



JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY
RICE UNIVERSITY

LUNCHEON REMARKS AT THE CONFERENCE
“RUSSIA AND THE CASPIAN STATES
IN THE GLOBAL ENERGY BALANCE”

BY

THE HONORABLE JAMES A. BAKER, III

HONORARY CHAIR
JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY
RICE UNIVERSITY

MARCH 20, 2009

THE RITZ-CARLTON HOTEL
MOSCOW, RUSSIAN FEDERATION

© 2009 BY THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY OF RICE UNIVERSITY

THIS MATERIAL MAY BE QUOTED OR REPRODUCED WITHOUT PRIOR PERMISSION,
PROVIDED APPROPRIATE CREDIT IS GIVEN TO THE AUTHOR AND
THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY.

Remarks by James A. Baker, III
RUSSO-AMERICAN RELATIONS: A NEW BEGINNING?
MARCH 20, 2009

Thank you, Ambassador Djerejian, for that generous introduction.

I am delighted to be with you this afternoon and honored to participate in today's conference on "Russia and the Caspian States in the Global Energy Balance."

The Baker Institute's Energy Forum is proud to co-host this event with Carnegie's Moscow Center and Baker Botts LLP. I would like to thank everyone involved in organizing this conference, especially Sam Green, Martha Olcott, Steve Wardlaw, and Amy Myers Jaffe. Most of all, I would like extend my special appreciation to our many Russian, American, and other participants who have found time in their busy schedules to join us.

It's been a busy morning. And, to judge from the conference agenda, you have an equally rewarding afternoon ahead of you. So I will be brief.

While my remarks will touch on energy, their main focus will be on the current state and future prospects of the broader Russo-American relationship.

I don't have to tell anyone here that the last several years have seen a marked deterioration in relations between Moscow and Washington.

Differences on such issues as NATO expansion, European missile defense, and Iran's nuclear program have sharply divided Russia and the United States. The Russo-Georgian war of last summer added further strains to the relationship. By late last year, relations between our two countries had probably reached their lowest point since the implosion of the Soviet Union.

I'm not here to assess blame for this state of affairs. I'm not a historian. But I *am* someone who, along out our next speaker, has hands-on experience in improving the Russo-American relationship. And I remain deeply committed to that goal. I also happen to be convinced that Moscow and Washington today enjoy an historic opportunity to move our troubled relations in less contentious and more productive directions.

Why?

Let me point to two reasons.

The first is the election of President Obama. All new American administrations, whatever their party, enjoy a one-time chance to “clean the slate,” as it were, in relations with foreign capitals.

Now, this power is not absolute. Every president enters office constrained by past commitments, both formal and informal. And this is only right. Continuity *is* an important quality in the conduct of foreign affairs. But there *does* exist a narrow window of opportunity for a new administration to reshape the tone of bilateral relationships. President Obama, to his credit, has said that he hopes to do precisely this with Russia.

I welcome his call for talks aimed at reducing our two countries nuclear arsenals. Indeed, I would go further and seek Moscow’s engagement in multilateral negotiations aimed at the elimination of *all* nuclear weapons world-wide. This is the so-called “no nukes” goal or aspiration of such American foreign policy luminaries as Henry Kissinger, George Shultz, William Perry, and Sam Nunn. Of course, attaining a world free of nuclear weapons will be the work of years, perhaps even decades. And it can only happen if all who possess those weapons agree -- and then only if they get rid of them proportionately. So you think about it -- the United States, Russia, France, Britain, China, India, Pakistan, Israel, North Korea -- and you say to yourself: it will never happen. But that is not reason not to try -- and begin now.

I am reminded of an anecdote that President Kennedy used to tell about the French Marshall Lyautey (Leo-TAY.) The Marshall once asked his gardener to plant a tree. The gardener objected that the tree was slow growing and would not reach maturity for 100 years. The Marshall replied, “In that case, there is no time to lose; plant it this afternoon!”

Of course, the largest nuclear arsenals are those of Russia and the United States, and so, reducing Russian and American nuclear arsenals is an obvious and important first step towards a world free of nuclear weapons. With the Cold War twenty years behind us, there is surely no plausible strategic reason for our two countries to maintain stockpiles of nuclear warheads capable of destroying each other several times over.

I also applaud the Obama administration’s suggestion that the United States revisit its plans for missile defense in Europe in return for Russian cooperation on stemming Iran’s nuclear weapons program. Russian technical assistance to Iran has diminished in

recent years. And Moscow is to be commended for insisting that all fuel rods from the soon-to-be opened Bushehr nuclear power plant be returned to Russia for recycling. But there is still broad scope for Russian cooperation in getting Tehran to comply fully with UN resolutions and to cooperate with the International Atomic Energy Agency in good faith.

The Obama administration's proposal is more than a negotiating ploy. After all, one of the chief reasons for the proposed defense system is to counter the medium- to long-term risk that Iran could target Europe with nuclear missiles. Should Russo-American cooperation, in the United Nations and elsewhere, succeed in averting this risk, there will be less need for missile defense in Europe.

More generally, Moscow and Washington share a vital interest in seeing that Tehran *not* become a nuclear power. Not only would such a development dangerously shift the balance of power in the Middle East, it could also trigger a destabilizing regional arms race as other countries – notably Saudi Arabia, Turkey and perhaps even Egypt – rushed to develop their own nuclear capabilities. An actual nuclear exchange would of course be catastrophic, not only to the inhabitants of the region but for also Russia, only a few hundred miles to the north. But any heightened conflict – especially involving Israel – would surely play into the hands of extremists in the Middle East and broader Muslim world. Such outcomes are plainly not in the interest of Washington, Moscow, or the capitals of the Middle East.

