

**U.S. POLICY TOWARD RUSSIA, PART III:
ADMINISTRATION VIEWS**

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HOUSE OF REPRESENTATIVES**
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U.S. POLICY TOWARD RUSSIA, PART III: ADMINISTRATION VIEWS

TUESDAY, OCTOBER 19, 1999

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
WASHINGTON, D.C.

The Committee met, pursuant to notice, at 10 a.m. In Room 2172, Rayburn House Office Building, Hon. Benjamin A. Gilman (chairman of the Committee) Presiding.

Chairman GILMAN. The Committee will come to order.

Over the last 2 years, our Committee on International Relations has held a number of important hearings concerning developments in Russia. Looking back over the testimony we have taken in those hearings, particularly those of the last 2 weeks, I believe that we have to make several conclusions of a serious nature, conclusions that should persuade us that a thorough reexamination of our current policy toward Russia is now warranted and long overdue.

First, it is my belief that it is time for an accounting by Russian officials of their lack of any real action over the past few years in the face of the fantastic and growing corruption in their country. Given estimates that anywhere from \$100 billion to \$500 billion in Russian moneys have been siphoned out of the Russian government budget and the Russian economy, that accounting is long overdue.

A sincere and thorough accounting might readily find that the highest officials in the current Russian government, including those in the Kremlin and in the Russian security and police agencies, are themselves culpable in this massive thievery. Still, our nation ought to press for such an accounting, because we need to show the Russian people by our actions, not just our statements, that we as a nation don't condone this kind of corruption.

Second, it is time to begin an exploration here in our nation of where that Russian money has gone. One of our witnesses in a recent hearing, a retired analyst with the U.S. Central Intelligence Agency, has speculated that much of that money may have come to rest here in our own nation.

Whether such an exploration is carried out by our House International Relations Committee or by our House Banking Committee, which has jurisdiction over international financial issues, a thorough examination of that flow of money should be considered. If such huge amounts of Russian money have been siphoned, stolen or laundered, with much of it perhaps having ended up in some of our own banks, investments and real estate, do we dare make a complacent assumption that those who have arranged that thievery

will not put their financial power to use here in America in ways we would not approve?

Third, it would appear that loan funds provided by the International Monetary Fund, particularly the almost \$5 billion tranche provided in July 1998, may well have been diverted, through redemption of Russian bonds, to benefit Moscow's "tycoons."

Fourth, even if IMF loans are not being diverted in Russia, they are just replacing, and only in part, moneys that are disappearing from the Russian government budget. In light of these facts, while we can and should audit IMF funds and while we might even just transfer them from one account to another without ever sending them to Moscow, we should understand that if the Russian government is increasingly insolvent due to the incompetency, or worse, of its officials, we are simply hastening the day when Russia may default on its IMF obligations by continuing to provide those loans.

Finally, if current trends continue in Russia, it is highly unlikely that we will see the stability in that nuclear-armed country that both Democrats and Republicans support here in our own nation. The signs of deterioration are evident in Russia, including impoverishment of large numbers of Russians, epidemics, growing anti-Semitism and possible fascist movements.

Certainly, those trends alone should lead us to re-examine our current policy toward Russia, but the massive corruption in that country requires it, in my view. Let me note that, over the past 3 years, our Committee has held several hearings during which we have asked dozens of witnesses to share their insights on our relationship with Russia. Many of those witnesses have raised warning flags about our policy and whether it has actually been achieving what we would like to achieve in Russia and adequately serving our own nation's interests with regard to that important country.

I think it is clear that, where the Yeltsin government in Moscow has had a shared interest with us to see something happen, such as to ensure the denuclearization of the States that border Russia, it has worked diligently to support such objectives. However, where that government has interests that are starkly at odds with our own nation's objectives, such as Russia's support for the ugly dictatorship of Alexander Lukashenko in Belarus, or the obvious, ongoing proliferation of dangerous Russian weapons technology to Iran, our current policymakes little, if any, progress.

Some observers now question, in fact, whether progress toward democratization in Russia is as substantial as we would like to believe and whether elections there have resulted in more of a facade of democracy than in a growing accountability of those elected to the people who have elected them.

In my capacity as Chairman of our Committee, I have shared with the President and top Administration officials over the past few years my concerns regarding the direction of our policy toward Russia and what our policy has actually been achieving. Let me make one thing clear. No one disagrees that we need to engage with Russia. But many of us have for some time now questioned how well our current policy of engagement with Russia is working. Raising such questions does not make one an isolationist or a partisan.

Such questions have been raised by Members of this Committee for some time now, in the hearings I have mentioned as well as in past letters written to the President and in opinion pieces published in our major papers. In particular, the fact that the House passed the "Iran Non-Proliferation Act of 1999" to establish sanctions for Russian proliferation to Iran by a unanimous vote of 419 Republicans and Democrats just one month ago, ought to clearly show that there is a bipartisan concern over our current policy toward Russia.

Finally, let me note that it is unlikely that a partisan approach is behind the retired Foreign Service and Central Intelligence Agency personnel who have alleged in recent months that our Administration has mishandled our policy toward Russia.

This morning our Committee is pleased to welcome Deputy Secretary of State Strobe Talbott, who represents the Administration's views on our policy toward Russia, and who will hopefully respond to such allegations by former personnel of our Foreign Service and the CIA. Mr. Talbott has been the "point man" on the United States' policy toward Russia since early 1993, serving first as the State Department's Ambassador at Large for Russia and the other former Soviet Republics, serving as well on the National Security Council's Interagency Group on Russia, and supporting the bilateral process of the so-called "Gore-Chernomyrdin" Commission.

After assuming his current post of Deputy Secretary of State, Mr. Talbott has remained heavily engaged in the conduct of policy toward Russia, as evidenced by the very frequent meetings that he has had recently with top Russian officials.

We are pleased, Mr. Talbott, to have you join us this morning, and I would like now to recognize our Ranking Minority Member, Congressman Gejdenson, for any opening remarks he might care to make at this time. Mr. Gejdenson.

Mr. GEJDENSON. Thank you, Mr. Chairman; and it is great to have Secretary Talbott here with us. I think that anybody who assumed that the transition from the Soviet totalitarian government to a democratic and free society would be an easy one had no sense of history or knowledge of it.

What we have gone through here is an unprecedented historical transformation. A totalitarian government with a centrally run economy is in the process of trying to transition to a democratic society, one with a free market and democratic institutions. I think all of us understood this would be a difficult and challenging road, but we have some tremendous successes.

We have deactivated over 1,500 nuclear warheads, destroyed 300 missiles, and we now have the Ukraine, Kazakhstan and Belarus as nonnuclear nations. I agree with you, Mr. Chairman, the situation in Belarus is a distressing one. Think how much more distressing it would be to be viewing Mr. Lukashenko today if he still had nuclear weapons.

The advancement of human rights and the promotion of basic freedoms and press freedom, travel freedom, and even elections are now routine in much of what had been the Soviet Union and Russia. These aren't modest achievements when you think about one of the few countries on the European continent that had no history of democratic institutions or civil society.

American bilateral aid, by and large, 98 percent of it spent on American goods and services, has begun to build that civil society using our resources to build a civil code, a criminal code, and trying to help develop a legislative process, transparency in Russian capital markets, enacting policies that could fight money laundering and corruption. These battles will go on for some time.

When we take a look at where we are today and where we want to go, the answer is clear. We don't want to go back to where we were with Russia. We don't want the kind of confrontation that could cost us billions of dollars and many lives, or a return of the Cold War which had some very hot elements to it. We want to move forward in trying to include Russia in a civilized society, helping them combat crime and corruption, trying to deal with issues of nonproliferation, regional threats and electoral reform.

We at the end of World War II spent \$90 billion in 5-years on the Marshall Plan, trying to save Western democracy. The billions that we have spent on Russia are far less than that in today's dollars. Money is not the only answer here, but there is no country in Europe, in my opinion, that is either a greater challenge or more important to American security than our relationship with Russia. I credit Mr. Talbott and the Administration for getting us through some very difficult times. I am sure there are going to be very difficult times ahead, but I think we are on the right course.

We have to constantly make sure that the IMF and other programs are monitored, everybody agrees with that. But while reviews are always important, I would like to hear from the Chairman, or others on his side, any alternatives they have to the present policy, what kind of actions we can take. I think the Chairman is right. Nobody wants to disengage. Anybody who argues for disengagement doesn't recognize that there are still lots of very important issues for American's national security in this relationship that we can't abandon.

Chairman GILMAN. Thank you, Mr. Gejdenson.

Do any other Members seek recognition?

Mr. Royce.

Mr. ROYCE. Thank you, Mr. Chairman; and I thank you also for holding these hearings.

The relationship between the United States and Russia remains critical, and I am looking forward to hearing from today's witnesses about where we have been and where we are going. But I would like to point out that 5 years ago this very Committee held hearings on Russian organized crime. Unfortunately, we were ahead of the curve.

At that time, I said that our aid to Russia should be conditioned on assurances from the Russian government and our government that all is being done that can be done to monitor and counter the growing threat of Russian crime syndicates before they choked off the infant democratic experiment in the former Soviet Union. My concern was about countering a real threat to the chances for a successful political and economic transition in the former Soviet Union and about stopping an international crime wave before it crested on our own shores. Unfortunately, that was not done, and we are all here 5 years and billions of dollars later, and these concerns may have risen to the level of a scandal, frankly.

American taxpayers deserve better. Our important relationship with Russia deserves better, as does the integrity of the American financial system. Over the last several weeks, the Administration has been telling us that our relationship with Russia has been moving in the right direction. It has stood behind the International Monetary Fund's yet again commitment to reform.

Many of these problems were quite evident 5 years ago. Some of us on this Committee raised these issues, but these things were allowed to slide.

I hope today's hearing is about better understanding where we have been so that we can better understand where we are going, both with the international financial institutions and with the overall U.S.-Russia relationship. It is my hope that this Committee and the Congress will redouble its oversight efforts to help see that something positive comes out of the serious shortcomings in the management of our relations with Russia that are now so evident to all.

I thank you again, Mr. Chairman, for holding these hearings.

Chairman GILMAN. Thank you, Mr. Royce.

Mr. Lantos.

Mr. LANTOS. Thank you very much, Mr. Chairman.

I want to welcome Secretary Talbott, and I want to take this opportunity to publicly commend him for his extraordinary contributions to U.S. foreign policy during the course of the last 7 years and particularly for his leadership in terms of U.S.-Russian relations.

This is not a case, Mr. Chairman, of whether the glass is half full or half empty. As one who made his first visit to the Soviet Union in 1956 and has been back to the Soviet Union and subsequently to Russia on a very regular basis, most recently last month, I am as aware of all the shortcomings and difficulties that Russia confronts as anybody in this Committee, but I am equally aware of the enormous achievements of the last few years in which our policy played a key role. So to put this hearing in some kind of a perspective, allow me to just enumerate some of the facts about Russia in the fall of 1999.

Russia, after 1,000 years of autocratic and dictatorial regimes and 7 decades of a Communist dictatorship, is now a developing political democracy. There are free elections in Russia. We would have given our right arm for free elections 10, 15, or 25 years ago. The Russian parliament, the Duma, will be elected in free elections. The new Russian president will be elected in free elections! Russia has a free press. Russia has a free press. We would have given our right arm at the time of Pravda and Izvestia and Moscow television controlled by the Communist Party for a free press. Every Russian citizen has the right to travel abroad. Everybody has a passport.

As one who spent a lot of time in the 1980's fighting for human rights and religious freedom in Russia, I am delighted to remind ourselves there is religious freedom in Russia. All religious faiths are free to practice, to build new places of worship. I just visited some while I was in Russia months ago, and I think it is important to underscore that. There is a burgeoning and growing market economy.

Now, there is corruption. That corruption is about 1,000 years old. There is crime. Crime used to be a monopoly of the government. It has now become privatized. But to be surprised that there is crime and corruption in Russia reveals to me a degree of historical amnesia which is almost frightening. There is far less crime and far less corruption in Russia than at any time in Russian history. Only these activities, as I said, have become privatized.

Since you, Mr. Chairman, talked about the mistakes of the Administration, allow me to point out that the collapse of the Soviet Union unfolded during the tenure of the previous administration, the Bush Administration, and I think it is important to realize, as we so ruthlessly at times criticize Boris Yeltsin, that we have come to know many Boris Yeltsins during the course of the last decade.

Boris Yeltsin was the first democratically elected President of Russia in 1,000 years. We did not pick him. The Russian people picked him. Boris Yeltsin stood on top of the tank when the attempt was made to reverse the trend of history and make Russia again a totalitarian police state. Now we have plenty of reservations, I do, about Boris Yeltsin in 1999, but I think it is important to realize that at a certain point in time, just like Gorbachev, he played a critical and historic role in setting Russia on a new path of democracy and openness.

Finally, Mr. Chairman, if I may make just one additional point. You started your opening comments about the vast amounts of funds that have been spirited out of Russia, and you are absolutely correct. There has been large capital flight out of Russia. This capital flight represented overwhelmingly resources of Russia. That doesn't make the capital flight any better. These are funds that should be put to the use of the Russian people, but these were not foreign aid funds, and these were not IMF funds, in large measure. As a matter of fact, the total amount of aid and assistance to Russia during this whole period of the last decade is a fraction of the capital flight from Russia during this same period. So it is important to keep our perspective.

The bulk of the money shipped out of Russia, however undesirable, deplorable a phenomenon it was, it was not Western money. It was money and resources of the Russian people that, given the new oligarchy, they were able to spirit out of the Russia.

The final observation, Mr. Chairman, since there is a great deal of confusion, some of it deliberate, about the West provided minimal economic aid to Russia, during the course of the last decade, and it is the failure to lubricate the process of transformation from a totalitarian police state with a dysfunctional economy to a democracy with a market system which is the core problem we face. West Germany provided much more aid to East Germany in one single year, in any single year of the last decade than the whole of the aid from the West, governments, international institutions or what-not, to Russia during this decade. West Germany provided \$100 billion of aid to East Germany every single year. Total Western aid, European countries and international institutions was less than that during the whole decade to Russia and the other successor states.

