Center for Strategic & International Studies
Washington, DC

RUSSIA'S NEW ROLE IN THE WORLD

Senator Gordon H. Smith
U.S. Senate
Dep. Secretary David A. Sampson
U.S. Department of Commerce

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Wednesday, April 05, 2006
1:00 P.M. – 3:15 P.M.
CSIS 1800 K Street N.W.

TRANSCRIPT
provided by:
Federal News Service
Washington, D.C.

DR. HAMRE: I apologize for interrupting your conversations. I always can tell the quality of our conferences by the energy in the room and there's this fabulous energy here today and I want to thank everyone for that. I'd like to say that this is going to be really one of the highlights of this conference is to have a chance to hear from Senator Smith.

First let me say to you, Senator, you've come partway through a conference where we've had an enormous amount of interaction between our Russian friends, our American friends who are here to talk about this evolving relationship, our intense interest in Russia as it evolves, going through very important political time in our relationship with Russia. To all of you, and I know, colleagues, that I don't need to give a long introduction to you about Senator Smith. Suffice it to say he's a lawyer, a businessman, now an enormously important politician. And I say that in a

very positive – America needs quality politicians, and I'm glad we've got one who's joined us today.

He has – I don't know how he does it but he sits on, I think, five of the most important committees in the Senate. Three I think is a killer load, four is impossible, and I don't know how he does it on five. He was chairing the Europe subcommittee for the Foreign Relations Committee until he got pulled onto the Finance Committee. If you know Senate politics, you know you want to be on the Finance Committee. And because that did cause him to step back, but not lose his interest and focus on international relations. And I have been the great beneficiary of hearing him on numerous occasions address the wide scope of matters before the United States Senate, and before the country. I know he has a deep interest in Russia and the evolution of Russia and the United States and Europe. He's a member of the Energy Subcommittee, and we all know how important that dimension is in the relationship. Russia and the world, Russia and the West.

So we're delighted that he's here and I know it's going to be a rich feast for all of us. Please do welcome Senator Gordon Smith from the state of Oregon. (Applause.)

SEN. GORDON SMITH (R-OR): Thank you, John, for your generous introduction. I'm glad he said I was a good politician. My father worked for Dwight Eisenhower on his staff, and my mother's name is Jessica Udall, and Morris Udall, before he passed away, was my cousin. He told me when I first started running for the Oregon state senate that the only cure for political ambition is embalming fluid. So if I'm going to be in this, I do hope to be good at it.

I don't pretend to be a Russia expert. My father in his work in the Eisenhower administration was one of the first American delegations to Russia, with a focus on agriculture. When Vice President Nixon went there and had his kitchen debate, my father was among that delegation and he used to always say that the greatest experts on Russia are those who have lived there for 30 years and those who have been there for three days. So I'm more in the three-day category. He obviously said that facetiously, but Russia is unquestionably an enormously important nation to the United States.

It has been a troublesome relationship. It is frankly well to remember the words of Winston Churchill, when he described Russia as a riddle wrapped in a mystery inside an enigma. Russia has been a hard country for us sometimes to understand fully and to appreciate its vastness, its history, and the – and frankly the swat that it carries in the world. Whether it's too great, whether it's too little, whether they are punching above their weight. But frankly I think that Russia is probably one of the most important bilateral relationships we have. Perhaps in recent years with the focus, the war on terrorism, perhaps a bit unattended to.

The views that I give you today are my views. I just speak for one U.S. Senator, and I know in this room there are likely Russia experts whose views and observations may even be a much more meaningful than my own. But they are my views and my feeling.

When I first came to the U.S. Senate in 1996, I found myself in the very fortuitous position because Richard Lugar was going to chair the Senate Agriculture Committee. He

vacated the European Affairs Subcommittee on Foreign Relations, and I had that opportunity to chair that committee for six years. One of my first trips abroad was in the company of Henry Kissinger, and on that occasion we went to Berlin as part of the Aspin Institute conference that they had there, and I learned much about Russia from one of the great architects of American foreign policy during the Cold War and how we dealt with Russia, at least during the Nixon and Ford administrations under the motive of détente.

