



U.S. -Russia Partnership

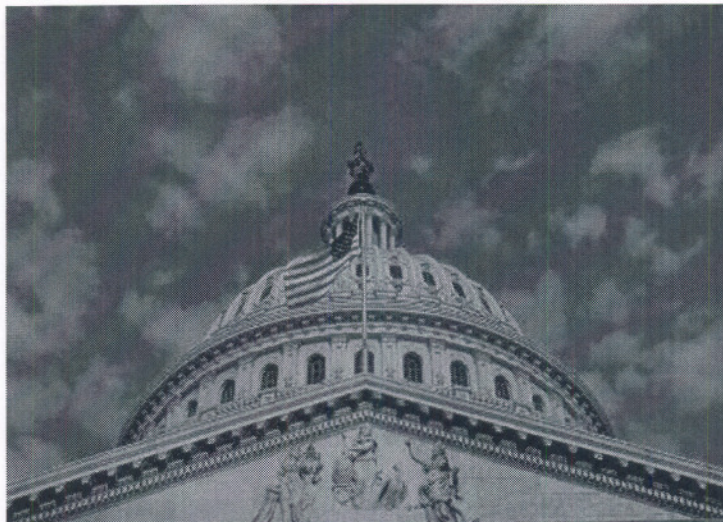
**Renewed Commitments,
Strengthened Relationships**

August 2004

INTRODUCTION

Long before Perestroika, Gorbachev and the fall of the Soviet Union, I developed a deep interest in U.S.-Russian relations. The Soviet Union, an enemy of the United States, demonstrated its strength and intent to protect its country by producing massive stockpiles of nuclear and biological weapons. The aggression between our two countries led me to major in Russian Studies, believing that one day, our relationship would change and the United States and the Soviet Union would normalize relations. As a county commissioner, I hosted my first group of young communists in Pennsylvania in 1985. This relationship, forged 19 years ago, has maintained its strength and expanded even further to include a larger circle of Russian citizens. I take great pride in my efforts to reach out and establish a solid base of understanding and cooperation to achieve stability for the people of Russia and the surrounding former Soviet republics.

For the past 10 years, I have co-chaired the Duma-Congress Study Group, the official inter-parliamentary relationship between the United States and Russia. This exchange plays a vital role in strengthening our relationship with Russia. The overriding purpose of this relationship is to demonstrate to the Duma and its leaders how an effective inter-parliamentary relationship can lead to positive changes in both our countries. Today, Members of Congress



work with their counterparts in the Duma on common interests such as the environment, health care, social and economic issues. By building and strengthening a working relationship, we are then able to confront more difficult issues such as missile defense, non-proliferation, Iran and other multilateral relationships.

Three years ago, I unveiled a comprehensive plan to cooperate with Russia on eleven different issues ranging from defense and security to agriculture and healthcare. This proposal, A New Time, A New Beginning, was widely supported in the U.S. and Russia. However, recently, I have watched Russia lose confidence in the United States and move further away from the West. The start of Russian distrust in the United States began shortly after the fall of Soviet communism. Russians believed that with the break up of the Soviet Union, prosperity would soon follow. Instead, in 2001, \$4.08 billion of U.S. foreign direct investment flowed into Russia while in 2001, Communist China received \$10.53 billion in U.S. foreign

direct investment. This was the first of many negative messages the U.S. sent to Russia.

Additionally, Russians are still bitter of our handling of the war in Kosovo. Russia believed we could have, and should have, ended that war much earlier. In fact, instead of ignoring Russia's relationship

with Yugoslavia, we should have encouraged Russia to play a more aggressive role in peacefully removing Milosevic from power. It was not until one year after we began the bombing that we finally requested Russia's assistance.

Furthermore, when news of the biggest money laundering scandal broke in late 1999, the Clinton Administration ignored the theft of billions of U.S. dollars destined for Russian citizens. The Russians watched as the oligarchs, including some with close connections to President Boris Yeltsin, lined their pocketbooks. The United States downplayed the Bank of New York scandal and continued to protect the Clinton - Yeltsin relationship.

