



Remarks to the U.S.-Russia Business Council

Secretary Colin L. Powell
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(As delivered)

SECRETARY POWELL: Thank you very much, ladies and gentlemen for your warm welcome. I want to thank my beloved friend, Bob Strauss, for that very kind and generous introduction. I'm sure Alma will appreciate it as much when I tell her about it later this evening. Bob and I have known each other for all these years, and over those years he has been a mentor, he has been a father figure, but above all he has been an inspiration to me, the kind of person you want to be--the kind of person who gives back constantly in so many ways to the nation that has done so much for him and me, a man who is a symbol of the finest example of service to nation in public and private life. And I, too, will never forget the days when he was over in Moscow as the last Ambassador to the Soviet Union and the first Ambassador to the new Russian Federation. He handled that difficult challenge with a great deal of skill. I am honored to have Bob introduce me today. I am also pleased to be in the presence of our current Ambassador, Sandy Vershbow, who is doing such a magnificent job for the country.

There is probably only one person in this room who matches Bob Strauss's passion, tenacity and effectiveness in promoting a strong relationship with Russia and especially a strong commercial relationship with Russia than Gene Lawson. Gene, for 10 years, your vision and energy have been the inspiration and driving force behind the US-Russia Business Council. We are all deeply grateful to you for that. (Applause.)

I very much appreciate this opportunity to keynote the US-Russia Business Council's 10th annual meeting and to have the opportunity to talk about our growing partnership with Russia, and especially on this occasion, the economic relationship that exists between our two nations. Chairman Margelov, Deputy Chairman Remchukov, Minister Gref, Ambassador Ushakov, other distinguished guests, members of Congress and ladies and gentlemen, It's been almost 300 years since Tsar Peter the Great, to use Pushkin's famous phrase, "hacked a window" through to Europe and promoted commerce between Russia and the West. And never in the 300 years since have the prospects for such commerce been more promising than they are today. Because never before have the prospects for enlarging that window been better. Never before has Russia's commitment been greater to improving conditions of trade and investment.

Russia has made fundamental choices for democratic government and for market economics and Russia continues to advance aggressively in both of these directions of democratic reform and markets economics. There have been setbacks, of course. We will all see such things in time and we try to overcome setbacks, but no one worries anymore, there is no concern anymore that we're going to go back to the old days, back to a closed economy, back to the kind of economy that existed for so many years

Beyond forward movement on issues of governance and the market, there was another development that is bound to have a positive effect on the business climate and that is the new Strategic Partnership that Presidents Bush and Putin have established and which they are determined to deepen in the years ahead.

I will never forget President Putin's response to September 11 and how that marked the beginning of a new period of our relationship with Russia. He came out and he stood with us against a common enemy. He responded to President Bush's call for all of us to unite against terrorism. He showed what a friend he was to America, to the American people and to President Bush. We have gone from a relationship based on a balance of fear to one that is now based on mutuality of interest. For example, lo and behold, the world did not come to an end last December as many people thought it might with respect to relations with the United States and Russia when we agreed to disagree over a fundamental issue and that had to do with the ABM Treaty.

We agreed to disagree and we announced our intention to withdraw. Russia said they disagreed and disapproved of that intention to withdraw, but there was no crisis in U.S.-Russia relations, no new arms race began.

I will never forget sitting with President Putin and Foreign Minister Ivanov in the Kremlin as I took them through the logic of our position and what President Bush intended to do. And President Putin looked at me and said, "We disagree with you. We think you're wrong. But it will not change the basic relationship between our two countries because we have important work to do. And there will be a new strategic framework that will develop as a result of this." And now that we have made a decision on this disagreement, it is behind us and we can move forward. And in fact, rather than an arms race breaking out, rather than a fracture in the relationship, 6 months later in a gilded hall in the Kremlin, President Bush and President Putin sat together and signed the Treaty of Moscow, an historic strategic arms reduction treaty. They also signed a political declaration that redefined the U.S.-Russian agenda. Our emphasis, it said, would be cooperation and joint action to meet the challenges of the 21st century.