He told me a story if I wanted to understand Russia's history. There are many stories in Russia, often couched in humor. I don't repeat this in any way to be disparaging Russia, but he told me this story as the way I could best understand Russia. He said, senator, there are three Europeans sentenced to death – a Frenchman, an Italian and a Russian, and each is given a final wish. The Frenchman wishes for a night in Paris with a beautiful woman. The Italian wishes for a Ferrari to drive down the Amalfi coast, and the Russian wish is that his neighbor's farm would burn down. My – would they really wish that? His point was that Russia's history with its neighbors has been a very, very problematic one because of that mentality which he felt was an accurate reflection.

But let me share with you my own observations about Russia. Whether you look at Russia from a military perspective, a political perspective, or an economic perspective, for the past 100 years Russia has simply played an enormous role in world affairs. Russia has over 10 percent of the earth's landmass and shares borders with 14 countries. Russia also has vast natural resources in minerals, forestry and energy. Its politics, whether you love them or hate them, have had a profound influence on planet earth over the last century. We've seen men endure a decades-long revolution, play a pivotal role in two world wars, conduct the grand experiment in central economic planning which is a manifest failure, and undergo both empire development and dissolution in the form of the USSR.

With the Cold War providing much of the catalyst, the Soviet Union did, however, make remarkable advances and discoveries in technology and particularly in arms development and in the space program. I remember, as I look around here most of us are within the same range of age. I remember as a little boy watching Sputnik go overhead, and because dad worked for Eisenhower, the scramble of our country to catch up. We certainly did that. We were able to do it in fairly remarkable amount of time because of the great energy behind American enterprise and the great challenges put forward by President Kennedy and other presidents.

Watching these achievements as I did growing up, I believed that Russia was and would always be an industrial superpower, but an industrial superpower would be to mask a very decrepit industrial base underneath the façade that we saw as Russia. By comparison, I remember going in 1983 as a businessman to China. When I got off the plane in Beijing, only but a few years after Mao Tse-tung's death, it was like walking into another world. It was truly the Third World. Poverty and under-development of an amazing way. I just recently returned from China and it is hard to imagine that that is the same place.

China used to struggle with providing the most basic human needs for its people, and now it is undergoing the most rapid of industrialization, while Russia's economy seems to be reverting to dependence on exports of raw materials and minerals. Natural resources, especially

oil and natural gas. There's the old adage, frankly, that in world politics oil – and national development, oil is very much a mixed blessing. Yes, it provides hard currency and in the case of Russia their oil exports, it's the second largest oil exporter in the world. It accounts for 59 percent of Russia's exports. That's an enormous percentage.

Conversely, China has virtually no oil, but they are developing an industrial base that is truly phenomenal and revolutionary. If you read Thomas Friedman's book, "The World is Flat," you'll have a very accurate, I think, understanding of China's place in the world today because of their – at least their initial efficiency from a command and control economy to commanding that they compete in the world of industry. And yet China – and yet Russia seems to be stuck on just exporting their natural resources. Russia's still burdened by its old Soviet industries, which are clearly uncompetitive in world markets, not in a position to compete in the world in which they have to compete in international commerce. And the transition out of that into private industry has been, relative to China, almost snail-like in its progress.

Well, since the fall of the Berlin Wall we've all been observing Russia's struggle with a host of challenges, including adopting some level of democracy, moving toward business privatization, redefining its relationships with its former Soviet republics, and learning how to participate in the international community. Russia is also grappling with monumental environmental damage from its nuclear weapons production. Russian society at its most basic level is still struggling. To give just one example, birth rates in Russia are very low, about half as large as its death rates. In fact, I think it's not a mistake to say that it is the only industrializing nation where life expectancy is actually in decline. Taken together, these challenges beg the question of whether Russia will succeed in its transition to a lawful democracy, competing in the free market, or might it return to totalitarianism. That's obviously the question that we who look at foreign policy in this country are very much have that question unanswered.