I look forward to Secretary Talbott's presentation.

Chairman GILMAN. Thank you, Mr. Lantos.

Mr. Rohrbacher.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman.

Mr. Talbott, I worked in the Reagan Administration for 7 years. I was one of Ronald Reagan's speech writers for 7 years.

Chairman GILMAN. Allow me to briefly interrupt, Mr. Rohrabacher. I have asked some of our Members to go over to the Floor to vote, and we will continue our hearing without taking a break.

Please proceed, Mr. Rohrbacher.

Mr. ROHRABACHER. I seem to remember during that time period that you were one of a chorus of critics of President Reagan's policies. Many of the things that we have heard today that have been touted as great achievements I frankly believe, Ronald Reagan deserves credit for much of this, whether it is free press or free elections or free travel. I remember during Reagan's tenure people were saying that Ronald Reagan was being very unrealistic in trying to demand that type of reform in Russia, and in fact, it was his tough stance that I think brought about this great change.

While you were not in power then and were criticizing Ronald Reagan, you are somewhat influential in American policy toward Russia today. During this transition, for the last 6 years at least, you have been helping direct the policies that have molded Russia as it is today as compared to some of the more bold things that I say started during the Reagan Administration.

Today, I respectfully disagree with my friends on the other side of the aisle. The transition is not going well. As far as I am concerned, it appears that the legacy of Ronald Reagan when he left office, his legacy of hope and of progress and of democracy in Russia, now is being squandered. It is going down the drain in a swirl of corruption, where the hopes and the dreams of the Russian people are being dashed.

How my colleague, whom I do respect and I think is one of the most knowledgeable Members of our Committee, Mr. Lantos, can suggest with the massive corruption that is going on in Russia today that the problem is we didn't give them enough aid, it stretches credibility. I mean, it just stretch's one belief in what kind of policy can we have.

I am the Chairman of the Space and Aeronautics Subcommittee, and I have dealt directly with the policies of this Administration concerning the space station. That is just one little element, and just in the space station, this Administration has had policies that have led to corruption and undermined the transition that Russia should be going through. Mr. Chairman, just one thought on that, this Administration has been insisting on government-to-government relations when it should have instead been insisting on an opening up of their government to commerce and to direct contacts with the outside.

In terms of the space Administration, Mr. Talbott, as you know, we pushed for direct contracting with Russian providers and Russian industries. This Administration insisted that we spend money through the government, through the Russian government, which is part of the money that has just disappeared. That is the one I know most about because that is the one I am personally involved with here. But you take that and stretch it across the wide variety of dealings that we have with the government in Russia—and I will

have to say that, yes, I agree with Mr. Lantos—it should be no surprise that there was going to be private sector corruption during this transition.

What is a surprise is this Administration's policies in light of the fact that this was a predictable situation. The Administration's policies, I believe, have led to a capital drain in Russia and led to the institution of corruption in the Russian government and, again, has squandered the legacy that Ronald Reagan left us so many years ago.

I thank you very much. I am looking forward to your testimony.

Chairman GILMAN. Thank you, Mr. Rohrabacher.

If there are no further comments by any of our Members, I will proceed with our witness.

Mr. Talbott, as I indicated, has had a long career in government. He has also had a long career with "Time" Magazine, serving as its diplomatic correspondent, White House correspondent, State Department correspondent, and East European correspondent, then as the Washington Bureau Chief and finally as editor at large from September 1989 to March 1993.

Joining the Clinton Administration in early 1993, Mr. Talbott first served as Ambassador at Large for the New Independent States in the former Soviet Union from April, 1993, to February, 1994, and then assumed his current post as Deputy Secretary of State.

Chairman GILMAN. Mr. Talbott, you may summarize your written statement which, without objection, will be inserted in the record in full. Please proceed.

STATEMENT OF THE HONORABLE STROBE TALBOTT, DEPUTY SECRETARY, U.S. DEPARTMENT OF STATE

Mr. TALBOTT. Thank you, Mr. Chairman, very much, and I will do as you suggest and submit my full statement for the record and make some briefer comments here at the outset which I hope will be responsive to at least some of the points that you and your colleagues have made here in the opening.

First of all, Mr. Chairman, in addition to thanking you and your colleagues for holding this hearing at what is obviously a very relevant time to be discussing these issues, I want to thank you for the statement that you made in your opening comments with regard to engagement. That is welcome news, and I want to engage with the Committee very much on the premise of what you expressed, and that is that it is not a question of whether we should disengage from Russia but how we can engage better.

The second point I would like to make is that, obviously, we can indeed do better in this regard, as we can in virtually all aspects of national policy and foreign policy.

The third point is you called for a reexamination of the premise or assumptions underlying our policy. I want to assure you, Mr. Chairman, as I have done in the past when I have appeared before this Committee, that those of us working on policy toward Russia and the other New Independent States of the former Soviet Union are constantly in the process of reexamination of the premises and assumptions, and an important part of that ongoing reexamination is a chance to exchange views and analysis and recommendations

with key Members of Congress. So it is very much in that spirit that I am here before you today.

I would suggest, as a general matter, as an assumption which I hope the Committee will help me reexamine during the course of this hearing, that the most fundamental standard we should apply to our policy at large toward Russia and also to every specific detail of that policy on every front is very simple: Does it advance the interests of the American people? As a result of pursuing that policy or investing those taxpayer dollars, are the American people going to be better off, are they going to be safer over the long run? That is the standard that we apply, and I assume that that is the one you would want us to apply, and we can take that general principle and apply it to specifics during the course of the day.

Secretary Albright sends her greetings, by the way, Mr. Chairman. She is traveling in Africa on a very important mission—recently laid out a kind of a template for our relations with Russia, and she basically divided our policy into two categories: Those initiatives and ongoing efforts that are intended to increase our security by pursuing arms control, by reducing Cold War arsenal, by curtailing and stopping proliferation of weapons of mass destruction, an issue on which you personally have shown considerable leadership in this body, Mr. Chairman, and I know you are going to want to talk more about that during the course of the hearing, and also encouraging stability and integration in Europe, which is a topic I hope we can come back to at some point.

The second category of initiatives that we rely on to try to affect the situation in Russia has to do with support for Russia's own internal transformation, and this I believe goes to a number of the points that you and your colleagues have made.

Russia is very much a work in progress. Its redefinition of itself is a suspenseful and uncertain enterprise. It is also an ongoing one. There has been significant progress, as a couple of Members of the Committee have also pointed out, and there have also been very real setbacks. I think it is certainly worth keeping in mind what might have been, even as we contemplate the difficulties that we are grappling with today, including the ones that we are going to be talking about this morning.

Perhaps the single most important positive aspect of what is happening in Russia is democracy and democratization, the fact that the Russian people are now able to express their hopes and their fears, their aspirations and their apprehensions at the ballot box, and they will be doing so very shortly. They will be going to the polls in December and electing a new Duma, and then next year they will be electing a new president. Meanwhile, they are at a grassroots level, assembling the building blocks of a civil society, and a civil society is one that is capable of dealing with crime and corruption, which, of course, has been one of the themes that you and your colleagues have mentioned this morning.

Finally, in this regard, Secretary Albright has asked me to reiterate the case that she has made before this Committee and elsewhere for more resources than the Congress is currently willing to support in order to defend and advance American interests around the world, but particularly in Russia.

If the Russians are going to succeed in the positive aspects of what they are trying to do, it is going to be with the help of the outside world. The United States must continue to be a leader in that effort.

It is the conviction of the President and the Administration that the foreign operations appropriations bill that the President felt compelled to veto yesterday failed for many reasons, including that it contained a 30 percent cut for programs in Russia and the other New Independent States of the former Soviet Union. The funding levels proposed by the Congress would have forced us to make unacceptable tradeoffs between our core economic and democracy programs, as well as programs that prevent the proliferation of weapons of mass destruction.

I hope we can come back to some of those specific issues, because it relates to the ongoing workings of our own democratic process as we seek to do as much as we possibly can to help Russia and other countries that are in transition to democracy around the world.

I think that the negative or cautionary points that the Chairman made before you took the chair, Mr. Bereuter, in his opening statement and that Mr. Royce and Mr. Rohrabacher made are not in a way profoundly contradictory of some of the positive comments that Mr. Gejdenson and Mr. Lantos made. Rather, they are part of the interaction between Russia's dreadful past, which Mr. Lantos knows particularly well, and its aspiration for a better future.

I cannot help but recall that in 1956, when Mr. Lantos first visited Russia—I am a little younger than he is and I was just becoming aware of what was going on in the world—and 1956 made a big impression on me because that, of course, was the year that Soviet troops crushed a revolution in Hungary as the Hungarian people sought to gain their independence. That is an emblem I think of the kind of Russia that we never want to see again, and it is worth bearing in mind even as we grapple with these other problems.

Now with regard to crime and corruption, if I could just say a word on that, because it has figured very prominently so far.

The word accountability has come up several times. I want to assure you, Mr. Bereuter, and through you the Committee, that accountability will continue to be a watchword in the way that we Administer all of the programs supported by the U.S. Congress in Russia. Mr. Leach, who is not here today, held extensive hearings with Larry Summers not long ago in which they talked about applying the principle of accountability to international financial assistance.

But in the final analysis, Russia is going to succeed or fail only if it can institute the principle of accountability in the way it does business. It isn't just a matter of how we assist Russia. It is a matter of how Russia governs itself, and that I think goes back again to the question of democracy as the sunlight that will ultimately serve as a disinfectant to get rid of this terrible scourge of crime and corruption in Russia. Once again, I am sure we can explore this during the course of the hearing.

It is a little strange in some ways, given the extensiveness of the comments that were made by the Chairman and other Members of the outset, that perhaps the single most disturbing thing hap-

pening in Russia wasn't even mentioned this morning, and I would like to say a word about it now. That is the conflict that is currently under way in the North Caucasus, which has real potential to create instability not only in Russia at a time that that country can ill afford it but also in neighboring countries which are no longer in the same state as the Russian Federation.

I want to stress this here at the outset, because I think that if this situation is not developed in a favorable and acceptable manner, it will jeopardize everything else that we are talking about of a positive nature in Russia today, including Russia's evolution as a civil society.

The conflict is, of course, taking place on the territory of the Russian Federation within the boundaries of the Russian Federation. Chechnya, Dagestan, Ingushetia, these are all republics inside of Russia, and we must recognize that Russia has an obligation to protect its citizens not only against terrorism but also the kind of instability that has erupted in that region over the past weeks. But we also believe very strongly and we have conveyed to the Russians at all levels what I would call the parameters of U.S. Policy, and I want to use this hearing today to lay those out. They are basically five concerns.

First, that a spread of violence in the region will be contrary to everyone's interests except those who rely on violence as a means to their political ends, including the political end of separatism or tearing parts of Russia out of the Russian Federation.

Second, Russia's last war in Chechnya, 1994 to 1996, demonstrated that there cannot be a purely military solution to the problem there. I will say, by the way, that we have heard from high levels of the Russian government, including from the prime minister himself recently, that this is a principle that they accept. To turn that principle into reality, there must be a vigorous and conscientious effort to engage regional leaders in political dialogue.

The third factor or parameter is that all parties should avoid indiscriminate and disproportionate use of force.

The fourth is the one that I referred to earlier, and that is that Russia's significant progress toward developing a civil society, which means inclusive democracy and rule of law, will be in jeopardy if it permits a backlash against citizens because of their ethnicity or religion, that is to say, if there is a tendency in the heartland of Russia or in the capital of Russia to round people up and deport them because they have Islamic last names or are of a darker complexion than ethnic Russians.

Then the fifth and last principle is that in defending its own territory, Russia should take special care to respect the independence and security concerns of neighboring states, especially Georgia and Azerbaijan.

I hope it is all right, Mr. Bereuter, for me to have added that issue to the agenda, and I am ready to enter into a discussion with you and your colleagues on all the issues that have come up here this morning.

Mr. BEREUTER. [Presiding.] Secretary Talbott, thank you very much for your testimony. I regret the fact that all Members were not here to hear it, since you departed so dramatically from your written statement, which was made a part of the record. I particu-

larly appreciate the five principles that you have just enunciated. I think they are important. We will try to bring them to the attention of the Members.

Mr. BEREUTER. Based upon arrival, we will now turn to the gentleman from North Carolina, Mr. Ballenger, under the 5-minute rule for questions.

Mr. BALLENGER. Thank you, Mr. Chairman; and, Secretary Talbott, good to see you again. I miss all the fun we had in Central America since you are spending all your time in Russia nowadays.

But I would like to ask a couple of questions, and you brought up Chechnya, so let me just ask, from the reports we get from the news media, there seems to be substantial support for the Chechnyans from elsewhere, Iraq, Iran or somewhere like that. The fundamentalist Moslem effort seems to be developing or have already developed in both physical and individual aid. It seems to be appearing. Is that true or could you give us some background on that?

Mr. TALBOTT. The short answer is, yes, there does indeed seem to be a dangerous degree of what might be called internationalization of the conflict. There is no question that radical elements operating from bases out of Chechnya have had support from elsewhere, primarily in the arc of countries from the Arabian Peninsula to South Asia.

We have had very frank and specific discussions with the Russian authorities about this. We are following up on any leads that they give us because they allege—the Russians allege—that some of the bad actors, if I can put it that way, who are behind some of the trouble in the North Caucasus are also people who have, we believe, carried out acts of terrorism against American targets and American citizens.

