] Finally, President Clinton waived congressionally mandated sanctions against the suppliers of weapons and military technology to countries that support terrorism.

Congress attempted to limit the damage from these ill-advised Clinton Administration policies by imposing sanctions on companies that do business in Iran. In 1998, Congress overwhelmingly passed the Iran Missile Proliferation Sanctions Act (H.R. 2709) sponsored by Representative Benjamin Gilman (R–NY), chairman of the House International Relations Committee.[19] The act mandates that the President report to Congress when there is credible information that a foreign entity transferred any technology controlled by the Missile Technology Control Regime (MTCR). All licensed exports, sales of defense items, and U.S. government financial assist-

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[15] Richard Speier, Robert Galuccci, Robbie Sabel, Viktor Mizin, Chapter 12, "Iran-Russia Missile Cooperation" in Joseph Cirincione, ed., *Repairing the Regime: Preventing the Spread of Mass Destruction,* Carnegie Endowment for International Peace, co-published with Routledge, 2000., at *tp:/ /www.ceip.org /files /publications /RegimeIranRussian.asp?p=1.*

[16] "Patterns of Global Terrorism 2001," U.S. Department of State, May 2002, http:// www.state.gov/s/ct/rls/pgtrpt/2001/html/10249.htm

[17] Testimony of Vice Admiral Thomas R. Wilson, Director, Defense Intelligence Agency, "Global Threats and Challenges Through 2015," Statement for the Record, Senate Select Committee on Intelligence, February 7, 2001.

[18] Scott Peterson, "Russians Tighten Ties to Iran," *Christian Science Monitor*, January 26, 2001, p.1

[19] Richard Speier, "Iran Missile Sanctions," *Proliferation Brief*, Vol. 1, No. 10 (August 27, 1998), p. 1, at *http:/ /www.ceip.org /files /publications /ProliferationBrief 1 10.asp?p=8.*

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ance to that entity would then be terminated. However, President Clinton vetoed that legislation in June 1998. Instead, he issued Executive Order 12938 to assign penalties to companies that provided assistance to nuclear, chemical, and biological weapons programs.[20] Unfortunately, this Clinton Administration counter-proliferation policy was simply too little, too late.

NORTH KOREA

Only six months ago the take on North Korea in Moscow was that the former satellite is finally coming to its economic senses, and might provide an opportunity for Russian companies. A trans-Korean railroad, to be connected to the Trans-Siberian railroad, was generating great hopes in Moscow. Japan's Prime Minister Junichiro Koizumi's visit to Pyongyang in September 2002 was interpreted to mean that Kim wanted to keep his options open and was considering economic liberalization. The Russians believed that Comrade Kim could preside over a North Korean version of *perestroyka*, bringing elements of a market economy and foreign investment to Pyongyang. Russia did not want to lose out to China, Japan, South Korea—or to the U.S.—when the latest business frontier opened up. With the current nuclear and missile crisis raging, the Russian view of the Korean communist leader has become more jaundiced. Russia may cooperate with China, South Korea and the U.S. in attempting to diffuse the Korean crisis. Moreover, the possibility of a U.S. military withdrawal from the Korean peninsula and a consequent Japanese nuclear and military build-up is viewed in Moscow with a great concern.

POLICY RECOMMENDATIONS: WHAT THE ADMINISTRATION SHOULD PROPOSE

Russia today is close to Germany and France on issues of Iran and Iraq, despite Moscow's rejection of EU-style multilateralism, and recognition of the value of national sovereignty and the concept of national interests that some of the Europeans seem to lack. At the same time, U.S. and Russian policymakers clearly recognize the growing threat that militant political Islam and its engagement in terrorism poses to global security. However, at least some Russians have bought into the concept of the multi-polar world and are concerned about U.S. "unilateralism" and alleged hegemonic ambitions.

What is needed is a strategy for coordinating U.S. and Russian policies which would include removing Saddam Hussein from power and ushering in a pro-democracy government in Iraq. Putin must confront the lingering pro-Iraqi sentiment in the Russian Foreign Ministry, military-industrial complex, and oil lobby. He must demonstrate to his eilites how Russian cooperation in the anti-Saddam coalition would benefit Russia. The U.S. and Russia should also tackle the dangers of uncontrolled MinAtom and Russian missile manufacturers' activities in Iran. At the same time, Russian interests in Iraq should be recognized.

To secure Putin's support in ousting Saddam, the Administration should:

Assign a senior Administration official to negotiate U.S.—Russian understandings on a post—Saddam Iraq. This person should be well versed in Middle East geopolitics, energy economics, and finance issues.

Discuss with Russia how it could supply diplomatic, military, and intelligence support to oust Saddam. For example, Russia should share export licensing data on military and dual-use technology transfers from its military-industrial complex, as well as from Ukraine and Belarus, to Iraq. And it should share intelligence on illegal transfers that have no export licensing track record.

Press Moscow to shut down Iraq's black-market oil sales and illegal WMD procurement through Russian companies, and to share intelligence on bank accounts connected with such activities.

Offer to support the repayment of Iraq's Soviet-era debt and recognition of Russian companies' rights to the Western Qurna oil field. . These interests of Moscow will not be met as long as Saddam remains in power. Washington could also consider brokering a deal in which Russia's Soviet-era debt to the Paris Club would be reduced by the amount of Iraq's debt to Russia.

Establishing a New U.S. policy on Russia-Iran cooperation.

The current North Korean crisis demonstrates how quickly a country can pull out of NPT and expel international inspectors, leaving the great powers grasping for a solution. Intelligence experts have suggested that Iran may choose to follow this path. Iranian leaders have repeatedly said that they are "entitled" to nuclear weapons. They flaunt their hostility toward the U.S. and their support of international terrorism. While President Putin declares his support for the United States in the

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[20] *Ibid.*

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war on terrorism, MINATOM is receiving hundreds of millions of dollars from supplying nuclear dual-use technology to Iran. Senior Russian policy makers, however, agree that it is in Russia's long-term strategic interest to cooperate with the U.S. to prevent nuclear proliferation. To check the transfer of Russian nuclear dual use, weapons-related, and missile technology to Iran, the United States should develop a policy that is deliberate, vigilant, and aggressive. The U.S. should not stand idle while the mullahs in Tehran build their nuclear arsenals, just as Washington has not acquiesced to Saddam Hussein's build up of weapons of mass destruction. The U.S. should:

Develop consultations between the senior levels of the U.S. and Russian governments to prevent a grave confrontation over Russian proliferation policies toward Iran. The U.S. side should include the National Security Council, the Defense and Energy Departments, and the State Department's Bureau of Non-Proliferation, Office of Arms Control and International Security, and Bureau of European and Eurasian Affairs.

Offer Russia an economic quid-pro-quo in exchange for full disclosure of past nuclear assistance and ending the technology transfer to Iran—if such cut-off will derail the Iranian nuclear weapons program. In return, the U.S. could authorize approval of storing spent fuel from U.S.-built reactors around the world in Russia under American technical supervision by private companies; financing of expanded nuclear security programs including nuclear submarine dismantlement and chemical weapons destruction under the Nunn-Lugar Cooperative Threat Reduction Program; contract buying Russian oil for the U.S. strategic petroleum reserve, and authorize other private sector high tech non-nuclear projects, such as civilian satellite launches. All these activities should be predicated on Russian compliance with U.S. non-proliferation demands.

Sanction companies that supply nuclear material or technology to Iran, using legislation similar to the Iran Missile Proliferation Sanctions Act of 1997 and the Iran Non-Proliferation Act of 2000. Any entity that supplies technology or materials to such states or contributes to their development of nuclear weapons should be severely sanctioned, including denial of all U.S. funds, visas, and licenses to proliferating companies, officials and executives.

CONCLUSION

In the twenty-first century, foreign and security policy is as much about geo-economics as it is about geopolitics. Russia's support of France and Germany in the U.N. Security Council over Iraq and agreements with Iran, Iraq and China are all about the Russian view of the world power distribution and economic interests.

Moscow still possesses a world class military industrial complex, inherited from the Soviet Union, and wants to sustain it by selling arms to China, India, Iran and other countries. Russia's military-security elite will try to keep it afloat at all costs regardless of Washington's protests, as long as alternative markets, such as the Central and Eastern European countries or even NATO members, remain out of Moscow's reach. It sold to both sides during the Iran-Iraq war in the 1980s, and will supply the Vietnamese and North Koreans with modern aircraft and tanks, while selling the same to China and South Korea. Thus, if left unchecked, Russia is likely to continue to sell weapons to its neighbors, sowing the seeds of regional instability in the process.

Russia apparently has not received guarantees that ensure, from its point of view, its place at the table in the post-Saddam Iraq. Still, the option to bring Russia in on the U.S. side is still there. Russia is more concerned today about the threat of Islamist terrorism than most Western European governments. Both the Kremlin and the White House should continue exploring the window of opportunity to forge a strategic relationship. To achieve this, the Bush Administration should give Russia's economic interests a fair hearing, without compromising U.S. defense concerns. Until recently, Putin was seeking ways to demonstrate that the U.S.-Russian partnership is working. U.S.-Russian cooperation on a regime change in and post-war administration of Iraq can be mutually beneficial. Developing a Russian-American business partnership, especially in the energy sector, and securing some Russian economic interests in Iraq, would weaken domestic criticism of Putin's policy of rapprochement with Washington. U.S.-Russian strategic cooperation would also lessen criticisms of the Bush Administration's Iraq policy in Western Europe and the Arab world. This cooperation would lay the foundation for a fruitful partnership in the war against terrorism and efforts to reduce the threat posed by proliferating weapons of mass destruction. And if a precedent of successful cooperation is established, Iran may be the next area on which Russia and the U.S. can reach an agreement.

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APPENDIX 1

Russia-china: ARMS SALES and Military Cooperation

The relationship between China and Russia usually is not put in the same category as the ties to the Axis of Evil. However, it is significant as far as proliferation is concerned. The ties are highly symbiotic. China is acquiring the capability to counter U.S. naval and air power in the Far East and intimidate neighbors like Taiwan. Russia is seeking to maintain its defense industrial base and use money from arms sales to China and others to spend on modernizing its own armed forces. Cooperation between the two countries is not limited to military technology and production.

Since the early 1990s, Russia has become a virtual Arms-R-Us supermarket for the People's Liberation Army (PLA). The voracious appetite that the Chinese military demonstrates for the "crown jewels" of the Russian military-industrial complex has finally started to worry even the civilian and military leaders of Russia.

China has made it clear that it is interested in creating "pockets of excellence"—local weapons development programs based on foreign technologies; but to do so it must first obtain that foreign technology. The large number of Russian weapons scientists who have moved to China over the past decade may be the most dangerous aspect of the Sino-Russian strategic relationship. China was the leading customer of the Russian military-industrial complex in the 1990s. The Chinese leaders turned to Russia for weapons systems that were designed to counter the U.S. military in the Cold War. In particular, they have focused on boosting China's missile forces and related space systems as well as air and naval force capabilities.

Between 1991 and 1996, Russia sold China weapons worth an estimated $1 billion per year. Between 1996 and 2001, the rate of sales doubled, to $2 billion per year. Reportedly the two countries signed a military sales package in 1999 that between 2000 and 2004 would be worth $20 billion. To be fair, China also obtained important know-how through the theft of U.S. warhead designs and guidance systems technology. In 1999, China tested the JL–2 submarine launched ballistic missile (SLBM) and the DF–31 intercontinental ballistic missile (ICBM), and announced its acquisition of the neutron bomb. It has been suggested that Russian scientists and blueprints were used in developing these and other armaments.

China is building a modern air force to operate over the East China and South China Seas. In 1993–1997, it acquired 74 SU–27 Flankers and the rights to produce 200 more under a Russian license. These planes are similar to American F–14s and F–15s. Earlier this year, China acquired 40 SU–30 MKK multipurpose fourth generation fighter-bombers (a modernized version of the SU–27) as well as the in-flight refueling capability needed to extend the Flanker's range. The Chinese military also purchased a license to produce 250 SU–30 fighters domestically. Altogether, China has bought or is planning to manufacture up to 525 of these combat aircraft. Its air force already has acquired over-the-horizon targeting capability, which could prove crucial in future conflicts. It is also seeking airborne early warning capabilities for wide-area air and naval battle management, most probably by purchasing the Russian A–50 Beriev.

China has clearly achieved breakthroughs in missile technology by importing systems and prototypes from Russia. It is deploying S–300 surface-to-air missiles (SAMs) to protect ballistic missile bases that could target Taiwan. It is also developing indigenous SAMs based on Russian designs, such as the S–300, SA–12 and SA–17 Grizzly.

Beijing is emphasizing the modernization of the People's Liberation Navy . It has acquired four Kilo-class diesel submarines and is negotiating the purchase of four more. Most importantly, Russia has sold Beijing two Type 956E Sovremenny class destroyers armed with supersonic, nuclear-capable, Moskit missiles (SS–N–22). This destroyer/missile system was designed specifically to hit U.S. aircraft carriers. Some destroyers to be produced in China are based on Russian know-how. Russia also has sold China its Kamov Ka–28 (Helix) anti-submarine, destroyer-based helicopters.