And then in Rome a few days later, the President joined our allies and President Putin in forming a NATO-Russia Council that will foster Russia's full integration into the Euro-Atlantic community. And I'm pleased that the work that has already been done by this new council, and they will report to the leaders of NATO later in the year.

As a result of this fundamental change in the relationship, we head into the NATO Summit in Prague this November, I think, in a far better position to deal with the next stage of NATO's enlargement--in a great deal more calm an atmosphere than might have been expected.

Russia's new partnership with NATO and the admission of new members will strengthen the alliance's ability to meet new security threats. Today, across the globe, Russian and the United States are working together on issues of shared concern rather than vying for spheres of influence. That great, global chessboard of the Cold War, the one with the red pieces for Soviet Communism and then the other pieces, the white pieces for the free world, has been overturned once and for all. Russia is becoming a full participant in the international system.

All of that makes for a vast expanse of unprecedented stability from the Pacific Northwest, across the United States, across the Atlantic and Europe and all the way across Russia to the Russian Far East. And stability, that kind of stability, is good for business.

As a soldier, which I still consider myself, and a soldier who spent most of his adult life preparing for a war with the Russians, a war with the Soviets, a war that, thank God, never came, I still find myself astonished at the reality of this new situation. I was kidding with someone the other day and I said you know what the Fulda Gap is don't you? It's a store that sells Levis somewhere near the town of Fulda. (Laughter.)

But from the time I was a 2d Lieutenant through my appointment as Chairman of the Joint Chiefs of Staff, I was concerned with the old Fulda Gap and the danger that Soviet totalitarianism posed to the world. Now the United States and Russia are cooperating to defuse tensions in other parts of the world. Cooperating in places such as the Subcontinent to defuse tensions between India and Pakistan, to consolidate peace in the Balkans. We're working together to end the violence in the Middle East and to get the Israelis and Palestinians back on the road to negotiations. We're working together in the Quartet for Middle East peace.

Foreign Minister Ivanov and I talk, and this is not an exaggeration, almost daily. He's waiting now for a 12 o'clock phone call, and I will give him a full report of this

session. We talk every day about these issues because we want to be this close. We want to make sure that we are inside one another's pocket in the decision process.

We share the strategic goal of Iraq disarmed of its weapons of mass destruction. And we are working together to achieve it. There's a great deal of debate taking place now. I'm very pleased at what the United States--or part of the United States Congress did yesterday with respect to giving the President a strong resolution of support, and I am confident the rest of the Congress will join in that effort.

And we are hard at work in New York on what we believe is necessary to move that diplomatic process forward: a new resolution that, once again, points out Iraq's failings and that also puts forward a strengthened inspection regime that will be determined by the Security Council and not by Iraq, so that Dr. Blix has all the authority to do the job that needs to be done. And it has to be a resolution that all people understand will have some consequences associated with it if the Iraqis do not perform.

The discussions are intricate, but I am optimistic that we will find a way forward in the Security Council. We must find a way forward if the Security Council will retain its relevance. But there can be no doubt about the determination of the United States, and I believe of all nations of the world, to include Russia, to disarm Iraq. We can no longer turn away from this danger. We have to disarm Iraq, and the President is quite willing to do whatever is necessary to bring that about.

The United States and Russia are partners in a new kind of war against the common foe of terrorism. Indeed, counterterrorism cooperation is now a key element of our relationship. Russia has made invaluable contributions to the global antiterror coalition. This has included military assistance, overflight clearance, search and rescue assistance, and intelligence sharing, and law enforcement cooperation. And our two countries work together in the United Nations Security Council to support global antiterrorism measures.

Arms control remains a key part of the partnership although the thrust of our efforts has shifted from managing Cold War competition to addressing common threats. I already mentioned our agreement to slash strategic offensive weapons over the next ten years and we are looking at ways to cooperate in areas that used to be off limits, such as missile defense against rogue states who would threaten our homelands and our deployed forces. The new global partnership between our two nations adopted at the G-8 summit recently an initiative to strengthen our efforts to destroy Cold War inventories of dangerous weapons. More and more, our relationship is characterized by cooperation and partnership. This is not to say that we don't still have serious disagreements. These disagreements, however, should not cause us to lose sight of the dramatic changes that have occurred in our relationship on the security front.

