

**CARNEGIE ENDOWMENT
FOR INTERNATIONAL PEACE**

“RUSSIA AS THE CHAIRMAN OF THE G-8”

WEDNESDAY, SEPTEMBER 21, 2005
12:15 – 2:00 P.M.

WASHINGTON, D.C.

PARTICIPANTS:

ANDERS ASLUND, DIRECTOR,
RUSSIAN & EURASIAN PROGRAM;
SENIOR ASSOCIATE, CARNEGIE ENDOWMENT

MICHAEL MCFAUL, SENIOR ASSOCIATE,
CARNEGIE ENDOWMENT

ROSE GOTTEMOELLER, SENIOR ASSOCIATE,
CARNEGIE ENDOWMENT

JESSICA T. MATHEWS, PRESIDENT,
CARNEGIE ENDOWMENT

*Transcript by:
Federal News Service
Washington, D.C.*

GEORGE PERKOVICH: (In progress) – the endowment. And it's my pleasure to welcome you for this lunch and ensuing discussion. Russia will become chairman of the G-8 in January for the following year. And for good reason, Russian leaders see this as a great opportunity to display their nation as important to the Russian people and to the rest of the world. The other members of the G-8, who unlike Russia are voting members in the economic G-7, are probably less sure about the implications of Russia's chairmanship. Some wonder where Russia is headed – toward full-fledged democracy or toward a modern form of czarism, toward an open market economy or a hybrid like a Prius automobile with an old-fashioned, state-controlled gas engine providing horse power for high speed rural driving and a modern market-driven consumer sector – the electronic motor for city driving? Will Russia's leaders become convinced that nonproliferation is so important to Russian national interests that they are prepared to spend their own money pursuing it or will they see it as a chore that they do more for the European Union and for the Americans for a modest fee?

There are other issues, of course, running in multiple directions. If Russians see Chechnya as a theater in a global war on terrorism, then why isn't the West clearly on Russia's side? Are you with us or against us? There's no guarantee that during Russia's chairmanship of the G-8 the divergences in members' perceptions of the Chechnya conflict will not come to the surface. The same goes for questions of human rights and political liberalization in Russia or possibly divergent attitudes among G-8 members including Russia regarding political developments in Ukraine and Central Asia. In all of this, Russian leaders and society may expect or want deference and a greater understanding of the choices the Kremlin makes. Meanwhile, western NGOs, the media, members of the U.S. Congress, for example, the European Union may demand that Russia be held to standards more in line with those, say, of the European Union. If I may be even more provincial, a number of questions remain unresolved in U.S. policy toward Russia. The September 16 meeting between Presidents Putin and Bush did little to clarify these unresolved questions.

Paramount among these will be the decisions on what sort of state Russia will become. According to Freedom House, Russia is the only country in the world that has become not free or authoritarian during the Bush presidency. While President Bush has made democracy promotion the centerpiece of his foreign policy, he has not been able to influence Putin in this regard despite the good relations the two leaders clearly have. Today, Michael McFaul will examine the Russian political scene and explore the possible impact of the G-8 chairmanship on it.

President Putin has indicated that his highest priority as G-8 chairman will be energy security. Clearly this is an area where Russia can deal from a position of great strength. Presidential Aide Igor Shuvalov has said that Russia will seek to ensure that the world economy will receive enough energy to maintain growth. But how? Can Russian production grow or even remain stable without foreign capital and cooperation? Can the oil transport infrastructure grow to meet increasing demand? Will the state intervene on pricing? Can Russian and foreign investors and operators be sure of fair and permanent

enforcement of their property and contractual rights? Both the Russian government and the international community need answers to such questions. Today Anders Aslund will address these and other economic issues related to Russia's chairmanship in the G-8.

Finally, Russia has just played a very constructive role in the six-party talks with North Korea, and Russia's involvement would be key in implementing any deal once the final terms or if and when the final terms are ever worked out. We also have this week in Vienna very intense negotiations on how the IAEA should handle the Iranian case, and Russia in many ways is the pivotal player and actor in that effort, which the rest of the G-8 also has great concern with. So there are many questions about the way in which Russia will internalize the nonproliferation issue and how that could affect the dynamics in the G-8 in the coming year. And these are issues that Rose Gottemoeller will address with you.

Each is going to speak for about 10 minutes, and then we will open to an open discussion. The event is being televised so people should understand in asking their question that they're on the record because people can see it. Thank you.

MICHAEL MCFAUL: It's kind of improper that a meeting on Russia's chairmanship of the G-8 should start with Michael McFaul. Most certainly President Putin would think that to discuss Russian democracy is not appropriate. It's most certainly not what he wants to be discussing when the leaders of the G-8 meet in St. Petersburg next year. As is already – George has already pointed out, Putin has made it very explicit what his agenda is. He said after Gleneagles, Russia proposes making world energy policy the key issue for the next summit. He made some other gestures to some other typical G-8 issues. Discussion of Russian democracy didn't make his list, and that's understandable. That's reasonable. We didn't discuss British democracy in Gleneagles, and usually this issue is not an issue for G-7 or G-8 summits.

But that's precisely the problem, all right, because usually there is not a country there that is a faltering democracy if not an autocracy. So it seems reasonable from Putin's vantage point, but it's not reasonable from the outside world. Moreover I would submit to you the only way Putin is going to get to discuss world energy policy is if he does something about his democratic deficit before the G-8 summit because the G-8 summit is no longer just a meeting of elites off in some obscure place. They tried that. They most certainly tried that in Britain. It turns out that all kinds of people are now interested in using these meetings to advance their agendas. Civil society – world civil society gets involved. And no matter how hard Putin tries to keep the Bonos of the world out of the G-8 summit, they're going to be there in full force especially if he does nothing to, if you will, preempt their causes and concerns before the St. Petersburg meeting.

Now Putin should be thankful that Bono hasn't taken up the cause of Russian democracy. He should be very thankful, but lesser – not lesser, excuse me if I just offended some of you – less famous people are going to be focused on issues of Russian democracy with or without Putin's acquiescence to it. And so it seems to me that Putin has a real serious problem on his hands, and so does Mr. Bush. I'll get to that in a

minute. And the simple fact is this: 7,000 journalists are going to descend on Russia. They're going to be bored out of their mind when we're talking about energy security policy. I guarantee you. I know these people. They're not going to want to sit around and report on official talks on that. So without some preemptive move before that summit, there's going to be 7,000 or at least 6,500 journalists focusing, looking for some other story. And the story is easily going to be, why is Russia a member of the G-8? Does Russia qualify? What is going on here? That is going to dominate the headlines unless Bush and Putin come together to do something to preempt it ahead of time.