I might add that this is an issue that we have discussed with other countries as well because, if I could make a general point here, it would be a good thing, it would be a hopeful thing if the Russian government could see the problem that it faces in the North Caucasus as a global threat, that is, a threat to civilized nations and legitimate governments all around the world. To deal with it as such, which means to deal with it in cooperation with other countries, including the United States, and to deal with it in a way that meets international norms, rather than treating this problem in the North Caucasus as a reason to draw back from the world and to do things in the old Russian way.

I think part of what is happening in the Caucasus is that some evil history is coming home to roost. The people who live in the Caucasus have, of course, been fighting a running battle with Moscow from the time of the czars. The population of Chechnya, for example, was lock, stock and barrel deported under the most brutal conditions by Stalin to Kazakhstan, many to their deaths, and one Moscow government after another, czarist, Communist, post-Communist, has allowed conditions of terrible poverty and social backwardness to fester down there which, of course, makes it easier for both indigenous and international terrorist and extremist elements to come in and prey on that.

Mr. BALLENGER. If I could mention real quickly—it appears also that in the money that has disappeared, especially IMF money, at

least from what we read in the newspapers, that IMF was very strict in the way money was managed in Mexico and South Korea and Indonesia and Brazil, but it doesn't seem that they paid much attention to what was going on with their money in Russia. Is that a mistake?

Mr. TALBOTT. I think with respect, Congressman, that is an overstatement, and in fact our Treasury Department, which has, through Secretary Summers, addressed this issue at length in hearings that Mr. Leach and the Banking Committee ran about 6 weeks ago, has addressed this in detail. But, as a general proposition, the willingness of the international financial institutions, the IMF, the World Bank to put money into Russia has always been conditioned on transparency, accountability, sound practices, as well as macroeconomics stabilization policies on the part of the Russian government.

Now was it perfect? No, of course it was not. There was no recipe book on the shelf on how to assist a country in this situation because we never had anything quite like this.

Going back to well before this most recent round of revelations and speculation developed, the International Monetary Fund and the Treasury were tightening up safeguards, and for the last year no new IMF money has been going into Russia at all except in this most recent program which is basically to help the Russians restructure their own debt. In other words, it is money that is going in a circular account within the IMF and is not available for any kind of misuse or malfeasance.

In fact, back in 1996 there were several cases where disbursements were delayed because the Russians weren't meeting their end of the standard. What we have been trying to do over the past year is to tighten those standards up and to get through to the Russians that if they ever want to see any more IMF money they have got to clean up their own act.

Mr. BEREUTER. Thank you. The time of the gentleman has expired.

The distinguished Ranking Member, Mr. Gejdenson of Connecticut.

Mr. GEJDENSON. Thank you, Mr. Chairman.

Let me ask you two or three questions. First, it may take a little time in hindsight to see what you would have done differently if you had it to do over again, and second, while I think Mr. Lantos' assessment is correct, we have gone from a state where the government had the monopoly on crime in Russia to the public taking it over to some degree. We don't want to forget the history as we try to convince the Russians to deal with their criminal problems and money laundering and other criminal activities. The problem in Russia, historically at least, has not been a too-weak police force. How do we make sure they don't go back and use, whether it is the Chechnyan situation or the economic crisis, an excuse for reinstating police-state kinds of actions.

Last, if you could go over the IMF situation, the last loan it seems to me was basically as if we had refinanced the loan without really refinancing it. We found a new mechanism where we set up a fund and then we used that fund to pay down some of the debts. So it is almost like a restructuring.

But don't we have the basic problem, anyplace the IMF goes, that what it is really doing is replacing capital flight and what we hope is that this stabilizes the situation and then reduces the need for further infusions? That worked in Mexico very successfully, where we made a profit I guess on the infusion of American and IMF funds.

Do we need to take a whole new look at the IMF, whether it is in Indonesia, Russia, or anyplace else, on instituting a more sophisticated mechanism, a more complex mechanism than we have today? Because I think you are starting to lose public support for simply infusing cash in the hope that you will stabilize the situation.

Mr. TALBOTT. Mr. Gejdenson, I am going to accept your invitation to make what might be called not-so-much New Year's resolutions as engage in a little retrospective self-criticism, because I think it is in the spirit that Chairman Gilman established at the outset. I want to do so, though, in the following context, and I invite the Committee to join me in this.

The really key question, I think, is whether the fundamental objectives that we have been trying to serve, whether the mechanisms we put in place to serve those objectives, have been borne out by the experience of the last 7 years or whether they should be overhauled and fundamentally changed. I would strongly suggest—and we could come back in terms of specifics to discuss the point further—that actually the assumptions and the mechanisms stand up pretty well.

That does not mean with the wisdom of 20/20 hindsight we can't see some things that we should have done better. I, for example—and I am going to limit myself to one thought that I have some personal responsibility for and let others speak for others—I think we should have been more public and emphatic in pushing a money laundering bill with the Russians. Now, we did push it, but we tended to do it in a way that was quiet, on the pretty sound theory that you are more likely to be able to influence a government if you are not lecturing them in public but working with them in private. But I think, in retrospect, we should have pushed the money laundering bill more in public.

I am interested to see a press report that a colleague just handed me that Prime Minister Putin told Attorney General Reno today that his Administration will put the money laundering bill back in front of the Duma and try to get one in place, better late than never. We might have been able to ameliorate some of that problem if we had pushed it harder and earlier.

I think that with regard to our technical assistance to Russia, exchange programs, working with grassroots organizations, helping them develop civil society institutions, helping them manage the transition both to democracy and to a market economy, we should have done more. We should have put more money in early in this Administration, never mind the previous Administration. I wish we had asked for more and gained support for more at that time.

With regard to the Caucasus, I think we should have been more explicit on the cautionary points and the dangers that we saw during the previous Chechen war than in fact we were. Frankly, it is

one reason we want to make absolutely sure and take advantage of every opportunity to get it right this time.

I guess the general point I would make—I see the red light is on, but if I could just have one more crack at the last of your questions—the key thing here for keeping money in Russia is that the Russians themselves can develop an investment climate or environment that will attract both Russian capital and foreign capital. An awful lot of the capital flight that has come out of Russia has been fleeing, as it were, lousy and capricious tax laws and inadequate property protections and things like that.

Again, I think the kind of macro answer to the problem is democracy, and for the Russians over time to elect people to the Duma who will put in place both laws and enforcement mechanisms for those laws that will address those needs.

Chairman GILMAN. [Presiding.] Thank you, Mr. Gejdenson.

Mr. Talbott, earlier I stated my belief that we need to reexamine our policy approach toward Russia as we seek to continue to engage Russia. Can we expect the Administration now to reexamine its past approach and take on a new approach in light of the vast amount of capital leaving Russia, the corruption, and the problems, internal problems in Russia? Are we going to be taking a new approach with regard to our policy toward Russia?

Mr. TALBOTT. I may have touched on this, Mr. Chairman, while you were out voting, but I said that I welcome the chance to look at specific ways in which we can do a better job, and I certainly acknowledge that there are ways that we, working with Congress and, by the way, with our international partners, can do a better job. I am echoing here something that I heard, I think, from one of your colleagues in an opening comment.

We are always listening carefully to those who offer constructive criticism, notably including those in the U.S. Congress, and one of the things we are listening for is what is an alternative, what is a better way to do this. That doesn't mean our default position is to reject a better way if we hear it proposed; quite the contrary, and maybe in the course of our remaining discussion this morning, you can suggest some ways which we can do better.

On the issue that seems to concern you particularly, Mr. Chairman, the Treasury Department over the past year has been taking very real and I think concrete measures to ensure that there is a higher standard of assurance that money provided by the international financial institutions does what it is intended to do and goes where it is intended to go.

With respect to bilateral assistance programs, because very little of it is in cash, because very little of it goes into Russian wallets or bank accounts or even into the treasury there, we have a higher degree of assurance that there won't be malfeasance. In fact, there have been relatively few, if any, serious allegations of that money going awry.

Chairman GILMAN. Mr. Secretary, some of the analysts and experts that we have had appear before our Committee stress that instead of more lending to Russia by international funding institutions, we ought to consider directing more funding to the people of Russia for projects that directly benefit those people. They suggest, for example, housing in some very critical areas and, where there

are shortages investment to promote employment. What are your thoughts about that kind of assistance instead of going through the International Monetary Fund and international banking institutions?

Mr. TALBOTT. I think it should be in addition to, rather than instead of, and whatever the IMF and the international financial institutions do in the future will depend on Russia being able to meet these more stringent safeguards and conditions that I made a moment ago.

We ought to keep in mind that while there obviously has been a lot of problems with the international financial institution assistance, the work that the IMF did in Russia, going back to 1992 at the time of the Bush Administration, was actually quite important in a positive way as well. It helped the Russians over the initial phase of their transition. It helped keep perhaps the most dangerous beast of all, economically speaking, hyperinflation, at bay, and it basically bought them some time to dismantle the old Soviet command economy.

That said, Mr. Chairman, I take the point to which you are referring. We have in the past looked at ways of helping with the housing market. There was some specific work done in 1993 and 1994 in housing for Russian officers who were being withdrawn from the Baltic States. Having all Russian forces out of the Baltic States on schedule was an extraordinarily important development. We also have a whole series of investment funds operating with the cooperation of the U.S. Government to support small- and medium-sized businesses in Russia.

But these are only going to succeed if Russia can put in place the laws and the regulatory mechanisms that will not only attract that money but will keep that money in Russia, rather than having it take advantage of the freedom that now exists to send it elsewhere.

Chairman GILMAN. I hope you will be encouraging that.

Mr. Secretary, notwithstanding the Administration's diplomatic efforts and the imposition of sanctions by the Administration on 10 Russian entities, entities in Russia have continued to transfer dangerous weapon technology to Iran without any significant interruption. Many analysts believe that the volume and the pattern of the continued transfers to Iran from Russia could not exist without the acquiescence, if not the encouragement, of at least some elements in the Russian government. Do you feel that we have been successful in our efforts to curtail the flow of sensitive missile and related technology from Russia to Iran, and what steps are we taking in that regard?

Mr. TALBOTT. We have made some progress, but nowhere near enough. There has been certainly movement on the Russian side, both to put in place laws and executive orders and also enforcement mechanisms, including watchdog facilities or Committees in suspect or vulnerable entities and companies.

The key point and the area where there needs to be the most progress, and it needs to come soon, is in implementation of those laws. It is not good enough, in other words, for them simply to say we recognize that it is contrary to Russia's interest as well as the United States, not to mention Israel, for Iran to acquire ballistic missile technology, and therefore, we are not going to permit it. We

have to actually see, as it were, with our own eyes that this kind of activity is being curtailed.

I think that we have worked quite well with the Congress in general on this issue and with you personally, Mr. Chairman, and your Committee. We have some reservations about the particular bill that you have sponsored. We are concerned that it could be counterproductive in some ways, but we are prepared to use the coming days and weeks to see if we can narrow our differences on this. It is useful to us, by the way, when we talk to the Russians to point to the very high level of concern in the U.S. Congress.

Chairman GILMAN. We appreciate your continued efforts in that direction.

Mr. Lantos.

Mr. LANTOS. Thank you, Mr. Chairman.

There are so many unspoken, underlying assumptions in this dialogue that I would like to take a moment to deal with them head on.

Unlike Germany and Japan at the end of the Second World War, two countries we defeated and where we installed our own government, when the Third World War ended, which we called the Cold War, and the Soviet empire collapsed, we did not install an American government in Moscow. There was no General Douglas MacArthur sitting in the Kremlin as there was a General Douglas MacArthur running Japan.

I think it is important to separate in our own minds the flaws and failures and mistakes and stupid and corrupt policies of Russian governments in the last 10 years, as if those would have been our mistakes. We did not defeat Russia in battle. We did not have an American proconsul sitting in Moscow calling the shots. These were Russians. They made their own mistakes. They engaged in their own corruption. They engaged in their own criminality.

I think it is important to clear up our own mind on this issue, to understand that. We did not run Russia. We had a very marginal influence on Russia, and a very marginal influence because our financial involvement was minimal.

You mentioned, Mr. Chairman, the desirability of helping them with housing assistance. If my memory serves me right, the Agency for International Development has provide \$200 million for housing aid in Russia. This is about a dollar and a quarter per Russian for the last decade, and it is about 80 cents per American. So we were not a major factor in Russian housing, and you only need to visit Moscow to realize how little has been done in the field of housing.

I would like to ask you, Mr. Secretary, to deal with the basic instrumentality that we as a country used in attempting to improve efficiency, productivity, and cooperation with Russia, namely, the GoreeChernomyrdin Commission. I followed very closely the work of the GoreeChernomyrdin Commission. I was enormously impressed by the series of achievements of that commission across a tremendous spectrum of issues ranging from space cooperation to—you name it. The agenda was endless. Since you played a pivotal role as a top Russian expert in the work of the Gore-Chernomyrdin Commission, I would like to ask you to indicate what, in your view, have been the achievements of that commission, even though the name will now have to be changed.

Mr. TALBOTT. It is now, of course, the Gore-Putin, and before that was the Gore-Stepashin and before that Gore-Primakov and long ago was the Gore-Chernomyrdin Commission. But, by the way, the Vice President has been in touch with Prime Minister Putin to indicate a willingness to continue the work of the binational commission, as we call it.

A general point, Mr. Lantos, and then a couple of specific ones. The original idea that I think has been more than vindicated is that it is a useful thing to have upper working levels, I would call it, of various agencies and departments of the U.S. Government working on real world problems with comparable levels in the Russian government. We have learned a lot and it has given us insights into both the problems and the possibilities on the Russian side. I would like to think that they have learned a lot seeing how a country that has been a new independent state for 220 years is able to work with these issues.

In the specific area, the Vice President spent an awful lot of time, particularly during the early days of the commission, working on security issues, and that meant particularly the denuclearization of the former Soviet Union. The commission gave him a way of helping make sure that Ukraine and Belarus and Kazakhstan would not be nuclear weapon states. Also, the commission has been a forum for cooperative threat reduction, which is a program we hope to continue and indeed enhance if we can persuade you and your colleagues to fund the enhanced threat reduction program under the bill that was just vetoed.