One such disagreement has to do with our very strong concern about Russian nuclear weapons and ballistic missile technology that is still finding its way to Iran. The second concern is Chechnya. We fully support Russia's territorial integrity, as well as Georgia's, but we believe that the solution to the current problem is a political dialogue. Russian security forces must observe international standards in their operations in Chechnya and we hope that a political solution will be forthcoming, and we are working not only with the Russian leadership but the leadership in Georgia with respect to the difficult situation in the Pankisi Gorge.

Both of these issues--Iran and Chechnya and the spillover into Georgia--entail matters of principle for both countries. We cannot minimize or overlook matters of principle. We might disagree, but because we do have such a strong friendship, such a strong relationship, we can deal with these disagreements. We are not building a "pokazuka partnership," one that is just for show. We are building a real partnership. And ours must be a hard-won, honest partnership worthy of two great nations with heavy, heavy responsibilities and much to contribute to a better 21st century world.

However dramatic and welcome the transformation in the security in area has been, I think that it is a mistake to let the quality of the U.S.-Russia relationship continue to be defined primarily in terms of security issues. This is what all of us did during the Cold War, and that's behind us. It is just as important for long-term stability to bring the economic relationship between our two countries into proportion with the significance of our security relationship. And that is exactly what you all on the United States-Russia Business Council are helping us to do.

Security matters will always remain significant, but the center of gravity of our relationship with an increasingly democratic Russia inevitably will shift and should shift toward issues of economics, trade and investment. The greater the shift, the more normal our bilateral relationship will become. It's important that the President, Don Rumsfeld and I recently met with the two Ivanovs, Igor Ivanov, the Foreign Minister and Sergey Ivanov, the Defense Minister. It is also immensely important that Don Evans and Spencer Abraham have just spent part of their days in the Russian-American Energy Summit in Houston and that Paul O'Neill has established an excellent relationship with his counterpart, Finance Minister Kudrin.

President Putin is right when he says that Russia's economic growth and integration into the global economy, not her military might, ultimately will form the basis of Russia's place in the new century. That is also what we see in the future--a robust commercial relationship between Russia and the United States and a dynamic Russia occupying a leading place in the global economy; not some radiant future conjured up by propagandists, but an attainable future that can be built from great measure by the trade and investments of people like you inside and outside of Russia.

All of you here today believe in that future, or you wouldn't be members of this council and you wouldn't be investing in Russia. I don't have to remind this group that today the commercial relationship we all seek between the United States and Russia is more potential than actual reality or fact. Neither country can be satisfied at where we are. We need to look at ways to develop this component of our relationship to cut that window, Pushkin's window, much larger.

Russia remains mostly unexplored territory to American traders and investors. In 2001, the United States traded just a little more with Russia, \$7.9 billion than we did with South Africa or for that matter, Argentina. This is not acceptable. We must do better.

And although we are either the first or second largest investor in Russia, depending on whose figures you believe in, U.S. investment as of the end of 2001 was only \$5.6 billion--totally inadequate when you consider it was an investment made over a whole decade. In the years ahead, we can and must do better for both America and Russia's sake, but also for the sake of the world.

What is true for every other country in the world, big or small, also is true for Russia. Trade and investment flow to countries where there is transparency, where there is predictability, where there is respect for intellectual property and when there is accountable governance, capital is both a colossus and a coward. If it is wisely invested, it can be a powerful engine of growth, but it flees from places that are lawless, corrupt and lack a strong, civil society.

And so I have no doubt that if Russia continues boldly on the path of political and economic reform, as night follows day, trade and investment flows will increase. A reliable source of capital is vital for all business to succeed. To attract and keep capital invested in Russia, the Russian Government must press forward with banking and financial reforms. The banking dialogue between the United States and Russian private and governmental financial sectors has helped put the most important reforms on the Russia agenda. And now it's time to take those reforms and put them in practice.