Now, on the question of whether Russia is a democracy – I'm actually not going to talk about that today. I think I've talked about that 30 or 40 times on this panel in this very room, and most of you were there. You know, five years ago, spring of 2000 when, you know, I was arguing and writing that Putin is drifting towards autocracy and that he might destroy federalism by appointing governors – we had that debate here. People thought I was ludicrous and crazy to worry about such a thing. That was interesting to debate in the spring of 2000. It's not interesting to me anymore to debate it. I encourage it in questions. I'd be happy to give you my list of Putin's achievements, but I don't think it's interesting anymore. I think now we have consensus on that issue. It is interesting to discuss whether it's stable – Anders has written about that recently – to what extent it affects the economy – that's an interesting discussion, too – and to what extent it affects how Russia behaves in the world. But that's for a different day and a different debate. I think it is clear Russia has gone in an autocratic direction. I think the evidence is now overwhelming.

So the question, to me it seems for those that care about democracy both in Russia – Russian democracy both in Russia and the outside, is what is left to defend in terms of democratic institutions and practices. And to me, it's really about two essential intertwined institutions, that is, the Russian Constitution and elections as the meaningful process by which Russia selects their leaders – that the Russians select their leaders. In other words, it's all about the 2007-2008 electoral cycle. Now, I understand – and I've written about it – you know, elections do not make democracies. And, you know, all other things must be involved. Absolutely, of course. But we're not talking about how to make Russia a more liberal consolidated democracy. We're talking about defending the essentials of electoral democracy. So to me, it's all about 2008 and really nothing else at this stage, most certainly for those on the outside trying to leverage in the margins what might happen internally in Russia. So to me, if you want to have a meeting about energy security in St. Petersburg, you have to deal with that question first.

For Putin I have two very modest, simple ideas that I would suggest if he wants to have us focused on what he wants to be the agenda in St. Petersburg. And let me say by way of background, I don't see Putin as crumbling before 2008. I think he will be in the process. He is in the driver's seat in terms of deciding who will be the next leader to replace him in 2008. I also happen to believe that he will step aside in 2008, though I can't prove that of course. So to me, he doesn't need to be worried about a free and fair election. He is going to be able to control the situation enough that he will get the

outcome he wants even if it's a relatively free and fair election. So here's my suggestions for how to get us off of his back so that he can have the G-8 summit that he wants.

First – very simple – first he just has to allow opposition candidates to run. It's a very simple thing. He can't throw Kasyanov in jail. He can't harass and threaten with tax evasion charges those business people that want to fund opposition candidates. That's going on today right now in a very aggressive way. He just needs to call those dogs off. Second, he needs to allow for domestic monitors to participate in the electoral process of 2007 and 2008. Right now that's illegal by the laws that Mr. Putin and his colleagues have written. I think he just needs to do a very simple thing – change the law – and bring Russia up to the other standards of other G-8 members in the OSEE. Very, very simple. And third, he has to develop a cooperative relationship, obviously, with the OSEE as it prepares to observe this electoral process. I think this is really easy. I don't think it threatens Putin, and I think the payoff to him from these very small steps would be outstanding – wrongly in my view. Don't get me wrong. I think, you know, these are very, very small steps. But the market is, if you will, so low right now. There's so much bad news about Russian democracy right now that a little incremental step in the right direction would, I think, produce real dividends for Mr. Putin and help to create the G-8 atmosphere that he wants.

On Bush's side, again, two, three very simple, small steps that should be taken before the G-8 summit. And let me just again by way of background say, Putin and Bush incentives and preferences are perfectly aligned for the G-8 summit. It doesn't serve President Bush's interests to have the summit being focused on whether or not Russia should in fact be a member of the G-8. That would be a disaster for him, especially in year six of his presidency that he has now pledged to be democracy promotion around the world. So he has a vested interest just like Putin in preempting the world, if you will, to make the focus on something else before the G-8.

So here's what he should do. In private, he should encourage Putin to do the two or three things I just mentioned just now. That's a private conversation. That's an easy conversation, frankly. It's in Putin's interest. You don't have to sell it as something against his interest. I think it would be a rather easy thing to do. And if you think about the number of years and hours and time and attention Mr. Bush has devoted to courting Putin as his friend, and you think about, well, what have been the payoffs from that relationship? I think they've been rather limited – impressive in the beginning, the first year of the Bush administration, less impressive over the last three or four years. If I were Mr. Bush, I would try to put all of my last cards and my last chips in terms of this relationship into pressuring – not pressuring – working with Mr. Putin to bring about these very small changes. Second, in public, frankly I think Bush has to stop talking about democracy in Russia. And I know this goes against things I've written before. It is so limp. It is so without passion. It is so kind of half-hearted looking at his notes – okay, yes, Russia is problematic with democracy – and then he just goes on as the meeting was last week that I find it, frankly, ineffective if not counterproductive.

The only thing he can do to really reaffirm his credibility to this issue is something, I think, much more dramatic. And he could use the G-8 summit to do it. I would propose something very simple – that he work with world civil society that plans to be involved in the outskirts and on the fringes of the G-8 summit meeting to bring attention to the issue of Russian democracy and human rights. That is, somebody should organize a meeting – Moscow, Helsinki – it would be difficult to do in St. Petersburg – where societies, world society, the G-8 societies get together and have their own summit in parallel to the official summit. And if Bush was serious about democracy, he should make an appearance at that meeting as well. That, I think, would be the only thing at this late in the day that would show and reaffirm, in terms of his public attention, that he cares about these issues.

And then finally, put your money where your mouth is. It's very simple. Russia is going to go through this electoral process. There is no institutional capacity today in Russia to monitor these elections in an effective manner. There isn't. There are organizations that are trying. Golos is the most organized so far. They are trying, but it's very simple. They need money. They need a lot of money. Russia is a big country with a lot of electoral polling sites. And if President Bush is serious – and I would say the same to other leaders and other leaders if I were in other countries – if the G-8 leaders are serious about trying to help make this electoral process freer and fairer, they should put serious resources in to helping Golos and other Russian electoral-monitoring organizations to do their job. That's very simple, very easy, not that expensive by the way. And that would show, I think, a real credible commitment.

It's a modest agenda that I've set. In another time, another era, another presidency, I might have a bigger one. In fact, I think the article that we circulated earlier – that's a more ambitious agenda, but I'm talking about really what I think concretely could happen in the next nine to 12 months. And I encourage both Mr. Putin and Mr. Bush to do so. Thank you.

MR. PERKOVICH: Thank you, Mike. Anders.

ANDERS ASLUND: Thank you. When talking about Russia you have sort of three different sides of it. One is the democracy side that Mike so accurately has assessed now, which is dark. Then you have the economic side that I'm going to talk about, which looks very good indeed. And between that, you have the foreign policy side that you can turn in different directions. I'm going to talk about economic aspects of Russia's chairmanship of G-8, and I would like to focus on four issues – macroeconomic situation, oil, natural gas, and WTO accession.