This would, among other things, take American money and invest it in the safety of the American people the following way: by helping scientists in Russia, particularly nuclear weapons scientists, missile technology specialists and that kind of thing, make the conversion to a civilian economy and to peaceful enterprises rather than being quite so vulnerable to ads in the Baghdad Daily help-wanted section, if I can put it that way.

Then there is the whole issue of export controls. The question on which Chairman Gilman has been so concerned, which is to say the leak of Russian technology to rogue states, particularly Iran, is an issue that the Vice President pursued vigorously with Mr. Chernomyrdin and his successors and made some very real progress there.

We also used the commission to establish a mutual legal assistance agreement with Russia which helps in the area of rule of law, establishing a basic framework for bilateral law enforcement cooperation which has actually come in quite handy. We have had some real law enforcement issues to talk to them about in recent weeks because of the revelations with regard to the diversion of money.

Then, finally, there is the issue of space. The Gore-Chernomyrdin Commission established Russian participation in the international space station and has allowed us to forge a commercial space launch agreement that enables joint ventures, and that, in turn, produces real revenues for the United States.

So I think it is a classic example of win-win for both sides, and I hope it persists not only through this Administration and this

particular Vice President and Russian prime minister, but on into the next Administration.

Mr. LANTOS. Thank you very much.

Chairman GILMAN. The gentleman's time has expired. Thank you.

Mr. Rohrabacher.

Mr. ROHRABACHER. Mr. Talbott, I certainly agree with you that those of us who are critical of the Administration's policy should also have positive alternatives and should not just say you did this wrong or did that wrong, and I take that criticism of the Congress to be constructive criticism of us. A lot of times we don't do that.

However, let me note that among those of us who believe that you have failed in establishing the policies that would lead to a more stable, prosperous Russia, there are many people who have been involved with offering alternatives to the Administration's policies and the Administration has chosen to go another direction. One example, which I would use because I am very involved with this particular area, as I mentioned in my opening statement, is the goal that you just established which is to see that there was a transition for Russian scientists to move outside of their military work, and that it is something that would be nonthreatening to the United States and perhaps something involved with private sector space or other engineering projects.

That is a goal, not a policy, let me add. What you have outlined there is not a policy. It is a goal, and certainly the Republicans agree with that, and I have been a champion of that for many years, through my involvement in the Space and Aeronautics Subcommittee. Chairman Sensenbrenner pleaded with this Administration over and over again to have a policy toward Russia in terms of the space station that would ensure that Russia was able to be a contractor, of which it was capable, but not be a partner, and that the money that we would then make available for Russia would be sent to Russian companies, Energiya, et cetera, for fulfilling certain obligations.

Instead, this Administration insisted on government-to-government relations, insisted on making Russia a partner, of which it was incapable. Then the money that we shipped to Russia, instead of going to a company and going to those scientists that you are talking about, went into the Russian space agency, which in turn was sucked into a black hole and disappeared—hundreds of millions of dollars, if not billions of dollars.

Mr. Sensenbrenner and I have been deeply involved in trying to have a positive program toward the goals you suggested but through a different policy, a different method of achieving it. Let me just say, this Administration's policies have failed miserably in this regard, and it is unfortunate.

Mr. Curt Weldon, whom we all know and who takes a very special interest in Russia, has suggested instead of having money guaranteed or coming from the United States into Russia via the IMF or just direct grants, that we should set up a mortgage fund, for example, which Curt was advocating, which could have been used to provide money for homeownership throughout Russia. Instead, the Administration opposed Mr. Weldon's idea and, instead, of course, went forward with grant programs and direct govern-

ment-to-government programs rather than trying to get the money to the Russian people themselves. Again, a considerable sum of that money has simply disappeared.

I would be pleased to have you comment on my observations that your goals are certainly laudable but your policies to achieve those goals have been miserable failures. I wish you success in the future, but I think we need a change of those policies.

One last thought, and that concerns Chechnya. This Committee has heard me over and over and over again complaining about this Administration's policy toward Afghanistan, and over and over again I have said that Afghanistan would destabilize all of central Asia and Pakistan. Is it not now true that the miserable failure of this Administration in Afghanistan is what has brought about this Chechnyan war? Because isn't Chechnya being financed by drug money from Afghanistan? Isn't that what is going on right now? Again, laudable goals, a lot of good rhetoric from the Administration, but a miserable failure in shepherding through this transition to democracy in Russia.

Any comment on any or all of what I have said? I have said this with a spirit of trying to offer constructive alternatives.

Mr. TALBOTT. I can see that, Mr. Rohrabacher, and the red light is on, so I will simply thank you for your good wishes, certainly.

I also say, in an equally serious vein, that part of the problem we are dealing with here—and, by the way, I have had a chance to work with Congressman Weldon on a number of occasions, more as it happened in the Balkans, but I am aware of his interest in housing.

The institutions that you are talking about that he would like to see us work through, alternatively, don't really exist in Russia. So it is a question of how you get them up and running. Indeed, as a goal of policy, I think it would be a very good thing if we could work with the Russians to help them develop what we consider to be a modern and effective mortgage market. It isn't there now, but, particularly with more support for some of our bilateral assistance, I think that is certainly an area where we could do more in the future.

I think that regarding your comments on the connection between Afghanistan and Chechnya, I look at it quite differently. Afghanistan is very much a problem in its own right. It is a problem with deep historical roots, as you understand; and its own complex role in the collapse of the Soviet Union and the Cold War has produced some aftereffects that our predecessors didn't anticipate and we are having trouble dealing with, no question about that. However, I think you are overdrawing the connection between Afghanistan and Chechnya.

I would actually make a point that is a little more, what shall I say, sharp with regard to the Russian Federation on Chechnya. In some ways it is not so much Afghanistan that has come back to haunt them in Chechnya. It is more the policy that the Russian Federation pursued in 1993, of stirring up trouble in the South Caucasus and particularly in Georgia. There were Chechen fighters who went down and helped the Auka separatists in Georgia in 1993 who gained some skills and some enthusiasm and backing that they brought back into Chechnya. That is the point that we

often make to the Russians while talking through this problem with them.

Chairman GILMAN. The gentleman's time has expired.

Mr. Berman.

Mr. BERMAN. Thank you, Mr. Chairman.

Yesterday, the President vetoed the foreign operations bill. The Republicans printed up talking points and ran to the House Floor to claim that this was an effort by the President to raid the Social Security Fund in order to fund foreign aid, thinking that the American people are stupid.

They read this as if it was an edict coming from some party Committee at the top, with talking points in the greatest form of democratic centralism. This very program is less than one percent of government expenditures in the context of appropriation bills, which in several areas far exceed what the President requested. That this now became the basis for making a plausible or serious contention that the Social Security Fund was raided.

Today we have heard a lot of talk about the importance of our anti-proliferation efforts, of dealing with loose nukes, of dealing with Russian scientists, engaging them seriously. I wasn't quite clear on Mr. Rohrabacher's point regarding the space station, but what I do know is that the Administration requested \$1.032 billion for aid to the Newly Independent States, obviously Russia and all the other ones in the former Soviet Union.

This year's level of funding was \$801 million. The Administration asked for an addition of \$307 million for an expanded threat reduction initiative. The Republican majority in both Houses cold cocked them and simply threw out this requested program and cut the foreign assistance level to all of the Newly Independent States by \$65 million. I am wondering to what extent the expanded threat reduction initiative had in it items that would have funded programs to protect our nuclear security, to stop proliferation, to strengthen export monitoring and suspect plans, to provide the kinds of programs that would deal with the goals that apparently people on both sides laud in terms of the Administration's interest with respect to Russia.

Mr. TALBOTT. Lots, is the short answer, and let me elaborate just a little bit. I think that the expanded threat reduction initiative is about as vivid an example as we are ever going to see of how American taxpayer dollars spent in the right way at the right time cannot only save immense amounts of money down the road—a stitch in time—but can also enhance the safety of the American people.

Russia is going to get back on its feet. We are in an interim period here, and I don't know how long it is going to last, when the problems that we cope with coming from that vast country tend to be associated with the weakness of that state, rather than the strength of that state. It is probably going to be a strong state again; and when that day comes, we will, I would hope, be in a position to look back and congratulate ourselves, or our successors and progeny will, for having done the right thing at the right time, and this is a perfect example.

This is a 5-year program, as you know, totaling \$4.5 billion, with lots of different agencies involved and lots of objectives including the ones that you have mentioned. It will help tighten up export

controls so that Russian technology in these times of both indiscipline and a certain amount of desperation are less likely to go out of Russia and end up in places like Iran and other rogue states. It will prevent or at least curtail the proliferation of weapons expertise by helping to keep gainfully and peacefully employed 8,000 to 10,000 additional scientists. It will redirect biological weapons' expertise to civilian science projects.

There is actually one other point, which is a bit of a detail, Mr. Berman, but it is very much on my mind. This has to do with conventional forces in Europe, a treaty that is under negotiation right now.

We are trying to use our good offices to induce an agreement between Russia and Moldavia and Russia and Georgia to get Russian military equipment and personnel out of those countries in accord with the wishes of the host governments. There is money in the expanded threat reduction initiative that would help bring about that goal as which will not only help put in place another treaty that is very much in the interest of the United States, but will help undergird the independence of two small deserving Republics that used to be Republics of the U.S.S.R.

Mr. BERMAN. Mr. Chairman, my time has expired. At some point in the hearing I think it would be interesting—I know Mr. Delahunt may be pursuing part of this—but in the context of the Senate rejection of the test ban treaty, I would be curious about Secretary Talbott's reaction to how that will play.

Mr. ROHRBACHER. [Presiding.] Perhaps with unanimous consent we might grant you one extra minute to ask that question. With unanimous consent, so ordered.

Mr. BERMAN. Thank you.

How will that play into the Administration's efforts to get the flexibility in the ABM treaty to deal with the kind of national missile defense to deal with the rogue states that our policy is so focused on?

Mr. TALBOTT. I am sometimes accused of being an optimist, so let me begin on an optimistic note. I would answer your question this way. If the Administration can be more successful in persuading the Senate that the CTBT is indeed in the vital interests of the United States, that will certainly help in numerous ways. I would hope that the word bipartisan, which I have heard used several times here this morning, would end up being part of the vocabulary of a happy ending on the CTBT.

That issue is, of course, still very much open. The President has made clear that we are not going to do anything to undercut the CTBT. We are going to continue the moratorium on testing, and we are going to use every avenue that we can to reengage with the Senate on this.

Mr. Berman, I might just say to you that I was in Europe when the Senate voted down the CTBT, and that news had a devastating effect on a lot of our very closest and best friends in Europe. I haven't come to the question about NMD, which may require a whole new set of lights here; but the long and short of it is that they are very much hoping that we will be able to make sure that the United States is a leader in the area of achieving a comprehensive test ban, just as it is in every other aspect of arms control.

You and I have in other settings talked occasionally about South Asia, India and Pakistan. One of the principal benchmarks of non-proliferation that we have been pursuing with the Indians and the Pakistanis, and we are going to engage with the Indians now that their elections are behind them, is CTBT. I would say, to use Olympic terms, the degree of difficulty has maybe gotten a little harder in that argument, but I hope it is not impossible.

Why don't I hold on the connection to NMD and maybe we can come back to it.

Chairman GILMAN. [Presiding.] Thank you, Mr. Berman.

Mr. Royce.

Mr. ROYCE. Thank you.

Secretary Talbott, one of the observations that you have made is that the President has vetoed the foreign aid bill yesterday. I think one of the arguments is because the aid provided to Russia is 30 percent less than the aid that the Administration wanted to be provided. Indeed, overall, I guess we provided \$3 billion less in foreign aid than the Administration wanted, and so they vetoed the bill.

I thought I would explain our thinking here in Congress and then ask for your response on this issue. We remember the words of Boris Fyodorov, who was the former Russian finance minister, who repeatedly warned that providing more IMF loans to the Russian government would simply allow the government to ignore corrupt activities while the IMF moneys kept it afloat. As a matter of fact, at one point he is quoted as saying, "I told Mr. Summers that if you release the loan without conditions it will end up in Switzerland." I think his exact words were, "It will end up in a bank in Zurich."

These are the concerns we have with putting more money into the problem, and I will tell you why. In the Banking Committee last month, we heard testimony from Russian Duma members. There were seven separate members from seven different political parties, and every one of them gave us, during our meetings with them here, the same advice that the Russian finance minister had given the U.S., in which they said, "Don't do this by picking a government and giving the aid to the government. Instead, build institutions." It should be the rule of law, not of men, and they asked us why we were so focused on propping up Yeltsin and Chernomyrdin and supporting government-to-government aid rather than trying to force reforms.

This was the point they made. How credible is it, they said, when Boris Yeltsin twice had vetoed the bill passed by the Duma against Russian money laundering when several hundred billion dollars had been laundered outside of the country, and here we continue to provide the aid even as the Administration vetoes the very bill that would stop it. These are the questions raised by Duma members. These are the questions raised by former finance ministers in Russia, and that is why we are not eager to provide all of these additional billions in aid. We have already done that.

So I would just like to understand what it is going to take to get the President to sign the foreign aid bill. I mean, will we have to spend the \$3 billion in additional aid money?

Mr. TALBOTT. The short answer is, more money for advancing and defending the interests of the United States.

By the way, Mr. Royce, knowing of your Chairmanship of the Africa Subcommittee and your knowing of where my boss is today, namely, in Africa, I am sure she would want for me to stress the importance of more support for our various Africa programs and initiatives; but you have asked me to address the specific issue of Russia.

