

# WebMemo



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## The Bush-Putin Hanoi Summit: Iran, Georgia, Energy, and WTO Protocol on the Agenda

*By Ariel Cohen*

On November 19, President George Bush and Russian President Vladimir Putin will discuss dominant global security issues—the Middle East, including Iran and Iraq, North Korea, and Georgia—at a summit in Hanoi, Vietnam. This meeting will take place alongside the meeting of the Asia Pacific Economic Cooperation Organization (APEC). Both presidents, along with U.S. Trade Representative Susan Schwab and the Russian Economics Minister German Gref, are also expected to preside over the signing ceremony of a bilateral protocol on Russia's accession to the World Trade Organization (WTO).

Despite a troubled relationship between the U.S. and Russia in the last three years, the U.S. has an interest in Russian membership in rules-based organizations, such as the WTO. Furthermore, expansion of U.S. and Western trade and investment ties with Russia integrates Russia with the outside world and hopefully will prevent Russian isolationism and aggression. If President Bush receives assurances from Putin on two key issues—Iran and foreign access to Russian oil and gas reserves—the U.S. should sign the bilateral protocol.

### **Iran: The Key Issue**

Russia has been insufficiently cooperating with the U.S. on the key international security issue—Iran—by stalling and backtracking on the earlier, agreed-upon U.N. Security Council (UNSC) draft resolution sponsored by Great Britain, France, and Germany. That document calls for sanctions against Iran's nuclear, missile, and military programs.

Moreover, Russian Foreign Minister Sergey Lavrov recently downplayed the International Atomic Energy Agency's (IAEA) discovery that Iran has concealed highly enriched uranium and plutonium—even as President Mahmud Ahmadinejad promised to make Iran a nuclear power by March 2007 and announced the launch of a 3,000-strong centrifuge cascade capable of enriching weapons-grade fissile material. Ahmadinejad also threatened to expand the cascade to 60,000 centrifuges, which would eventually give Iran a powerful nuclear weapons-producing capability.

Moscow is concerned that support of tough UNSC sanctions may diminish its leverage in Teheran and the Middle East as compared with Washington and European capitals. The Kremlin may also be concerned that sanctions could jeopardize its Bushehr nuclear reactor deal and the sale of TOR M-1 mobile anti-aircraft system worth \$700 million. Proposed sanctions could affect many other transactions of weapons and technology: For example, Russia supports technology transfer to the Iranian space program, a precursor to the intercontinental ballistic missile (ICBM) production capacity. Earlier this week U.S. Ambassador to the U.N. John Bolton

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rejected Russia's alternative, and toothless, sanctions resolution draft.

### **Promises on Trade**

President Bush has promised Putin repeatedly to abolish the Jackson-Vanick Amendment. The amendment, passed in 1974, denied the USSR the Most Favored Nation (MFN) status in trade. He also promised Putin to facilitate the passage of Permanent Normal Trade Relations (PNTR) through Congress. So far, neither has been accomplished, and the new Democratic majority in Congress is likely to stall on these issues, citing concerns about trade, insufficient protection of intellectual property rights, democracy shortcomings, and harsh treatment of Russia's neighbors, such as Georgia.

The U.S. business community supports liberalizing trade with Russia and has lobbied for Russian accession to WTO. Boeing, Shell, Ford, Microsoft, and a number of agribusinesses have market access issues to address and businesses to expand in what is one of the most dynamic economies on the planet. Russia has been growing at about 6.5 percent of GDP a year since 2000.

The WTO agreement does have clear achievements, such as Russia's recognition of 100 percent foreign owned banks, broker-dealers, and investment companies. The agreement also provides for some liberalization of the insurance sector.

Russia has also softened its stance on major agricultural dispute resolution issues regarding U.S. exports of meat and poultry. President Putin had to override the intransigent and allegedly corrupt Russian Agricultural Ministry and the meat-and-poultry lobby to do this.

### **Energy Access**

A major concern remains unanswered: foreign company access to the Russian mineral resources fields and deposits, including hydrocarbons, and private ownership of oil and gas pipelines. Russia promised and then denied Western companies partnership in development of the giant Shtokman gas field in the Barents Sea. Russia is also facing difficulties in the Sakhalin Island oil projects. Additionally, the Russian pipeline monopoly Transneft is increasing tariffs for transit through the Caspian

Pipeline Consortium (CPS) pipeline from Kazakhstan to the Black Sea. The tariff increase is a major bottleneck in development of exportable Russian energy resources, and the U.S. should achieve progress before granting Russia PNTR.

### **Georgia on Moscow's Mind**

Russia rejects any official mediation of the Georgian conflict, which it deems within its "sphere of influence." Moscow is threatening to recognize independence of Abkhazia and South Ossetia, both parts of Georgia, following the model of Kosovo. The U.S. rejection of the South Ossetia's November 12 independence referendum complicates the issue. Moscow must conclude a bilateral WTO accession agreement with Tbilisi, but this will not be easy, as Russia severed trade, financial, and transportation ties with Georgia and banned the two Georgian key exports to Russia: wine and mineral water.

### **Danger and Opportunity**

Moscow and Washington are facing the lowest point in the bilateral relations since the end of the Cold War, with Russia providing arms and diplomatic cover to Iran, the main anti-status quo power in the Middle East and the world. Moscow, at the same time, strives to join the developed nations as a respected power and a key supplier of energy, raw materials, and, increasingly, machine tools, industrial goods, and services. It cannot achieve such status while challenging the U.S. on vital security issues. Signing the WTO protocol is a step away from confrontation and, hopefully, toward cooperation on the two issues of great importance to the U.S.—Iran, and access to oil and gas.

At the Hanoi summit, President Bush should strive to receive guarantees from President Putin that Russia will end its fence-sitting on the Iranian nuclear program and will recognize the threat to world peace, including the threat to itself, from a missile-wielding, nuclear-armed Iran. Russia should support and be part of the U.S.-European policy on bringing sanctions against Iran and not ruling out the use of force if sanctions fail.

In exchange, President Bush should recommit to passing PNTR for Russian and abolishing the Jackson-Vanick Amendment in the lame duck session

of Congress. However, Russia must agree to allow Western companies access to its natural resources and energy transportation infrastructure. Russia also needs to demonstrate that it is serious in protecting intellectual property rights.

Finally, the U.S. may consider offering its services in resolving the Russia-Georgia dispute, which should include lifting Russian economic and transportation sanctions in exchange for lifting Georgia's objections to Russia's WTO membership.

### **Conclusion**

Presidents Bush and Putin, like their countries, have experienced ups and downs—and a lack of

trust—in attempting, and often failing, to reconcile conflicting national interests for the greater part of the decade. Addressing U.S. concerns about Iran and energy and signing Russia's WTO accession is a good place to start in turning a new page in this complicated relationship.

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