By and large, this is a very rosy picture. Russia has gone through a strong economic boom since 1999 with an average growth rate of just below 7 percent a year. And there's no significant decline in sight. This flood is raising almost all ships. Let me just give you a few numbers here because people don't think about them. Russia had for the first half of this year a budget surplus of 10 percent of GDP after four years of almost 3 percent of GDP budget surplus. You don't become more fiscally responsible than that.

Russia's state foreign debt has fallen from over 100 percent in early 1999 to less than one-fifth of the GDP today. Russia is moving toward a trade surplus this year of incredibly 16 percent of GDP. And Russia's foreign currency reserves have exceeded \$150 billion. And so on. This is a splendid success of the Washington consensus. We know how to build market economies. To build democracy has turned out to be much more difficult. And what are the problems people discuss? Investment is only increasing by 10 percent a year. Inflation stays at the level of 12 percent. With such huge foreign surpluses, it's difficult to avoid. Growth this year might be 6 percent rather than 8 percent as decided by President Putin. These are small problems to be concerned about by any standard. Admittedly this is driven by oil – the high oil prices. But however you turn it, it looks very good.

Then let me turn to the oil sector. And I think that the oil sector today looks like the most serious concern in the Russian economy, which is strange when people are complaining about too little diversification. My concern is rather too little investment in the oil sector. After five years of steady increase in oil production of almost 9 percent a year, Russia's oil production has been flat for the last year, admittedly at 9.4 million barrels a day approximately, of a Saudi Arabian production level. Then if you look upon what is happening, you can see that there are three good companies, of course private, that are producing half of the oil –Surgut, TNK-BP, and Lukoil – that are continuing with substantial growth. But the rest is either Yukos or Sibneft or state companies – companies that have all been struck by the Yukos scandal in one way or the other.

So the Yukos scandal has stopped the production growth in half of the Russian oil industry, which is a big cost when the oil price is as high as it is now, and we don't know what will happen with the production of oil in the future. Russia has done an amazing performance in the last several years, turning out more oil from the old brownfields. Perhaps they have been overexploited. Perhaps you need very special private incentives to get it done. And for the future we don't have any good forecast. An increase of 2 (percent) to 4 percent is the standard view, but it might all of a sudden will start falling as surprisingly as the oil production increased about six years ago. And what about foreign companies? Apart from the projects that are already there – the Sakhalin projects and the joint venture TNK-BP – Russia is clearly not prepared to accept any major undertaking because property rights aren't certain. Right now Gazprom is buying Sibneft. It's assumed that Rusneft, the state-owned company, will somehow absorb the rest of Yukos. At what price is unclear. So the government's handling of the Yukos affair has seriously damaged the whole Russian oil industry.

Let me then turn to the positive part of the energy sector, which is the gas sector. One always needs to check before giving a talk – and the Gazprom stock for one reason or the other popped up by 12 percent today – which is just typical about what is happening. Both Russian and foreign attention is now turning to the natural gas sector, I wouldn't say because it's state-owned 51 percent, but because property rights are clear in that sector. No redistribution of property is underway. Gas is an environmentally friendly fuel, and it's price is rising fast. And Russia has more than one quarter of world reserves and more than one-fifth of world production. This is where Russia can do

something about energy security. This is where one can see that something can be accomplished in U.S.-Russia relations. Indeed President Putin met last week with the three top energy companies, and I bet that they were talking gas to a much greater extent than oil and indeed the Shtokman field north of Murmansk, which is now up for grabs finally. This field alone has larger reserves than the whole world production of natural gas for one year, but it's technically complicated to exploit it, and it will be expensive. You can only do it really with LNG. And where could that be sent? It would be natural to send it to the U.S. given the market conditions. So on this short list of five companies that was published last Friday we see Chevron, Texaco, and Conoco-Phillips. This looks like the road forward because the Yukos affair has stopped the possibilities to develop oil, and therefore the focus has moved to gas, which doesn't mean that – which might make economic sense. I think that this looks like the big substantial avenue forward.

Finally, WTO accession – Russia applied for membership in 1993. Russia is a market economy by any standard. Even so, it has not become a member of the WTO 12 years later. Still much has been accomplished, and I would argue that this is really now up to Russia to make the concessions that are necessary to get in. It makes no sense to stay outside because the WTO, as an organization, functions like this: the longer you wait, the worse conditions you get because all the members already there pose new demands. I think that this is the big boon that Russia should make sure it can get very soon.

To complicate the matter a bit though, I think that there is one thing that the U.S. should demand in this regard. And that concerns Belarus and gas prices. The domestic gas price in Russia today is \$30 per 1000 cubic meters. Russia exports gas to Western Europe at a five times higher price – \$160 per 1000 cubic meters. And Belarus buys for the domestic Russian price. This means President Lukashenko gets a straightforward subsidy from Gazprom each year of \$1.3 billion. Is anybody surprised that Lukashenko stays in power? I wouldn't say that this is Russian government policy. I would rather argue that this is a result of complicated bureaucratic agreements that give Lukashenko this huge subsidy, which is at least 7 percent of Belarus's GDP. So the thing the West can do in order to liberalize Belarus is to insist on a market economic gas price for Belarus, which can be totally legitimately done as part of Russia's WTO accession. The European Union argued this very strongly before they gave it up, and this is all the more easy today because Gazprom is very much in favor of it as Gazprom is a profit-oriented company. And to sum up on the energy side, I would say that I don't think that we should be too afraid of the state ownership in the Russian energy sector because that's not really what it is about. It is that other people want to control the energy resources. It's not an ideology of state ownership.

Finally, I should just say I haven't talked about economic reforms apart from a couple of things like liberalization of the gas market of Russia because economic reforms are not on the agenda. As long as the oil and gas prices stay this high, Russia can manage without undertaking structural reform. In the long run, it's of course not to be recommended, but a sufficient critical mass of the market economy has been accomplished. So I don't think this is a substantial weakness. Thank you.

MR. PERKOVICH: Thanks, Anders. And finally, Rose.

ROSE GOTTEMOELLER: Thank you, George. I would like to begin my remarks talking about the non-proliferation agenda with Russia by laying out two debates that are very active, both – one, here in Washington, the other in Moscow. The one in Moscow is quite familiar to many of you. On the one hand, there are those who are implementing the programs, are cooperative threat reduction, non-proliferation cooperation with Russia – programs moving along, steady as she goes.

On the other hand, there is at a very high level in the media actually some comment constantly swirling around that these programs are bad for Russian security. They are attempts to get into the Russian nuclear complex. In their more extreme forms, the arguments go that in fact the United States is actually trying to take over Russian nuclear weapons. So that is the debate as it is in Moscow today.

