

Norberg: Sanctions - a symptom of fundamental problems in U.S.-Russian relations

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Derek Norberg, the head of the Russian American Pacific Partnership (RAPP), addresses the problems facing Russian-American relations and hinder their development, as well as the perspective of American business on sanctions against Russia in an interview with RIA Novosti in Washington.

- RAPP has positioned itself as the only regional forum that brings together two of the specific region, such as the American West and the Russian Far East. What are the specifics of this cooperation and how it has changed, if changed in recent years and months?

- RAPP really is the only US-Russian intergovernmental forum bringing together these two regions. In addition, it is the oldest of the existing bilateral mechanisms - this year we will celebrate the 20th anniversary at the meeting held in October in Yuzhno-Sakhalinsk. Initially, our forum was created under the framework of the "Gore-Chernomyrdin" Commission, and the idea of its creation was first raised during the visit of Russian President Boris Yeltsin in Seattle (WA) in 1994.

At the time, the basis for the development of trade between the American West and the Russian Far East was obvious. Among all US states, Washington then took the leading position in terms of trade with Russia, and especially with the Far East. Involved were a great many companies, including Marine Resources Company International (MRCI), Boeing, fishing concerns, Western Family Foods, Washington apple exporters. Numerous oil and gas companies concurrently were beginning their projects on the Sakhalin shelf. In addition, the US was financing through Russian bank partners loans to Russian companies through The US-Russia Investment Fund (TUSRIF) and the European Bank for Reconstruction and Development (EBRD).

The situation changed after the 1998 crisis, after which US exports to the Russian Far East no longer included such a wide array of goods. But in all fairness it must be said the vast potential of trans-Pacific trade between the US and Russia was never fully realized. Both sides realize this potential and support the efforts of our organization, relating to developing trade between the Far East and the American West.

- We have several times postponed the interview because of the uncertain situation surrounding the former governor of Sakhalin Alexander Khoroshavin, who has been accused of receiving bribes on a large scale. Why is this region so important to the bilateral business relations?

- Sakhalin is unique for several reasons. First, this region has a long history of partnership with the United States in the fisheries sector, as well as in exploration and resource extraction. In addition, it was there (along with the Khabarovsk Territory), the largest project with US

participation is under way - "Sakhalin-1", which is developed by the consortium operator Exxon Neftegas Limited (ExxonMobil).

We can say that this project is the engine of development on Sakhalin. I would point out that the business climate in the region has improved considerably. I know this well because over the period from 2003 to 2009, we worked very closely with local authorities and held our RAPP annual meetings there four times. In my opinion, Sakhalin is one of the most interesting regions with which RAPP is involved, and its leadership is seriously oriented to developing its relations with the United States. Of course, much remains to be done, but I can say that Sakhalin to a greater extent than other regions of the Russian Federation, is a model for the development of partnerships between the US and Russia.

- Starting projects in areas such as Sakhalin, Chukotka and Alaska, we must act very carefully, because any step can cause serious damage to a very specific and fragile environment. How can you strike a balance in the current highly volatile conditions?

- Climate and the environment – are one of the reasons that US-Russian cooperation today is so necessary. In particular, US companies have extensive experience working in difficult climatic conditions, which is very important in the implementation of projects on the shelf of Sakhalin, Kamchatka, in the Okhotsk Sea and in the Arctic. For early stage projects in the majority of these areas, US cooperation with Russian companies, such as "Rosneft", "Gazprom" and others, is ideal.

In my opinion, the expansion of opportunities in the Arctic could help open a new chapter of bilateral partnership. The ecology of the region demands that Russia, the United States and all other countries employ the very best technology and know-how in order to minimize possible negative impacts to our planet. Development of the Arctic projects demands great care, international cooperation and great responsibility. This is why RAPP in 2014 initiated a dialogue devoted to cooperation in the Arctic.

As regards projects, even though we are in favor of the US-Russian partnership in general, not all initiatives earn the support of RAPP. In the United States just as in Russia we have good and bad players, and we do not believe that a project is "good" simply because it involves Russian and Americans. We need more successes in bilateral partnership. Failures only add to the widespread impression that U.S.-Russian business is too risky.

- You are a fierce critic of the sanctions that the US imposed against Russia. In your opinion, they are valid or not?