This kind of transfer of knowledge is the key to China being successful in upgrading its military potential. Russia and China have established mechanisms for military technology transfer and intelligence sharing. Russia even allowed China to use its space-based global positioning system, known as GLONASS. A real-time satellite imagery download system may also be in operation.

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Most worrisome, however, is a broad program already in place to train military students, scientists, and engineers. According to Chinese military sources quoted by the Hong Kong media, up to 1,500 Russian scientists work in China's design and production facilities. China is clearly on track to comprehensively upgrade its defense research, development, and production programs.

Russian Prime Minister Mikhail Kasyanov concluded his visit to China in late August 2002 with unusual declarations concerning key strategic areas. Once again, Moscow and Beijing are trying to keep American security initiatives in check. Kasyanov's responsibilities normally include the economy, not defense, which is President Vladimir Putin's purview. It is high symbolic that during this particular visit, Kasyanov voiced full support of China's positions on Taiwan and Tibet, positions that the U.S. does not share. The Russian premier and his Chinese counterpart, Zhu Rongji, also signed a declaration opposing the militarization of space and supporting a key role for the U.N. Security Council in the fight against terrorism.

Col. Larry Wortzel (U.S. Army, Ret.), Vice President for Foreign Policy and Defense Studies at The Heritage Foundation and former U.S. military attache in Beijing said that the declaration is a follow-up to the June 27 joint proposal before the U.N. Conference on Disarmament in Geneva for a new international treaty to ban weapons in outer space. Wortzel points out that this treaty, if approved, will deny the Bush Administration a key component for ballistic missile defense: space-based interceptors, similar to the Reagan—era Brilliant Pebbles system. However, Wortzel also points out that it is certain that the U. S. would veto the treaty.

Thus, China and Russia are challenging U.S. predominance by highlighting the role of the U.N.—and their own veto power at the Security Council—in the war against terrorism. Moscow and Beijing also oppose space-based missile defense, which, from their point of view, would give Washington policy makers a great advantage.

Unlike the old Sino-Soviet friendship of the early 1950s, when Moscow led and Beijing followed, today China is playing the first fiddle. And arms sales are the lifeblood of the relationship. After all, cash infusions from China (and Iran) are crucial to the ailing Russian military-industrial complex.

Sources in Moscow report that Kasyanov has signed arms sales agreements with Beijing worth billions of dollars. But as of June 2002, President Putin classified all arms transfer statistics with China at the request of Beijing, so no official announcements were made during Kasyanov's visit to China.

According to Dr. Wortzel, "The good news is that China is incapable of developing these military technologies and production on its own . . . Their own defense industry is incapable of sustaining a modern war . . . It is essentially a one time use military, which may be extremely dangerous at the start of a war, but will be unable to continue to fight."

Most of the systems that China buys extend her power projection capability, enhancing the range and deadliness of her air force and navy, and protecting her military from American retaliation. For example, the AWACs planes Beijing wanted to buy from a Russian-Israeli joint venture would have given it command-and-control superiority against Taiwan, while Russian destroyers and subs armed with supersonic anti-ship missiles can threaten U.S. naval battle groups in the South China Sea.

A Russian military analyst who requested anonymity indicated that the Russian General Staff ran war games and concluded that China would win in any conventional war with Russia. Moscow is not willing to contemplate nuclear annihilation. As a result, Russia will sell China almost anything to appease Beijing.

However, this is a marriage of convenience, not a romantic love affair. Russia and China have their share of disagreements. Moscow is concerned about the great numbers of Chinese migrants in the sparsely populated Russian Far East. It is also worried that China is aggressively linking its support of Russian membership in the WTO with the free entrance of Chinese labor for Russian employers and access to Chinese goods and services in Russian markets. In addition, Beijing insists that Russia tie its Siberian oil exports exclusively to China by building a pipeline into Manchuria. Russia wants to build the pipeline to the Pacific port of Nakhodka, allowing it to diversify its customer base and export to Japan, Korea and the U.S.

SINO-RUSSIAN COOPERATION IN CENTRAL ASIA

Opposition to the United States' status as the sole superpower is not the only driver behind the developing strategic partnership between Moscow and Beijing. Both Russia and China are concerned about Moslem radical movements in their territories and around their borders. Since the 1970s, the Turkic Moslem Uighurs in the Western Chinese province of Xinkiang, 7 million strong, have been conducting

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a violent struggle for independence. They have killed police and soldiers, planted bombs and robbed banks. In 1997, they exploded a bomb in Beijing, wounding 30 people. They have also developed connections to radical Islamic movements and were training in religious schools (*medrese*) and camps in the Taliban-controlled Afghanistan and Pakistan.

Stability in Xinjiang is important to China. It is seen as a test case of central control, relevant to Beijing's grip over Tibet and Inner Mongolia. Xinjiang is also viewed as a traditional buffer against Turkic Moslem invasions, which came in the past from the North-West. And it contains three major oil basins: the Turpan, Jungar and Tarim, with up to 150 billion barrels of reserves, according to some optimistic estimates. The People's Liberation Army maintains numerous bases and nuclear weapons testing grounds in the region, which could be threatened if the Uighurs gain control.

Russia is in a similar position as it enters the ninth year of conflict in Chechnya. Radical Moslem penetration of other North Caucasus autonomous republics, such as Daghestan, is increasing, as evidenced by non-Chechen participation in terrorist activities in Russia. The Russian leaders fear a chain reaction among the country's 20 million Moslems.

In the long term, the threat of increased radical Moslem influence, and even insurrection in Central Asia looms ever larger. The ruling regimes, allied with Russia, suffer from a lack of legitimacy, poor economic track records, and a democratic deficit. With economic reforms in the Central Asian countries sputtering or stalling, corruption runs rampant, GDPs are flat, and living standards are abysmally low. Before the victorious fall 2001 U.S. campaign in Afghanistan, Islamic radicals were busily recruiting and training the next generation of Jihad warriors. The radical drug-pushing Taliban regime across the Amu Darya river was menacing. A flood of drugs and weapons nearly overwhelmed the Russian expeditionary force (the 201st Infantry Division) on the Tajik-Afghan border, while indigenous support, corruption, and political maneuvering by Moscow and Dushanbe prevented Russia and Tajikistan from wiping out the Islamic rebels. By the fall of 2001, Russia found its options limited: to face instability in Central Asia on its own, or to bring in China as a partner.

Beijing views Central Asia, with its weak governments and rich natural resources—especially oil and gas—as a future natural sphere of influence and a source of Islamic threat to Eastern China. The 2001 institutionalization of the SCO demonstrated that Moscow and Beijing had hopes of becoming the decisionmakers in Central Asia. However, unlike the U.S., the two powers proved not to be effective against the Taliban, the Islamic Front of Uzbekistan (IMU), and Al Qaeda.

ECONOMIC DEVELOPMENT

Economic cooperation is another important leg of the Sino-Russian partnership. If China seeks to maintain its impressive economic growth rate of 1985–2000, it will face a major raw materials shortage—China imported 30 million tons of oil in 1999; by 2010, it may import 100 million tons per year. By 2010, China will face a water deficit of 10 percent of its total consumption. By 2020, it will not be able to supply itself with oil, iron, steel, aluminum, sulfur, and other minerals.

Sino-Russian trade was at $5.5 billion in 1999, accounting for 1.6 percent of China's foreign trade and 5.7 percent of Russia's. While the trade primarily involves Russian raw materials and Chinese low-quality consumer goods and food, the potential for growth in trade and investment is very high.

Chinese experts predict that Russia will be able to export 25 billion to 30 billion cubic meters of natural gas to China annually; 15 billion to 18 billion kilowatts of electricity from the hydropower stations in Siberia, and 25 million to 30 million tons of oil from the Kovykta oil field in Eastern Siberia. In addition, Russia can pump oil produced in Kazakhstan to Irkutsk and then supply it to China. Furthermore, Russia is willing to build six nuclear reactors in China to generate up to 1.5 trillion kilowatts.

Russia and China are also seeking high-tech civilian cooperation. Chinese officials have invited Russian high-tech experts and engineers to build high-tech incubators in the northern city of Harbin.

The two countries are also considering building a bridge over the Amur river to connect Heihe city in Heilongjiang province with Blagoveshchensk. And there are numerous projects for developing free economic zones along the Chinese-Russian border, and an international port in the mouth of the Tumannaya river (Tumangan), where the Russian, Chinese, and Korean borders meet. That port has been on the drawing boards for 15 years.

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Russia and China also could cooperate in developing a network of railroads and pipelines in Central Asia, building a pan-Asian transportation corridor (the Silk Road) from the Far East to Europe and the Middle East. However, ambitious Chinese plans to build the longest pipeline in the world from Western Kazakhstan to China, at a cost of $10 billion, are running into financing difficulties. Thus far, the target of $20 billion in trade established by Presidents Jiang and Yeltsin in 1997 has not been reached. The West remains China's leading trade partner—a fact that has become a major impediment to a deeper Sino-Russian alliance.

Mr. SMITH OF NEW JERSEY. Dr. Wallander.

STATEMENT OF CELESTE WALLANDER, PH.D., DIRECTOR OF RUSSIA AND EURASIA PROGRAMS, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Dr. WALLANDER. Thank you. Mr. Chairman, I am privileged to contribute to the work of your Committee at a time when the United States faces such significant challenges to our national security and seeks to find the right policies and partners to secure our homeland and interests.

In my written testimony, I analyze in detail Russia's economic structures and its incentives in the energy, heavy industrial and defense sectors for trade with Iraq and Iran, and I would like to submit that for the record.

Today I would like to highlight the main factors behind Russia's economic and geopolitical strategy for achievement of the new form of 21st Century Great Power Status as a way to understand Russia's policies on Iran and Iraq.

On the economic side we need to understand that Russia's current leadership seeks power, status and prosperity through economic modernization and international trade. This definition of Russia's national interests has led it to a strategic choice for cooperation with the United States, but as has been commented on today already, it also means nurturing trade relations with countries that are markets for goods that Russia cannot sell in most international markets.

Russia's leadership has come to the conclusion that the country has no future without significant economic growth, and that requires working with the few strengths that were inherited from the Soviet economy while building new capabilities that fit the modern global economy.

While new success stories in this new economy are genuine, the main factors behind Russia's economic growth rates of 9 percent in 2000, 5 percent in 2001, 4 percent in 2002 and probably about the same range in 2003 are Russia's energy exports and high global energy prices.

Analysts estimate that for every dollar change in the price of a barrel of oil, Russian GDP rises or falls about ⅓ of 1 percent.

Now, these facts have made Europe and the United States important for Russia. Both are important energy markets and both are the sources of Western corporations that are likely to be major sources of foreign investment to build that new Russian economy.

But it also means that Russia has significant interests in Iran and Iraq. And what I want to emphasize today is that it is the very same packages of objectives and weaknesses that the political leadership has identified and is working with that are behind trade with Iran and Iraq.

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Now, I find myself enormously impressed to find that the Members of the Committee are already so well informed about the economic side of Russia's interests in Iran and Iraq, so I won't belabor the points that have been made today.

I would like to point out one aspect of that economic relationship, though, that has not been discussed today. It is a less intuitive but vital stake in Iraq's future oil industry. Although Russian oil companies could gain from access to Iraqi oil production, they stand to be harmed by too much success. To understand this, remember that Russia's healthy looking growth in its GDP is essentially due to foreign energy sales and to high energy prices.

If the price of oil falls to as low as $12 to $15 a barrel, which is not outside the range that experts expect might be the case were a war in Iraq to go well and were Iraqi oil to be open to international production, the Russian growth in GDP disappears.

Furthermore, not only Russian economic and business interests have a stake in the price of a barrel of oil, but the government itself does. Russia will hold Duma elections in December 2003 and presidential elections in the spring of 2004. Studies of Russian public opinion and voting behavior show that the Putin government's popularity and support come from its more stable, successful economy, from the fact that the government has managed to control inflation, to pay pensions and to pay wages.

Because the Russian economy is so dependent on global oil prices, so is the Russian government budget. One of the main reasons the budgets have been in surplus is because oil has been at a high price on international markets. If oil falls below about $20 a barrel on international markets, the Russian Government's budget surplus disappears and Russia's ability to pay those pensions, pay those wages and control inflation becomes at risk.

So Russia is not only an energy economy, its government has to watch global oil prices in much the way that Western politicians have to watch poll numbers.

Now, on Iran, the points have already been made about the importance of sales of nuclear technology to Iran to bolster Russia's own nuclear sector, and one can also make the same arguments about Russia's conventional arms sales to Iran. The Russian military procures very little on the domestic market in the way of conventional military goods, and the Russian defense industries are basically being kept alive these days with foreign arms sales, including those to Iran.