I want to just underscore, though, in my view it has as of yet made no difference to the implementation of these programs. And I'll say more about that in a moment. But in Washington, that Moscow debate I think has led to our own debate. That is, there are those here who argue progress is being made, slow but steady; we are getting there.

And then there are those who argue essentially that Russia is on the way to throwing us out of the country in the same way they threw the Peace Corps out, that in fact this is – you know, we're just on the verge of that happening in fact because of kind of negative things that have been going on and because the more or less negative attitude among some of the elites in Moscow toward the programs.

So let's begin our discussion of non-proliferation with those two arguments juxtaposed against each other, one in Moscow, and one in Washington. I would argue, however, and I have for a long time, that the United States and Russia have accomplished major strides toward real partnership in the last decade on cooperative threat reduction programs. Real, as I define it, means that both are willing broadly to share responsibilities in setting priorities for the programs, in managing the projects, and in allocating and distributing resources.

Real partnership gets to the heart of some very important questions: Will Russia be ready to take a real leadership role. And usually people talk about will Russia be ready to put its own money on the table in supporting these programs, and will the United States be comfortable if Russia does adopt a true management role and true priority in handling these programs?

As I consider these questions, I can say that cooperative threat reduction is an area where quietly the United States and Russia have begun to develop real partnership. I do believe that. And it is based on a study I did in the last year, which I discussed last on this podium about two months ago. That is the U.S. National and Russian Academies of

Sciences took upon themselves an effort to study the joint non-proliferation programs over the past year.

And they found an interesting disconnect between perceptions of the programs and their reality. The perceptions usually focus on the many, many implementation programs that the programs have suffered over the years. But the two academies found – and I chaired the U.S. side of the academies study – we found that quite a bit of progress was being accomplished in their – in the programs as their implementation becomes more routine.

Without much fanfare, American and Russian managers have essentially been pushing the programs along. They are building up a lot of joint experience, routine procedures, and mutual confidence, and really becoming I think a well-established team on the two sides.

This, in my view, has culminated this June in the Bratislava report on the Bratislava summit statement, where at the end of June, Russia presented to the United States a full list of the remaining warhead storage facilities, that they have now agreed shall be completed under the warhead protection control and accounting program. So there is some very concrete evidence I believe that the Russians have been ready to move forward on these important program areas.

But, again, success has been uneven. There have been continue problems with access, continuing disagreements over the flows of funding and legal protections for both Russians and Americans working on the joint programs. So, again, you have got a kind of juxtaposition here of the positive and the negative.

But despite all of these difficulties, Russian experts have expressed an aspiration to work more closely with the United States on non-proliferation issues not only in Russia, but around the world. And given the progress, I would argue toward partnership that has been achieved working on threat-reduction projects – this notion to me seems ripe to explore if only on an experimental basis.

And there is no better time in my view to conduct this experiment than in 2006, during the year in which Russia is assuming the presidency of the G-8. Some pilot projects could be conducted during the G-8 year that Russia will be chairing the group, with the goal of testing out whether the United States and Russia can really perform together as partners in very sensitive areas in third countries and regions around the world.

In my view there are three candidates for pilot projects. First of all, accelerating the race of highly enriched Uranium cleanout from research reactors at vulnerable sites throughout the world. The current tenure deadline could be cut to four if Russia would be willing to cooperate with the United States to accomplish it. This will speed the effort to keep this easy bomb-making material out of the hands of terrorists.

Second, I believe that Russia and the United States can work together to establish a model for an international fuel services program, drawing on the experience of Russia's own pilot project with Iran to provide fuel for the Bushehr reactor under a fuel services deal. Russia supplies the fresh fuels and takes back the spent fuel from Bushehr unit one. This pilot project in a larger sense could include mechanisms for incorporating other international fuel providers into the equation and developing a sure take-back and fuel-disposition mechanisms. I think an important facet here will be Russia's willingness to establish an international spent-fuel storage facility in Russia.

And finally – George has already mentioned this – but developing a clear program for action as the six-party talks get to yes with North Korea. Russia was involved in the early stages of the North Korean nuclear program and trained North Korean nuclear sciences. Thus, it is well positioned in my view to think in advance about how to work with North Korea to shut down its nuclear facilities, decommission its sites, and engage its nuclear sciences. Here again I think an international spent-fuel storage facility in Russia will play a very important role because Russia will I think be well positioned to take back the plutonium from North Korea as well as the spent fuel.

If Russia and the United States, working together with other countries in the G-8, can make progress on just these three areas during the G-8 presidency of Russia, then they will have done much to prove the principle that a real partnership on non-proliferation is possible.

But let me end by just mentioning two challenges that I think will be necessary to make this happen. First and foremost, the United States, I believe, will have to challenge Russia to make success in confronting nuclear terrorism and proliferation problems a top priority of the G-8 presidency in 2006. So far, Russia has been silent on this question. We have mentioned energy security. We have mentioned some of the other areas that Russia has been focused on thus far in its planning for the G-8 process. And I think we will directly have to speak to Russia about – and to Putin himself about making non-proliferation an important focus for their G-8 year.

But for its part, Russia should challenge the United States to create the policy conditions that will enable a fuller U.S.-Russian partnership to emerge. The focus of this U.S. effort will have to be on pursuing the means and methods to release the many linkages that were put in place during the 1990s when Russia was pursuing significant and damaging cooperation with Iran. This cooperation, as you know, enabled the Iranians to accelerate their acquisition of nuclear and missile technologies, as well as other weapons of mass destruction technologies.

But in the intervening years, Russia's policies have changed, reflecting significant concerns about the motivations for the Iranian programs. The U.S. recognition of this change has come at a very high level. President Bush has said in an April 2005 press conference, that Russians are being helpful on Iran. The quote directly is – President Bush was referring to the U.S. fuel-services deal for the Bushehr reactor. And President

Bush said – I quote – “I think Vladimir was trying to help there. I know Vladimir Putin understands the dangers of an Iran with nuclear weapons.” Unquote.

The United States, therefore, should essentially run with this high-level change of view. And should be in a position to begin addressing some of the linkages that have halted important areas of U.S.-Russian cooperation, especially on the non-proliferation topic. With that, I'll close off my remarks, and look forward to your comments. Thank you.

MR. PERKOVICH: Okay, it's great in a sense. We had very concrete proposals from each of the three speakers, which isn't always the case. So there is a lot to chew on. Please, when I call upon you, give your name and affiliation, I you don't mind. I'll start with you, sir.

Q: Anders Aslund, in reference to the dynamic –

MR. PERKOVICH: Please introduce yourself.