I recently visited with Secretary Rice, who knows an awful lot more about Russia than I, and I expressed concern about the zig-zag in terms of their democratic institutions, some of the dismantling of those institutions. Her counsel to me was, yes, there is a lot about which to be concerned, but keep an eye on Russia's trajectory. Are they heading generally in the right direction? Her belief was the answer to be yes. So I have accepted that counsel, but with you I view some of the back steps that they have taken with some alarm. Obviously as Russia does that and creates the impression that the rule of law is subordinate to the rule of man, that will certainly affect capital flow in foreign investment into Russia.

Capital, as you all are well aware, is like a river. It goes where it gets its most rapid rate of return. And capital that fears confiscation simply will not go there. That is I think unfortunate not just for Russia's people, that democratic institutions are shaky, but that it is also most unfortunate in terms of their integration into the modern world. But I think this all highlights why we as a nation need to pay very close attention to Russia's political trends and its domestic policy.

Energy resources and markets are especially important for Russia, as I've said. So let's focus on those. Today Russia's oil and gas exports amount to 20 percent of its GDP. To

understand in a sense Russia, not just its size and its resources, its potential if they have the rule of law and entrepreneurialism was rewarded, it has more natural resources than the United States by a long shot. But it's – the size of its GDP is just under $1 trillion in 2005. Perhaps – maybe it's over, but it is not much over $1 trillion. America's GDP in 2005 was roughly $12.5 trillion. That's the difference. Yet notwithstanding their economic position, it has, as I hope is clear, enormous potential to grow if they adapt the kinds of institutions that foster democracy and enterprise. But the question on that, I think, is still very much out with the jury.

Most of Russia's current oil exports go to Europe, but both China and Japan are negotiating to get greater shares. Today oil is truly, as you know, a global commodity. Natural gas is also moving in that direction, though through the trade in LNG or liquefied natural gas. At the same time we're seeing what looks like a tightening of oil and gas markets driven by steady increasing demand and very spare capacity. As India and China grow into first world countries economically, their energy needs are enormous and they will be competing as well for these Russian resources.

With our large manufacturing reliance on imports of foreign fuels, the United States has a very keen interest in Russia's role in world oil and gas markets. We've already observed a tendency for Russia, however, to mix politics with business. Every country does to a degree. Let's admit that. But when Russia does it, it tends to be very alarming to its neighbors. You saw this mix of politics and business with the restructuring of Yukos and the cutting off of natural gas shipments through the pipeline that serves Ukraine and many other Eastern European countries. These nations live in fear of Russia. Make no mistake about it. And Russia is used to keeping them in line by cutting off natural resources. So it was alarming to see that happen again after the fall of the Soviet Union.

Another important factor in global oil and gas markets is obviously China, and the Chinese have been trying to secure access to oil and gas supplies around the globe. They're going everywhere, Africa, the Middle East to do so. China's already made deals in the Middle East, Africa, South America, and they want oil and gas from Russia as well. Just two weeks ago we saw the announcements of an agreement for two new gas pipelines from Russia to China. China has also been trying to negotiate a deal for an oil pipeline from Russia. So far Russia has only announced plans for an oil pipeline to the Pacific. They're obviously going to do this because they want to be able to sell to China, they want to be able to sell to Japan as well and by going to a Pacific port they can – their oil can be served by ocean tankers. So we will see how that plays out.

Russia has also signaled publicly it has an interest in helping China expand its nuclear power capacity. Russia has tremendous history in nuclear energy, some good, some bad. But nevertheless they are competing very much for this growing market for nuclear energy in China. China has nine nuclear plants in operation and has announced plans to build 30 new plants in the next 15 years. When I was in Beijing, frankly the air pollution was so thick that to walk up the steps to the Great Hall of the People was to feel pressure in your chest. That's how polluted it was.