But, again, I want to emphasize something that hasn't been mentioned today. The actual mount of money that Iran is going to pay and is paying Russia for development of nuclear technology and building of Bushehr and even building new power plants is not that great. It isn't a part of the strategic overview of the Russian economy and its foreign policy. It is a very narrow benefit to a very narrow interest, although a big ministry, Minatom.

One of the reasons why this is allowed to continue in the Russian political elite is because the Russian nuclear industry, of course, is a civilian as well as a military industry. Keeping alive Russia's commercial nuclear industry is important for a Russia that expects to have a modern nuclear force into the 21st century.

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So again these sales are in a sense stopgap measures, and they are in a sense responding to narrow interests. But they are important for the United States to understand as it thinks about the terms of its strategic partnership with Russia into the 21st century.

I would also add that the discovery of these new independent sources of uranium production in Iran basically change the basis of Russia's assurances to the Western community that there will be transparency and full inspection of the fuel cycle in Iran, and it is a point on which the United States might press Russian attention.

Finally, I want to say something about geopolitics. Russia is engaged in what I would argue is not traditional geopolitics, but what we may call the geopolitics of a former superpower. Russia is playing a geopolitical strategy to manage America's overwhelming global power.

But this is not the classic game of global or regional balance of power. Russia's leaders are far too pragmatic and far too much practical realists to fool themselves that any balancing coalition can be effective, or that it is worth sacrificing recently won cooperation for some kind of quixotic tilting in American power.

Russia's policy is not geopolitical balance of power, but rather one of constraining U.S. policy through international rules, institutions and procedures. So don't think of Don Quixote and windmills, but think of a Lilliputian enmeshing Gulliver in the law and institutions that the United States itself values and helped to establish.

Putin and his team aspire to renewed national power and status, but the path they have identified in order to realize that goal is one that conforms to U.S. power and bows to the reality of a Western defined and dominated global economy.

Since the U.N. Security Council passed Resolution 1441, Russia's diplomatic efforts have focused not on power balancing, but on weaving a web of rules and procedures around U.S. military options.

Russia's approach to international institutions has always been instrumental and pragmatic. Russia favors the U.N., because the Security Council, with its unique rules according a veto to the P–5, is an institutional vestige of the great power status Russia inherited from the Soviet Union.

If Russia were playing a simple balance of power strategy, we would expect its leaders to offer countervailing alliances and security guarantees to Iran and Iraq, not to call on the United States to observe U.N. rules.

In recent days, Russia's Foreign Minister, Igor Ivanov, has publically called more firmly and harshly for Iraq to disarm and cooperate fully with the U.N. weapons inspectors. I will just note, since you may not quite have noticed it yourself, that when Chairman Margelov was asked about the two resolutions on offer, he did not come out fully in support of the resolution advanced by France, but in fact called for a compromise and a synthesis.

I think this is a very good guide to where Russian policy is today. The bottom line is that there is significant economic interests, and in the long run those interests drive Russia to a close cooperation with the United States. We hold the keys to Russia's ability to

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achieve its objective to become a successful country, and a new kind of 21st century great power.

The challenge to our policy lies in trying to get Russia to think past the short and medium term in its relations with Iran and Iraq and think toward the long term. I must say, in Russia's shifting policy on Iraq and the likelihood that it will not veto a Security Council resolution enabling use of force, the signs are that the United States is able to move its policy forward in a way that preserves that partnership.

Thank you.

[The prepared statement of Dr. Wallander follows:]

PREPARED STATEMENT OF CELESTE WALLANDER, PH.D., DIRECTOR OF RUSSIA AND EURASIA PROGRAMS, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. Chairman, I am privileged to contribute to the work of your committee at a time when the United States faces significant challenges to its national security, and seeks to find the right policies and partners to secure our homeland and interests. The subject of this hearing is an important one, because in the context of a U.S.-Russian relationship that has proven so constructive and positive since summer 2001, Russia's ongoing (and possibly growing) economic ties with Iran and Iraq are a persistent obstacle to a truly serious partnership. We need to understand the interests behind Russia's relations with these countries in order to develop policies that allow the U.S. to cooperate with Russia, while securing U.S. interests.

My assessment of Russia's "axis of evil" policies has two components. First, Russia's current leadership seeks power, status, and prosperity through economic modernization and international trade. This definition of Russia's national interests lead to a strategic choice for cooperation with the U.S., but it also means nurturing trade relations with countries that are markets for goods Russia cannot sell on most international markets.

Second, Russia is also playing out a geopolitical strategy to manage America's overwhelming global power. However, this is not the classic game of global of regional balancing: Russia's leaders are far too pragmatic, far too much practical realists to fool themselves that any balancing coalition can be effective, or that it is worth sacrificing recently hard won cooperation for quixotic tilting at American power. Russia's policy in not geopolitical balance of power, but rather constraining U.S. policy through international rules, institutions, and procedures. Not Quixote and windmills, but a Lilliputian enmeshing Gulliver in the law and institutions that the U.S. led in creating during the Cold War. The geopolitics of Russia's policies toward Iraq and Iran are the geopolitics of constraint and maneuver, not confrontation.

The Russian Economy and its National Interests

The first part of the puzzle is why a Russia that has improved it relations with the U.S and Western Europe, that has supported the U.S. in the fight against the Taliban and al Qaeda in Central Asia, and that seeks membership in the World Trade Organization and to attract foreign investment would maintain and even deepen trade with Iran and Iraq, countries with regimes that reject market and democracy. Furthermore, Russian trade with Iran and Iraq appears to support those regimes in the pursuit of what the U.S. believes to be policies to acquire weapons of mass destruction and the means for their use. This apparent contradiction suggests that Russia does not hold as a priority economic transformation, international integration, and fundamental cooperation with the U.S. and its western allies. It suggests, some have argued, that Russia's true purpose is a new round of competition with the U.S., one determined by great power ambitions rather than Soviet ideology.

In fact, there is not much of a puzzle at all. The same conditions and objectives that led Russian President Putin to improve relations first with Europe and then with the U.S., that are driving Russian efforts to join the WTO, and that led Putin to deem Russian military bases in Central Asia and military assistance to Georgia are behind Russia's relations with these three countries.

The most important condition is that Russia has no future as the country we know today without significant economic growth, which requires working with the few strengths of what was inherited from the Soviet economy while building new capabilities that fit the modern global economy. The Soviet economy did not leave many strengths: the few are energy, metals and other exportable commodities, a

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space and satellite industry, a nuclear industry, and conventional arms. In the past few years with a better environment created by significant reforms implemented by the Putin government, new sectors of the domestic economy have become successful, including certain consumer goods, a developing information technology industry, and services.

While these new success stories are genuine, the main factors behind Russian economic growth rates of 9% in 2000, 5% in 2001, and 4% in 2002 are Russia's energy exports and high global energy prices. That is, while economic reform and some increase in investment and productivity have helped, Russian economic growth is due to its ability to sell oil and natural gas abroad, and on high prices for those commodities. The beneficial effects of Russia's devaluation in 1998 are now gone: future growth will come only from increases in productivity, and from selling abroad what is in demand at good prices. While productivity may well improve, investment is still far below what is needed simply to replace obsolete Soviet stock. Economic growth in the short to medium term depends on oil and gas. Analysts estimate that for each $1 change in the price of a barrel of oil, Russian GDP rises or falls 0.35% (Troika Dialogue, *Russia Market Daily*, 15 April 2002).

These facts have made Europe and the U.S. important for Russia. First, both are important foreign markets for Russian energy exports. Second, American and European corporations and financial institutions will have to be major investors if Russian productivity in a variety of new sectors is to improve. The Putin government seeks to join the WTO so Russian business can compete on international markets, so Russian business will face incentives to reach western standards, so Russia will become an attractive investment environment, and so Russia can bargain to reduce barriers to its exports.

These realities are the true reason why Russian policy on NATO became accommodating, and why Russia agreed to a new offensive nuclear arms treaty even after the U.S. withdrew from the ABM Treaty.

Russian policy is driven by military and political weakness as well. Putin welcomed U.S. military bases in Central Asia largely because there was little he could do to stop them, and similarly U.S. military training programs in Georgia. Acceptance of U.S. missile defense plans was in part a calculation based on the importance of the U.S. for Russia's economic future, but it also was a realistic acceptance that there was little Russia could do to prevent a decision allowed by the ABM Treaty.

Russia and the "Axis of Evil"

The very same package of objectives and weaknesses are behind Russia's trade and relationships with Iran and Iraq. Russia's long-term objective is modernization, investment, and new sectors of development at the high-end of production and technology. But in the short to medium term, Russia needs to sell what is in demand abroad. This means primarily the Soviet legacy of fossil and nuclear energy. Selling nuclear reactors and conventional arms to Iran, investing in Iraq's oil industry, and selling manufactu red goods to Iraq is unfortunately part of the same policy, driven largely by the same factors, as selling natural gas to Germany or sending oil tankers to U.S. ports. It is to keep the Russia economy growing while it is weak so that it can be re-structured to support a strong Russia in the future.

So, in addition to the $10–12 billion or so in debt it is owed by Iraq that Russia seeks to recover from a post-sanctions Iraq (whether ruled by Saddam Hussein or not), Russia has a stake in the development of the future Iraqi oil industry. Russian oil companies stand to earn hundreds of millions and perhaps billions of dollars if they can realize promised commitments to develop Iraqi oil and natural gas fields. Several Russian companies are discussing building oil and natural gas pipelines in a post-sanctions Iraq, with contracts commonly worth $50 million or more.

But Russia's stake is broader than oil. Russian exports to Iraq were nearly $187 million in 2001, and over $61 million in the first quarter of 2002. Commodities sold include, for example, Volga cars, grain harvesters, and power generation equipment, with the consequence that the benefits of trade with Iraq extend beyond Russia's oil production and transport companies. Russian analysts estimate that the Russian industrial sectors could lose of $2.5 billion if industrial sector contracts signed with the current regime fall through.

It is worth noting, however, that even so Russia's main trading partners are not Iran and Iraq. Over half of Russia's trade is with EU and EU aspirant countries. Russia may have exported $187million in goods to Iraq in 2001, but that is a small slice of it total exports of $101.6billion. More significant that the amount is the concentration: Iraq buys manufactured goods and energy sector services that Russia for the most part cannot sell anywhere else. Iraq as an export market is part of a package of economic relationships that enables the Putin government to sustain a level

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of growth and stability while it buys time in modernizing and diversifying the economy.

Russia has another, less intuitive, but vital stake in Iraq's future oil industry. Although Russian oil companies stand to gain from Iraqi oil production, they stand to be severely harmed by too much success. To understand this, remember that Russia's healthy looking 4% growth in GDP for 2002 was essentially due to its foreign energy sales. In addition, remember that each $1 fluctuation in the price of a barrel of oil means a 0.35% change in Russian GDP.

As Russia faced US calls for enforcement of UN resultions on Iraq in the fall of 2002, these facts meant it would only take a $6 per barrel fall in the price of oil to halve Russia's GDP growth for last year. Such a drop in price is not beyond the expectations of industry analysts: in early 2003 with oil prices at $30 barrel Russian inindustry experts continue to forecast a fall in prices to $215/barrel or lower in the aftermath of a successful U.S. military operation. While the prospect of war has meant an increase in oil prices and windfall to the Russian economy, the subsequent peace will likely bring substantial western investment in oil production and a significant opening of Iraq's vast reserves, possibly resulting in a decrease in prices.

That is, in addition to being concerned that a successful U.S. war will mean they will be squeezed out of future development in Iraq, Russian energy companies are also worried that U.S. companies will so successfully and thoroughly develop Iraqi energy resources that global energy prices will fall. Mikhail Khodorkovsky, CEO of Yukos, recently expressed this concern to a British journalist in terms of its effects on the profitability of Russian oil companies themselves. If global oil prices fall to $11–13 per barrel, Russia's oil companies will fall below profitability. But in addition to eroding and possibly eliminating individual company profits, an American-led Iraqi oil boom could eliminate the only source of GDP growth in the Russian economy for the foreseeable future.

Russia's close relationship with Iraq, therefore, has been rooted in the peculiarities of its distorted, essentially weak economy. Russia's energy wealth, in the absence of any other dynamic and productive economic sectors, makes it vulnerable to a fall in global energy prices, which is one reason the government opposes a U.S. war that would lead to U.S. occupation of Iraq. On the other hand, the energy sector is one of the very few successful sectors of the Russian economy, so the logic of pursuing that advantage creates incentives to maintain and even improve relations with Iraq, even as the U.S. prepares for war. Russia's relations with Iraq are in conflict with U.S. interests, but Russia's relations with Iraq are not based on a Russian conflict of interest with the U.S. They are, quite ironically, based on the same objectives of economic modernization and internationalization that have been at the root of the overall improvement in U.S.-Russian relations.