Q: I'm in the National Council of – Eurasia and East European studies. On reference to the dynamic role that you sketched out for gas, and the comment that property rights would be adhered to, and your inference that there would be very substantial foreign investment, not only for this pipeline to Germany that we now are hearing about, but also for the development of national gas resources elsewhere, including pipelines and liquefaction. Is this going to be a major area of increased foreign-direct investment?

MR. ASLUND: Yes, if you take the Shtokman project, the assessment of the total investment range from 10 (billion dollars) to \$30 billion, this is a huge investment. If you take the pipeline from St. Petersburg to Greifswald in Germany, that is an investment of the maximum \$5 billion. It doesn't seem as if Gazprom is at all interested right now in the pipeline from Kovykta to China in East Siberia that TNK-BP is pushing for. And you also have substantial LNG developments already underway in the Sakhalin. So, yes, these are very substantial investments.

MR. PERKOVICH: Other questions? Gentlemen in the back. Thanks, Matthew. Right there.

Q: State Department. This is a question for Mike McFaul. I like your modest proposal. I understand it. And the third point about funding groups like Golos is very interesting. Could you comment, though, on Foreign Minister Lavrov's comments yesterday at Stanford about how this is not something that is in his interest and not something that he wants to see?

MR. MCFAUL: Well, he has to be overruled. (Laughter.) I mean, no, he is not helpful on these issues. And the way that he talked about it is somebody else, his boss, is going to have to say no; we are going to think about this differently. And let me be clear

about this. I was just in Russia a couple of weeks ago and heard ad nauseum about sovereignty, sovereignty, sovereignty, Russian sovereignty. And that is, you know – as if somehow – I felt like I was back in the 19th century.

Yes, would it be a – to fund for Western organizations to fund a Russian local group? I guess that is some violation of sovereignty abstractly, but then I think, well, what if everybody else did that? What if all countries then said we're not going to allow any spending on foreigners in any way, shape, or form. Stanford, for instance, would have to throw out about 5,000 students, right, first of all. You guys – yeah, RTVI – I think you would have to be – we would have to throw you out right now, right? You're not allowed here. Is anybody here –

MR. PERKOVICH: He looks like he is willing to go. I don't know. It's a nice day out there.

MR. MCFAUL: RIA Novosti, do we say they can't work here? No, of course not. I was a Road Scholar, right. Do I have to give back my money to Britain because of sovereignty, somehow that that – you know, oh, I'm a sovereign – I'm a sovereign citizen of the United States; I'm not allowed to deal with foreigners or take their money. It just – it's ridiculous especially when we talk about my pension fund going into Gazprom. Mr. Lavrov isn't so concerned about – yeah, he is concerned, but in the margins, right, as long as it is less.

In other words, I think this kind of throw up of sovereignty is very 19th century, not 21st century. It is not something that is unusual, if you will – special rules, if you will, that apply to Russia. That is the way it is being portrayed and I just don't see it. I see lots of global capital and funds and foundations moving all over the place, and I think that is a good thing, not a bad thing. And incidentally, it doesn't have to be American money either. I'm encouraging other Western organizations – Japanese, Russian, Ukrainian – I don't – you know, the source of the funding to me is not important. That – (audio break, tape change) – is important because without that it will not happen.

MR. PERKOVICH: James and then to have microphone to that gentleman there is the next one and then this gentleman.

Q: Jim Goldgeier, Library of Congress. We have heard a lot about things that we would like to see Mr. Putin do in advance of the meetings or during the meetings or issues. Could someone address what he or she thinks Mr. Putin wants to do with these meetings? What things he might be likely to do? It will be a really nice opportunity for him. He is going to have his G-8 colleagues there, none of whom will want to embarrass him. And so he can get their stamp of approval on things he might want their stamp of approval on, whether it's defining – again, defining Chechnya as part of the global war on terror or other things. So what are your expectations for how he will want to use the run-up to the meetings and the meetings themselves for – in the context of getting his colleagues standing there for whatever he is looking for?

MR. : (Off mike.)

MR. ASLUND: Well, I think that this Shtokman project is very big part of the energy security. The assumption is that there will be a final conclusion probably with either Conoco-Phillips and Chevron-Texaco before the end of this year and Statoil and Norsk Hydro – the two Norwegian energy companies – will play a minor role. I think that foreign-direct investment is very much the name of the game. Foreign-direct investors are very nice people are never get involved in politics if they can avoid it. So I think this is what Mr. Putin is interested in.

MR. PETROVICH: Rose, please.

MS. GOTTEMOELLER: Just continuing for a moment on energy security, I think one area that Putin will want to see some results on is the area of nuclear energy development and nuclear energy technology cooperation. This has been an area that has been heavily linked in the U.S.-Russian context. And if he can get an opening in that regard, I think he will be rather pleased. And by the way, of the agenda that I laid out, there is the most direct link I can see to the non-proliferation agenda because of the way that nuclear energy cooperation can then be used to drive forward an international program for providing guaranteed fuel services, that type of thing.

So there are some links there that are already available to us I think. I myself would like to see a more explicit non-proliferation-agenda item as I said. But I think it behooves us to think about the point that Mike made early on, and that is what can Putin expect, even if he has his own desires. And he will want to have those desires delivered during this meeting. But the story is very likely to be, you know, why is Russia in the G-8? What can they contribute, et cetera, et cetera? So he has got to fight and struggle against that.

So I think my view it is an area that every G-8 leader has to think proactively now about how they can get a positive result out of this meeting. And it is not going to be – even though President Putin might like to get some kind of positive statement on Chechnya, I think he would be ill advised to press too hard on that button in my view. It is going to head down the other road in the direction that Mike laid out to why do we have these people in the G-8 after all?

MR. PERKOVICH: Mike wanted to add.

MR. MCFAUL: Just a brief comment. I mean, it's very clear he chose energy security on purpose, right. He did not chose Rose's agenda. I think that it is important to underscore that, that we are pushing them for that. He did not choose war on terrorism because non-proliferation would expose in certain ways Russia's weakness, right, in terms of CTR and these kinds of – they want to focus on that. They want it to be positive. Russia is a great power. Where is Russia a great power? It is in energy, security, the provision of energy.

Even the war on terrorism is way too sensitive because it brings up Chechnya. Three or four years ago it was – you know, we like to talk about this global war on terror that we are sharing. It is not so comfortable and easy for Putin to make those kind of pleas and it is most certainly not so comfortable for the other members of the G7.

I think it's also important to realize that the G7 support for Putin is a lot – it is a lot more mixed today than it was I think when they originally scheduled this meeting, particularly the support from Prime Minister Blair is much different today than it was in the beginning of the Bush – the Putin years. I think that is true in this town as well. And we'll see what finally comes out in Germany. But eventually my guess is you're going to have a less Putin-friendly government there.