The September 2000 Speaker's Advisory Group on Russia concluded that both Russian government agencies and private entities were directly involved in at least 26 transfers of proliferation to such states as Iran and Iraq. Instead of sanctioning Russia, the Clinton Administration continued to

rely on personal assurances from its small cadre of contacts in the Russian government.

The Clinton Administration's willful blindness to Russian proliferation produced immense damage to our relationship with Russia. Our policy under President Clinton was based on a personal relationship between Presidents Clinton and Yeltsin, and Vice-President Gore and Prime Minister Chernomyrdin. As long as these Russians were in power, nothing else mattered. While Russian's lost faith in Yeltsin, the U.S. continued to support this failed leader.

During the Clinton Administration, tens of thousands of young Russians were outside the American embassy in Moscow throwing paint, firing weapons at our embassy and burning the American flag. In fact, the State Department had issued travel advisories to Americans traveling to Moscow because the hatred for America had grown so great in such a short period of time that the Russian people were adamantly opposed to any Americans in their country.

To repair our relationship, I have developed a new approach to improve our relationship with Russia that builds upon the recommendations in *A New Time, A New Beginning*. The four initiatives in this proposal are not new to U.S. - Russian relations. Rather, they are programs that could easily regain Russian support and trust in the United States if implemented in the short term. The U.S. needs Russian support not for our own security concerns, but for

international stability. In that regard, I firmly believe that the key to stabilizing the situation in Iraq lies in improving our relations with Russia. It is no secret that Iran continues to fuel the bulk of terrorist activity in Iraq. However, given our cold relationship with Iran resulting

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from their continued pursuit of weapons of mass destruction, support of global terrorism and atrocious human rights record, there is little room for diplomatic negotiations. In contrast, Russia's deep and lucrative investments with the Islamic Republic may provide

the necessary leverage to effect change in that country's activities in Iraq. Specifically, as a major supplier of arms and nuclear technology to Iran, Russia can exert significant economic pressure. In addition to its trading activity, Russia has made strategic policy agreements with Iran to keep them out of the Caucasus and has coordinated its policy in Central Asia with specific regard to Caspian oil reserves.

It is also in Russia's best interest to continue to engage Iran and improve its own bilateral relations with the Islamic Republic. Iran's military capabilities continue to threaten Russian as well as its possible support of radical separatism in Russia's turbulent "southern rim".

As such, improving our relationship with Russia would provide needed leverage to induce Russia to use its influence with Iran to help stabilize the situation in Iraq. I firmly believe that we have reached a crucial juncture in our relationship with Russia and the independent states of the former Soviet Union. By taking action in four key areas, we can dramatically improve our relationship with our former Cold War enemy for years to come. These four key areas are as follows:

- *Terminate Jackson-Vanik restrictions against Russia.* Although not a high profile issue in the U.S., Jackson-Vanik continues to be a political hot-button for the Russian government and its citizens. Removing the restriction would send

a tremendously positive message that the U.S. is serious about improving relations between our two nations.

- *Renew our commitment to Cooperative Threat Reduction programs.* An opportunity exists for the administration to undertake a new cooperative program with Russian officials to secure biological weapons facilities that at present are poorly protected. The interagency Russian

As many as 89 additional sites could be worked through the IEG. DTRA is in the process of being briefed on this initiative. White House support for the concept would be instrumental in capitalizing on a new opportunity for the administration to demonstrate it is working with Russia in limiting the spread of weapons of mass destruction.

- *Improve Russian energy infrastructure.* Russia and

economy. Utilizing Russian natural resources would significantly improve our national security by lessening our dependence on Middle East oil. In exchange Russia would receive the much needed upgrade in its energy producing capabilities and gain the world's largest energy consuming market as a key customer. Continued cooperation with Russia on energy policy is also needed to improve the environment for foreign investment. Assisting Russia improve its energy infrastructure is the necessary first step towards attracting the private investment that will sustain Russia's energy industry for the future.