You have actually touched on several different points here. Let me say, in a way that I intend as much more than courtesy, I think it is a terrific thing that you are meeting with Duma members and interacting with them. When I appeared before the Senate Foreign Relations Committee several weeks ago, there was a delegation from the Duma there as well. I hope that congressional parliamentary exchanges can be more and more a part of our interchange with Russia.

The long and short of it is that this 30 percent cut simply squeezes the life out of an awful lot of programs that we feel go to the very heart of what we are trying to do in Russia. It is a goal, if I can use Mr. Rohrabacher's word, a policy goal for which I hear a lot of support from this Committee. That is, helping the Russians make this transition that we are talking about, not pumping money into the Russian treasury and certainly not putting money into hands that are dirty or that will allow it to find its way out of the country.

We are talking about nonproliferation programs. We are talking about democracy. We are talking about buildup of the NGO community there, exchanges which I continue to think are absolutely vital, building up a free media.

Now, on the point that Boris Fyodorov, who I know well and have worked with over the years, has made, the real answer to your question is that Mr. Summers and the leadership of the IMF have made clear that they are in a new mode with regard to lending to Russia, and it is not a new mode that started when the revelations came out this summer. It goes back to August of last year and the Russian financial crisis. They have instituted much tougher safeguards to protect against a lot of the things that Mr. Fyodorov is warning about.

Just to say one other thing. Mr. Berman, who has now left, asked about the expanded threat reduction program. If I am not mistaken, half of the funds in that program are for the benefit of non-Russian New Independent States, that is, other countries besides Russia and very much for the benefit of the United States itself.

Chairman GILMAN. Would the gentleman yield a moment?

Mr. ROYCE. I will yield.

Chairman GILMAN. Thank you.

Mr. Talbott, the President had requested an increase in aid to Russia to fight proliferation and raised that initiative in his State of the Union speech in January, but I don't believe there was ever any followup to our Committee or to the Congress with regard to that proposal. Could you comment on that?

Mr. TALBOTT. I am not entirely clear what you mean there. I can assure you that there has been followup in that we have continued to work on the problem of nonproliferation at virtually every level. There is going to be a continuation of expert level talks later this week. Ambassador Galuchi remains engaged with Dr. Kokiye. It

figured on the agenda of the meeting in Auckland between President Clinton and Prime Minister Putin. So we have continued to pursue the nonproliferation agenda, but I have a feeling you have something more specific in mind.

Chairman GILMAN. The President proposed this in his 1999 State of the Union message, but we didn't see any followup by him personally with regard to that proposal, and I was wondering if you might want to comment on that.

Mr. TALBOTT. Let me do this. Perhaps after the hearing, I can get some clarification both of what you are referring to from the President's side and where you feel there is lack of followup. I can assure you there is no issue on which we more want to followup with you than that one, because it is almost literally the case that hardly a meeting goes by with our Russian counterparts where we don't press this agenda, and particularly the issue of Iran, that you are so concerned about.

Chairman GILMAN. Thank you.

Mr. ROYCE. Reclaiming my time, Mr. Chairman, since the subject of Africa was brought up, I do want to make the point that we had a real change in Nigeria because we disengaged completely with respect to aid. Just another perspective—and I was there for the elections in the Nigeria—the IMF and the United States disengaged. We did not continue to reward. We demanded and we sought leverage and we got that leverage, and eventually we had free elections several months ago in Nigeria and a duly elected government. So there is more than one approach. It is because we want to make certain that there is leverage exerted that Republicans raise these points, and I wanted to share that with you.

Mr. TALBOTT. Mr. Royce, you know both Russia and Nigeria, and you don't need to hear from me the profound differences between them. Russia is now entering its fourth round of democratic elections since it became a democracy, and I am sure you are not suggesting disengagement is the way to go to with Russia.

Mr. ROYCE. What about leveraged engagement?

Mr. TALBOTT. I like that. Conditional engagement, leveraged engagement, effective engagement, all of those I would certainly subscribe to.

Chairman GILMAN. Mr. Delahunt.

Mr. DELAHUNT. Yes. Thank you, Mr. Chairman.

I think what I am hearing, Mr. Secretary, is the concern expressed by those that have spoken before me on the other side of the aisle is that this is a government-to-government relationship in terms of assistance and loans, grants. Your position is that, particularly early on in the private sector or in the quasi-private sector, those institutions simply did not exist.

Now, presumably once there was a viable private sector, with institutions in which the Administration could have confidence in terms of their integrity, that consideration in terms of commercial relationships and providing assistance might very well be considered. Is that a fair statement in terms of where we are along the continuum of progress within Russia?

Mr. TALBOTT. Yes, Mr. Delahunt.

Mr. DELAHUNT. In defense of the Administration, I think there did not exist that option, in the early years of this decade. Even

in a mature democracy like ours, with institutions such as our banking system that are well regulated, corruption exists. In this morning's newspaper there was a front-page story relative to fraud in a small bank somewhere in the south that amounted to an excess of \$500 million. We have been through a period in our own history, the S&L debacle, for example.

So I want to be clear I don't disagree with where you have gone, and I would agree with the comment by Mr. Lantos that there was not an option available.

It would also appear that some would suggest the reason or the cause of capital flight in Russia is corruption—that as soon as the money comes in from wherever, it is taken out and put in Swiss bank accounts. Is there any evidence of that or would you suggest that it is primarily the tax laws of the Russian state that create an incentive for Russian citizens to seek havens elsewhere on the globe to avoid paying these confiscatory taxes? If that be the case, is the Russian government and the Duma addressing that particular issue in terms of making fundamental changes within their own tax code?

Mr. TALBOTT. Mr. Delahunt, can I first offer my condolences on a certain athletic event that occurred?

Mr. DELAHUNT. I would prefer you remain silent, Mr. Secretary. Don't pick on the scab, please.

Mr. TALBOTT. Speaking of scab, sitting behind is my executive assistant Phil Goldberg, who is from Boston and who barely came in this morning, but he is such a good public servant that he is here to serve the national interest.

Mr. DELAHUNT. He is also a man of great courage to be here this morning.

Mr. TALBOTT. I think both sets of points that you have made are very germane, and this actually—we have lost Mr. Royce—but something that Mr. Royce said earlier actually resonates with the point that you made.

One reason that the Russians felt, including Mr. Fyodorov, that they had to make a clean break with the past and do a hellbent-for-leather privatization, which created a lot of controversy back in the early part of this decade, was because Russia became an independent and democratic country but it was still a country that was dominated by the Soviet system. The state ran everything and the state owned everything, and they made the calculation, on which I think history will pass judgment, but on which we cannot pass final judgment, that the only way to deal with that was just dismantle the old system virtually overnight, even though they didn't have a new one to put in place.

You are certainly also right that the problem of corruption was very much part of the legacy from the old system. I remember the first time I ever heard the word "kleptocracy" was in the context of the Soviet Union and not Russia. They have, in fact, if you look at what has happened in the NGO sector and the small business sector, made incredible strides. There are lots and lots of little businesses doing OK in Russia today.

Now, bigger businesses that require investment, and this goes to your second point, operate under a huge burden, and it is the one that you identify. It is not just the tax law but it is also property

laws which are either inchoate or chaotic or very capricious; and, as a result, it is not a good climate for investment, whether it is from Russian investors or from foreign investors. Now, are they doing something about it? Not yet and not very fast.

The real question is, what will happen when they have a new Duma? They are going to the polls on the 19th of December to elect a new Duma. I am not about to hazard any predictions about what is going to happen in that election or any other democratic election coming up on the horizon, but I can tell you that there are pressures building within the Russian economy and within Russian society to get a grip on some of these core problems, crime, corruption, lousy tax system, right at the top.

Chairman GILMAN. Thank you, Mr. Delahunt.

Dr. Cooksey.

Mr. COOKSEY. Thank you, Mr. Chairman.

Mr. Talbott, starting in 1995–1996—I think it was in the 1993 to 1994 period—a former State Department official, a Mr. Wayne Merry, was in charge of reporting the political activities from Russia back to the States and to our embassy in Moscow. He wrote an article that was in a publication, and he said during 1993 and 1994 there was an unmistakable shift in the Clinton Administration's priorities from, "telling us what is happening to", "telling us that our policy is a success."

I understand that Mr. Wayne Merry had had some important Foreign Service positions and he was in a position, or his role or his responsibility was, to help policymakers here make decisions; and yet during the 1996 campaign, the message that was given to the public was that our foreign policy program in Russia was indeed a success story. Why do you think he came to this conclusion? Why did this former State Department official feel that they want to give a message that our economic policy there had been a success? Was it just a political statement to get through a campaign or was this part of policy? What was the policy of the Administration, the State Department?

Mr. TALBOTT. A couple of points here, Dr. Cooksey.

First, since you are citing Wayne Merry, let me just say I remember him well. I worked with him in two of my capacities and I think two of his because he was in the Department of Defense, if I am not mistaken, after leaving the Department of State. He is a fine public servant and a very fine analyst.

I disagree with his analysis in this case and, insofar as you have accurately conveyed it, his opinion or his characterization of the instructions that Embassy Moscow received from Washington. Our instructions to our embassy, whether it was under Ambassador Pickering or Ambassador Collins, has always been to tell it like it is and, by the way, Wayne Merry always did and often very compellingly.

I don't think that the word success is really appropriate yet, and probably won't be for quite some time to come. You proclaim something a success when you see how it has turned out. Russia is a long way from establishing itself either as a success or as a failure.

What we try to do is monitor the trends and the developments, and we have had a lot of discussions here along those lines. Russia is a mixed bag. There are extraordinarily promising and favorable

developments, the most important of which is democratization. There are also deeply disturbing and dangerous developments, crime and corruption being one cluster of those issues, and the resumption of violence in the Caucasus being another. Russia is a country, not for the first time in its history, God knows, that is undergoing a struggle between its best possibilities and the worst of its past and the worst that is still there in the present.

Mr. COOKSEY. Thank you.

I certainly respect your credentials because you do have a good background on Russia, and I know you have spent a lot of time there, but it is also my understanding that you reported that part of the driving force behind the policy. Our responsibility—and, quite frankly, I think Congress fails in this responsibility—our responsibility as Members of Congress—our constitutional responsibility, is oversight. I feel that a lot of times Congress is not aggressive enough in carrying out its oversight responsibilities to make sure that the taxpayers' money is spent properly. There is the feeling I think across the country and certainly in my District that probably the taxpayers' money has not been well managed in our effort to help the Russian people come out of this period of a command economy, central economy, a period of Communist political model.

Do you think this is an accurate perception? If so, do you think that the policies were used because there was some naivete on the part of the people that were making the decisions? What is the future?

Mr. TALBOTT. They are all very fair questions, and I totally agree that I think this hearing bears it out that Congress has a critical role to play, not only in giving Administration witnesses a chance to explain and defend our policy but also in interacting with parliamentarians from Russia and from other countries who are trying to learn how we do business in this country.

I think that we, the U.S. Government, going back over the two Administrations who have been involved in the post-Soviet transition, have done a solid job that you can represent as such to your constituents in protecting the integrity of our assistance programs for reasons that we have already talked about. But if you have any specific questions in that regard either now or to followup after the hearing, I will be glad to answer them.

I can tell you that we have the highest standards of accountability and safeguards in the money that goes from us, the United States of America, to various projects in Russia.

The more controversial and problematic area is the international financial institutions, and there again I think that the verdict of history will be positive. I think that the fact that the IMF was willing to step in early, going back to the Bush Administration but continuing into this Administration, to help the Russians get over the first and the worst and the most dangerous part of the transition, has to be counted against the fact that the Russians—we can't want reform for Russia more than Russians themselves want it—fell down on the job in a number of respects. I mean, the worse year for them was 1998, a year that, by the way, also included an international financial crisis; but the Russian government at the time, Mr. Kiriyenko's government, could not get the Duma to put

in place the kind of laws, including tax laws, that were necessary in order to justify some of the risks that the IMF had taken. The IMF, as a result, has tightened up further its conditionality.

Mr. COOKSEY. Good. Thank you, Mr. Talbott.

Thank you, Mr. Chairman.

Chairman GILMAN. The gentleman's time has expired. Thank you, Dr. Cooksey.

Ms. Danner.

Ms. DANNER. Thank you, Mr. Chairman.

I made notes of some of the statements that you have made as we have gone along. You made a comment that we need more money for Russians, that this is to the benefit of the American people. I am wondering if some of the American people we represent who are here right now, let us just say the senior citizens who have to decide between purchasing their drugs for their well-being or food, and there certainly are many of them in our country, students who are looking at education needs, where they know they don't have the facilities or the technological advances that exist today, married couples who are paying as much as \$1,400 more in income tax each year because they are married, what we call the marriage tax penalty—obviously, you can see I am a cosponsor of that legislation or even the general infrastructure of our country.

Following up on what John Cooksey had to say, I wonder how many of our people, the people that we represent, think that we spend our money well? They remember that we spent an awful lot of the American taxpayers' dollars for the Cold War when Russia was the enemy. Now we are spending money because they are our purported friend. So, friend or enemy, Russia is costing us a lot more money.

So the question is, how well is it spent. The oversight question came up, and your last comment was that we are protecting the integrity of our assistance programs. As I was making note of that, I thought I heard you say something about the fact that you could provide us with some information on how you are doing that. I know that I would certainly appreciate that information, and I can assume that the other Members of this Committee would like to know exactly how you are indeed protecting the integrity of our programs. Because if we are going to spend this money, if my senior citizens, if my young people know that they have less for their needs because we are sending money overseas, I think the very least they can be expected to receive in return is evidence that this money is well spent.

I, like many of my colleagues, do fear and feel that much of it does make its way to Swiss bank accounts, and I would like to note that we are putting in process and in progress some kind of a program to ameliorate that problem. In Russia, recently I understood that in, for example, Saint Petersburg, as many as 70 percent of the populace lives in communal apartments with families of eight or more, and one bathroom and one kitchen shared by eight families. Even the bathroom shared by eight families staggers my imagination. But we would like to know that the money goes to the people and not to the government, to a few people who are sending it possibly into Switzerland.