Intellectual property rights protection is another key condition for healthy and attractive investment planning. This issue has far-reaching implications across the Russian economy, including for Russia's accession to the World Trade Organization. To cite one example, if intellectual property rights violations continue, it will become economically impossible for Russian artists to thrive. And that would do great damage, not only to Russian culture, but to world culture.

Over the past 2 years the Russian Government has also made striking progress in drafting and passing key pieces of legislation that reform land and labor codes and the pension system, that simplifies tax regimes and removes administrative barriers. All of these are moves in the right direction. But implementation has lagged--in some cases because of the time that is needed to put legislation into effect. But it is also clear that more has to be done to break through the encrustation of the bureaucracy and to make sure that local level officials are following the new rules.

As representatives of the private sector, you can help with this process. You can encourage local officials to apply the new laws consistently so that businesses can develop free from artificial constraints and corruption, and to show why it's in their interest to apply these new laws, why it is in their interest to attract that kind of

investment, that kind of trade into their towns and into their cities.

Small and medium enterprises are generators of that common growth--sources of innovation and cradles of new technologies. But they face an uphill battle. We still hear too many reports of local Russian entrepreneurs full of good ideas and with the will to succeed being harassed by officials and local thugs extorting bribes to fix things. The Russian Government must create conditions that accelerate the development, free the energy of small and medium-sized enterprises and entrepreneurs.

By the same token, small and medium businesses can play a major role in promoting market-oriented change in government at national and local levels. Local business organizations can be catalysts of economic improvement, economic development, transparency, and catalysts for the rule of law.

And so I encourage the U.S.-Russia Business Council to help strengthen, in particular, the advocacy skills of local business organizations outside of Moscow and other large cities where they tend to be weaker. Local business organizations can also help to meet pressing societal needs. One very encouraging development is the growth of Russian corporate philanthropy--that spirit of giving back to that society, that spirit of if you are running a profitable society, if you are benefiting from society, not only should you create a product, provide a service, but you should give back to that society as well through corporate philanthropy.

For our part, the Bush Administration will continue to support Russia's reform efforts. In 2001 alone, we allocated approximately \$51.3 million in assistance to market reform programs. We are expanding our funding for business exchange programs. And in 2003 we will focus our contributions on increasing credit access, including the climate for small businesses and strengthening regional business associations. We're also supporting Russia's efforts to fight money-laundering and other financial crime.

On the macro level, we will continue to support Russia's efforts to become fully integrated into the international economic community. That includes Russia's membership in the World Trade Organization and full membership in the G-8 in 2006.

One key sector where the security and economic dimensions of our relationship come together is energy, which is one of the main subjects of your discussions here, as it was in Houston. We have a growing partnership with Russia on energy policy. Russia has one of the largest untapped oil reserves in the world and could become the world's largest producer of crude oil. Russia now provides 25% of the European Union's gas. It has 32% of the world's proven gas reserves. It is in Russia's interest and certainly ours to promote stability and security in world energy supplies and to promote a market-based approach to the energy sector.

The Houston Energy Summit just concluded which brought together government and private-sector leaders focused on new strategies of energy management.

One of the key decisions coming out of the summit is to establish a commercial energy working group comprised of representatives from Russian and American energy companies. This important initiative puts the lead on commercial matters where it belongs, in the hands of the private sector.

The summit was also a venue for major accords, such as the EXIM Bank's \$300 million financing agreement designed to support purchased by Russian energy companies of U.S. equipment and services. And the summit spurred the launch of new business relationships and joint-projects. U.S. investment in Russian energy development can help boost Russian exports of oil and gas. This, of course, then, will help us diversify our own and the world's energy supplies and enhance the security, energy security, in the process.

This May in Moscow, President Bush and President Putin endorsed a strategy of multiple pipelines to get energy at competitive prices to markets in Europe and North America. This policy reinforces the sovereignty of the Caspian States while anchoring them more firmly in the world economy. Multiple pipelines serve the interests of all countries in the region, not least Russia. Russian oil companies have an increasingly global outlook. Having diverse export options for their resources in the Caspian Basin will allow them to become more competitive. All of us will benefit when Caspian energy reaches international markets through a variety of commercially available export routes. That is why United States policy is all about encouraging a network of such routes.