- *Improve and enhance our cooperation on missile defense.* Emerging threats of missile attacks from rogue nations may confront both the U.S. and Russia over the next decade. A major objective of the Missile Defense Act was to establish cooperative projects between the two nations. With a new director at the U.S. Missile Defense Agency and changes at senior levels in the Russian military establishment, the U.S. should pursue this cooperation immediately.

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International Exchange Group (IEG) is comprised of senior military, intelligence and political officials. Operating with the support of Russian President Putin, the IEG has been established to remove bureaucratic obstacles to the implementation of U.S. funded nonproliferation programs. The IEG concept has been briefed to senior staff of the Office of the Vice President. The IEG has offered to work with the appropriate U.S. agencies - most likely DOD/DTRA - on a pilot project whose goal would be to secure five biological weapons sites.

the independent states of the former Soviet Union possess vast oil and natural gas reserves. Despite their incredible natural resources, Russia continues to struggle to get these resources to the world market. Lacking the necessary capital, much of Russia's natural resources remain untapped. By assisting Russia in reforming and clarifying their tax code could result in Russia's ability to extract, transport and market its energy resources. Russian natural resources could lower skyrocketing fuel costs and dramatically improve our

With the accomplishment of these four proposals, the United States will win a major victory in Russia, and in return, Russia will be more willing to cooperate on issues significantly important to the United States. It is time the bilateral relationship go beyond the diplomatic posturing and produce real results.

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TERMINATION OF JACKSON-VANIK

Thirty years ago, the Jackson-Vanik amendment was included in the Trade Act of 1974 to protect religious freedom in the former Soviet Union. The United States Congress made a courageous decision to pass the Jackson-Vanik amendment and link it to the Soviet Union's trade status and its record on Jewish emigration. Jackson-Vanik set guidelines for a string of changes in the Soviet Union and allowed for Jews to escape oppression and begin new lives. It was the right policy for the right time.



Since 1994, Russia has been in full compliance of Jackson-Vanik and Russian Jews are free to emigrate from the former Soviet Union. Major Jewish organizations - the Jewish Institute for National Security Affairs, the American Israel Public Affairs Committee and the National Conference on Soviet Jewry - that long opposed terminating Jackson-Vanik, are in agreement and on record that the United States should terminate this obsolete provision.

Although President Putin requested, and President Bush promised Russia's elevation from Jackson-Vanik two years ago, there are some in Congress and in the administration that want to change the original intent of the amendment to meet unrelated trade disputes. Two years ago, due to Russian safety concerns, President Putin blocked U.S. poultry imports

causing a major disruption in the U.S. poultry industry. While I empathize with our farmers, using an emigration provision to negotiate a trade dispute undermines U.S. foreign policy. Trade disputes are natural components of an evolving trade relationship, and under current trade laws, there are effective remedies to address them. In resolving the poultry disagreement, I worked with the key Members of Congress concerned with agriculture issues. As a result of my efforts, Representatives Pombo, Boehner and Goodlatte signed a letter to Representative Bill Thomas, Chairman of the House Ways and Means Committee, which has trade jurisdiction, indicating their disagreement that the lifting of Jackson-Vanik restriction to poultry trade was inappropriate.

Additionally, using the amendment to leverage Russia's accession to the WTO, as some have suggested, would weaken U.S. credibility. WTO rules already require that every member of the working party agree before a country is granted membership. Therefore, Russia cannot accede without consent from the United States. This guarantees that U.S. negotiators have adequate authority to monitor and guide Russia's accession.

An overwhelming majority of U.S. companies active in the Russian marketplace also agree that terminating Jackson-Vanik is appropriate, especially since Russia is currently recognized as a market economy under U.S. trade law.