So if you would provide us with that information, I think we would all appreciate receiving it.

Mr. TALBOTT. Thank you very much, Ms. Danner.

You have raised a specific issue and a more general issue. I will provide to you and to Dr. Cooksey and, if the Chairman wants, to the Committee as a whole a breakdown on the programs that we are funding and would hope to fund in the future under what we call the Freedom Support Act, which is the umbrella for those regions.

One of the things you will see is that a great many of those programs involve either technical assistance where our people with know-how go over there and explain how to do things, how to run a stock market, how to set up a securities exchange commission, how to run an NGO or local election. So money doesn't change hands. Exchanges, of course, mean bringing them over here and sending our people over there. Again, money does not fall into harm's way.

Then there is also a good deal of highly sophisticated equipment used to dismantle Soviet era nuclear weapons, weapons that used to be aimed at the United States but, again with a lot of controls, to make sure that nothing is diverted.

As to what you tell your constituents more generally, I would hope that in discussing this issue with them that you would remind them during the Cold War the United States spent literally trillions of dollars to deter the Soviet Union, to contain the Soviet Union and, let us face it, to be prepared to make global thermonuclear war against the Soviet Union. That was a very expensive, as well as a very dangerous operation, dwarfing the amount of money we are talking about now. Waging the peace and waging the relationship with a Russia that is no longer our enemy is much less expensive but I think requires a little bit more in the way of resources than the Congress is currently willing to give us.

Chairman GILMAN. The gentlelady's time has expired.

Mr. Tancredo.

Mr. TANCREDO. Thank you, Mr. Chairman.

I have two questions, one dealing directly with your testimony today, Mr. Talbott, and one with the speech you actually gave in Colorado a little over a month ago, and I will deal with the latter first, although it may take us afield. I hope it doesn't do so. I hope it doesn't go too far.

You stated that in the speech that you gave at the Aspen Institute, and I quote the old system of nation states, each sovereign in its exercise of supreme, absolute and permanent authority, is giving way to a new system in which nations feel secure enough in their identities and in their neighborhoods to make a virtue out of their dependence on one another.

You went on to say, this means pooling sovereignty in certain areas of governance and in other areas granting greater autonomy to regions. You said it means simultaneously relinquishing some powers upward and devolving others downward.

I wonder if you could help me here by being a little more specific about which powers you think, for instance, the United States should devolve downward or relinquish upward in order to achieve this new system of nation states.

Mr. TALBOTT. The short answer is none. I wasn't talking about the United States in this speech that I gave.

I am sorry, I am having trouble looking at you.

Mr. TANCREDO. Some people have that, probably when there is no one in between.

Mr. TALBOTT. I should look you in the eye when I say this. I was talking very specifically about what is happening in Europe. I was talking about the institution of the European Union and the way in which the phenomenon of European integration as represented by the European Union can be used to avert in southeastern Europe, and particularly the Balkans, the kind of crisis that has occurred there.

Mr. TANCREDO. I do recognize and should perhaps have made that more specific in my question, that you were talking about Europe. But when you say the old system of nation states is essentially dissolving, I can hardly assume that meant only in Europe in your mind.

Mr. TALBOTT. I can't leave it entirely to the Chairman. I am not sure we have time today to pursue this, but I would like very much to pursue this. I do not think that the United States is a classic Westphalian nation state. I was talking about nation states which means, of course, states built up around particular nationality groups that came about as a result of the treaty of Westphalia in Europe, and Europe is now moving beyond that.

I think one of the United States' great strengths and one of the reasons to be both very proud and also very protective of our sovereignty and national interest is that we are more than a nation state. We are a state made up of many, many different nationalities. You have a country on the map today called France which is made up of mostly of French, and Germany, Germans, and Sweden, Swedes, and so forth and so on, and that tends to talk about people of a particular ethnic group, a particular language group, and very often a particular religious group.

In the United States, we are a wonderful, rich mixture. There is no such thing as American nationality in the same sense that there is in the old European state, and I tried elsewhere in that speech with what is probably overlong, as this answer may be, to make the distinction between the United States and the EU in that regard.

Mr. TANCREDO. I am certainly glad to hear that at least that distinction exists in your mind, although it is again a little difficult to understand or see a world developing in a way that one half of a significant chunk of it would be operating in the manner in which you describe in devolving or evolving into something else, where the United States would only be an observer; but, nonetheless, I am glad to hear that this is a distinction you carry on.

The last part of the question is dealing with your response to a question by Congressman Lantos when he specifically asked you to respond to the Gore-Chernomyrdin Commission or whatever iteration it is in now, and you went on to tell us that you were quite excited by the outcomes and believed it, in fact, had been quite successful.

Going back then to something that Mr. Cooksey brought up, I refer to Mr. Wayne Merry again who also wrote, especially after

you characterized Mr. Wayne Merry as you did, as a very competent employee, a very professional individual, he wrote that every program or project associated with the so-called GoreChernomyrdin bilateral commission's meetings always had to be deemed, quote, a success. He argued that the commission should have been disbanded long ago, making a case that it was part and parcel of the Administration's interest to have State Department tell it, in his words, that our policy is a success. So how should we gauge your response in light of this characterization by Mr. Merry and your characterization of Mr. Merry?

Mr. TALBOTT. I think my characterization of Mr. Merry is both accurate and generous, and my response to him is total disagreement. I haven't read everything that Mr. Merry has written of late, but I assume you are accurately characterizing. I think he is just plain wrong on the facts and on the merits.

For those of us working with the Vice President on the binational commission, we are well aware that there were some areas where we could have a brass-ring type success—for example, getting Kazakhstan to accede to the nonproliferation treaty which involved some work with the Russians. That happened. That is a success. You can chalk that up. But getting Russia to cooperate for reasons that have to do with its own self-interest in curtailing and eliminating the illicit transfer of dangerous technology to Iran, that is an ongoing effort and an uphill one, but certainly not one that we would ever have instructed anyone to characterize as a success, not least because we are accountable to the U.S. Congress, and we have to come up here and describe to you how it is going, and the answer is it is ongoing and it is difficult, but we want to keep doing it.

Chairman GILMAN. Thank you, Mr. Tancredo.

Mr. Davis.

Mr. DAVIS. Secretary Talbott, I have agreed to yield about a minute of my time to Representative Pomeroy.

So, within that timeframe, we have discussed today a number of issues that relate to moving Russia closer to a democratic society, our attempts to influence how the money is spent within that country, and our attempts to influence a movement toward the rule of law. My question for you is, based on the lessons we have learned here in dealing with Russia, what can we begin to talk about in terms of changing the way we use the IMF to more realistically influence how the government and institutions within that country move closer to the rule of law and putting money in places we would like to see it put in? In other words, are there more creative or aggressive ways that we can use the IMF to try to influence their internal affairs or should we just continue to look at some of the other alternatives in addition to the IMF to try to accomplish those goals?

Mr. TALBOTT. That is the first and I hope only question today that I am going to candidly dodge in a sense. I think it is such a good question that I really should defer to my colleagues at the Treasury Department on that because they are the custodians, and very good custodians there by relationship with the IMF.

Larry Summers has been part of, and if I can put it this way, the IMF/Russia team from the beginning of the Administration is

deeply engaged on this. He has testified on it to Mr. Leach, and I wouldn't want to get out in front of him on this. I am sure he would accept the general proposition that of course we can do better, but what he would want to do is put a context in answering your question that takes account of the IMF global responsibility, its mission worldwide. I think it is a very good question, and I hate to make work for Larry, but I suggest you find some way of asking it to him.

Mr. DAVIS. Thank you.

I would like to yield the balance of my time to Representative Pomeroy.

Mr. POMEROY. I thank very much the gentleman for yielding.

Mr. Secretary, I commend you on superbly stated testimony. It is very clear and very, very good.

I hope that going forward, if there is a partisan debate about Russia—and I, for the life of me, don't understand why that is necessarily so, we have plenty of other things to fight about—it will concern what best advances our interest, what best reduces a nuclear threat, either through direct engagement over there or proliferation, and what best further achieves a restoration of stability in the march to democracy and free market economy over there, as opposed to the inane battle of who lost Russia, as if Russia is lost in any event.

I think that your testimony would help all of us refocus the debate in a much more constructive path than it seems to be unfolding. But my question involves the building of financial infrastructure capable of supporting growth of free market enterprise at a household level, at a small business level, on a big business level; and I find that insurance, the ability to allay risk, is a critical dimension of building economic viability, especially in a system that doesn't have the meaningful risk protection available presently.

There is a vote that has been highly contentious in the Duma. In fact, they passed a very restrictive, basically anti-competitive insurance measure that would have kept out foreign insurers, significantly reducing insurance capacity within Russia. Yeltsin vetoed that bill, to considerable political risk. Who understands his political calculations? In any event, it was unpopular for him to veto that bill, and the bill I understand is being considered in the Duma on an override effort.

I am wondering if the Administration would like to put into the record any comments it might have about the role of insurance in Russia's march toward building a vibrant, free economy and thoughts about this measure in particular.

Mr. TALBOTT. I am sure we would. Would you mind if I did that in writing in followup to this meeting? Because it is such an important and good question that I want make sure the words, especially after your kind remarks, are exactly the right ones. I mean, insurance is another part of what might be called the economic infrastructure of reform that has an awful long way to go. I know that there are some American companies that are very vigorously pursuing entry into that market and that they are having some difficulty. I don't know the legislation you are speaking of, but let me look into that and get a letter back either to you or to the Chairman.

Mr. POMEROY. Mr. Secretary, I would appreciate that very much and would alert you that I think the measure is pending in the Duma. It may even be slated for voting on this week and so would urge that you do that quickly.

In the event that you want to take a pass on it, that is fine, too, but I think a statement might be help from the Administration.

Mr. TALBOTT. I think I hear you saying that it is a statement we should make fairly promptly.

Mr. POMEROY. Correct.

Mr. TALBOTT. Make sure that Jim Collins and our colleagues in Moscow get it around there.

Mr. POMEROY. I am going to say it is an issue that is important, it is out there, and if you choose to make a statement, it ought to be done promptly. If you choose to pass, I understand.

Mr. TALBOTT. Thank you.

Chairman GILMAN. The gentleman's time has expired.

Since Mr. Talbott has limited time, and we have a vote on the House Floor, I am going to ask our Members to limit themselves to 1 minute, and we will try to get to everyone.

Mr. Campbell.

Mr. CAMPBELL. Secretary Talbott, on October 6th, Ken Timmerman said the following about you. I want to read it to you, and I want you to respond for the record.

Chairman GILMAN. Please be brief so each Member can query.

Mr. CAMPBELL. "The Shahab-3 missile in particular—is capable of targeting Israel with nuclear, chemical or biological warheads and should, in my view, have Mr. Talbott's name written all over it."

Let me briefly summarize the more detailed chronology I provided in the written statement for Mr. Talbott's responsibility for the Shahab-3 missile.

Later in the colloquy, I speak to Mr. Timmerman:

Mr. Timmerman, your comment about the Shahab-3 having Strobe Talbott's name on it is chilling. I wanted to ask you if it is your belief that Deputy Secretary of State Strobe Talbott knew of the diversion of the technology, whether he could have taken steps to prevent it and chose not to.

Mr. Timmerman: Yes, on both counts, Mr. Campbell. I was certainly not privy to the type of classified briefings to which Mr. Talbott was privy. One of the most astonishing things that I found out was that, after Mr. Talbott was initially briefed by the Israelis in September or October 1996, he never once asked a question of our intelligence agencies until the Israelis came back and briefed Mr. Gore through his aid, Leon Fuerth.

I then further asked Mr. Timmerman: Again, just for the sake of getting the full story out, if he, Mr. Talbott, were here, he might say he undertook a lot of steps but they were publicly known. You categorically state that he knew and did nothing. On what do you base that judgment, Mr. Timmerman?

For the first 3 months, I am saying between late 1996 and February, 1997, absolutely nothing was done. This I have both from U.S. Government sources and from Israeli sources. Afterward, Mr. Talbott was tasked specifically by the Vice President's office—he

was put in charge of dealing with the Russians on this issue. He had exchanges with the Russians, but he never pressed them.

I end the quotations, and I ask you to make your response.

Mr. TALBOTT. Nonsense, is my response.

Chairman GILMAN. The gentleman's time has expired.

Mr. CAMPBELL. Mr. Chairman, it is not fair to the witness. I ask unanimous consent to allow the Secretary to respond to the serious charges which I quoted.

Mr. TALBOTT. The suggestion, the allegation is utter nonsense. You will understand, of course, Mr. Campbell, that in this setting neither I nor any of us can get into intelligence matters in a detailed reconstruction of the way in which this Administration, notably including the Vice President, has dealt with the very real issue which has been kind of a theme throughout the morning of the leakage of dangerous technology from Russia to Iran.

I can tell you that this Administration and, insofar as I have been part of the policy, which is considerable, I myself have been quite assiduous in following up on all information that we have gotten and pressing the matter with the Russians. I think that we can review the history of this episode if you want in some other setting, but the bottom line is that when we knew there was a problem we acted on the problem, and we are several years down the road now. We are closer to a solution to that problem as a result of our unstinting work with the Russians to get a grip on this, but we are not as close as we need to be for the problem to be—

Chairman GILMAN. The gentleman's time has expired.

Mr. Payne.

Mr. PAYNE. Thank you, Mr. Chairman.

Let me say, Mr. Talbott, it is good to see you, and certainly I know of your record of public service, and I don't know of any that has a more impeccable record, and it is a pleasure to see you.