- The sanctions are a symptom of fundamental problems in the US-Russian relations. And they are not the solution to these problems. Were bilateral relations better, sanctions should not be necessary. I have worked with Russia for over twenty years and know well that coercion is never a good way to make anyone conform to your wishes. This is particularly so with Russia, and the US government should understand this. Probably they do. By creating economic pressures on Russia's economy, the U.S. is extracting costs on Russia's people for their government's support of Eastern Ukraine (Donbas) separatists. But in so doing, the United States is ignoring the reasons why Russia is doing it. Understanding the broader context, regardless of whether Washington agrees with Moscow's actions or not, is extremely important for a constructive dialogue necessary to finding solutions. Regrettably, it appears no such dialogue between the U.S. and Russia is now occurring.

Meanwhile, Russia for years has made clear its concerns with NATO expansion – and particularly were it to extend to Ukraine. Following Maidan, Russia's reaction in support of the Crimea and the Donbas, should not have come as a surprise. But by implementing its economic sanctions on Russia, I would argue the U.S. has actually lessened the chances for Russia to moderate its position. By working with Russian partners earlier and more closely and easing the basis for Russian concerns, a better outcome may have been possible, but would have required compromises.

I would abandon any notion of NATO expansion into Ukraine. Removing the NATO expansion threat alone will not resolve the Ukraine crisis. There are plenty of other issues the Kyiv government and the Donbas separatists must resolve. But removing the NATO membership threat would minimize a legitimate Russian security concern. Why is this was not done many years ago, is hard to explain.

- Everyone knows about the losses of big business because of the sanctions. In particular, perhaps the most affected was the company Exxon Mobil, a member of RAPP. But the majority of your members are not giants. How do they live in the present circumstances?

- Sanctions by themselves do not deny Americans the opportunity to do business with the majority of Russian structures. However, some of them target large companies in Russia, and this does limit opportunities for US entrepreneurs. It is important to note that generally American business opposes such measures (sanctions).

Most members of Council for U.S.-Russia Relations are seeing a slowdown in sales due to the political relations between the two countries. But some saw strong sales in 2014. In general, the overall trade between the U.S. and Russia was quite strong in 2014. But most companies from both countries are not related to the conflict in Ukraine and trying to do everything possible in order to improve the poor relations between Washington and Moscow. Frankly, most U.S. and Russian companies and business people wish the conflict in the Ukraine would be resolved so we can all get back to doing good business.

- What can we expect in the Russian-American relations in the near future?

- It is very difficult to predict. There does appear to be a strong interest within the ranks of EU nations that some acceptable resolution – if even a frozen conflict – be achieved in Eastern Ukraine, so as to allow all parties to return to some degree of economic normalcy. Recall that as recently as 2013, Russia represented 12.5% of EU global exports, and for some individual EU nations, Russia is a major export market. Not to mention Russia's position as a major energy supplier. So I expect that holding together a uniform EU coalition to sanctions on Russia will increasingly be difficult. Certainly, I would expect that the EU as a block will be reluctant to an escalation of sanctions that have not proven effective in changing Russia's behavior or resolve. In this regard, I am hopeful that the EU can be a factor in moderating the U.S. posture on the Ukraine crisis to one of greater flexibility. Likewise, I hope that the Russian government will not seek to expand the crisis in Ukraine into a broader geography that could include Kharkiv. I am fearful that Russia and separatist may be considering such scenarios, but these would only lead to further decisive measures by the U.S. and the EU.

In addition, it seems to me that the economic and political crisis in Ukraine shows the country is hardly a good candidate for a place in the Western alliance. Ukraine will be a challenge for

decades to come. Drawing Ukraine into western alignment is economically expensive with only political payoff. In my opinion, the US and the EU should change their approach to Ukraine.

Regrettably, the Ukraine government in Kyiv may also have a certain financial interest in the conflict. A military solution is seemingly not attainable, but so long as an open conflict within their borders continues, the authorities can likely forestall payments to western creditors. As soon as the crisis in Donbas is resolved, Ukraine will have to repay its significant debt to Western lenders.

For the above reasons, I am not optimistic that any of the sides, other than the EU, are interested in an immediate end to the conflict.

As regards Russian-American relations - to improve them in the short term, in my opinion, we need the following: Russia should exercise restraint and keep the separatists from expanding the conflict to other Ukrainian territories, EU member states should continue to moderate American policy, the US should play a more active role in the solution process, and adopt a more constructive approach towards Russia than the current containment, sanctions and isolation. Finally, the government in Kiev must find a compromise with the Donbas, and all parties collectively should strive for the cessation of violence, that is in everyone's interests. Besides, it is important to remember that the United States and Russia have many common interests in maintaining global stability. This concerns not only Ukraine, but also the Middle East, Africa and other regions. The current crisis in Ukraine, and the threat of a large-scale conflict between our two countries, shows the necessity for our taking a more responsible approach to resolving issues.

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