In addition to fulfilling the Jackson-Vanik requirements,

President Putin was the first foreign leader to contact President Bush after Sept 11, 2001, to offer condolences, intelligence assistance and other support, including agreeing to the positioning of U.S. forces in Central Asia, which was a key to our military success in Afghanistan. In October 2001, Russia appeased the United States by closing their Lourdes Listening Facility in Cuba. More recently, instead of protesting NATO expansion, which brought the organization up to Russia's borders, Russia negotiated with NATO to establish a formal method of cooperation. Although Russia has shown the U.S. its willingness to cooperate and accommodate our many requests, the United States has not sent one positive message to Russia.

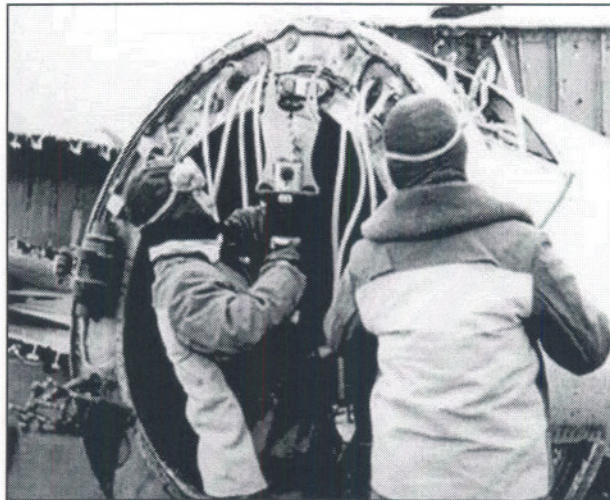
Jackson-Vanik is not a high profile issue in the United States, but it continues to be a sensitive issue for the Russian government and its citizens. While the changing nature of our strategic relationship with Russia has been full of promise, it has been challenged by a growing number of domestic constituencies within Russia. Russian media reports consistently remind Russian citizens of this unfulfilled promise. This opposition can easily be resolved by granting Russia what it rightfully deserves - elevating Russia from the Jackson-Vanik amendment. This would send a positive message that the U.S. is serious about improving relations between our two nations.

NEW THREAT REDUCTION INITIATIVE: U.S.-RUSSIA COOPERATION ON SECURING BIOLOGICAL WEAPONS AND RESEARCH SITES

Since 1992, the United States and Russia have engaged in a series of cooperative threat reduction programs, commonly referred to as Nunn-Lugar programs. Primarily, this cooperation has focused resources on reducing the threat posed by the theft or diversion of nuclear weapons and materials. Some successes have been achieved, but the current programmatic approach to this daunting challenge has in some cases been bogged down in a maze of bureaucratic missteps and a flagging sense of urgency. In other cases, programmatic implementation has been slowed by bilateral disputes over taxes and liability.

This new initiative addresses a topic of heretofore - limited bilateral cooperation - programmatic work to enhance the security at Russian biological sites that hold dangerous pathogens of interest to rogue states or terrorist groups - and also proposes a new cooperative model for implementing this work. Central to the success of this initiative is the cooperation of Russian authorities that control access to these facilities. Reflecting internal concerns about the pace and scope of existing cooperative threat reduction programs with the United States, the Russians established an interagency group, supported

by President Putin, senior military, security and political officials, whose goal is to find solutions to the bureaucratic obstacles that have plagued existing programmatic efforts. Known as the International Exchange Group (IEG) within Russia, as a sign of its bona fides and influence within the Russian government, IEG has



presented to U.S. officials a list of 89 biological facilities as candidates for security enhancement work.

Recognizing the challenge and expense of working at such a large number of sites, the IEG has proposed a pilot project that would encompass work at six biological sites, including Biopreparat, the military's leading producer of biological pathogens. The IEG has contracted official agreements with all six facilities. These sites would have to be assessed carefully by U.S. experts to

determine the appropriate amount of funding and most effective set of security enhancements required for implementing the project, but an overall initial estimate of \$10 million to complete work at the six sites is required. Funding for this project could be made available through funds existing within the Department of Defense's Cooperative Threat Reduction Program.