The Russian Economy and the Government's Interests

In addition to Russia's national interests, we need to understand that global oil prices also affect the government's fortunes. Russia will hold Duma elections in December 2003, and presidential elections in the spring of 2004. Studies of Russian public opinion and voting behavior show that the Putin government's popularity and support come from a more stable and successful economy, as well as a belief that the current government has improved the security and predictability of Russian life.

That is, much of the government's support comes from the relatively low inflation, balanced government budgets, prompt payments, and improving living standards made possible in an economy that has grown at rates between 4% and 9% for the past four years. With two very important elections coming up in just over a year, the government has a big stake in the performance of the economy. Since global energy prices have such a large and direct impact on Russian growth, the Putin leadership's political fortunes are affected rather significantly by the global price of oil, and Russia's involvement in a post-war Iraq.

Because the Russian economy is so dependent on global energy prices, so is the Russian government budget. One of the main reasons Russia's budget has been in surplus (enabling it to meet its obligations without budget deficits) has been its revenues from taxes and energy export duties. So dependent is the Russian government on oil prices for fiscal health and creating the economic stability Russian voters now value so dearly, that its budget planning includes assumptions about global oil prices on which it bases projections of government revenues. If global oil prices fall much below $20/barrel, the Russian government budget goes from a healthy surplus to deficit.

Russia is not only an energy economy, its government has to watch global oil prices in much the way Western politicians watch poll numbers.

Therefore, Russia's stake in Iraq and its energy sector is not merely a matter of national interests and a strategic for economic modernization that affects foreign

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policy, it is a matter of the direct political interest of its leadership. As long as elections figure in Russia's political future, political leaders have to be directly interested in economic performance. As I've argued, that means a long-term strategy of western orientation and integration. But it also means, in the short run, a stake in Iraq and its future.

The Russian Economy and Narrow Interests

To this point, I have argued that the Russian-Iraqi relationship is rooted in a set of Russian strategic economic priorities that the U.S.has otherwise welcomed. The priorities lead Russia to Iraq because of the realities of Russia's energy dependent economy, and the weakness of its manufacturing sectors, which find an eager (indeed, nearly captive) market in Iraq.

The economic calculations that lead Russia to Iran are similar, but they are more strongly narrow than national, and primarily opportunistic rather than strategic.

In one sense, Russia's economic relations with Iran are driven by the same factors of weakness in the legacy of a distorted Soviet economy that produces only a limited set of exportable goods. The Soviet Union invested heavily in its nuclear industry, and attracted its best scientific minds. Similarly, its conventional military industries produced goods that were, and still are, in demand on foreign markets. Revenues for arms sales varied between $2 and $4 billion annually from the mid-1990s to the present, and for nuclear materials and technology between $2 and $2.5 billion annually in the mid to late 1990s. While not a huge proportion of Russia's yearly exports, they are very significant because in both cases there is virtually no domestic demand for either of these industries. Russian energy use fell with the decline of its economy in the 1990s, so the Ministry of Atomic Energy (Minatom) has not been selling on the domestic market. Similarly, the Russian military has not spent any significant amounts on procurement, so Russian defense plants have either been idle, or have produced for foreign customers.

Foreign sales, therefore, are a significant asset for keeping these two industries alive. In the case of arms, it is clear why the Russian state would have an interest in sustaining a defense production capacity for a time in the future when it will be ready to buy arms for its own military. Customers like China, Iran, and India play a role in preserving Russia's defense industrial capacity until the Russian military becomes a customer again

Minatom and Russian nuclear sales to Iran is a much more murky and problematic case. On the one hand, the $800 million that Iran will pay for Russian completion of the Bushehr power plant (and the recent February 2003 agreement to build 2 more nuclear plants) is obviously welcome to an industry with little new domestic demand, and not many foreign markets.

However, the consensus of experts is that these commercial relations serve little in the way of strategic economic objectives in support of modernization and integration. The amounts of money are welcome, but do not have a larger impact on Russia's fiscal health or adaptation to a more competitive economic future. The contracts arguably keep some Russian nuclear scientists employed, which is valuable to prevent them from becoming a proliferation risk, but since there is evidence scientists affiliated with the project have contributed to Iran's nuclear fuel cycle knowledge it is at best a weak claim.

Instead, Minatom appears to have privatized Russian foreign policy toward Iran, at least in the nuclear technology realm. There is no effective government oversight of Minatom programs, and no evidence that contract revenues make their way to government revenue accounts. Increasingly, there are reports of corruption, disappeared funds, and scientists providing knowledge beyond the contracted and monitored work at Bushehr. Although technically legal under the Nuclear Nonproliferation Treaty and buttressed by a Russian-Iranian agreement that spent fuel from the plant will be returned to Russia, Bushehr poses a proliferation risk by contributing to Iran's knowledge for developing an independent fuel cycle for producing weapons grade fuel. Revelations in February 2003 of Iran's uranium deposits further weaken the case that IAEA procedures and Russian control of the fuel cycle materials will not contribute to an independent Iranian nuclear weapons capability.

There is no evidence that Russia seeks to provide Iran with this capability for strategic or political reasons. Russia sees some advantage in good relations with an important country in the difficult region of the Caucasus and Central Asia. But to a greater degree, Russia has substantial competitive interests with Iran. It has clashed with Iran over the division of the Caspian Sea. It competes with Iran in provision of natural gas to Turkey. Russia's natural gas prospects and export interests would be negatively affected if Iran were able to export more successfully on regional and global natural gas markets: indeed, Russia and Iran are in many respects natural competitors as energy providers. Many Russian analysts point out

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that Iran's policies on Islam are a potential problem for Russia's relations with its neighbors in Central Asia and the Caucasus, and within the Russian Federation itself.

Instead, the best explanation for Russia's nuclear relationship with Iran is the capture of this foreign policy relationship by a very large player, with very narrow and specific interests. The Russian government allows capture and privatization of its policy by Minatom because it brings contracts and resources to a noncompetitive sector of the economy which is too big and powerful to be relegated to irrelevance. It also helps that the Minatom projects with Iran are technically legal under the NPT, meaning Russian officials can dismiss U.S. complaints as unfounded and demands to end the construction as illegal.

The Geopolitics of a Former Superpower

Russia does not have substantial common interests with any of the three countries grouped together as the "axis of evil." Russia has no interest in an isolated, pariah North Korea. Last year, Putin played a constructive role in encouraging Kim Jong-Il to mend relations with Japan, resulting in North Korea's admission that it kidnapped Japanese citizens, many of whom since died in captivity. Russia's economic stake in North Korea is twofold. The first is having a role in its future emergence from isolation, whether that be in partnership, confederation, or union with South Korea. The second is development of a transportation infrastructure that links Russia's Far East with sensible land and sea facilities in both Asia and Europe. Neither is a threat to U.S. interests.

Certainly, many in Russia take some pleasure in defying the US when it demands that Russia cut off economic ties with Iraq and Iran, and in asserting an autonomous Russian foreign policy. But there is no evidence, and no logic, to believing that Russia's relations with these countries is rooted in a policy targeted at undermining the United States, re-creating Cold War zero-sum competition, or seeking a countervailing alance of power against the U.S.

Russia is led by hard-headed realists. Putin and his team aspire to renewed national power and status, but the path they have identified to realize that goal is one that conforms to U.S. power and bows to the realities of a Western-defined global economy. Leading Russian politicians and analysts have come to argue that playing a balance of power game against the U.S. is a losing proposition, and one that threatens to undercut the foreign policy achievements since 2001. Dmitry Rogozin, chairman of the Duma's International Relations Committee and not known for pro-American views, put Russia's options in starkly realist terms: "we either cooperate with America, a great military, economic, and political power, and try to influence them through cooperation, or we quarrel and leave the USA alone with its own ambitions and interests." (Ekho Moskvy radio, 20 February 2003).

Since the UN Security Council passed Resolution 1441, Russia's diplomatic efforts have focused not on power balancing, but on weaving a web of rules and procedures around U.S. military options. Russia's approach to international institutions has always been instrumental and pragmatic. Russia favors the UN because the Security Council with its unique rules according a veto to the P5 is an institutional vestige of the great power status Russia inherited from the Soviet Union. If Russia were playing a simple balance of power geopolitical strategy, we would expect its leaders to offer countervailing alliances and security guarantees, not to call on the U.S. to observe UN rules. Russian leaders could not complain that the U.S. seeks to disarm Iraq. In fact, in recent days Russia's Foreign Minister Igor Ivanov has publicly called more firmly and harshly for Iraq to disarm and cooperate fully with UN weapons inspectors, accepting tacitly the U.S. argument that Iraq is not yet in full compliance. While Russia has called for a diplomatic and political solution, it has not ruled out the use of force should iraq fail to comply: Russia has concentrated on demanding that the U.S. comply with international law in enforcing Iraq's disarmament.

Furthermore, after December 2002, Russian analysts have noted that Russia is more likely to realize certain economic gains only if the U.S. is successful in dislodging Saddam Hussein. In December, reportedly after Russian interests contacted Iraqi opposition groups to discuss a post-Saddam honoring or Iraqi-Russian oil contracts, Iraq's government cancelled its contract with LUKOIL to develop the West Qurna fields. In doing so, Iraq lost one of the loudest and most influential supporters it had in Moscow, and created a strong incentive for LUKOIL to favor a post-Saddam future for oil development in the region. Similarly, it is clear that Russia stands no chance of recovering the $10–12 billion debt Iraq owes it as long as Saddam's Iraq is penned in by the sanctions regime.

As the overall positive atmosphere in U.S.-Russian relations has made it possible for Russia to press its case for U.S. support for post-Saddam repayments, contracts,

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and "price stability" (that is, higher prices) in global oil markets, Russia has availed itself of France's leading opposition to U.S. policy. France's policy has been a beneficial umbrella for Russia, allowing it to press for U.S. adherence to international law, for restraint, for taking the UN Security Council seriously: all while leaving it to France to take the brunt of U.S. anger.

For these reasons, it is most likely that Russia would not veto a U.S. led effort to pass a UN Security Council resolution declaring Iraq in material breach of its obligations to cooperate with the UN. Russia could lose from the war, but it would lose far more from confronting the U.S. on Iraq. In fact, a U.S.-led military action against Iraq could well be a net win for Russia if it creates the opportunity for new energy contracts and debt repayment, as long as oil prices do not fall too low—all in the context of a U.S. that acted with UN Security Council approval. This would be a new geopolitics of economic profit and tactical finesse, not bad for an aspiring great power undergoing reconstruction after a tough decade.

The next challenge in U.S.-Russian relations to contemplate will then be Iran. This analysis suggests that any potential for improvement lies in a U.S. policy that focuses Russia on the bigger picture and Russia's broader economic and security interests in the region. The U.S. should press on the issue of Iran's substantive, not merely narrow legalistic, compliance with the NPT and IAEA. It should press for reasonable oversight and control of Russia's nuclear export sector, and the accountability of the firms and scientists that do business in Iran. The U.S. should think about ways to make cooperation with the U.S. more valuable to business interests within Russia which could press their own government to restrict nuclear sales to Iran, since domestic political pressure by important business leaders is likely to be more effective than foreign criticism. The goal should be a Russia in ten years that does not get much benefit, relatively speaking, from selling nuclear technologies to Iran. Although that development is far from certain, given the structural weaknesses of the Russian economy, it is a realistic goal given the assets and advantages trade and cooperation with the U.S. has to offer.

On many of the issues truly important to the U.S. in its relationship with Russia in the past two years (NATO enlargement, national missile defense, a new offensive arms control treaty, US bases in Central Asia and military presence in the Caucasus, a new energy strategy), Russia has largely accommodated U.S. policies and priorities. If Russia sought to counter the US, it could have done so on issues far more important than oil contracts with Iraq, or far less self-defeating than turning a blind eye to Iranian nuclear ambitions.

The key to U.S. policy in dealing with Russia on its relations with these countries should be to leverage Russia's long-term strategic economic objectives. Where Russia's policies with these countries threaten to harm U.S. interests, it is always because Russia is grasping for short-term benefits. It is in U.S. interests to help Russia's political and economic leadership focus on its long-term objectives, because these offer greater benefits. A single contract with Iran that benefits Minatom is not worth as much as joint development of new oil fields and pipelines (Russia is suffering from an excess of oil and limited ways to get it to markets) that has beneficial effects not only for oil companies, but the Russian economy and government budget. Loss of lucrative nuclear contracts might be acceptable if Russian steel producers had the opportunity to compete on western markets, or if Russia's higher value information technology industries benefited from integration and competition in the context of Russian accession to the World Trade Organization.