The Russian oil sector has made strides toward becoming more market oriented, more transparent, more accountable and more integrated, and it is doing that in cooperation with Western partners and, of course, with the support of the international financial community. We hope the Russian gas sector will also begin to undertake the necessary reforms. We urge Russia to quickly establish a competitive production-sharing agreement regime. This will help to fully develop Russia's energy export potential and send a strong signal to all investors that Russia is unequivocally committed to reforms.

There are huge opportunities in the energy field for growth generating foreign investment and for Russia to secure its place as key supplier of oil and gas to the global energy market.

In sum, I see great potential for cooperating with profit in the energy field. Let me just talk about a few areas where we do have trade disagreements with Russia. Chicken exports and steel have gotten a lot of public attention in recent days and I can't begin to tell you, my friends, the endless hours my colleague Igor Ivanov and I spent on these two issues, especially chicken exports. (Laughter.) Never in my wildest imagination did I think that a soldier, a hard and courageous jungle fighter, a warrior from the central plains of Europe could become an expert on chicken exports. But that's exactly what I became. And I want to tell you, they never taught me how to fight a chicken war at Fort Benning, Georgia. (Laughter.)

But this four-star general, now retired, would rather fight a chicken battle any day with a democratic Russia than a nuclear one with the Soviet Empire. It is a different world and that is what makes -- (Applause). In all seriousness, these kinds of disputes, whether it's steel or chickens or other commodities are a normal part of mature economic relations among trading partners. We can't see them as something that can destroy this relationship. There are problems to be dealt with and solved so we can move on to a higher level. And we will do that. And we'll continue to do that in dialogue, through information sharing, negotiation, and basically through friendship -- because we are friends, and we do want to move forward together.

It is our hope and expectation that as Russia prepares for entry into the World Trade Organization and as Russia accepts international rules of the game and imbeds them, and as it spreads throughout the country, such problems as exist will become even more manageable.

But also note that President Bush remains committed to working with the United States Congress to achieve graduation for Russia from the Jackson-Vanik provisions. This is an important issue, we're working it with all the energy and force that we can and hopefully we'll get it behind us soon because clearly Jackson-Vanik has achieved its original purpose. And we have seen that in so many ways. Russian Jews today have the right to emigrate, and official anti-Semitism is a thing of the past. Graduating Russia from Jackson-Vanik will permit normal trading relations on a recurring basis. And that is very much in keeping with our new relationship.

Ladies and gentlemen, the United States and Russia now enjoy cooperation in areas that truly would have been unimaginable just 10 years ago. Thanks in great measure to a decade of dedicated effort by the US-Russia Business Council, based on your dedicated effort, there are corporate communities now working more closely together. The Russian-American business dialogue, co-chaired by the Council and the American Chamber of Commerce and its two Russian counterparts, has presented valuable policy recommendations to Presidents Bush and Putin on how each of our governments can advance our commercial relationship. I hope all of you will continue to work with your counterparts to move our relations forward and find additional ways our governments can encourage and ease this business interaction.

Another way you can help is by sharing success stories, not just with potential foreign and Russian investors, but with the Russian people. Many remain skeptical of the benefits of foreign investment, the benefits of open markets, the benefits of integration in the global community. Tell them about the number of good jobs that business has created and the contributions you are making to the life of their communities. I also ask you to be candid with Russian officials about the problems that investors and entrepreneurs both face. They need to know what they must do to create the conditions in which business, both foreign and Russian, can succeed.

Three centuries ago, Tsar Peter the Great changed the course of Russian history by cutting a small window between East and West. Today a democratically elected

Russian Government is committed to opening the entire country to international trade and investment. By doing so, Russia is paving the way for its integration in the world economy, it is securing its future prosperity and it is strengthening global stability. We need to do all we can to ensure Russia's success.

For our part, the Bush administration is committed to advancing the new partnership that we have forged between Russia and the United States and to do it in all of its dimensions: politically, security-wise, and economically.

The business sectors of both countries know that it is important for this to move forward with all speed and all energy that we can put behind it. And this council is playing a corporate role in keeping up that momentum.