In addition to the national security benefit of securing hazardous biological pathogens, the pilot project would have two innovative programmatic elements. The first is that the Russian side would commit its own "upfront" funding to begin the projects. The IEG would expect U.S. funding to be made available to ultimately fund the six site pilot projects, but they are prepared to cooperate in the establishment of a joint U.S. - Russian management team that would oversee the project. The management team would place U.S. funds in an escrow account, releasing those funds to the Russians only when mutually agreed upon project milestones had been achieved and verified. The second innovative element of this initiative is that unlike much of the security enhancement work currently funded that relies heavily on U.S. contractor involvement - triggering legal

disputes over liability - the pilot project would be carried out by Russian contractors, working in Russia at Russian sites. In so doing, the Russians would accept all the legal liability for performed work and there also would be no Russian claim that funding should be subject to Russian taxation.

A number of independent states of the former Soviet Union have been helpful to the United States in the war on terrorism. Such states are new and struggling democracies and would benefit considerably from assistance to create sustainable jobs for their underemployed or unemployed scientists, engineers and technicians who were formerly engaged in activities to develop and produce weapons of mass destruction for the Russian Federation or other such state. The United States should establish and promote programs that prevent the proliferation from scientists, engineers and technicians of the former Soviet Union to countries with potential for proliferation, development and production of weapons of mass destruction.

The Teller-Kurchatov Alliance for Peace, as included in the National Defense Authorization Act for Fiscal Year 2005 (H.R. 4200), should immediately be enacted to award scientists employed at the Kurchatov Institute of the Russian Federation and scientists employed at Lawrence Livermore National Laboratory, international exchange fellowships in the nuclear nonproliferation sciences. This program, between the leading U.S. and Russian nuclear facilities, would promote peaceful uses of nuclear technology and provide

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opportunities for advancement in the field of nuclear nonproliferation to scientist who, as demonstrated by their academic or professional achievements, show particular promise of making significant contributions in that field.

Removing potential nuclear weapons materials from vulnerable sites around the world would reduce the chance that such materials would fall into the hands of groups hostile to the national security of the United States. A Task Force on Nuclear Material Removal should be established by the President appointing the Department of Energy to ensure that potential nuclear weapons materials are entirely removed from the most vulnerable sites as soon as practicable.

Armenia, Azerbaijan, the Republic of Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, all part of the Silk Road region, would benefit from the Silk Road Initiative to develop sustainable employment opportunities between the United States and the Silk Road nations for scientists, engineers and technicians formerly engaged in activities to develop and

produce weapons of mass destruction. This program will incorporate the best practices under the former Initiatives for Proliferation Prevention program and facilitate commercial partnerships between private entities in the United States and scientists, engineers and technicians in the Silk Road nations.

During the Cold War, the Soviet Union presented the U.S. with a clear and identifiable threat to our national security. For decades, the Soviet Union developed massive stockpiles of nuclear, chemical and biological weapons. With the fall of the Soviet Union, these stockpiles are largely unaccounted for and in dangerously insecure locations and facilities.

In the post-September 11th world, in which our nation faces new threats from underground terrorist organizations, it is more important than ever to work with Russia to eliminate and secure their weapons of mass destruction so that they do not fall into the wrong hands. By implementing and engaging Russia in these programs would secure our national security.

U.S. - RUSSIA COOPERATION ON MISSILE DEFENSE

Recognizing the emerging threat of missile attack from rogue nations that may confront both the U.S. and Russia over the next decade, a major objective of the Missile Defense Act was the establishment of cooperative projects between the two former rivals. With a new director at the U.S. Missile Defense Agency and changes at senior levels in the Russian military establishment, the time may be right to advance this cooperation.