Most of all, U.S. policy would benefit if it did not put Russia's relations with the countries in the rubric of the Axis of Evil. They pose problems for U.S. interests, and Russia's relationships with them exacerbate those problems. However, while there is a common thread in Russia's relations with them, it lies in Russia's economic ambitions, which are very different in each of these cases, and in its efforts to play a weak political hand through international law and institutions. As it strug gles with Russian policy toward Iran and Iraq, the U.S. should keep in mind that these are fields in which the U.S. can play on its own terms, given U.S. political and economic predominance, as well as military might. We only burden our own ability to use our considerable assets in engaging Russia's interests in the western economy and western rules of the game by using this construct, and will find it easier to tackle the challenge of eliciting constructive Russian engagement if we free ourselves of it.

Mr. SMITH OF NEW JERSEY. Thank you very much, Dr. Wallander. We appreciate your testimony.

Dr. Rumer.

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STATEMENT OF EUGENE RUMER, PH.D., SENIOR RESEARCH FELLOW, INSTITUTE FOR NATIONAL STRATEGIC STUDIES, NATIONAL DEFENSE UNIVERSITY

Dr. RUMER. Thank you, Mr. Chairman. It is a privilege to be here today and be a part of this very important and fascinating exchange.

I want to emphasize at the beginning that although I am a full-time employee of the Federal Government, the views that I am presenting here are strictly my own and do not represent the views of National Defense University or any other agency of the United States Government.

I will skip the introduction, although I have submitted a longer statement that I would like to be entered in the record. Let me just say outright that in 2003 Russia is not a country in pursuit of a grand geopolitical design. Nothing illustrates this better than some very basic facts that shape Russian policy and policy making.

In 2001, according to the CIA World Fact Book, Russia's Federal budget was approximately 45 billion, roughly half of that of Brazil's. Imagine running a country that spans 11 time zones on about one-tenth of what our military spends to defend our Nation.

Nobody has described the position Russia found itself in at the turn of the century better than President Putin himself when he told his compatriots on January 1, 2000, that if Russia did everything right and sustained the rates of growth of about 7 to 8 percent a year, it would catch up to Portugal by 2015. Portugal as it was in 2000, not as it will be in 2015.

Indeed, Mr. Chairman, it will be a towering achievement of the Putin presidency and testimony to his skill as a leader if Russia reaches that goal by 2015. According to our own Central Intelligence Agency, the outlook for Russia is bleak. By 2015 it will be a smaller, sicker, older and weaker nation.

The Russian military is bogged down in Chechnya. In the words of the Chief of the General Staff, the Russian military is "decomposing." Russia has no capabilities for power projection in the Persian Gulf. It has neither the vision nor the means nor the will for ambitious geopolitical designs.

President Putin's task is consolidation rather than expansion. Domestic politics is dominated by powerful, entrenched corporate and bureaucratic interests which span the political spectrum and weigh heavily on foreign and domestic policy making. Rent-seeking—the fusion of political power and capital—dominates virtually every aspect of Russian public life. President Putin has to take all of this into account as he crafts a careful diplomatic line through the current crisis.

The main lobbies Mr. Putin has to contend with are well known, as are their interests. My colleagues, Drs. Cohen and Wallander, have described energy and the weapons manufacturers as key interests behind Russian policy in Iraq. I fully embrace that view, and their material interests are quite transparent. They are getting a piece of the post-Saddam Iraqi oil pie, getting repayment of 7 to 8, possibly $9 billion worth of old Iraqi debts for past weapons deliveries, as well as possibly a chance to participate in the reequipment of the future Iraqi army.

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The old Soviet era national security establishment is another group that Putin has to contend with in the Ministry of Foreign Affairs and the Ministry of Defense, as well as in successor agencies to the old KGB. That group of interests is resentful of the "unipolar" world and U.S. dominance in world affairs. These are the practitioners of Russian foreign policy, they cling to the old vision and resent Putin's caving in to the United States, especially since 9/11.

Putin has to take all of these diverse interests into account. Furthermore, although he enjoys high personal popularity, he has to be careful to avoid the image of being exceedingly accommodating to the United States given the residual nostalgia for the superpower days in the general public as well as the national security establishment.

And as if the domestic hurdles weren't enough, Putin has to pay close attention to the positions of France and Germany, two key powers for Russia in Europe, with which Russia needs to maintain stable and positive relations.

In short, the current crisis presents a set of difficult choices for the Russian President. It will take diplomatic and political skill to adjudicate among these diverse, domestic and foreign interests and sustain strong, positive relations with the United States, as Mr. Putin has made clear is his priority.

Let me say a few words about Iran. I am largely in agreement with my colleagues on this panel. It is a very important relationship for Russia for several reasons. It has been a buyer of Russian weaponry and nuclear technology. There is in Russia a strong domestic corporate and bureaucratic constituency for trade and military technical cooperation with Iran, which so far has been able to overrule all concerns about Iran's weapons of mass destruction ambitions.

Iran is a regional power, not only in the Persian Gulf, but also in the Caucasus and in Central Asia, both very important regions for Russia. Iran gives Russia a diplomatic foothold in the Gulf where Moscow's influence is otherwise marginal. For these reasons, Russian-Iranian relations in my view will continue on their present course for the foreseeable future.

Thank you for giving me this chance to present my views on this important subject, and I look forward to your questions, sir.

[The prepared statement of Dr. Rumer follows:]

PREPARED STATEMENT OF EUGENE RUMER,[1] PH.D., SENIOR RESEARCH FELLOW, INSTITUTE FOR NATIONAL STRATEGIC STUDIES, NATIONAL DEFENSE UNIVERSITY

As the United States continues to mobilize international coalition in support of decisive action in Iraq, questions about Russian policy toward the "axis of evil" abound. What drives Russian policy in Iraq? What are Russia's interests in Iran and more broadly in the Persian Gulf? What are the options before U.S. policymakers to encourage responsible Russian behavior in the unfolding crisis? These, as well as several other questions about Russian foreign policy and policy-making are the subject of this written testimony.

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[1] The views expressed in this testimony are those of the author and do not reflect the official policy or position of the National Defense University, the Department of Defense or the U.S. Government.

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A New Foreign Policy

Since the breakup of the Soviet Union, Russian policy in many regions has been adrift, motivated by an add-hock mixture of commercial, domestic political and—occasionally—geopolitical considerations. Many of these considerations have had little to do with any given region of the world, but a lot to do with the vagaries of Russia's own domestic environment. Russian policy in the Persian Gulf has been no exception to this general rule.

The end of the Cold War and the global confrontation with the United States left Russian foreign policy without a clear sense of direction. The Persian Gulf—a region where Moscow's interests had been defined for decades by the general framework of U.S.-Soviet competition—ended up on the margins of Russian foreign policy.

The reason for this could be found in Russia's domestic decline. In the period following the breakup of the Soviet Union—a time of profound economic, political and societal crises—foreign policy took a back seat to concerns nearer to home. Which in turn meant that Russian foreign policy priorities shifted to three key areas:

First, Russian foreign policy focused on the former republics of the Soviet Union. Building new relationships with them and sorting out Russian interests in these new states had been a major Russian concern throughout the 1990s and remains an important issue for Russia's foreign policy establishment today.

The second key concern of Russian foreign policymakers in the wake of the Soviet breakup was re-building relations with the major powers and the United States in particular. This concern had a crucial domestic dimension: good relations with key economic powers of the world were seen by Russian policymakers as a prerequisite for economic assistance, which Russia's shattered economy badly needed.

The third area of concern was upholding Russia's great power image. Besides their financial aspects, relationships with United States and other major industrialized nations were important to Russian political elites because of Russia's own residual great power ambitions and traditions. Keeping up the pretense of great powerdom was important for the Russian public, long accustomed to living in a bipolar world and seeing their country as a superpower second to none.

Many other regions and countries received relatively little attention from Russian policymakers. Former Soviet clients in the Middle East and elsewhere—Iraq, Syria, North Korea, Cuba—which had long been recipients of Soviet assistance, were now of little use to the new Russian state. Russia had no resources to commit to non-essential projects, while prospects for collecting old debts from former clients looked quite dim, considering their own shaky circumstances.

The importance and value of these former client states to Russia was measured not by the extent of Russia's own interests in them, but by the extent to which they mattered to other powers. In effect these states became Russia's bargaining chips in pursuit of its objectives elsewhere.

The end of the Cold War left Moscow without a compelling interest in the Middle East. As an oil exporter, Russia did not need Middle Eastern oil. Russian oil industry was undergoing the process of privatization. The Russian oil sector thus focused on internal, rather than external factors affecting its development. Russia had few cultural ties to the region, except for Israel, where a large number of ex-Soviet Jews had found refuge from Soviet anti-Semitism and post-Soviet instability. Russian commercial ties to the Middle East were weak, for Russia had few exports of interest to the region, except for its arms, which it could now ill-afford to subsidize and which would have to compete with other weapons exporters. Russia's military decline denied Moscow the ability to project power and influence into the region. The notion of sponsoring client states in the Middle East in pursuit of geopolitical designs was out of the question.

A Policy-Making Free-for-All

Any effort to understand and explain Russian policy in the Middle East has to ask how Russian policy is made. Who shapes Russian foreign policy?

The old Soviet foreign policy-making process described in textbooks about the Soviet system became obsolete when the Soviet Union collapsed. The old established institutions, like the Foreign Ministry, carried on into the new era, but in radically diminished circumstances, defined by the new political and economic realities of post-Soviet Russia. Once the conservative bastion of Soviet ideological purity and privilege, the Foreign Ministry could no longer command the resources it once had at its disposal. In an atmosphere of near-permanent domestic crises that engulfed Russia in the early-1990s, the Foreign Ministry lost its best and brightest to banks, commercial ventures and foreign businesses.

At the same time, the opening of Russia's domestic politics presented opportunities for new players to enter the policy-making arena, including in foreign policy. In the chaotic environment of the 1990's, the establishment of new bureaucratic

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structures designed to bring order to Russian policy-making, had produced the opposite result. Instead of coordinating policy, these new structures only added new voices to an already unruly choir.

For example, the establishment of the Security Council under President Boris Yeltsin made it possible for MINATOM—Russia's Atomic Energy Ministry—to gain unprecedented access to foreign policy deliberations. The Minister of Atomic Energy was given a seat at the Security Council. This appointment gave his agency additional clout and enabled it to bypass normal interagency review procedures.

The ranks of new entrants into the foreign policy-making process included a number of government agencies, such as MINATOM and the Fuels and Energy Ministry; as well as private or quasi-private, corporate entities such as Gazprom, the giant natural gas monopoly; several privatized oil companies; weapons exporters; and others with diverse commercial and geographic interests abroad.

The influence of new players on foreign policy-making was the result of a trend that was unfolding throughout Russia—the "clanization" of Russia—the emergence of powerful clans, or financial-industrial groups bound together by common property or commercial interests, as well as political or bureaucratic patronage, competing for more property and resources in Russia's giant privatization.

As clans consolidated around major economic assets, bureaucratic entities, or political figures, Russian domestic politics organized too around these power centers, which in turn began to exercise influence on the policy-making process to advance their own parochial interests. Russian political process therefore developed largely as a competition among clans for power and resources.

This transformation has had a profound impact on virtually every aspect of Russian policy-making, including foreign policy. The Foreign Ministry still retained nominal authority over the foreign policy process. But it no longer had the monopoly on the process, and other players—government agencies and corporate players—began to exercise considerable influence on it.

The entry of new players into the foreign policy-making arena occurred as Russia still struggled with a succession of economic crises. With its economy in decline throughout the 1990's, its finances fragile (to the point of collapse in 1998) and attempts at reform sputtering, economic considerations weighed heavily on the minds of Russian policy-makers. In this setting, relations with other states took on a distinct utilitarian overtone.

As was mentioned in the preceding paragraphs, relations with the United States and other major industrialized powers revolved around the questions of aid and economic assistance. In relations with nations where no aid was available, Russian policy-makers focused on commercial opportunities for Russian companies, eager to sell their wares. This was especially the case with companies, which had limited or nonexistent domestic markets. Thus, throughout the 1990's Russian foreign policy underwent the process of commercialization. In other words, Russian interests in many countries became a function of Russia's ability to export there.

The search for market access, driven by dire economic conditions at home, became the paramount concern in relation to virtually all other considerations. Thus, the prospect of a sale to a rogue nation with a clear and unambiguous threat of U.S. sanctions as a consequence, and jeopardy for U.S. assistance potentially costing Russia hundreds of millions of dollars in foregone aid, was hardly a deterrent to Russian corporate or government players seeking to pocket millions from the deal. One company's, or clan's, commercial interest would go directly against Russia's larger economic interest, but what did it matter in the chaotic atmosphere of the 1990's?

The record of the last ten years is littered with examples of such behavior by Russian corporate entities—Gazprom's, MINATOM's and various Russian weapons manufacturers' deals in Iran stand out as the most notorious ones. With millions of Russians unemployed in the vast defense-industrial sector and nuclear industry, what Russian political leader will challenge those who claim to have opened new markets abroad?

An Entrenched System

After a full decade of domination of Russian politics and policy-making by clans, change is likely to come slowly if at all. The new power centers in Russian politics—clans—have taken full advantage of the government's weakness and forged close links with the career bureaucracy, which the Russian government inherited from the Soviet Union. Together they have formed a formidable coalition.