Last but not least, the administration's proposal comes at a time when the United States has also signaled its willingness to engage Iran directly. This should allay concerns – in Moscow and Tehran – that the United States is seeking to forge an “anti-Iranian” alliance with Russia.

Let me now turn to the second reason I believe that we now have a historic opportunity to reshape Russo-American relations. And that is the current financial and economic crises sweeping our two countries and indeed the world.

If there is a silver lining in the present down-turn, it lies in the scope it creates for renewed international cooperation, including closer coordination between Moscow and Washington.

The full severity, scale, and duration of today's crises remain unknown. But two things are certain. First, we are today experiencing the greatest instability in world financial markets since World War II. Second, we are entering a global recession that will leave few, if any, countries unscathed.

The causes of these related crises are complicated. But a lion's share of the blame must surely fall on the political leaders, regulators, and bankers of the United States and other major financial centers. Not only do we need to address the immediate risk of financial melt-down. We must also reassess our entire approach to financial markets and begin the painstaking process of creating a new global financial system based on the principals of transparency, accountability, and prudent risk management.

Whatever the causes of the current crises, however, one lesson is paramount. Because of globalization, it is now impossible to address our economic and financial challenges without broad-based international coordination. "Going it alone," is no longer an option, no matter the size of the country.

In short, we are all in this mess together. And we're going to have to work together to get out of it.

To reverse current economic trends will require unparalleled global coordination of our macro-economic policies -- fiscal, monetary, and regulatory. Any such effort must include Russia and the United States. And Washington will be looking -- rightly -- to Moscow as a partner as we work to craft a common international response in the G-20 and other forums.

Even as the United States and Russia work together with others to restore growth to the world economy, we also need to acknowledge the cost of instability in energy markets.

Recent years have seen a roller-coaster ride in hydrocarbon prices that has ill-served importing and exporting countries alike. First, importing countries like the United States saw their economic performance hampered by skyrocketing energy prices. Now, exporting countries like Russia are being hurt in turn, as collapsing prices have decimated export earnings and government finances.

Stability in financial markets is critical to sustained global growth. But so, I would argue, is stability in energy markets.

Here Russia can plainly play a truly decisive role. As the world's largest exporter of natural gas and second-largest exporter of petroleum, Russia has much to gain from stable energy markets marked by transparency and predictability.

Moscow's role as a reliable supplier of natural gas, for instance, has been a lynchpin of economic growth in Western Europe and Russia. There may be short-term geopolitical or commercial gains associated with disrupting supply or threatening to do so. But any such advantages are surely outweighed by the long-term costs associated with diminished demand in consuming countries and efforts there to secure more diversified supply. These costs are surely higher today than in recent years, as we move into what appears to be a "buyer's market" in natural gas.

The same holds true for petroleum. The case for stable, moderate oil prices is compelling. Volatile prices not only damage demand in the short- to medium term. They also encourage the longer-term development of alternate hydrocarbon and renewable energy sources. Neither, needless to say, is good for Russia. Nor is the collapse in energy prices that inevitably follows an unsustainable spike.

An abundance of natural resources is a blessing. But it can also be a curse. I speak from experience as a Texan. For decades, my state endured boom-and-bust cycles based on energy prices. We only began to emerge from those cycles when we diversified our economy. It is in Moscow's interest – and Washington's – that Russia become a more broad-based economy less dependent on the vagaries of hydrocarbon prices.

In conclusion, ladies and gentlemen, let me stress that Russia and the United States differ – and will continue to differ – on a range of important issues. To pretend otherwise is to guarantee disillusion and disappointment.

But we can – and *must* – learn to manage those differences better. We need to lower the rhetorical temperature. We must keep lines of communication open. We need to listen more closely to one another.

NATO expansion is a case in point. From Washington's perspective, NATO expansion is a critical tool in ensuring regional stability and consolidating democratic governance in member states. NATO is not just a military alliance but a political one as well. As far back as 1993, I suggested that membership should be open to any country on the European continent that fully embraced democracy and free markets -- including

specifically Russia. But for many in Moscow, NATO expansion appears to be nothing more than an effort to push Washington's sphere of influence to the borders of Russia. I now doubt this perceptual divide can be bridged any time soon. But both sides should show understanding and restraint.

Moscow, for its part, should realize that the United States considers the influence potential NATO members like Ukraine and Georgia to be sacrosanct. Washington, in turn, should move judiciously with possible expansion to ensure that territorial disputes, like those over South Ossetia and Abkhazia, do not become flashpoints for conflict between Russia and NATO.

Even as we manage our differences, however, we must move beyond them in areas where our interests align. I have mentioned reducing strategic arsenals, stemming proliferation of weapons of mass destruction to states like Iran, crafting a common policy towards the current economic crisis, and working to improve the stability of hydrocarbon markets. But there are more. Combating terrorism and addressing global climate change are merely two – other truly critical – examples.

The Obama Administration has said it wants to hit the “reset button” on Russo-American relations. It's an admirable idea. And all of us, Russians and Americans alike, should welcome it. But we should also be aware that forging a new relationship between Moscow and Washington will not be easy.

Success will take time.

It will take work.

It will demand a commitment to *realistic* goals and *pragmatic* solutions in both capitals

Above all, success will require an appreciation of the importance – for both our countries and, indeed for the world – of a new beginning in Russo-American relations.

Thank you.