Central to the development of bilateral cooperation in missile defense would be commencement of an ongoing dialogue between senior U.S. and Russian officials and their experts. In July 2004, such a meeting occurred in Berlin. Sustaining this fledgling momentum will be essential and, if supported by the administration, the Congress and its counterparts in the Russian Duma, that outcome can be achieved. Such cooperation is in the national security interest of the United States. Russian assistance in such areas as sharing data from target acquisition radars, currently unavailable to the Missile Defense Agency, would address one of the information gaps in the system's current configuration.



Comprehensive data exchanges could be the first area of possible bilateral missile defense cooperation. Under the auspices of the IEG, a series of senior working group meetings could be established with U.S. counterparts. The working group would be empowered to establish agenda topics reflecting the interests and priorities of each side. In addition, and as part of that mechanism,

the sides might agree on a process where they would report to their respective political leadership, as well as representatives of the U.S. Congress and Duma, on the progress being achieved by the working group.

Currently, a government-to-government agreement must be in place to serve as a framework for any industry cooperation on missile defense. Regular meetings and discussions between officials of the two governments are ongoing and contributing to this framework agreement. These discussions should also review U.S. and Russian export control and liability policies in order to normalize the trade relationship.

Additional areas of potential missile defense cooperation that may be beneficial to the two nations include target, radars and sensors.

Targets - Both the United States and the Russian Federation have space-based Early Warning Systems (EWS) and long histories of development therein. A major new thrust is the need for the future Ballistic Missile Defense System to detect missile launches much earlier than provided by current EWS capabilities. This is important to support the boost phase intercept element of BMDS

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where alert and launch of interceptors within tens of seconds of the threat missile ignition are extremely valuable to the operational concept.

Currently, an initiative exists that is on going within the Missile Defense Agency dealing with targets and countermeasures. Through this initiative, targets are provided for missile defense interceptor tests. Competition exists between U.S. contractors to provide targets and these awards, if appropriate could be competed to include non-U.S. entities, including Russian firms to provide realistic targets to the Missile Defense Agency.

The Russian Federation has been requested by the Missile Defense Agency to provide ballistic missile targets and launch services for radar evaluation. In the long term, this could evolve into an expanded test program to include target intercepts. Both nations will cooperate to access threat representative targets and provide more operationally realistic testing opportunities.

Radars - Early Warning Radars offer a propitious opportunity for cooperation. A cooperative effort with Russia to co-develop early warning radars, located along the Russian southern border looking toward Middle East and Southwest Asia threats, is critical to both nations. UHF technology is globally widespread and, therefore, in a category of technology considered exportable. Early warning data alerting our two governments of a Middle East threat would go to a Russian site, a U.S. site or it could go to a third site that would then pass the early warning data to both countries.

Sensors - A great deal of attention is being paid by Homeland Security and the

Defense Agencies to detect the presence of Special Nuclear Material or nuclear weapons at points of entry or those assembled clandestinely here at home. However, once a nuclear weapon or a dirty bomb has been detonated or a successful disastrous attack on a nuclear reactor has been made, the important problem remains of defining the contaminated areas for evacuation and subsequent decontamination. The better and more quickly the delineation of the dangerous areas can be accomplished, the sooner the civilian population can be rescued and their fears alleviated and the more quickly the decontamination effort can proceed with protection for the clean up crews.

Present technology depends in large part on the use of detectors that are sensitive to the gamma rays emitted by the decay of radionuclides. However, these detectors require that they be used within the irradiated region that could produce possible radiation effects on the operator. This mean of free path of the gamma rays, however, is not sufficiently long enough to permit the use of a gamma sensor from remote platforms such as a helicopter or UAV that could provide a rapid assessment of the situation and mapping of the affected areas.

Little known measurements, made a number of years ago, showed that the radioactive decay products (alpha, beta and gamma rays) cause the atmosphere to fluoresce principally in the ultraviolet (UV) and to a lesser extent in other regions of the spectrum. Using this phenomenon it is possible to measure and localize the UV emission from these radiations remotely on the ground or from aircraft or a UAV.