So suddenly you have got what is left. And he rightly has focused on energy security as the one shining thing – but, again, to reemphasize the point. And if he doesn't deal with these other things ahead of time, nobody is going to want to sit around for three days to talk about energy security. It is pretty boring compared to this other story that is looming.

MR. PERKOVICH: Thank you. Sir.

Q: Stan Crock from Business Week. A comment and question. There may be – to the extent that companies help bankroll NGOs, there may be a conflict between the apolitical increase in foreign-direct investment that Anders is talking about and Mike's argument for funding more NGOs. My question is, Mike, you said that the payoff from the relationship with Putin for Bush has been rather slim. What has been the payoff for Putin of this relationship? And if the answer is the same, what do we have here?

MR. MCFAUL: Well, I think it has been the same. And I think what you have in both capitals is indifference right now. I wrote another piece coming out next month about this drift away from the West, which I think by the way is quite remarkable and quite striking because for 20 years, the project of integrating first the Soviet Union and then Russia was just an assumption both in – especially out of Moscow but even in the West. That just was the nature of what we were doing together. And it had problems. And whether you integrate first reform first, and all of those kind of debates for the '90s – of course it was a big debate, but there was no question of the general principle of integration.

Now I don't – it's not hostility towards the West out of Moscow, but it is most certainly getting into the G – they are glad they are in the G-8 and they don't want to be thrown out, right? But if we were having that debate all over again today, I don't think there would be the passion, the drive that Yeltsin had to get into that club – would not be the same for Mr. Putin. On the contrary, I see him playing from his definition of success a very strategic foreign policy where he meets with Bush and talks – and then, meeting with the Iranian president; he has no problem with that. And then he is on to the Chinese and the military exercises there.

I mean, he is playing a kind of geo-strategic game that is not about – that does not place integration at the top of the agenda. That is very different than either Gorbachev or Yeltsin. And here it is shifting priorities plus frustration with the Russians. So for 50 years dealing with Moscow, either as an enemy or as a country that you had to deal with in collapse or as integration was a top foreign policy agenda item for anybody in the White House.

It is not the case today. It is a tertiary item. And it only comes in as it affects those other things that are on your primary agenda. So given that that is the case, it is hard to get anybody all excited either in Moscow or Washington about some grand new strategic objective because they are just looking elsewhere; they have got other things on their plate right now.

MR. PERKOVICH: Anders wanted to get in this one too.

MR. ASLUND: Yeah, I just wanted to add, don't forget vanity and status for Putin – it is important to be seen with Bush. For Bush it is not important to be seen with Putin or anybody else for that matter. So since Russia is the underdog, Putin is all the time emphasizing his bilateral relations pretty much in the same way as Yeltsin did, by the way. So that it is also important and that is a one-sided affair.

MS. GOTTEMOELLER: I can't resist a quick comment following on Mike's remarks. That is another reason why there has been a denigration of this agenda, of this bilateral agenda – has simply been the removal of the traditional nuclear disarmament issues from the agenda. They were such a key part of how we talked together, what we thought about as we approached summits and so forth and so on.

And the Bush administration, as well as the Putin administration have successfully placed all of those issues on the backburner, whether nuclear-arms reduction or nuclear-risk reduction. So effectively the problem is still there. You still have thousands of nuclear warheads aimed against each other in both countries, but the issue is simply not a relevant one at the present time. So at least it is treated as not relevant in both the Kremlin and the White House.

MR. PERKOVICH: And Mathew to Mr. Horelick afterwards.

Q: Bill Jones from EIR New Service. I would like to just address Mike McFaul's comments and especially the proposal that President Bush would address an alternative conference that probably will be organized somewhere in Russia in connection with the G-8. It is always the case at these G-8 meetings that people – you know, the opposition gets together to discuss the issues that are very sensitive for the country, which is the host country. This is normal – probably will occur in Russia too.

But it is very unusual for a member of the G-8 to somehow play into that simply by the nature of how the organization has been working, and the effect it would have of course on Russia is really anybody's guess. It seems to me that the whole purpose of

having Russia in the G-8 was somehow to bring them into an integration into the world economy.

It is very prestigious of course for President Putin, but if you try and give them a slap in the face because you're not happy with the democracy thing, not only will you not get anywhere on development of democracy in Russia, but you will probably create negative reaction, which would lead to even tougher measures within Russia itself. So it seems to me that that is really not the way to go.

And secondly, with regard to the issue of the shift in Russia, the environment has changed considerably, although Putin and Bush seem to have a close relationship, although if you looked at their press conference the last time, they really had to work hard to let people know that we are still working together. I mean, they were not happy campers at all. But the situation has changed with the war on terror. The defense transformation has raised some eyebrows. And a lot of people in Moscow are asking what is U.S. policy really. And I think that has to be taken into consideration to see that the effects of what is going on in Russia are partially a result of a change in U.S. policy from what it was at the end of the 1990s.

MR. PERKOVICH: There was more – (inaudible) – but there was the issue to address of – whether there would be a backlash if the president did as you suggested and how would manage the backlash.

MR. MCFAUL: Yeah, I mean, this is always what people say all of the time. And my attitude is if you believe in democracy, then you have to act democratically. Bono got to meet with the G-8 meeting, G-8 leaders. That happened. An equivalent kind of meeting – you know, that was good thing in my view. The pressure from the outside that helped make the agenda that Tony Blair was pushing. I think that was all a good thing. And involving non-governmental organizations, and non-governmental leaders. I think that is a good thing, not a bad thing.

To kind of say, well, we don't want to embarrass him with a meeting with his own citizens about issues that they care about, I think that is – you know, I guess that is pretty disappointing that if Russia has truly gone that far – I don't believe it is, by the way. I think Putin would want to engage in it. I think he would think about it as a way for him – he has got some good arguments about the way he thinks about democracy. He does; real arguments, but if we're so worried about how is going to feel about it that we wouldn't want to talk about it, well, that just means we're not serious about it either.

MR. PERKOVICH: Dr. Horelick.

Q: Mike, to continue – Arnold Horelick, RAND. Just to continue the last question. Frankly, I also think that your second proposal about an NGO G-8 addressed by the president of the United States is sort of inconsistent with the modesty of the first proposal. But I would like to say – ask you a few things about the first proposal, which

may be – suffers some danger of backlash or unintended consequences precisely because it is so modest.

I think – if I understand your argument, it will appeal to President Bush because he is laying down – he would be laying down some kind of concrete marker for promoting democracy. It might appeal to President Putin because, as you indicated, he is going to win the election anyway, even without foul means, and this diverts the attention of the 7,000-strong press core from other issues.