I said to the premier, what are you going to do when they try to run a marathon here? He said, that's no problem. It would be illegal to drive a car or to burn coal in the month around the Olympics. That's when command economies come in handy. (Laughter.) Imagine doing that here. But in any event, clearly for hydropower, nukes are going to be very, very important to China in figuring how in the world to get their environment in a place so that it is not so horrible to the health of its people.

Proposals for these first four plants, nuclear plants are now under consideration and Russia's nuclear power company is very much in the running as a candidate supplier. Of course the United States has a very strong interest in Russia's nuclear industry and weapons. We're – you know about Nunn-Lugar and our efforts to try and dismantle these old nuclear weapons of the Cold War. We've chopped up a lot of them, we're helping them with environmental issues and yet we're learning more and more about the environmental legacy of their nuclear weapons program. Evidence indicates that Russia's nuclear sites are highly contaminated because they exercised far less control of radioactive and toxic materials during operations at these sites in past decades.

Another safety issue has to do with management and control of nuclear weapons and nuclear materials. On this issue I want to cite the MTI, which is the organization founded by Senator Sam Nunn and Ted Turner. Their annual report states this. In Russia alone the Cold War legacy of the Soviet Union left approximately 30,000 nuclear warheads and enough highly enriched uranium and plutonium to make nearly 60,000 more nuclear warheads, as well as tens of thousands of people with weapons or materials knowledge whose jobs are no longer assured.

I suppose if we have any – there probably is no greater threat to the safety of our planet than this issue. Not that Russia would use them, but that they could be misused or exported to terrorists who, frankly, are proven and anxiousness, willingness to indiscriminately murder Americans and Jews, the state of Israel in particular, and this effort to secure these things is ongoing and it is frankly not perfect.

I think it's important also to point out that Russia and Iran – many people don't know this, but those two nations do share a very long history and a long border, and one of our greatest fears is that these nuclear materials find their way to Iran in a way that can be put on rockets that they can now fire, which they have announced in advance they can be used on Israel. Very, very scary proposition. After 9/11 we have to imagine the worst and plan for the worst.

There's a common theme in all of this, and while I haven't the opportunity to participate in more of your discussions today, I'm sure it's woven through your agenda, the question is this: how do we promote more transparency in Russia? More respect for the rule of law and the sanctity of contracts, and more equitable access to participation in Russia's business? In short, until these questions have answers, at least until we have better evidence that Russia's becoming a reliable team player on the world stage, we need to continue to heed the advice of President Reagan, to trust but verify. Thank you very much. (Applause.)

DR. HAMRE: Ladies and gentlemen, I would ask you to just seek recognition and I'll let the senator field it.

Q: Can I ask you a question? If you ask most members of the Senate whether they shared Secretary Rice's view that Russia's heading in the right direction, would most members share that? And if there was a vote on NTR today, would it go through?

SEN. SMITH: I would say most members hope that she's right. We do not know that she's right. I believe – I don't speak for my colleagues. I believe that's the impression that exists in a majority of the members of the United States Senate. We celebrate their progress. We need them to be part of the West and integrated into Europe. And frankly, America and her neighbors can benefit by a prosperous and responsible democracy in Russia.

If PNTR were put on the floor right now for Russia, it would not pass. The reason is simply because right now we've kind of learned from China what some of these agreements mean in terms of intellectual property protection. China has promised to enforce the rule of law in intellectual property. It just simply isn't doing so, and that's all there is to it. It is to China's injury, but until they discover that their lack of enforcement, the lack of keeping of their promise to enforce trademark, patent and other intellectual property rights, you know, frankly we're kind of stuck with them. Russia is probably just behind China in terms of the theft of intellectual property, patents and trademarks. I just think you should all recognize right now, trade is a real – it's like pushing a string right now in the Congress. It's hard to get trade legislation passed. The constituency for trade in the United States is on decline. It is understood in board rooms, it is not understood on the shop floor. And even something like CAFTA was much closer than it should have been and very difficult to do, and a lot of heads were knocked and arms twisted to get it through at all. Russia's a much bigger issue, and frankly, I hope the day will come when they can get a trade agreement, that it can get into WTO and participate as a member of the world economy on a more full basis.