The transition from President Boris Yeltsin to President Vladimir Putin in 2000 prompted expectations that the new Russian leader would restore order to Russian politics and policy-making. The sheer change in perceptions between Yeltsin's erratic persona and Putin's measured forcefulness convinced many of the latter's ability to execute such a turnaround.

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Indeed, Putin has cracked down on the most independent and politically ambitious clans and their most visible leaders, known colloquially as the "oligarchs." He was equally successful in putting new restraints on mass media and regional governors. But he has been unable to change the clan-based system.

Putin himself is a product of that system, having emerged from obscurity to the presidency of Russia in just a few months, propelled to the top by the money and political prowess of the Yeltsin family clan, known otherwise as the "family." Despite better economic performance on his watch and his high personal popularity, Putin's tenure has been marked by a number of high-profile failures that suggest that his power to alter the system, which propelled him to the top, is limited at best.

Opposition to Putin's reform throughout the Russian government and economy is fierce. Repeated testimonies from senior Russian government officials in charge of the economy refer to their inability to overcome the power of the bureaucracy, often aligned with equally powerful commercial interests. Putin himself has referred on a number of public occasions to the need for a far-reaching government reform.

Nothing demonstrated Putin's isolation in the domestic political arena more than his unprecedented offer of partnership and cooperation in the aftermath of the September 11 tragedy. His offer of partnership to President George W. Bush was clearly at odds with public statements of virtually all of his known advisors. In his outreach to the United States following the September 11 attacks, President Putin went far beyond what the political establishment in Moscow was comfortable with at the time.

In his foreign and security policy, President Putin is dealing with an established system, dominated by entrenched corporate and bureaucratic power centers. Within that system, he has only limited ability to adjudicate among competing lobbies, and between their commercial interests and the common good. As President of Russia he may well be inclined to curtail the nuclear relationship with Iran because of its obvious negative implications for Russian security. His powers to do so are likely to be quite limited, given the nature of the system, which propelled him to the presidency of Russia.

Russian Stakes in the Middle East

Russian policy in the Middle East is a hostage to a multitude of Russian concerns, many of them easily identifiable—the defense-industrial lobby and the energy lobby—but others less obvious come to mind as well.

As the world's premier oil producing region and home to a uniquely well-funded arms bazaar, the Persian Gulf is enormously important to Russian oil producers and weapons manufacturers. For the former, as well as for Russia's national treasury (given the prominent place of energy exports in the country's foreign trade and economy in general), what happens in the Gulf and how it impacts the price of oil can mean all the difference between economic survival and collapse. The oil industry in Russia has undergone the process of privatization and begun to expand its horizons to deal with matters of foreign and security policy that bear on its interests as a sector.

For Russia's defense industrial complex, the cash-rich Gulf states are among the most prized customers as domestic procurement orders have largely dried up as a result of Russian economic crises of the 1990s. Export markets became a way—for some the only way—to survive for the once-mighty Russian defense sector.

As was mentioned earlier, MINATOM, or the Atomic Energy ministry has also taken a strong interest in Russian policy in the Gulf. MINATOM, in particular, has played a key role in shaping and sustaining Moscow's relationship with Tehran through its pursuit of the Bushehr nuclear power plant project. Indeed, it would be difficult to name another corporate or bureaucratic player in the contemporary Russian political landscape whose influence on foreign and national security policy rivals that of MINATOM.

Russian weapons manufacturers have a powerful stake in Iraq. The latter owes Russia $7 billion for past weapons deliveries, which the Russian side still hopes to collect. Beyond that, Iraq is an attractive future market for their wares once the sanctions regime is removed. It has a long tradition of buying Soviet equipment. Both new equipment purchases and contracts to upgrade existing systems are a source of high hopes of Russian defense industrialists and exporters. Coupled with Iraq's ability to finance its purchases with oil revenues, these hopes have resulted in a powerful domestic pro-Iraqi lobby in Russia.

Russian oil companies have a more complicated agenda in the Gulf. Latecomers to the global energy scene as private corporations, Russian oil companies are not major international players and have little to offer most Gulf oil producers, who enjoy long-established business relationships with international oil companies. Russian companies do not possess the technology, business acumen or easy access to

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capital to offer to Persian Gulf states. As a result, they have a wary outlook on the Gulf—their major competitor in the international oil market, which they cannot control, but are heavily dependent upon because of its influence in setting the price of oil in the international marketplace.

Instability in the Gulf could further exacerbate the latent tensions between Gulf and Russian oil producers. Russian oil companies have long sought to position themselves as the alternative and far more reliable source of energy to key markets, especially in Europe and even the United States. Russia's success in this regard could prove harmful to its relations with Persian Gulf oil exporters. Russian oil interests have a wary view of OPEC. Reluctant to join it for fear of having to abide by its rules, Russian oil majors have preferred to cooperate with it episodically, depending on their own needs. They have certainly shown little propensity to exercise restraint or sacrifice their own commercial interest for the sake of advancing those of OPEC members.

Iraq is an important exception in this context. For Russian oil companies, Iraq represents an attractive business opportunity—Iraqi oil is a good deal more accessible and cheaper to produce than oil from fields in remote regions of Russia, which is yet to be explored and developed. Russia's special relationship with Saddam Hussein has put Russian companies in an advantageous position for political, rather than commercial reasons.

Thus, a handful of Russian oil companies have—depending on the mood of the Iraqi regime—held potentially lucrative contracts to develop oil fields in Iraq, once the sanctions regime is removed. Fully cognizant of the political motivations behind Saddam's decision to award these contracts to Russian companies in the first place, Russian oil industry leaders and analysts suspect that in the event of regime change in Baghdad, Russian companies will be among the losers in the Iraqi oil sweepstakes—Saddam's successors will be more likely to reward their backers with lucrative contracts. Such concerns in turn generate further suspicions among Russian oil industry executives about the true motives behind the U.S. goal of regime change in Iraq.

Russia's professional national security bureaucracy's interest in the Gulf is of a less material nature. Lacking a concrete commercial interest, this group has not come to terms with the loss of superpower status. It harbors deep resentment of the United States and its preeminent position in the world—as well as in the Persian Gulf—and sees it in Russia's national interest to oppose the United States, to undercut its influence and initiatives in the region regardless of their impact on Russian security or well-being. Thus, this group's outlook is shaped by traditional, albeit outmoded, geopolitical considerations. However, given Russia's diminished circumstances, this group's ability to influence Russian policy is quite limited.

The professional national security bureaucracy has a further interest in the Gulf prompted by the increasing challenge of militant Islam to Russian national security. The war in Chechnya has attracted a good deal of attention in the Islamic world. The Chechen side is reported to have received support from a number of Islamic countries, including Saudi Arabia, in the form of both volunteers and material assistance. Russian authorities have also claimed repeatedly that Osama Bin Laden has provided support and training for Chechen fighters. As a result, curbing international Islamic support for the Chechen cause has become an active concern for Russian policy in the Gulf.

Two other groups deserve to be mentioned among significant Russian players who have a stake in Russian policy in the Gulf—the Jewish community in Russia and the Russophone diaspora in Israel. Contrary to many observers' expectations, Russia has remained home to an active Jewish community. A number of Jewish businessmen achieved a position of considerable prominence and influence in the country's economy and politics. At the same time, the vast Russophone diaspora in Israel has maintained close ties to Russia. The result has been a dynamic Russian-Israeli relationship. Although Jewish-Russian business leaders have not come together in a coherent pro-Israeli lobby, Israel's interest in Russia, paradoxically, has emerged as a potentially important factor in Russian policy in the Gulf and relations with Iran and Iraq. Good relations with Russia are an important domestic political card few Israeli politicians can afford not to play, given the strength of the Russian-Israeli electorate. For Russia, with its diminished status in the international arena, good relations with Israel also represent an important goal, given Israel's role as a regional power in the Middle East.

President Putin and the Current Crisis

The large number of Russian players and interests in the current crisis and the Kremlin's limited ability to control and coordinate among them, leave President

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Putin in an unusual position of a stand-alone actor, whose own interests and actions need to be considered in isolation from all the others.

President Putin's post-9/11 political strategy, which placed Russian relations with the United States virtually above all other considerations, has clearly paid off. Not only does President Putin continue to enjoy high personal popularity at home, but Russian public opinion of the United States has improved dramatically from its nadir of 1999, when only 37 percent of Russian citizens had a positive view of the United States, to 61 percent in late-2000.

The Iraq crisis presents President Putin with a number of political opportunities, as well as challenges. On Putin's watch, Russian stance on Iraq has lost its bluster of the Yeltsin era. Whereas during the Yeltsin era, Iraq had become a bargaining chip used by the Kremlin to assert itself vis a vis the United States and demonstrate Russian ability to defy Washington, Putin seems to have used Iraq to showcase his pragmatism and diplomatic skill. In the Security Council, Russia has assumed a far more constructive position with regard to Iraq, leaving it to others to challenge the United States directly. Thus, Putin has maintained cooperative relations with Washington, but without appearing to be too compliant.

Putin's pragmatism has its limits. For over a decade now, Russia's special relationship with Iraq has enhanced the Kremlin's ability to protect itself from Communist-nationalist charges of sell out of Russian interests and surrender to the United States. Thus, domestically, he needs to balance his special relationship with the United States against charges of being Washington's lackey.

Furthermore, Putin's freedom of political action internationally is constrained by the need to maintain good relations with France and Germany. He needs to balance his special relations with the United States against those two—also very important to Russia. Putin's skillful maneuvering to date and even media reports describing the Russian leader as the broker healing the trans-Atlantic rift, have boosted his image abroad and at home.

The Russian President appears to be keenly aware of Russia's weakness and would like at all costs to avoid having to choose sides between Europe and the United States over Iraq. It is truly an impossible choice for the Russian leader. Were he to side with the French and the Germans, he could demonstrate to Washington that Russia is not to be taken for granted, that it still matters as a Security Council member and that Washington better pay attention to it.

But if Putin sides with the French and the Germans and undercuts the United States in the process, he runs the risk of undermining the Security Council, pushing the United States toward unilateral action on Iraq and the Security Council toward obsolescence. Such a turn of events would be a blow to Russian interests. A permanent seat in the Security Council lends credibility to Moscow's superpower aspirations. Anything that undercuts the Security Council's power and authority would also undercut the prestige Russia derives from its membership in the Council.

All of these competing pressures and demands on the Russian president are will probably translate into a conservative posture at the United Nations, where Russia is likely to continue to cede the initiative to others.

Putin's stance on Iran is likely to follow the established pattern of Russian-Iranian relations. In addition to the powerful lure of profits from arms trade with Iran, the relationship with Tehran has become something of a symbol of Russian independence in its foreign policy, or Russian ability to stand up to U.S. pressures. President Putin is unlikely to alter this pattern. Arms trade and nuclear cooperation with Iran serve the interests of powerful and entrenched lobbies and help protect Putin from charges of caving in to U.S. pressures across the board.

From Lemons to Lemonade

The fractious nature of Russian foreign policy-making and the lack of effective restraints on entrenched lobbies and actors do not bode well for the future or Russian policy in the Middle East and specifically the Persian Gulf. Given the power of domestic interests with stakes in ongoing relationships with some of the most troublesome states in the Persian Gulf and the Kremlin's limited ability to intervene (assuming the will to do so in the first place, of course), Russia appears bound to be a part of the problem for the United States in the Gulf. However, appearances can be deceptive.

One of the most important developments in Russian domestic and foreign affairs—since the rise of the clans—has been the evolution of some of these clans in recent years. Herein lies the prospect of change for the good in Russia and an opportunity for the United States to explore.

The process of consolidation of power and property by new owners has given them a powerful incentive in legitimizing their holdings. This change has been slow in coming, but signs of it have emerged in some segments of the Russian economy, in

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particular the oil sector, where privatization has been widespread. Furthermore, a combination of vast oil revenues and residual threats of re-nationalization, emanating from various political quarters in Russia, have given new owners an incentive to protect their assets. While all have sought protection in proximity to the Kremlin, the best and the brightest must have realized that true security and independence as business tycoons cannot be achieved solely by lobbying from the Kremlin, where people come and go and favorites rise and fall. The example of those oligarchs who fell out of favor with Putin and ended up in external exile must have been a shock to the group of businessmen who fancied themselves as kingmakers.

The best and the brightest among Russian businessmen have begun to address this problem by seeking acceptance and legitimacy abroad, as businessmen, political interlocutors and sponsors of charities. They have reached out to Wall Street and Washington and have made a deliberate effort to scrub their image as rogue privatizers of the bad old days. They have streamlined their companies, made them more transparent and sought to make them more attractive to foreign investors. The logic and self-interest of this move is quite transparent. As leaders of major international companies they will be far less vulnerable to the Kremlin's whim than businessmen whose base is entirely in Russia.