I think in a way the proposal is a little clever by a half. If, as you suggest, it turns out to be true that the understanding that you would like to see the G-8 reach informally with Putin – turns out to be the case and that because Putin popularity is so great, because he still had strong anointing power, because the opposition is in such disarray, and because there are other legal administrative means and political technology that can be brought to bear, Putin's successor or Putin wins the election – and it appears like he is going to – then the understanding will be seen as a sham, basically a deal between Putin and Bush to make both of them look good. And it would have very little, if any, effect on Putin's control of the political situation, but it would give a Western seal of approval to it because he was going through the motions properly. That is scenario one.

I acknowledge that there is a potential long-term benefit because if these elections – if these monitoring and other procedures that you suggest get instituted even for the 197 – 198 elections, and Putin nevertheless wins handedly, they might be an inhibition, or they might become institutionalized, so overtime they would – I acknowledge that that is the case. I'm just wondering whether that is sufficient to overcome the sham problem.

The second possibility is indeed it turns out that these measures and others, including your parallel G-8 meeting strengthen the prospects of the opposition, and it begins to look over the next couple of years like there is a serious oppositional threat, in my judgment, it is almost certain at that point that Putin and his government will proclaim that they have been betrayed by the West, that in fact the West hasn't limited itself to the measures that there was an understanding about.

There will undoubtedly in such an arrangement be in agreement. Putin will insist on an agreement about non-interference. Now, non-interference may mean any interference over and above the things that Putin agrees to with respect to monitoring. So if the election turns out to be more hotly contested, that could boomerang also by a real crisis in U.S. Russian relations. So when I look at both of the possibilities and I ask myself what the benefits are going to be, I think it's probably not worth it.

MR. PERKOVICH: You don't have to answer, but if you do, how about one word. I'm just kidding.

MR. MCFAUL: Well, I thought I had pretty bleak picture and there is little to be done, and Arnold has even told me that there is even less to be done. We should just sit

on our hands and pray for rain or – I mean, I don't – I guess – no, no, let me answer seriously.

The fact – yeah, yes, you open yourself in the first scenario. I mean, they are scenarios, for instance. So this is a hypothetical. But in the first scenario, yes, you open yourself up to the criticism that it's a sham. But doing nothing, you also get the same criticism, right. By doing nothing, you're not going to get any benefit in terms of looking more democratic. That is the first comment on the sham part.

The second, you know, I have been looking at places like Serbia in 2000, Georgia, 2003, Ukraine, which we have been writing about. And if you look at those processes, it turns out that – you just said it – it turns out that things that seem insignificant – T minus 8 – stupid little things like electoral monitoring groups like CeSID in Serbia for a couple of electoral cycles didn't matter at all. And then it did get institutionalized and then they had a profound impact on politics there.

And when I look at – or CVU in Ukraine – you know, there are more problems with that. But CVU has been around for a decade before what happened in the fall. CeSID was around for a decade before they really had the kind of impact. And I look at the Russian parallel organizations and they are just way far behind, and in a legal regime that is much more hostile to them. So, yeah, I'm planning for the long haul, not 2008.

But that gets to your second scenario. If for some amazing set of conditions it got more heated and hostile, well, you're exactly right, but that is going to happen no matter what. That is already happening. I mean, look at what they are saying about groups like IRI and NDI and what they have done to Soros, what they have done to Freedom House. I mean, that is already there; that is already the environment. And maybe it will get more heated, but then so what.

Then it's, like, well, they throw them all out and then you expose yourself for what you truly are. And then you look like a typical Central Asian dictatorship or Mr. Lukashenko. That to me is a cost I don't think Putin wants to bear for precisely the right thing that Anders said. He is not Lukashenko. He is not somebody that wants to be kicked out of the G-8 and made a pariah. He cares about these things dearly and therefore I think it's worth doing.

Finally, on the conference idea, yeah, there is always negative. I understand there is always a potential negative consequence for it. But look at what we're saying. We're saying that we have to worry about the optics of leaders meeting with their constituents and constituents in their group. I don't think – that's a pretty low bar that we're afraid to cross. And by the way, I think Bush needs to do it too. Don't get me wrong.

You know, Putin just sat for two-and-a-half hours with a bunch of Westerners a couple of weeks ago. Answered how many questions? Twenty-seven questions for two-and-a-half hours. I think Bush should do that too with Russians in the room. I mean, I think that kind of interactive societal stuff is not bad it's good. And by the way, it's

exactly what Mr. Putin and Mr. Bush say in every speech they give about democracy all the time.

So, well, let's actually do what you say you're pledged to do. I don't see it as that radical. But maybe that gives you a sense of what is left in the relationship that such an idea of a conference about NGOs meeting is radical. I think that is maybe a real damning statement about where the relationship is today.

MR. PERKOVICH: Andrew.

Q: Oh, Andrew Pierre at Georgetown University. Great discussion but for very understandable reasons, it has focused very much on the Russian-American dimension of the G-8. So let me mention two – what I think are significant issues, which could come up. I would be interested in any comments from any of you on this. First of all, China – China looming large, larger, month by month, year by year. It's a major interest to all of the countries concerned with different – at the G-8 with very different perspectives. So I welcome any comments on that.

And secondly, kind of a way out extreme idea. It may be that by that time what will be perceived as – let's always remember that the G-8 or wherever it began – as G6 began at Fontainebleau as a way – in the '70s as a way of coordinating international economic policy. Well, we have got a situation now where the largest economy in the world has major deficits, budgetary and balance of payments, which could unhook much of the world economy. And it strikes me that this would be a logical topic of importance at any G-8 meeting next year. I would be interested if any of you have views on this whether Russia, which is not the biggest buyer of U.S. bonds and so on, has a view on this.

MR. PERKOVICH: Thanks. I was waiting for the China question. That is great. Rose.

MS. GOTTEMOELLER: I'll start on the China question. I just got off a plane actually. I was meeting in Beijing last week on nuclear security questions. And it is an interesting factor at the present time if we go back to North Korea and preparing for efforts to dismantle North Korea's nuclear facilities. The members of the six-party talks, if they are not a member of the G-8 already, and therefore a member of the G-8 global partnership that is applied to the cooperative threat reduction programs – others like South Korea have since joined.

So all members of the six-party talks, except for China, the leaders of the six-party talks are well positioned in my view to cooperate together on a joint agenda, working together on a threat reduction activity with the North Koreans. That is again assuming that the negotiations are successful and we're able to move forward. This to me is a very, very interesting illustrating of where China finds itself today. It is taking the initiative, it is setting the agenda in certain important areas.

Someone mentioned the exercises with Russia. I think that is, you know, in some ways an important geopolitical symbol. But maybe not as important as the fact that here it has stepped out on the international diplomatic stage, is leading the six-party talks, but once we get to implementation it is very poorly situation. And therefore I think that this will be an important factor to take into account.