The Russians have demonstrated expertise in ultraviolet sensors under the RAMOS program. In addition, there are ongoing activities with the Russian nuclear community for Threat Reduction. The United States and Russia should broaden and fuse these capabilities to this new program for remote sensing and mapping of radiological contaminants.

Measurements and modeling of the visible/infrared signatures (spectral, temporal, and spatial) of Russian missile plumes is a near term project that could be placed under the RAMOS program. Of particular interest are data taken on plumes of the Russian rocket motors and technologies that have been previously exported or copied by third world countries of concern. In addition to measuring the boost phase of Russian and U.S. missile launches, there is also interest in observing static tests.

The key to forging a U.S.-Russian missile defense alliance is now, before U.S.-Russian relations deteriorate further. Even the most modest proposals and programs already underway should be viewed as reforming a still adversarial relationship between Washington and Moscow. Current discussions between the Department of Defense, the Missile Defense Agency and Russian officials should continue to provide a strategy to evaluate the feasibility of increasing technical cooperation with Russian military industry on missile defense technologies such as the Russian S-400 and S-500. These cooperative opportunities would benefit Russia through a long-term relationship and direct involvement in the U.S. BMDS as well as significant Russian industry involvement and monetary benefits.

ENERGY

Russia, with its vast oil and gas resources, a growing and diverse number of private sector companies and a renewed commitment to investment by international energy companies, offers a unique opportunity to provide energy stability to an often volatile and insecure world energy market. Working with Russia, the U.S. can play a critical role in supporting energy development among the resource rich countries of the former Soviet Union. In a time of historically high crude oil and natural gas prices, the United States and Russia must establish a more effective energy partnership. Both the United States and Russia have emphasized the importance of energy in the bilateral relationship, and have sought ways to encourage trade and investment, but the results of their actions have not been sufficient. Russia's vast energy resources have not flooded the United States market.

Russia energy sector is at full capacity, unable to export greater amounts of oil and gas. Increasing Russia's oil and gas exports will require sequenced long-term investment in exploration, production and transportation to increase total system capacity.



Large-scale direct investment by United States companies, with its major inputs of technology and management, in the Russian energy sector is vital in order for Russia to substantially increase its energy output for the benefit of both the United States and Russia. American energy company investment in the Russian energy sector will improve Russia's economic development and political stability, while at the same time supply the United States with additional oil and gas, thereby enhancing energy security by decreasing dependence on the Middle East.

While Russia's foreign direct investment has increased, it remains far below its potential. Russia's government policies, regulations and practices still make American investors wary of its uncertain business environment. United States companies require greater security and protections of their interests in order to invest further in their human, technical and financial capital in Russian energy markets. Numerous American companies have struggled with Russian entities over asset ownership and appropriate taxation.



If Russia seeks to encourage foreign investment, it must create a transparent business environment. The United States and Russian government must take action, simultaneously, so that United States companies will overcome this uncertainty and invest in Russia's energy market.

A. Asset Ownership and Taxation

Despite financial incentives, such as the United States Export-Import Bank loan guarantees to American exporters of oil and gas equipment to Russia and Overseas Private Investment Corporation (OPIC) insurance and financing to American investors in the Russian energy sector, the United States government must provide further incentives to encourage greater investment in Russia such as relaxing the foreign tax code. Over the decades, there have been few major changes in the structure of the United States international tax system. Reducing the relative tax burden on foreign investment would increase the extent to which American companies

invest abroad. Policy options include liberalizing the foreign tax credit's limitation and Subpart F's restrictions on deferral for Russian energy investment, exempting all income from Russian energy production, or at least providing a substantial reduction in the

States-Russian Energy Bank similar to the World Bank, European Development Bank or International Monetary Fund but limited to the United States, Russia and former countries of the Soviet Union, could create a positive investment environment and produce long-

explorations, or even seismic analysis to determine their interest in exploring a given area.