First, I also would like to add my dismay to the \$2 billion that has been cut from the President's request for Russia, \$1 billion less than last year. But also I might add that 40 percent of the development fund for Africa has been cut, \$175 million from essential loan programs, \$157 million cut from global environmental programs, \$87 million cut from debt relief for the poorest countries in the world, \$50 million cut from African development loans, \$200 million cut from economic development and democracy building in Africa and around the world, \$35 million cut from the Peace Corps. It makes absolutely no sense when we are trying to make the world safer.

I come from one of the poorest districts in the country, but I have to totally disagree with my colleague from Missouri when he says that Americans are outraged about the President's \$13 billion request for the foreign aid bill, which is less than one percent of what we spent on foreign aid. I think it is disgraceful that we spent so little. The greedy are really taking from the needy. I think that foreign aid is a hedge on a world that is safe and secure.

If you can in New York City and Manhattan get a bite from a mosquito that comes from three continents away—and you die—and you are cutting money from world health, it is silly. If we are worried about our children and our children's children, about balancing the budget, we are going to have a world that is going to

be unfit to live in if we continue the nonsense of this tunnel vision, this head-in-the-sand silliness that we see in the House.

I guess my minute is up. So I don't have a question. Thank you. Chairman GILMAN. Thank you, Mr. Payne.

We are pleased that we have with us the gentlelady from Ohio, Ms. Kaptur, who is the Ranking Member on the Agriculture Subcommittee on Appropriations.

Ms. KAPTUR. I thank the Chairman very much and my colleagues for allowing me to sit in on this important hearing, and I will be brief.

The first statement I just wish to make to Mr. Talbott in welcoming him back to the House is that I hope you will use your full powers within the Administration to get additional precinct monitors into Ukraine for the upcoming elections. There are 30,000 precincts, and perhaps all Americans living and working in the Ukraine could volunteer that day. I think the situation is becoming more serious.

You don't have to respond to that.

But the major reason I am here today is to say I hope that when you leave today you and the staff members that are here with you from State will be imbued with greater fervor to deal with the issue of Russian food security as fundamental to Russian stability. Your testimony deals primarily with military security, which I can understand, but I would hope, Mr. Talbott, that you could spearhead an effort within the Administration and your allies here in Congress to take a fresh look at how to better use the food aid and its monetized value to achieve reform in Russia and her surrounding former client states.

We know that collective farms were fundamental to the structure, the architecture of the Russian system. They have collapsed, and their entire social welfare system was tied to that.

Chairman GILMAN. The gentlelady's time has expired. Thank you very much, Ms. Kaptur.

Mr. Manzullo.

Mr. MANZULLO. Mr. Secretary, you referred earlier in your testimony to theater missile defense systems. Let me ask you to comment on the recent series of stories that I have seen in the newspaper of granting concessions to Russia to literally abandon or modify greatly the ABM treaty, especially in light of the fact that, in 1995, the Clinton Administration said that shoring up the ABM treaty was of high priority.

Mr. TALBOTT. Mr. Chairman, I want to just agree with and respond affirmatively to Mr. Payne and Ms. Kaptur.

Chairman GILMAN. We have very limited time.

Mr. TALBOTT. Right, and perhaps we can followup.

Mr. MANZULLO. Could you answer mine? Mine is more of a question. Theirs is a statement.

Mr. TALBOTT. I understand that. That is exactly what I was saying, and if the Chairman feels we have run out of time, I would be glad to pursue this with you, either in person or by letter.

The word concession is not in the vocabulary of the dialogue that we are conducting with the Russian Federation on the subject of national missile defense and the Antiballistic Missile Treaty and

START III. The word cooperation, however, is very much part of that vocabulary.

President Clinton has made clear repeatedly that we and Russia face a common problem, which is the proliferation of ballistic missiles to third countries, rogue states that could threaten both American territory and Russian territory, and we should therefore work cooperatively to meet that threat. That will require, almost certainly, amendments to or adjustments in the ABM treaty, but it will also require new levels of thought and ultimately work in the area of cooperative strategic defense. It is in that context that this issue arises.

Mr. MANZULLO. Thank you.

I have to go vote. If I could send you a letter for more detail, I would appreciate it.

Mr. TALBOTT. I would be happy to respond.

Chairman GILMAN. We want to thank our witness for appearing today. The Chair may submit to the State Department questions on behalf of the Committee's Members for expeditious answers in writing, and I thank you once again, Mr. Talbott, for being here today.

The Committee stands adjourned.

[Whereupon, at 12:20 p.m., the Committee was adjourned.]

A P P E N D I X

OCTOBER 19, 1999

NEWS



International Relations Committee

U.S. House of Representatives * Benjamin A. Gilman, Chairman * 2170 RHOB * Washington, D.C. 20515

DATE: October 19, 1999

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CONTACT: Lester Munson, Communications Director, 202-225-8097, Fax 202-225-2035

GILMAN CONVENES THIRD HEARING ON RUSSIA; TALBOTT TESTIFIES

WASHINGTON (October 19) – U.S. Rep. Benjamin A. Gilman (20th-NY), Chairman of the House International Relations Committee, made the following statement today at the Committee's third hearing in three weeks on U.S. policy toward Russia:

"Our Committee on International Relations over the last two years has held a number of important hearings concerning developments in Russia. Looking back over the testimony we have taken in those hearings, particularly those of the last two weeks, I believe that we have to make several conclusions of a serious nature, conclusions that should persuade us that a thorough re-examination of our current policy toward Russia is now warranted and overdue.

"First, I believe that it is time for an accounting by Russian officials of their lack of any real action over the past few years in the face of the fantastic and growing corruption in their country. Given estimates that anywhere from \$100 billion to \$500 billion in Russian monies have been siphoned out of the Russian government budget and the Russian economy, that accounting is long overdue.

"A sincere and thorough accounting might easily find that the highest officials in the current Russian government, including those in the Kremlin and in the Russian security and police agencies, are themselves culpable in this massive thievery. Still, the United States ought to press for such an accounting, because we need to show the Russian people by our actions - not just our statements - that we as a nation do not condone this kind of corruption.

"Second, it is time to begin an exploration here in the United States of where that Russian money has gone. One of our witnesses in a recent hearing, a retired analyst with the Central Intelligence Agency, has speculated that much of that money may have come to rest here, in the United States.

"Whether such an exploration is carried out by our House International Relations Committee or by the House Banking Committee, which has jurisdiction over international financial issues, a thorough examination of that flow of money should be considered. If such huge amounts of Russian money have been siphoned, stolen, or laundered, with much of it perhaps having ended up in American banks, investments, and real estate, do we dare make a complacent assumption that those who have arranged that thievery will not put their financial power to use here in America in ways we would not approve?

"Third, it would appear that loan funds provided by the International Monetary Fund, particularly the almost \$5 billion tranche provided in July 1998, may well have been diverted, through redemption of Russian bonds, to benefit the Moscow tycoons.

"Fourth, even if IMF loans are not being diverted in Russia, they are just replacing, and only in part, monies that are disappearing from the Russian government budget. In light of that fact, while we can and should audit IMF funds and while we might even just transfer them from one account to another without ever sending them to Moscow, we should understand that if the Russian government is increasingly insolvent, due to the incompetency, or worse, of its officials, then we are simply hastening the day when Russia will default on its IMF obligations by continuing to provide those loans.

"Finally, if current trends continue in Russia, it is highly unlikely that we will see the stability in that nuclear-armed country that both Republicans and Democrats support here in the United States. The signs of deterioration are evident in Russia - including impoverishment of large numbers of Russians, epidemics, growing anti-Semitism and possible fascist movements.

"Certainly, those trends alone should lead us to re-examine our current policy toward Russia, but the massive corruption in that country requires it, in my view. Let me note that, over the past three years, this Committee has held several hearings during which we have asked dozens of witnesses to share their insights on our relationship with Russia. Many of those witnesses have raised warning flags about our policy and whether it has actually been achieving what we want in Russia and adequately serving American interests with regard to that important country.

"I think it is clear that, where the Yeltsin government in Moscow has had a shared interest with us to see something happen, such as to ensure the de-nuclearization of the states that border Russia, it has worked diligently to support such objectives. However, where that government has interests that are starkly at odds with American objectives, such as Russia's support for the ugly dictatorship of Alexander Lukashenko in Belarus or the obvious, on-going proliferation of dangerous Russian weapons technology to Iran, our current policy makes little if any progress.

"Some observers now question, in fact, whether progress toward democratization in Russia is as substantial as we would like to believe, and whether elections there have resulted more in a facade of democracy than in a growing accountability of those elected to the people who have elected them.

"In my capacity as Chairman of the Committee, I have shared with the President and with top Administration officials over the past few years my concerns regarding the direction of our policy toward Russia and what it has actually been achieving. Let me make one thing clear: no one disagrees that we need to engage with Russia. But many of us have, for some time now, questioned how well our current policy of engagement with Russia is working. Raising such questions does not make one isolationist or partisan.

"And such questions have been raised by Members of this Committee for some time now, in the hearings I have mentioned as well as in past letters written to the President and in opinion pieces published in our major papers. In particular, the fact that the House passed the Iran Non-Proliferation Act of 1999 to establish sanctions for Russian proliferation to Iran, by a unanimous vote of 419 Republicans and Democrats just one month ago, ought to clearly show that there is bipartisan concern over our current policy toward Russia.

"Finally, let me note that it is unlikely that a partisan approach is behind the retired Foreign Service and Central Intelligence Agency personnel who have alleged in recent months that our Administration has mishandled policy toward Russia."

The Committee took testimony from the Hon. Strobe Talbott, Deputy Secretary of State.

**RUSSIA: ITS CURRENT TROUBLES
AND ITS ON-GOING TRANSFORMATION
TESTIMONY OF STROBE TALBOTT,
DEPUTY SECRETARY OF STATE,
BEFORE THE HOUSE INTERNATIONAL RELATIONS COMMITTEE
OCTOBER 19, 1999**

Thank you, Mr. Chairman, for the chance to discuss with you and your colleagues on the Committee developments in Russia and U.S. policy toward that country. You have chosen a good time for this hearing. Russia is much on our minds these days, and rightly so. Not for the first time, and probably not for the last, the Russian people are undergoing what many of them call “a time of troubles.”

The trouble that has received the most attention of late is the fighting in the North Caucasus. Before that crisis erupted, our attention was focused on a spate of allegations and revelations about large-scale financial malfeasance, including charges of money-laundering through American banks.

These two issues are both, in the first instance, challenges to the leaders and people of Russia. But they are also a challenge to us and to our principal foreign partners. That is because it is in our interests that Russia be fully integrated into the community of democracies of which we are a part. That can happen only if Russia manages its affairs — including its struggle against terrorism, ethnic conflict, political extremism, crime and corruption — in a way that meets international standards and that enables us and others to help.

In that regard, let me make several points about the current conflict in the North Caucasus. Chechnya, Dagestan, Ingushetia — these are all republics on the territory of the Russian Federation. We recognize Russia’s international boundaries and its

obligation to protect all of its citizens against separatism and attacks on lawful authorities. We also acknowledge that the current outbreak of violence began when insurgents, based in Chechnya, launched an offensive in Dagestan. Russia has also been rocked by lethal bombings of apartment buildings deep in the Russian heartland, including in Moscow itself. The Russians are still investigating these tragic events, and we hope that the culprits are brought to justice.

In our dealings with the Russian government of late — particularly Secretary Albright's various communications with Foreign Minister Ivanov, as recently as this past weekend — we have stressed all these points.

But we have raised a number of concerns as well: first, that a spread of violence in the region will be contrary to everyone's interests except those who rely on violence as a means to their political ends, including separatism; second, that Russia's last war in Chechnya — in 1994-1996 — demonstrated that there cannot be a purely military solution to the problem there, and that there must be a vigorous and conscientious effort to engage regional leaders in a political dialogue; third, that all parties should avoid indiscriminate or disproportionate use of force that would harm innocent civilians; fourth, that Russia's significant progress toward developing civil society, inclusive democracy and rule of law will be in jeopardy if it permits a backlash against citizens because of their ethnicity or religion; and fifth, that in defending its own territory, Russia should take special care to respect the independence and security concerns of neighboring states, especially Georgia and Azerbaijan. We will continue to press these points publicly and privately, bilaterally and multilaterally.

I would be happy to pursue these points further with you this morning. But before doing so, let me suggest an overall context for our discussion: First and foremost, our policy must advance the national-security interest of the United States — both in the short-term and the long-term. The test we must apply — day in and day out, year in and year out, from one Administration to the next — is whether the American people are safer as a result of our policy. This Administration's Russia policy meets that test.

I'll start with the most basic respect in which that is true: our physical safety and our military security. When the Administration came into office, there were roughly 10,000 intercontinental nuclear weapons in four states of the former Soviet Union; most were aimed at the United States. Today, there are about half as many — some 5,000; they're only in Russia; none are targeted at us; and we're discussing significant further reductions in overall numbers and further steps to diminish the nuclear threat in all its aspects.

That task will be tougher in the weeks and months ahead as a result of the Senate's rejection of the Comprehensive Test Ban Treaty. But we will press ahead. The President has declared that the U.S. will continue to refrain from nuclear testing. We've called on Russia, along with China, France, Britain and other countries, to do the same. This Administration remains committed to the ratification of this treaty. CTBT is critical to protecting the American people from the dangers of nuclear war. Even as we continue to build a consensus of support for the treaty here at home, we will be working to strengthen the one that already exists abroad.

There are other vital issues on our agenda with Russia — issues literally of war and peace that Secretary Albright has discussed with you in the past: peace in the Middle East, in the Balkans, in the Gulf.

And then there is the issue of Russia's nature as a state and role in the world, which will have a lot to do with what sort of 21st century awaits us.

For a decade now, Russia has been undergoing an extraordinary transformation. In fact, it is undergoing three transformations in one: from a dictatorship to an open society; from a command economy to a free market; and from a totalitarian empire and ideological rival toward becoming what many Russians call — and aspire to — a “normal, modern state,” integrated into the international community of which we are a part. We've been helping keep that process going.