But Russia needs securities laws. Russia needs financial institutions. Russia needs the kind of infrastructure that will attract capital and that can give the confidence that's necessary to the international community. So right now I think such an agreement would be in trouble. I hope that changes because I would like to vote for it. But right now would not.

Q: Thank you very much. Sabina Wosofsky (ph), Voice of America. Some of your colleagues in the Senate urged President Bush to boycott G-8 summit due to President Putin's undemocratic policies. What's your opinion in that regard?

SEN. SMITH: My opinion is he should go. We don't – Russia, for all its problems and its back-sliding on democracy, is still not the Soviet Union. I believe there's more to be gained by their engagement than there is by isolation. That's just my own opinion. I have great hopes for Russia. I regard the Russians as great future allies again and great economic power if it can see in its own interest that it's important to establish the infrastructure and the institutions for markets, to allow them to work without political interference.

So I know President Bush is going to go, and he certainly has my encouragement to go because he has – I think he may not say it quite the way he did before. He looked into Mr. Putin's soul. But I think he does have a relationship with Mr. Putin that's pretty darned

important that we continue to foster. And for all of the difficulties Russia is showing in terms of their governmental institutions, I think it's way too early to start boycotting anything.

Any other questions? I think there's no more questions because you all know more about this than I do, and I thank you so very much for inviting me and particularly to consider with you a topic as important to the future of our earth and the United States of America is the health and place of the great nation of Russia. Thank you very much.

(Applause.)

DR. HAMRE: I just would like to again say thank you to Senator Smith to have the kind of wise, measured perspective from our Congress. We need that, we thank you for it, we're delighted you shared it with us today. Thank you so much, senator.

(Applause.)

DR. HAMRE: We're about five minutes away from Undersecretary Sampson arriving, so please don't leave, but there is a chance to go refresh your coffee cup or hit the men's room.

(Break.)

TOBY GATI: It's my pleasure to introduce Deputy Secretary of Commerce David Sampson, who has been deputy secretary for the past year, since April 2005. He's also a member of the board of directors of OPIC (ph), and was assistant secretary of Commerce for economic development and head of the Economic Development Administration. Before joining the Bush administration in 2001, he worked in both the private and public sector. You can look at his resume and see that he's done a lot of economic development and workforce work in Texas.

I'm going to be – perhaps go beyond my brief and suggest that if somebody can manage Texas politics, they probably have pretty good training for dealing with Russia. And that would be for negotiating on some of the issues concerning energy projects, particularly Naocor Shtokman (ph) coming up, where progress is very slow. And as we've heard today, the Chinese seem to have gotten more attention than the U.S. has for dealing with the problems that U.S. companies have in Russia, and those are manifold, from corruption to lack of rule of law, to some of the arbitrariness of the Russian bureaucracy, and for dealing with what I'm sure you will agree are little issues, like the issues of chicken and phytosanitary problem and efforts to repeal Jackson-Vanick and get PNTR. And particularly of course with Russian entry into WTO and the IP protection issues.

I think American business could have a much larger economic interest in Russia, and if they did, it would undoubtedly make for a stronger partnership. Many U.S. companies remain very interested in the Russian market, but the questions and concerns and the obstacles are great. I'll name two – the increasing number of areas that are off-limits for investment because they are now strategic, and the lack of civil society and rule of law which directly affects business. We discussed that this morning, how the connection between Russia's internal politics and foreign

policy. I think it's fair to say there's a connection between internal policies and economic attractiveness.