Talking to the Chinese last week, I have to say they haven't thought much yet about the implementation stage and whether they will be well positioned or not. But in my view, because the relationship between Russia and China is improving now, Russia can play a helpful role in bringing China actively into the implementation of a disarmament program with North Korea.

Again, I want to stress we are not there yet. We have had some positive moves this week. But they seem to be up again down again. But I do believe that looking at the North Korea situation and thinking about further down the road whether China can be involve in implementation, we have to think about how they are involved in implementation because they are very poorly situated now. And in my view Russia could play a role, along with the United States, in bringing them into that later phase.

MR. PEKROVICH: Anders, did you want to –

MR. ASLUND: Well, of course you're right. But the G-8 or rather G7 used to discuss world finance. And this has stopped. What concerns systemic questions, the Washington consensus reigns since about 1990. If anything happens, it's the U.S. hectoring the other countries about what they should do about their economic systems. But now you're coming in the opposite direction. The U.S. has a current account deficit to the tune of \$600 billion while, for example, Russia has a surplus of something close to \$100 billion.

So the question is how long will the exchange rate holds today. When we get serious imbalances in exchange, the natural forum for that discussion is the G-8. The U.S. has resisted this discussion nor have really anybody of the others pushed very strongly for it. But that should come back as a big discussion.

MR. PERKOVICH: Briefly, Mike.

MR. MCFAUL: Just really briefly on China, it was symbolism – Rose is right about the exercises, but it was symbolism that made a big impression on the Russian military. Mr. Ivanov in our meeting with him a couple of weeks ago, the defense minister, was extremely pleased with the way it went. And this notion that Russia is a – you know, who else in the world could do a joint military exercise with China? Nobody. There is no other country in the world that could, no other country I think that has, by the way, either.

That is another way of saying we are a great power, we are a serious player in the world. So the answer is there is no agreement on how to deal with China and China's

rise as a power within the G-8 if Russia is in. So I suspect Mr. Putin will not want that to be a main item in the meeting in St. Petersburg.

MR PERKOVICH: But I just want to try to address that a little bit, Anders, in the sense that depending on how the Iran situation goes – and I can't imagine there will be much clarity on it – you have a number of the European states plus the U.S. who will take the G-8 as an opportunity to try to address that issue because they have in the past, and you have then Russia and China kind of being the key potential outliers or obstacles. So I think that that gets to China issue and another dimension that we should expect.

Toby – the gentleman back there and then Toby here.

Q: Colin Bradford from Brookings. In recent years the G-8 has on an ad-hoc basis opened up to other mostly developing countries to deal with the millennium agenda and other things on an ad-hoc informal basis just for specific items. It has also been the case in recent years that as the legitimacy of the G-8 has been questioned itself, that people have wondered whether or not the permanent membership should be expanded to include India, China, Brazil, South Africa, the most logical ones, and beyond that, to the G20 type of merging market economies. I wonder if any of you have a view about Russia's attitude towards this enlarged G-8 either on the informal ad-hoc basis or on the permanent-membership basis.

MS. GOTTEMOELLER: Well, Putin has already indicated that he wants the CIS countries involved somehow in the G-8 summit. So I am expecting at a minimum they will be invited. He has – kind of drawing forward the agenda that Blair established with African aid. He is saying, well, we must pay attention to education and assistance for the CIS countries who have not benefited as greatly, some of them from the economic growth for Russia in the region. So I would expect that to be the case. And my colleagues might disagree with this, but I would expect Russia to somewhat jealously guard its position as the final entrant into the G-8 and not especially to be encouraging new members, but my colleagues might disagree.

MR. ASLUND: We agree actually.

MR. PERKOVICH: Toby and then the gentleman back there will have to be the last –

Q: Thank you. Toby Gati. Rose just mentioned one of the points I wanted to raise, which is that the Russians themselves have listed two other topics. One is post-Soviet space and the other is demographics or infectious diseases. So I'm assuming either we're discounting those agendas as not serious or we're assuming that they will do the easy agenda, which is energy and, by the way, of course terrorism. So I just want your reaction to that. My comment on China is it would seem to me the Russians might want the Chinese in because then the democracy issue really goes away.

MR. : Mm-mm. (Laughter.)

MR. ASLUND: Let me just say, Russia just increased its AIDS funding by 20 times. There is something here. I think Russia is reaching the stage when it has to do something about its healthcare sector, which is one of the most lacking parts. But so far there is extremely little and slow reform coming. Indeed since virtually all reforms have been stopped now, there is not much that they can do. The problem is not as much funding as a very poorly functioning system, and they are not going to do any systemic reform after a debacle with a social benefit reform early this year.

MR. PERKOVICH: Sir.

Q: Yes, John Squier from the National Endowment for Democracy. I have a comment and a question. For the comment, I would like to return to what Dr. Horelick was saying about foreign assistance to NGOs and civil society in Russia. One of the things that I have noticed is that there has been a tendency to talk about this – to keep saying we, we, we, as if we in Washington are going to go out and do the election monitoring or sign the petitions and so forth.

Ultimately it's the people in Russia who do that. And the money that we give them is not I think sufficient inducement to get them to do it alone. They are actually do this more out of conviction than out of trying to get – out of trying to get a salary. And I think that there is a great deal more popular discontent, if not with Vladimir Putin himself, then with aspects of his regime, than is being acknowledged today.

So the potential for change I think in Russia is a good deal greater than we are allowing for right now. And we can play an important role in that. We played a very important role in Ukraine. And one of the things that we did I think ultimately was help make that transition peaceful. There was an awful lot of potential for violence that got broken down precisely because there were NGOs there to help people channel their discontent.

The question that I have goes back to what Mike McFaul was saying about his various proposals, and one of them was that President Bush should stop talking about Russian democracy in public. And that seems like it doesn't square with the other proposals that you had laid out because I find that the Russian government seems to respond better when there is a consistent response across the entire government. So I'm wondering you could maybe draw out a little more why it is that you think that that is a good idea. Thanks.

MR. MCFAUL: Thanks, John, let me draw it back. I was being flippant. I was just so disappointed with the way he talked about it last week. Thankfully nobody noticed because nobody was paying attention to the summit, right. That happened here last Friday. But I guess what I was trying to say, just reading a text and throwing the word, "democracy," and Russia in the same sentence is not enough. That is all I meant to say. I think if he wants to be credible on this, he has to do more than that. And that is why I was suggesting he would take these very concrete steps that would substitute what

I think has been a rather lackluster attention in his public addresses. But, you know what, I take the comment back. Thank you for pointing out. And I won't say it again.
(Laughter.)

MR. PERKOVICH: You heard that here. Well, let me thank you all for coming and I especially want to thank Anders, Rose, and Mike for a very illuminating presentation. Thank you.

(Applause.)

(END)