Ironically, the prospect of war in Iraq must be seen as an opportunity by some of Russia's business leaders. They have been relentless in telegraphing to Washington with unprecedented clarity the price of Russian acquiescence to regime change in Iraq—a seat at the table when the time comes to divvy up the spoils of war, or in other words, assurances that they will get a piece of Iraqi oil after the war. With that they want acceptance and a chance to establish a dialogue with the political establishment in Washington. In exchange they offer their—considerable—influence at home, which they are prepared to deploy in order to help bridge the gap between the United States and Russia.

From a U.S. perspective, this is an opportunity that's well worth exploring. It is to be precise, an opportunity to establish a regular, albeit informal dialogue with the select group of people of unprecedented power and influence in Russian domestic affairs. Although the immediate reason for it is the crisis in the Gulf, the dialogue with Russia's most advanced businessmen need not be limited to that. Despite the warm tone in top-level diplomacy between the United States and Russia, there are still many problems that need to be resolved on the bilateral agenda—from proliferation to domestic change in Russia. The power and influence of some of these people may not come with guarantees, but in some instances it may help tip the scales in the right direction. In retrospect, looking at the 1990's a decade of diplomatic engagement with a weak Russian president presiding over a powerless government left both Russia and the United States disappointed with each other. It appears at this juncture the idea of engaging some of Russia's real power centers in a dialogue about our shared interests and our differences is both common sense and low risk.

Mr. SMITH OF NEW JERSEY. Thank you, Dr. Rumer, for your testimony and your insights. You might have heard earlier when I asked our distinguished friend, Mr. Margelov, about the issues relevant to Belarus. I wonder if either of you might want to comment on that kind of pass-through, if not complicity, in weaponry going from Russia to Iraq, and if you have any information or knowledge of that.

When we talk about Russia's economic and strategic interests and historical relationships in Iraq and Iran, how do we secure more cooperation with Russia? Dr. Rumer, you made a good point about the links to Iran and how important it is for Russia, and Dr. Wallander, your point about the importance of Russia being an important country. You know now that its superpower status has been diminished so significantly, you know they want to be a player; they are a player; they are a significant player. But they need to assert that authority in order to maintain that hold.

I think your comment about trying to craft a hybrid with the French in terms of U.N. resolutions was a very good observation. But if you could comment on that, and also, as I said, on this Belorussian concern, because you might recall that I was very pleased,

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I think we all were pleased when Russia did not take the bait when Milosevic was trying to craft a Belorussian-Moscow-Belgrade type of access. I think that showed a steering away, if you will, from that kind of an alliance.

We all have deep concerns about anti-aircraft and other kinds of weaponry that could very much menace and threaten our own pilots being able to pass through Belarus.

Dr. WALLANDER. Thank you, Mr. Chairman. On Belarus and Russia, I think that it is clear that the Belorussian and Russian defense industries remain remarkably interdependent, if not quite integrated, interdependent, in terms of the processing, and finished products having to go back and forth between different firms in these two countries.

So insofar as U.S. relations with Russia are so positive and insofar as Russia has committed to playing by the international rules of the game, I think that the case of Belarus and whether it has illicitly sold any equipment—and I don't have any specific information that that is true, but I think in looking into that, and we should look into that, because we have looked into that in the case of Ukraine, we need to be evenhanded—our position should be that Russia is our partner, Russia is interested in preventing violations of export control regimes, Russia has assets for doing that. Belarus has been less transparent than Russia in this sector, and given the level of integration in those industries, it is reasonable to expect Russia to take a lead in seeking transparency and to answer those questions.

I believe you heard that from—I don't want to put words in his mouth—from Chairman Margelov that Russia would take this request seriously. So that is a positive.

On Russia's strategy to remain a player in the region, I think that that is clear in Russia's shift in the fall of 2002, but the terms of being a player are clear as well. Russia did not lead opposition to the United States on moving forward on a Security Council resolution. Russia did not take a role in ruling out the U.S. use of force. Russia followed France. Russia did not want to win the ire of the United States in being the country opposing the United States.

I think it is also significant that unlike some of the leaders in Europe, in France and in Germany, the Russian case for going to the U.N. and for seeking compromise has not been cast in anti-American terms. There has been no pressure on the Russian political elite and from the public with anti-American demonstrations or large political movements, and I think that that again helps us to understand where the Russian political leadership is in trying to play a role.

They want to have a say in these kinds of international outcomes, in these issues of international law, but they do not claim that the United States' views are necessarily illegitimate and they do not especially rule out the notion of the use of force at some point in dealing with these issues.

So I think there is plenty for the United States to work with as long as Russia itself plays by the international rules of the game.

Thank you.

Dr. RUMER. Mr. Chairman, if I may. I agree with much of what my colleague Dr. Wallander said. I don't have any specific informa-

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tion to add to what you said about Belarus, although I have to confess that anything you say about Belarus I will believe. It is a country that can defy, unfortunately, our worst expectations. I think, as Dr. Wallander said, we need to work with the Russians. I think in the last few months, couple of years, Russian-Belorussian relations have soured quite a bit. I think the Kremlin has been irritated with Lukashenko and his less than subtle meddling in Russian domestic politics. There is no great enthusiasm for sponsoring his regime in Russia.

I think nothing would embarrass Moscow more today than a revelation that a Russian system was passing through Belarus on the way to some regime that is beyond the bounds of international law. So I think we have an important ally and constituency to work with in Russia.

This is not to say, as Dr. Wallander said, that this is going to be easy. There are problems. There is a great deal of inertia and a great deal of integration between Russian and Belorussian defense industrial complexes. These are people with not a whole lot of scruples, but very powerful incentives to sell.

Let me make one point on Transatlantic relations. The way I see the Russian position today, and I think it was reflected in Chairman Margelov's testimony, Russian diplomacy would be a lot easier today if the United States and its European allies patched up their relations and came together on a common shared platform. Putin would not have to choose between his friend, George, on one hand, and his friends Jacques and Gerhardt on the other hand. It is a choice that he really, I believe, does not want to make.

On Iran, I think there are some rays of hope. It has, as Dr. Wallander said, a very powerful constituency in Russia. There are diverse interests, but there is also a set of Russian corporate interests that is seeking better relations with the United States, greater acceptance in the international community, greater acceptance in Washington.

I think the energy lobby is one such group of interests in Russia that we should work with and try to explain to them our view and our concerns. I think it is a potentially very receptive responsive audience to our concerns.

Thank you.

Mr. SMITH OF NEW JERSEY. Mr. Wexler.

Mr. WEXLER. Thank you. If we accept as a given the facts that economic policy and economic interests are the driving force behind President Putin's international relations and foreign policy, and couple that with the description of the disproportionate impact that oil prices and energy exports have on the Russian economy, I am trying to understand what is it the United States must do in order to provide meaningful economic incentives to Russia, understanding that one thing would be graduation from Jackson-Vanik, but also understanding that the actual trade value of doing that would be fairly minimal.

So other than artificially keeping up energy prices to the detriment of American consumers, what specific steps should we take that would provide meaningful economic incentives to Russia, so that whatever swing might otherwise happen because they feel we

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have ignored their economic interests, we can reverse it. If you could offer specific suggestions, I would greatly appreciate it.

Dr. RUMER. Thank you, sir, for your question. One idea, and I think there is precedent for this kind of potential cooperation in the Caspian area, where I believe Russian positions have changed over time and have become more cooperative. But, again, this is looking to the future as we consider post-Saddam Iraq and as we consider the reconstruction of the Iraqi oil industry. It is not inconceivable to me that international financial institutions will come to play an important role in financing some of these major projects.

I think we should make it quite explicit that we would welcome, certainly not discourage, and certainly not establish any set-asides for the American companies, although I do want to protect their interests obviously.

There will be opportunities for maybe financing guarantees for international projects and joint ventures that may involve major Russian oil companies. That is one possibility that would build on the precedent that we have already established in the Caspian; such announcements were made in the case of Caspian energy development in 1998, I believe, with financing available for international projects from Eximbank, TDA and OPIC. I see no reason for the World Bank not to get involved there.

Mr. WEXLER. If I may just follow then, but it seems then the recommendation is essentially to enhance the Russian oil industry, one of those venues being Iraq. But Dr. Wallander's point, if I understood it correctly, was to the degree that we are successful in exploring and then ultimately pumping oil out of Iraq, ultimately that is very disastrous for Russian parochial interests, because inevitably the price will come down. So is that simply just a mitigating factor?

Dr. RUMER. Well, sir, if I may, I will disagree somewhat with Dr. Wallander. I think in the long run there is definitely an issue with Iraq coming up to speed and becoming a major producer and exporter. There is a risk in sudden fluctuations of oil prices for the Russian economy. I think it is also important to take into account the fact that there is not a whole lot of new investment going into the Russian oil and gas sector. Russian oil companies are looking for opportunities to diversify. Any oil company, to my mind, although I don't work for one and I have not worked for one, any oil company that is looking at Iraq, which will be under international and American security guarantee and umbrella for the foreseeable future, versus Siberia, which not only has a very difficult climate but also is far removed from markets and requires great investment and still a fairly uncertain domestic political climate, they will look to Iraq first for an opportunity to diversify their resources.

So I don't see an inherent contradiction there from the standpoint of Russian oil companies.

Dr. WALLANDER. Could I answer with two specifics, well, three specifics. One is that since the United States can't control international oil prices, what we can do is support Russia in increasing investment in new sectors of the energy economy to build new kinds of capacity that Dr. Rumer was referring to.

One particular capacity that would be very much in the United States' interest is the proposal to build a pipeline, the Nohodka

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Pipeline, which would serve East Asian markets. It would bring new incentives for new Russian oil fields to come on line. It could potentially change certain aspects of the strategic relationships in Asia. It would create a stake for Japanese positive relations with Russia. And so it would have economic benefits within Russia, but also potentially strategic benefits in East Asia.

Two non-energy areas is that the United States should continue the very good work it has been doing to help Russia join the WTO. We should hold Russia to the standards of the WTO. We should continue the technical assistance and the intensive negotiations with Russia, with the presumption that Russia will meet the standards and will be able to join the WTO. That has had enormously positive effects in balancing the economic and business interests within Russia and bringing the interests of some of these business groups to the fore in thinking about the West.

And, finally, the United States should think about being more open to allowing Russia to sell in the American markets something that Russia is actually pretty good at producing, which is steel and other processed metals. I know that that has certain political implications within the United States, but it is a very sore point for Russia. It is something that Russia can sell on international markets. It would, I think, create a new constituency within the Russian heavy industrial sector for better relations with the United States.

Mr. SMITH OF NEW JERSEY. Chairman Bereuter.

Mr. BEREUTER. Thank you. I want to thank the three of you, the two of you here remaining, for your testimony and for your responses to questions. And, Dr. Wallander, it's particularly good to see you, because I know you have been very helpful to the Aspen Institute Congressional Seminars on one or two occasions helping to inform, enlighten, stimulate us.

Dr. Wallander, I particularly appreciated the last, nearly, sentence in your first paragraph of your written remarks. And you mentioned it again, but to highlight it, I am going to read it again.

> "Russia's policy is not geopolitical balance of power, but rather constraining U.S. policy through international rules, institutions and procedures, not Quixote and windmills, but a Lilliputian enmeshing Gulliver in the laws and institutions that the U.S. led in creating during the Cold War."

I think that is exactly right. It is what you called I think the geopolitics of a former superpower. It is also the politics, I would suggest, of wannabe superpowers, and that is in fact what we see frequently with respect to some of our European allies. It is one of the reasons why I think the United States has a greater reluctance or hesitation about multilateralism.

Governor Janklow gave us an interesting comment from Chairman Gorbachev that he heard at a dinner in South Dakota. I think it bears repeating, if I may once again, in saying, Gorbachev said, "We don't have permanent friends, we have permanent interests." I am very pleased to see Chairman Margelov here today, and we want to encourage this dialogue. We want to focus on the things we do have in common, which are many.

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But I hope the wrong message does not come out here, that we are permanent friends. The Russians will be us with us when it is in their interest. They won't be with us when it is not in their interest. We should count on that kind of procedure. Oftentimes they have different pulls on them, as you pointed out, Dr. Rumer, with respect to the current situation in the Security Council over Iraq.

I think that while there was some significant damage to the NATO multilateral institution, it is not a crisis. Merta Robertson reminded us that that is an overuse of the term, and probably the bigger damage, I think, from Mr. Chirac and Chancellor Schroeder was to the Security Council.

And, as you pointed out, Dr. Wallander, one of the vestigial institutions of significance to Russia, of course, is its veto arrangement as one of the permanent five on the Security Council. France also has that danger, and I hope they think about that occasionally, because the Security Council, I think, is in danger of becoming irrelevant and an impotent institution. More importantly, it is just to tie our hands and to make life difficult for us.