Secretary Sampson, during your trip to Russia a few weeks ago, I'm sure you realized that you have a very full plate, and I think all of us, certainly in the business community, all we can say is, (speaks in Russian), which means, I wish you success.

DAVID SAMPSON: Thank you, Toby. I don't know if dealing with Texas politics was good preparation for being here in Washington, dealing with Washington and Russian politics, but I was formerly a cattle rancher and so there are many times that I've been in a chute with a 2,000-pound bull doing things to him that he did not want done, and so it was pretty hard to say – first of all, it's pretty hard to intimidate me. And then secondly, spent a long time with horses that we have cleaning out stalls, and that may be a good background for dealing with Washington as well. So anyway, I'm delighted to be here and hope that I add something meaningful to your conference.

Let me commend CSIS for bringing together this group to discuss Russia's role in the world today. President Bush believes it's very important that we engage Russia, that we candidly express our views and our concerns as he did last week in rejecting forthrightly the idea that the U.S. should boycott the G-8 meeting in Russia this summer, as some have suggested. Indeed, as you've already heard today, there are many issues on the table and few are as critical, especially over the long term, as full Russian partnership in today's world economy. As Toby mentioned, I was in Moscow last month for meetings on a variety of trade and investment issues. Energy security was also on the agenda while I was there, as energy ministers met to prepare for the G-8 summit. And I heard encouraging things about Russia's economic performance.

At the macro level most business executives from American-based companies were positive in their outlook. Most U.S. companies investing in Russia reported double-digit growth last year again, as has been the case in the last several years, especially in consumer products and information technology sectors. But at the micro level, microeconomic level, or the day-to-day level, there was a somewhat different perspective. I heard many concerns raised about rising state intervention in industry, corruption, weaknesses in the rule of law, and inadequate regulatory transparency. Still, on balance I think guarded optimism would best describe the feeling among most U.S. companies in Russia with whom I met over the course of four or five days.

Their instincts, acting on some fairly impressive growth trends in Russia, tell them that they need to be in Russia for the benefit of Russia's emerging markets. As you talk about optimism and pessimism, I am reminded about Winston Churchill's quote about optimists. He said, a pessimist sees the difficulty in every opportunity, and an optimist sees the opportunity in every difficulty. And more and more global companies no longer see Russia as simply a potential market of the future. Rather, I sense that they see it as a significant market of today.

So where does Russia fit in? What does the Russian market mean to its neighbors, to international companies and particularly to U.S. businesses? First, Russia's economy matters greatly, especially in energy. Russia is the dominant player in the CIS region and the major

trading partner and supplier for the former Soviet republics. Russia's economy is also becoming increasingly important for Europe. Russia is the EU's fifth largest trading partner, after the U.S., Switzerland, China and Japan. And the EU is Russia's main partner, accounting for over half of Russia's foreign trade.

And it's no longer just about Europe. Russia's trade with China and its other Asian neighbors is expanding rapidly in the areas of consumer products and other manufactured goods from the Asians, with Russia exporting energy and other raw materials. Russia, as I know all of you are quite well aware, is the world's number one energy supplier after OPEC, and Russia is not afraid to use its vast oil and gas reserves to support domestic and foreign policy objectives. Russian energy companies are seeking acquisitions in upstream production, refining and transportation across Europe and former Soviet republics. Other Russian companies are moving into fuel retailing, mining and manufacturing in other regions, including Asia and the United States.

An example of how aggressive Russian companies are becoming is their entry into international capital markets. Industry analysts say Russia's initial public offerings in 2006 will total between $15 (billion) and $25 billion. That's a six-fold increase over 2005. So Russia is not as isolated from global markets as its former self, and it's highly unlikely that it could ever again be as isolated as the Soviet Union was.