B. Improve Russia Production Capabilities

Russia's ability to transport and export oil and gas is significantly below its production capabilities. In 2004, Russian oil exports will expand almost 12% over the 250 mm tons exported in 2003. However, in the following two years, exports will increase only 3% annually because the existing pipeline system is unable to pump greater quantities of oil. The Russian government must define the rights of investors in private pipelines so that outside investment can construct additional major pipelines to increase output. Currently, energy transportation out of Russia is controlled by the Russian government which may restrict capacity. Russia should open transportation capability to non-Russian entities so that U.S. companies investing in Russia may determine allocating capacity.

Russia should also remove the government's current requirement that a fixed percentage of new production must be sold into the Russian domestic market at a significantly lower price than the true market price. This would provide an incentive for new production, since currently an estimated 65% of all production is sold at such a discount. The Russian government could become economically indifferent when an appropriate tax scheme is defined at the outset of the agreement.

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tax rate on repatriated earnings, and implementing tax sparring for Russian, and especially the former countries of the Soviet Union, energy investment.

For Russia to recognize its potential, both Russian and non-Russian investors must have confidence that, when disputes arise, a judicial system exists that will fairly and impartially enforce the rules applicable to their operations and honor their agreements. In addition, a banking system capable of providing the funds to finance this growth must exist. By creating a joint United

term development of the energy sector in Russia. At least, during the appropriation process, Congress must encourage that funds appropriated to these development banks be used in energy projects in Russian and the former countries of the Soviet Union.

Russia also needs to clarify and fix either the tax scheme under which new exploration and production would be covered, or revisit a Production Sharing Agreement. United States energy companies need to be able to quantify their potential outcome prior to investing in

Additionally, if Russian companies aspire to become global leaders in the energy production market, the U.S. can assist Russian oil companies to develop their resources, shift their products to the United States market and help advance and solidify Russia's integration into the international energy economy. U.S. companies can offer the technical capability, the access to capital and the international expertise to Russia. Furthermore, the United States can provide Russian companies adequate storage at refineries and ports. Old U.S. military bases, which are no longer used by DoD, could provide the storage and security for energy imported from Russia.

C. Commercial Energy Dialogue

The foundation formed by President Bush and Putin's 2002 United States-Russia Commercial Energy Dialogue must continue to be built upon, but at a faster pace. The U.S. Department of Energy and the Russian Ministry of Atomic Energy should continue to convene annually with U.S. and Russian agency officials, legislators, industry and academic institutions and identify areas of further cooperative efforts and potential areas for new collaborations.

When the President and other high level United States officials meet with their Russian counterparts, they must emphasize the great need for Russia to improve its domestic investment climate as a prerequisite for higher levels of United States investment in the energy sector.

While this dialogue is committed

to pursuing new energy opportunities by fostering closer relations between educational and professional institutions and resolving current trade and administrative disputes, the commission should also review immigration policies practiced by the U.S. and Russian agencies granting visas for energy sector officials and employees. If this dialogue is to be successful, the participants of both nations should receive visas in a timely manner.

Additionally, as co-chairman of the Duma-Congress Study Group, I propose creating a task force between the two legislative branches in order to expedite legislative reforms recommended by the commercial energy dialogue. The task force should hold annual exchanges between members and staff of the energy committees.

Russia has a renewed commitment to investment by American energy companies. Recent actions by President Putin signal the importance placed on energy trade and investment with the United States. He has called for increased pipeline infrastructure development to facilitate the export of oil to Europe and the United States stating "...I would like relations between Russian and United States businesses to develop more actively, especially in the strategically important area of energy...."

It is clear, both the United States and Russia want and need to increase Russia's exportation of energy. This is a rare and distinct opportunity where American and Russian collaboration on energy research might be beneficial in fostering a cooperative, market-

based approach to energy security, reducing dependency on the tumultuous Middle East. This can be the new model of future energy partnerships. The United States and Russia can play a critical role in supporting energy development among the energy rich countries of the former Soviet Union, further improving global energy diversity and energy security.