I was impressed what Ambassador Nicholas Burns told us when we were in Moscow. It was not just the recent antagonisms and irritations with the French over Iraq. Apparently, just routinely they have objected and created administrative difficulties throughout the last years, and they are becoming more frequent all of the time.

I guess you make the point, too, about the potential, Dr. Rumer, of the Security Council being pushed toward obsolescence. The Russians certainly have to think about where they line up on this issue because, while I believe in many cases they will think it is important to drive some divisions within the Transatlantic Alliance, they really don't want to lose the significance of their veto in the Security Council either.

Finally, my question, if I can ask you to focus a bit on that, is the Caucasus. How do you think American and Russian interests will play out in this region, given that Russia has not played a constructive role in Georgia, given the fact that they certainly haven't done a whole lot successfully to reduce the animosity and conflict between Azerbaijan and Armenia, and given the fact that they didn't want to see a pineline through that region which did not pass through Russia, which would take oil down to Turkey and available to the West.

Would you comment about, beyond the problem of terrorism from extreme Islamic forces which we share with them, that significant problem? How are we likely to see Russian-U.S. relations affected by the Caucasus region and our respective interests there?

Dr. WALLANDER. Thank you, Congressman Bereuter, it is nice to see you again as well. I think that there are many problems in the Caucasus. But let me boil it down to a couple of elements that are manageable in policy terms, and it is largely that Russia has a sectoralized foreign policy.

It has good relations with the United States. It has good summit meetings with certain European leaders. Its business leaders come to Washington and have the right vision, have the right understanding of the world. But other sectors of the Russian state have other views of how Russian interests are advanced, and they tend to be more influential in policy, particularly in the Caucasus.

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What the United States needs to be able to convince Russian leadership of is that you can't have different pieces of your foreign policy, that the United States views Russian interests and objectives and strategies in an integrated fashion and that Russia will be dealt with on an integrated level as well. We recognize that Russia faces a significant security challenge in the Caucasus, but we expect Russia to be adopting policies and exercising policies in the region that help to create solutions to these security challenges, rather than to exacerbate them.

I think it is fair for the United States to take the view that Russia has, to now, exacerbated the problems in the Caucasus, rather than called upon the international community, called upon the Europeans, the OSCE, and other institutions that Russia seeks to support in order to constrain the United States.

We say, all right, we believe in the U.N., we believe in the OSCE. They are as legitimate in that region of the world as they are in Iraq and other regions of the world where you would like them to be brought to bear to shape U.S. policy.

Mr. BEREUTER. Thank you. Would that relate to certain countries in Africa and the French involvement there? Is that multilateralism?

Dr. WALLANDER. There are two kinds of multilateralism. There is principled multilateralism and then there is tactical multilateralism. We see an awful lot of tactical multilateralism on the part of too many countries in Europe these days. We ought to be reminding some of our European allies and the Russian partners that if they want to take an integrated, comprehensive approach to multilateralism that is going to be effective in getting the United States to the table to negotiate and compromise, the same rules hold for them as well.

Mr. BEREUTER. Do you want to respond?

Dr. RUMER. Yes, sir. I share your concern about the Caucasus. I think it is one of those regions that, because of big power involvement, as well as because of its own domestically brewed instability, so to speak, has great potential for crises and for disrupting relations between Russia and the United States.

As you know better than I, Georgia and Shevardnadze are really sort of neuralgic issues for many leading representatives of Russia's national security and foreign policy establishment, and nowhere is this feeling shared more than in the Russian military.

As I try to step back and take a look at this picture, I think it is important for us to realize that President Putin is really in the minority in the way that he has responded to U.S. stepped-up involvement in Georgia and response to the problem with various gangs and terrorist groups and the Pankisi Gorge. Everybody else in Russia's national security establishment was almost aghast that he was acquiescing to this important step by the United States.

I do not believe, frankly, that President Putin is fully in control of his military. I think political control over the military establishment, the upper echelons of the Russian military, has deteriorated in recent years. It is a process that builds on prior history and problems accumulated during the Yeltsin era, but it really does pose a problem for Russia's relations with the countries of the South Caucasus, as we call them now. And the worst possible set

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of circumstances, which is really not beyond what we can imagine, is some kind of an internal crisis in Georgia or in Azerbaijan, and an uncoordinated, unthought out, poorly planned response by local commanders in the Russian military or by other players in the Russian domestic politics.

I think that is an area of major concern where we should maintain open channels of communications with our Russian counterparts.

Mr. BEREUTER. Chairman Smith, Governor Janklow, thank you for letting these witnesses pull off the subject for us.

Mr. SMITH OF NEW JERSEY. Chairman Bereuter, thank you, very much.

Mr. Janklow.

Mr. JANKLOW. I will be extremely brief, two quick questions. One, when Mr. Margelov was giving us his comments, he emphasized over and over the day after, the day after, the day after. Do you folks think that is really the primary Russian objection, the day after, or it is obviously more significant than that?

Dr. WALLANDER. I think it is a serious and significant concern. I think that we have to remember——

Mr. JANKLOW. Is it the number one that he made it?

Dr. WALLANDER. No. I think the economic concerns are the number one concern. But these are the close second, because Iraq is linked to the Caucasus. Iraq is just south of the Caucasus, and insofar as there are networks of transnational terrorism that are financed and take advantage of failed states, insofar as Iraq could become a failed state, especially in its northern reaches which are connected to the Caucasus where there are movements of illicit arms and financing, including individuals who have been trained, I think it is a legitimate concern.

I think the response is the wrong one. I think the solution to that concern is to work more closely with the United States, rather than to oppose the United States through the lens of French and German policy. That is my own view as an American, that is my advice to my Russian friends. But I think it is a genuine concern, and it is one that resonates in Russian public opinion as well.

Mr. JANKLOW. Dr. Rumer, do you agree?

Dr. RUMER. Yes, sir, I do agree. I do believe they have a major concern about instability in the Gulf spreading beyond the proper Gulf region into what they consider their soft underbelly.

So certainly I think the "day after" has other dimensions that carry practical economic considerations for them as well. They would like to play a role the day after in the post-war decisions about Iraq. So I think it has a dual meaning, if you wish, for them in terms of both regional stability and instability, as well as in terms of practical, pragmatic considerations.

Mr. JANKLOW. I have one other quick question. Again, I will just go back to his comments. What is the area where you both disagree the most with him today in terms of analysis?

Dr. WALLANDER. I would critique, it is not so much a disagreement.

Mr. JANKLOW. That is a better way to put it.

Dr. WALLANDER. I think that Russian policy and the perspectives of reformers and the new generation of leaders, Chairman

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Margelov is one, need to take much more seriously the dangers of proliferation. It is a constant surprise to me that despite the statements in the foreign policy doctrine and the national security concept that proliferation is a problem, that it doesn't play that active of a role at the forefront of policy in the way you would expect it to for a country that is frankly a lot easier to threaten with weapons of mass destruction than the United States is.

Dr. RUMER. I very much share this view, Mr. Chairman. I am constantly amazed at how off-handed many of my Russian colleagues are in their remarks about, "Yeah, of course Iran is pursuing nuclear weapons." I do not understand that blasé attitude. I think Mr. Margelov, as Dr. Wallander said, is a representative of a new generation of Russian political and business leaders, and he makes the case that they are taking greater interest in national security, foreign policy, international relations in general.

I think that they need to be taking much more of an interest. Frankly, a lot of these people were on the scene right after 1991 in important policy making positions, and they basically sidestepped all of the major security issues and chose to focus on domestic matters. I think they need to turn their attention to Russia's role in the international arena. I see no benefit from their not getting involved.

Mr. SMITH OF NEW JERSEY. Thank you very much, Governor. I want to thank our very distinguished witnesses for your incredible insight. It does help this Committee as we go forward, and I do wish more Members were here to hear it, but the record, as you know, will be very widely disseminated.

Again, we thank you so much. The hearing is adjourned.

[Whereupon, at 1 p.m., the Committee was adjourned.]

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APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE CHRISTOPHER H. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY, AND VICE CHAIRMAN, COMMITTEE ON INTERNATIONAL RELATIONS

Thank you, Mr. Chairman, for calling this important hearing on Russia's policies toward Iraq and Iran, two nations that President Bush has characterized as constituting part of an axis of evil regimes allied with terrorist forces that threaten our nation—indeed, all civilized nations.

Thus far, President Putin and the Russian Government have been valuable allies in the war against international terrorism. However, it is inevitable that there will be policy divergences along the way, and Russia's relations with Iraq and Iran have been of legitimate concern to the Administration and Congress. It is my understanding that President Putin's chief of staff, Mr. Voloshin, is in Washington this week to discuss Iraq policy with Administration officials. Obviously, these hearings are especially timely.

In a related case, an article in the February 13th issue of Newsweek is particularly disturbing. According to the authors, Iraq may be trying to acquire Russian S–300 anti-aircraft missiles through Belarus. Such an acquisition would enhance the ability of Saddam Hussein's military to shoot U.S. and allied attack aircraft.

The Russian Government appears committed, despite the expressed concern of the United States Government, to build up Iran's nuclear capabilities, and regular meetings on this subject have been taking place between Administration officials and representatives of the Russian Foreign Ministry. We hope the Russian Government understands the gravity of our concerns about this issue and our belief that enhancing Iran's nuclear capability does not serve the purposes of international security.

In fairness, I would note that Russia is not the only nation whose relations with Iraq and Iran have caused concern to our government. The temptation for quick profit on morally dubious grounds or the desire to keep an industry going—and people employed—can be found in any country.

Mr. Chairman, while we most assuredly need to work with Russia in the battle against terrorism, I feel obliged to express my continued distress at the continuing carnage and suffering in Chechnya. Secretary Powell has announced that our government has designated three organizations operating in Chechnya as international terrorist organizations, and we recognize the need to fight terrorism wherever it appears.

But—and I hope our Russian colleague, Mr. Margelov, will agree with me—this does not excuse the barbarity to which some elements of the Russian military have descended in their treatment of the people of Chechnya. I met recently with Russian Duma member and prominent human rights activist Sergei Kovalev. Mr. Kovalev has devoted much of his time and energy to the tragedy in Chechnya, and I was shocked at his description of the suffering of civilians at the hands of at least some members of the Russian military. Incidentally, by saying this I don't for minute deny or excuse the inhuman acts carried out by some on the Chechen side, but I would urge our distinguished witness to pass along my hope that the Russian Government will live up to its Geneva Conventions and OSCE Code of Conduct obligations for the internal conflict in Chechnya.

Mr. Chairman, the panel of witnesses today is most impressive. Mr. Margelov, Chairman of the Foreign Affairs Committee of the Federation Council, is uniquely qualified to discuss the issue under discussion today. In addition, the members of the second panel of witnesses have consistently demonstrated exceptional expertise

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in their analysis of Russian foreign policy. I look forward to hearing their testimony and will have some questions following.

Prepared Statement of the Honorable Nick Smith, a Representative in Congress from the State of Michigan

I want to thank Chairman Hyde for holding this hearing today to discuss Russian policies toward the Axis of Evil. I would also like to thank Chairman Margolev and the scholars who have joined us today. I am looking forward to hearing the Chairman's thoughts on the Axis of Evil and our scholars studied views on these matters.

I visited Russia, along with several fellow Members on this Committee just weeks after the tragedy of September 11th. There we worked with members of the Russian government and business community on many of the issues facing us today. We introduced joint bills to create the joint Russian-American anti-terrorism council. We discussed the situation in Afghanistan, and we learned from their experiences. And we spoke with the leaders of Russian oil companies about reducing Western dependence on Middle Eastern oil.

Today, we discuss many of these issues again. And, as then, it is critical for each of our countries to understand the perspective of the other. Russia is a partner in the war on terror, and like us, it has struggled against terrorism. Just last year, a theater in its capital was attacked and over one hundred people died. Russia, like all countries, will benefit from a more stable world, one with less terror. Also, like us, Russia will benefit from disarming rogue states with tyrant leaders. These are rogue states that fund terror, proliferate weapons of mass destruction, and stand outside international law. Iran, Iraq, and North Korea all threaten regional stability in areas where Russia has a strong national interest. No state wants irresponsible, nuclear neighbors that threaten them, directly, or by proxy through terrorists. However, Russia has had a complex relationship with these states, and one of the reasons, our experts will tell us today, is economic.

The Russian economy is working to go—and grow—beyond its Communist past. It is winning this historic struggle, but much work is left. One of Russia's great hopes is its oil and gas sector. Here, we can work with them to the advantage of both of our countries and our allies in Europe and elsewhere. However, we have fears for Russia's military and nuclear industries and, in particular, its nuclear agency, MINATOM. One of these will help sustain the Russian economy as it begins to accelerate to a healthy economy. The other can be a source of international conflict and instability. We must help Russia find ways to grow its economy that encourage peace and global stability.

Again, let me thank our guests. It is critical that they share their insights and help us bring peace and stability to the world. Then, and only then, can Russia and the United States be safe. And only in safety will Russia achieve its great potential.

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