Fueled by surging prices for its top exports, oil and natural gas, Russia is registering its eighth straight year of economic expansion, with GDP growth averaging some 6 percent a year. Russia's GDP now ranks 12th in the world. Its foreign exchange reserves are over $185 billion, the fifth largest in the world, and its annual trade surplus exceeds $120 billion. It's paying off international debt ahead of schedule, and as a result Russian government debt is now rated investment grade by major rating agencies, including Moody's, Fitch, and Standard & Poor.

But increasingly it's becoming clear that Russia is at an economic crossroads. After seven years of solid economic results, Russia now faces some major choices. Domestically, in order to unlock its full potential economically, Russia must make progress on some unfinished business – namely, structural economic reforms. These include re-invigorating privatization, streamlining government bureaucracy, enhancing the rule of law, and rooting out corruption. The U.S. would welcome the opportunity to work with and support Russia toward achieving these goals. Just last week I met with the chief justice of Russia's supreme arbitration court to discuss some of these very important issues such as the rule of law, transparency in court rulings, and enforcing intellectual property rights.

Internationally Russia, it seems, has two choices. It can build a dynamic or outward-looking, knowledge-based economy that's better integrated with global markets, or Russia can remain heavily dependent on natural resources and use those earnings to try to prop up unreformed, non-competitive industries. In recent years Russian policymakers appear to have opted for the new economy approach, but there are troubling signs that among Russian leaders, as well as businesses, this new course is not yet firmly locked in.

For example, Russia's globally competitive industries are pressing for WTO membership, such as information technology and steel. At the same time less competitive industries are fighting to protect their position by, for example, raising fears of a tidal wave of low-cost goods from China and elsewhere. As I mentioned earlier, there is some concern among U.S. companies about growing state intervention in the Russian economy. In a number of industries, not just oil and gas, but also in aviation, automobile manufacturing and perhaps others, state ownership is increasing and steps in this direction are evidently being considered, or perhaps floated as trial balloons in other areas such as manufacturing.

The announced intention is to enable Russian industries to reform, consolidate and compete globally. However, in other countries the state approach has generally produced exactly the opposite result. State ownership and control have left industries unable to compete in sectors where adaptation and innovation rather than abundance of cheap resources have been key factors in competitiveness. Now based on our own economic experiences, some 225 years' worth now, openness and integration are the better choices for achieving economic progress and better standards of living for all citizens, which after all are the social objectives of any nation.

Let me now highlight two areas where we believe continuing engagement between the U.S. and Russia can promote win-win outcomes. These are WTO accession and global energy markets. With respect to WTO, the U.S. view is very clear. We want Russia to be a member. Russia is a major economy. Virtually all of its trading partners are WTO members who follow the universally accepted rules of the game, and Russia's own companies would also benefit as they become more active in foreign markets. U.S. negotiators are currently working to conclude a commercially fair, mutually beneficial package that would facilitate Russia's entry into this global body.

To reach an agreement, Russia will have to make some tough decisions. It will need to manage domestic pressures in sectors such as agriculture, aerospace and financial services. Russia must also crack down on rampant piracy of computer software, movies and music. Russia has enacted stricter protections for intellectual property, but it has a long way to go on properly enforcing these laws and then meting out serious consequences to pirates and counterfeiters.

We view a strong IPR regime as having three components – a strong legal framework, aggressive enforcement, and very serious consequences. If Russia is serious about joining WTO and becoming a knowledge-based economy, clearly more work has to be done on the enforcement and consequences side of protecting intellectual property. Innovators will not innovate if their ideas and technologies are pirated, as they are now, and it's as simple as that. We believe it is in the interest of the United States and the global economy to have Russia in the rules-based WTO system, and we believe Russia will find it in its own best interest as well. Consistent with President Bush's commitment, we will continue to work in good faith with our Russian counterparts to move this process forward in a timely manner.