So on behalf of President Bush I want to thank the US-Russia Business Council for its decade of pioneering efforts. I thank you for bringing our economies, our countries and our peoples closer together. But above all, I want to thank you for helping Russia and the United States work in partnership to build a better world for all of us.

Thank you very much. (Applause.)

QUESTION: Mr. Secretary, I'd be interested in any comments you could provide regarding areas of agreement, disagreement, gaps between ourselves and the Russian Federation government regarding a post-Saddam regime in Iraq and how that transition might occur?

SECRETARY POWELL: If the situation with respect to the disarmament of Iraq is not done through peaceful means and it is necessary to go and destroy the regime, the United States and its partners understand the responsibility that would fall upon us to put in place a regime that is representative of its people, that would not have weapons of mass destruction, and would not violate the human rights of its people, and would not support terrorism.

We are also mindful of the interests that many other nations have in a future Iraq. There are economic considerations, considerations of regional stability; and as we develop contingency plans -- not that we're going to execute them, but good planning says you think about such issues. So as we develop our contingency plans, we are taking fully into account the interests of the nations in the region and the economic impact such a transition might have on them.

The interesting thing to study in this problem is that Iraq in the future, if it turns out to be a different kind of country with a different kind of leadership, has enormous potential with respect to its revenues coming in through the sale of energy, and we will want to be part of an integrated world system. We are in conversation with our Russian friends about their interests, and we are taking into account their consideration as we do this sort of contingency planning, as we are doing with other nations in the region. We are mindful of all the issues that they have in mind.

I have time for one more. I do have to get back for (inaudible).

Yes, sir.

QUESTION: Mr. Secretary, I believe you will remember having met with a group of outstanding Russian entrepreneurs about a year ago at the Department of State, with whom you exchanged little red wagons. I just wanted you and the rest of the group here to know that that same group has just had a meeting in St. Petersburg with entrepreneurs from all over Russia to work out ways for doing the things that you have mentioned. To work out -- and they are doing a quarterly report directly to President Putin on this one -- ways in which the private sector can work with the government to try to squash corruption. And the second one is to build local and regional and national associations of small businesspeople so that they can get the points on what they need from the various governments involved. Your inspiration to them has been one of the great things that was mentioned repeatedly in the talks that they held in St. Petersburg.

SECRETARY POWELL: Thank you very much. I remember the meeting very vividly and what an exciting group of young people they were. My exchanges with my Russian colleagues over the years were of a different kind. And to see these young people fired up, wanting to take the risk, seizing opportunity -- How do I do it? -- Where do I get the money? -- What if I lose money? -- It's okay, I will come back again. But there was such energy in that group. And I remember the young man, specifically. I was wearing an America's Promise little red wagon (inaudible). And I knew that guy was going to be a star. The fact that you're now telling me that he is taking this message across the country and firing up people, but also taking the message to the governments, local and all of the government, that we've got to put in place the right kind of environment for people likely to make it, and to see that the government is trying to help them and not stop them. This is so exciting. I hope you'll bring back another group this year to be fired up. (Laughter.)

Just to close on a story and to show what it's like to go through this change of life, so to speak, but in 1990 or 1991, I was Chairman of the Joint Chiefs of Staff, sometime in that period -- a group of Russians, military leaders, came to see me -- still the Soviet Union, the Cold War hadn't quite ended, but things were rapidly changing and you could see where they were going. I looked at the list of officers who were coming in my office. One name caught my eye -- Major-General Achalov, because he was the guy who commanded the Russian Division across from my corps in Germany when I was Corps Commander at Fifth Corps, and that was part of the NATO defense shield. He was the guy I was going to fight first. I knew him well. He came into the office and he looked at me with a knowing smile and I looked back at him with a knowing smile, and I said, "General, I used to have your picture on my desk." And he smiled a little more. And I said, "When Congress members would come to visit me, I wouldn't give them budget briefings because that was too dull. I would take them to my office and I would have your picture on my desk and I would say, "That's my enemy. That's the one I'm going to defend the free world against. And that's why you've got to increase the money coming to Fifth Corps." And he broke out laughing and he said, "General, I had your picture on my desk." (Laughter and applause.)

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