The energy sector is another example of potential win-win outcomes. Russia's energy industry is growing but not at the pace needed to give confidence in Russia's ability to play a major predictable role in helping meet soaring global demand for fossil fuels. Russia has proven

its ability to generate capital from its own energy revenues and from global capital markets, but I think what people are questioning about the Russian energy sector is how efficiently this capital will be allocated toward modernizing and expanding this extremely capital-intensive industry.

We believe part of the solution, along with more investment-friendly regulations and tax policies, is allowing a greater role for private capital, Russian and foreign – (audio break, tape change). As I told my Russian counterparts in Moscow last month, we fully recognize and respect every country's sovereign right to regulate its markets and resources as it sees fit. But everything cannot be homegrown. The fact is, U.S. companies can provide capital, technology and expertise needed to tap many of Russia's untouched oil and gas fields, especially those involving offshore and Arctic technological and environmental challenges never before encountered in Russia's own industry.

Private investment is a two-way street. Today along the U.S. eastern seaboard American drivers can pull up to a gas station and fill up in a company owned by a Russian oil company. The U.S. and most of Russia's major trading partners agree that moving ahead with reforms, including transparency, greater market access and improved rule of law will ultimately determine Russia's economic health.

While we can encourage and counsel Russia in this direction, Russia's choices and not US policies will be the driving factor in whether and how quickly this happens. Seeing progress on bringing Russia into the WTO and on developing its energy sector would show Russia's willingness and commitment to foster deeper economic ties with the rest of the world. If Russia continues making progress on these and related issues and openly engaging its trading partners, it will move that much closer to sharing in the long-term economic success of its G-8 partners. Russia, as a diverse market economy fully integrated into the global commerce system of rule of law, can, we believe, contribute to greater world stability and prosperity, and Russian citizens perhaps will be the biggest winners. Clearly there is an emerging middle class in Russia today, and that is a healthy sign for any economy and for any state.

For our part, we will continue working to help Russia achieve that goal. President Bush remains committed to engaging Russia, and we hope for progress on a number of fronts between now and when the G-8 meets in St. Petersburg this July.

Thank you very much for opportunity to be with you today. (Applause.)

MS. GATI: Secretary Sampson has agreed to take questions.

SEC. SAMPSON: If you wouldn't mind identifying who you are and who you're with.

Q: (Unintelligible.) Having been in Moscow a couple of weeks ago, you said at least – you said that the issues of Russia's entry to WTO could be resolved in a few weeks. A couple of weeks later, could you update us about the time frame of this issue?

SEC. SAMPSON: Certainly. I'd be happy to. I think this was a case of something being lost in translation, let me say, where attention was paid to the first half of the sentence that I

uttered and the second half somehow dropped out of the translation. We have said that certainly this is progress that we want to see move forward quickly. Ambassador Portman has said that conceivably this is something that can be – could be achieved by the time the G-8 summit meeting is held, if Russia comes to the table to address the final remaining outstanding issues that are very important. That's the second part of what I said that somehow was lost. Ambassador Portman said last week that steady progress is being made on these issues in Geneva in the previous week.

I do want to point out, I know there's been some discussion that somehow these are – that there were new issues raised here toward the end of the negotiations, or unique issues that were applied only to Russia. Let me be very clear about that and reiterate what Ambassador Portman said. These are not new issues. These are issues that have been on the table since the very beginning of the negotiations. Everyone has known that these issues have to be resolved, and secondly, they are not unique issues to our bilateral negotiations with Russia on WTO. They are issues that have been addressed in every bilateral negotiations we have had.

The U.S. bilateral is, I think without question, the gold standard for bilateral agreement for WTO accession and the United States, we stand ready to continue to work with Russia to try to achieve an agreement that is timely, but that also is a good agreement from a commercial and an economic perspective that can withstand scrutiny both within the U.S. business community and on Capitol Hill. I believe you've heard something about that level of scrutiny from the previous speaker.

Anything else? (Pause.)

Thank you all very much. I enjoyed the opportunity to be with you. (Applause.)

(END)