Just as one example, the Freedom Support Act and other programs have helped Russia make dramatic improvements in the development of an independent media, protection of human rights and religious freedom. All of us are realistic about the difficulties. Russia's transformation has encountered plenty of obstacles, none greater and more challenging than the crucial need to create the laws and institutions that are necessary to fighting crime and corruption in an open society and market economy.

Still, the transformation continues, and so must our commitment to stay engaged. While there are no easy answers and no quick answers to what ails the Russian body politic today, there is one over-arching principle that is fundamental to creating the forces for change that will drive the scourge of corruption out of Russian society, and that is democracy.

If the Russian people and the leaders they choose can stay on the course of constitutional rule and electoral democracy, not only will they be better off, but so will we. That's the hard-headed essence of why we must continue to support them in coping with the difficulties they face, notably including those that are in the headlines today. Indeed, one way to look at today's troubles in Russia is as part of the legacy of an evil past and a result of an incomplete but ongoing transition to a better future. The solution to those troubles is for them to keep moving forward, and for us to support them as they do so.

Since the Cold War ended, the United States has, as Secretary Albright pointed out in her speech last month at the Carnegie Endowment for International Peace, pursued two basic goals in our relations with Russia. The first is to increase our security by reducing Cold War arsenals, stopping proliferation and encouraging stability and integration in Europe. The second is to support Russia's effort to transform its political, economic and social institutions. Both of these goals are very much works in progress.

In the years since Russia helped bring the Soviet system to an end, our work with that nation has helped secure some breakthroughs that are clearly in the national interest. First, the Soviet Union dissolved in a largely peaceful fashion with its nuclear weapons in

secure hands, an outcome that was not fore-ordained. Imagine the chaos the world would face if the Soviet Union, and its nuclear arsenal, had come apart in the same way Yugoslavia has. First the Bush Administration and then the Clinton Administration worked assiduously to ensure that such a nightmare did not come to pass.

Second, Russia helped dismantle the apparatus of the Soviet system and has rejected the forcible reformation of the Soviet Union or the creation of a new totalitarian super-state. It has no practical option to turn back the clock.

Third, the people of Russia, and their leaders, have embraced democracy and have held a series of free and fair elections at the national and local levels, followed by a stable transition of offices and power, and more broadly, are assembling the building blocks of a civil society based on public participation. When I travel to Moscow, as I do with some frequency, I'm always struck by the preoccupation of virtually everyone I meet with the upcoming parliamentary and presidential elections. For the first time in their history, Russian citizens are now voters; they can register their grievances and express their aspirations through the ballot box — or, for that matter, on a soap box. Their grievances prominently include disgust with corruption; their aspirations prominently include good governance, honest governance — and peace on their territory and on the borders.

Fourth, Russia has made important strides toward replacing central planning with the infrastructure and institutions of a market economy.

Fifth, Russia is more inclined than ever before to working with the U.S. and other nations of the international community on common challenges. Even when we disagree with Russia, Russia's willingness to engage with the international community has been essential to finding common solutions.

If Russia is going to stay on the course we would hope in its foreign policy, it must also continue its internal transformation in a positive direction. International support is an essential part of helping Russia take difficult steps to restructure itself. The President, the Vice President, Secretary Albright and the rest of us have always understood that

Russia has been tearing down dysfunctional Soviet structures, but it has only begun to put in place the mechanisms of a modern state.

This is an enormous and time-consuming task. Russia, after a millennium of autocracy and more than 70 years of communism, had little or no historical memory of civil society, of a market economy or the rule of law. The Soviet system itself was in many ways institutionalized criminality. I first heard the phrase “kleptocracy” used to describe the Soviet state. There are no “good old days” of real law and order or legitimate private enterprise to which Russia can return.

In short, crime and corruption are part of the grim legacy of the Soviet Communist experience. The rampancy of that problem has impeded Russia’s own progress and impeded our ability to help Russia move forward. Moreover, as Russia dismantled communism and sought to create a new market economy, the weaknesses inherent in its new economic institutions created vulnerabilities to corruption. That is why, in his 1995 visit to Moscow, President Clinton called for “a market based on law, not lawlessness.”

Yet, just as we cited these dangers, we were also engaged in finding solutions. U.S. assistance, as well as that of multilateral bodies such as the International Monetary Fund, have focused on building the broader structures that will allow the democratic citizens of Russia — who have the most to lose from corruption — to bring transparency and accountability to both government and business dealings.

We have consistently emphasized the need for transparency and accountability in our dealings with Russia, and in the dealings of the international financial institutions working with Russia. When problems have arisen, we have insisted on full and complete investigations and will continue to do so. In instances where there have been concerns about Russian practices, the IMF has tightened controls, performed audits and reduced lending levels.

The IMF has conditioned further tranches on effective safeguards that ensure lending will not be misappropriated, provide for a satisfactory accounting of relevant

Central Bank activities and reinforce genuine broad-based implementation of reforms that go beyond simple commitments. Both multilateral and bilateral support for Russia will be shaped by this kind of realism. A Russian interagency law enforcement team headed by Federal Security Service Deputy Director Viktor Ivanov was in Washington last month to meet with Justice, FBI, Treasury and State officials. By the way, while this visit was primarily to deal with the Bank of New York case, the Russian team also met with FBI Director Freeh and State Department counter-terrorism officials to discuss the recent bombings in Russia that have cost more lives than we here in this country lost in the World Trade Center and Oklahoma City.

I'd like to turn briefly to the programs in Russia on which we spend American taxpayers' money. We do so primarily to safeguard American security. Let me emphasize that three-quarters of Freedom Support Act assistance is spent on programs that do not involve the Russian government, as part of our effort to help build grassroots support for change. The U.S. government has worked to build relationships with Russian law enforcement and judicial entities and helping them increase their capabilities to operate in a professional and ethical manner. We have also promoted the rule of law at the grassroots level by working with non-governmental organizations, human rights advocates, and independent media watchdogs, and by promoting ethical business practices.

For example, USAID's Rule of Law Project, which was developed in response to a presidential initiative that arose out of the 1993 Vancouver Summit, works with core Russian legal institutions on judicial training, legal education reform and strengthening legal non-governmental organizations. The project has assisted the legislative drafting and the training of hundreds of judges from the commercial courts.

In addition, several US law enforcement agencies have representatives based in Moscow who are working directly with their Russian counterparts on issues of mutual concern. There are three FBI attachés in Moscow working on ongoing criminal

investigations and prosecutions. The U.S. Customs Service, DEA, U.S. Secret Service, DOJ and INS also have representatives in Moscow.

Law enforcement agreements with Russia allow us to share information on cases and cooperate on investigation, prosecution and prevention of crime. The current Mutual Legal Assistance Agreement between the United States and Russia allows each side to request information, interviews and other background material to support investigations. In June 1999, the U.S. and Russia signed a Mutual Legal Assistance Treaty which, when ratified and brought into force, will replace the Agreement. The Treaty will expand and strengthen the scope of cooperation, facilitating investigation and prosecution of transnational criminals.

In addition, in the recognition of the transnational dangers posed by the increased crime in the NIS and Central Europe, the U.S. government established the Anti-Crime Training and Technical Assistance Program. An interagency effort administered by the State Department, this effort is designed to help law enforcement officials develop new techniques and systems to cope with crime while simultaneously strengthening the rule of law and respect for individual rights. A major goal of this program is to develop partnerships between American and New Independent States law enforcement agencies that will enable them to combat organized crime and prevent organized crime in the New Independent States from spreading in the U.S.

In conclusion, Mr. Chairman, Secretary Albright has asked me to use this occasion to reiterate the case that she has made to you and your colleagues for the resources we need in order to defend and advance American interests. The current appropriation bill contains a 30 percent cut from the President's Freedom Support Act budget for programs in Russia and the other New Independent States. That is one of many reasons why the President has vetoed this bill. The funding levels proposed by the Congress would force us to make unacceptable trade-offs between our core economic and democracy programs and programs that prevent the proliferation of weapons of mass destruction. The President believes such cuts would be dangerously short-sighted, because the purposes of

this assistance – from building an independent media to promoting small businesses — are fundamentally in our interests.

The President and the Secretary see engagement with Russia as one of many bipartisan goals that serve the long-term interests of the American people.

Question for the Record
Submitted by The Honorable Earl Pomeroy
A Representative in Congress from North Dakota

Mr. Pomeroy asked Secretary Talbott to state the Administration's position on the legislation pending in the Russian Duma that discriminates against foreign insurance companies. President Yeltsin vetoed the legislation in June (1999) and the Duma is expected to consider a motion to override the veto in the very near future.



United States Department of State

Washington, D.C. 20520

NOV 8 1999

Dear Mr. Pomeroy:

This letter is to follow up on questions you asked Deputy Secretary Talbott during his October 23 testimony before the House International Relations Committee about certain restrictive insurance legislation which had been passed by the Russian Duma but vetoed by Russian President Yeltsin.

As you are probably aware, on October 27 the Duma passed a compromise version of the bill that effectively exempts foreign insurers now operating in Russia from these disadvantageous restrictions but imposes restrictions prospectively. Obviously, this amendment will not change the generally negative effect of the legislation on future foreign investment in the insurance industry.

We agree that a strong insurance industry is an important component of a vigorous, growing market economy. The legislation as it is now written is unduly restrictive of foreign investment in Russia's insurance sector and it runs counter to the liberalizing trend which Russia's bid for accession to the World Trade Organization represents. It also sends a negative message to potential foreign investors, in the insurance industry and in the Russian economy generally; limits the choices available to the Russian consumer; and discourages innovation by Russian insurers.

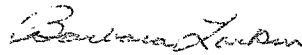
The U.S. Embassy in Moscow has made these points repeatedly, both to leaders in the Duma and to appropriate officials in the Russian Government. State and Commerce Department officials have reinforced this message on visits to Moscow and in Washington to visiting Russian officials. Ambassador Collins also wrote to Gennadiy Seleznev, Chairman of the Duma, on September 30 regarding this matter. A copy of that letter is attached, along with a letter to former

The Honorable
Earl Pomeroy,
House of Representatives.

Prime Minister Stepashin delivered at the time President Yeltsin was considering his veto. We will continue as necessary to impress upon the Government of Russia that this kind of legislation defeats Russia's own self-interest by discouraging foreign investment and hindering development of an open, free market economy.

We hope this information is useful to you. Please do not hesitate to contact us if we can be of further assistance to you in this or any other matter.

Sincerely,

A handwritten signature in cursive script, appearing to read "Barbara Larkin".

Barbara Larkin
Assistant Secretary
Legislative Affairs

Attachments: as stated



Embassy of the United States of America
 Moscow, Russia
 September 30, 1999

Dear Gennadiy Nikolayevich:

I am writing to express my concern about the legislation "On Amendments and Additions to the Law on Organization of the Insurance Industry in the Russian Federation," originally passed by the State Duma on June 16, and soon to be considered for an override the veto. This bill would limit foreign investment in the insurance industry to 15 percent of total capital. By prohibiting engagement in certain types of insurance activities by majority-owned foreign firms, these amendments, if adopted, could result in some cases in forced divestiture by foreign insurance companies. At a minimum, these amendments would further restrict the ability of foreign investors and service providers to participate in the insurance sector.

I would like to urge members of the State Duma to consider the negative implications that passage of this bill would have on the Russian investment climate and the Russian economy. The Russian government has repeatedly expressed its objective of attracting additional foreign investment. Foreign investment in Russia's insurance and other financial sectors will contribute to stable financial markets, domestic capital formation and the creation of Russian companies that can compete more effectively in the global marketplace. Enactment of new restrictions in the insurance sector will send a negative message to foreign investors and undermine the chances for positive foreign participation in this important service sector. Most importantly, a strong well-capitalized insurance industry will provide the full range of insurance services that will serve to strengthen Russian companies in general, and will provide the average Russian consumer with a broad choice of competitive products. Therefore, I think it is clear that these new restrictions are not in the interest of the Russian Federation.

This legislation, if adopted, would also raise concerns connected with Russia's ongoing negotiations for membership in the World Trade Organization (WTO). To maintain momentum in the negotiations, Russia's trading partners expect Russia's continuing commitment to a liberal regime for trade in services, including insurance services. Additional restrictions at this time could only slow down Russia's accession negotiations, something that is not in anyone's interest.

The Honorable
 Gennadiy Nikolayevich Seleznev,
 Chairman of the State Duma of the
 Russian Federation,
 Moscow.

Our hope is that as the State Duma considers the important task of making rules for this important sector, the Duma will strive to adhere to international standards, so as to position Russia for full-fledged participation in world markets. The Organization for Economic Cooperation and Development (OECD) Insurance Committee is the leading international forum for insurance regulators. I understand the OECD will hold an experts meeting in Moscow to discuss the proposed Russian legislation in early November, and will invite participants from the Russian government, industry, and also from legislators. I would hope that the members of the State Duma would be able to defer final consideration of any legislation on insurance until they have had the chance to participate in these important OECD discussions.

I thank you in advance for considering our views on this important issue.

Sincerely,



James F. Collins
Ambassador



Embassy of the United States of America

Moscow, Russia
June 29, 1999

Dear Sergey Vadimovich:

I am writing to express concern about draft legislation, passed in the State Duma on June 16 and in the Federation Council on June 25, amending the Russian Federation's insurance law. This bill, if signed by the President, would limit foreign investment in the Russian Insurance Industry to 15 percent of total capital and would prohibit engagement in life insurance and compulsory insurance activities by majority-owned foreign firms.

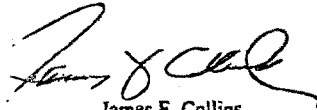
If enacted into law, this bill would have considerable negative implications on the Russian investment climate and the Russian economy. It could result in forced divestiture by foreign insurance companies, many of which have invested significantly in the development of life insurance business in Russia. The legislation also would further restrict the ability of foreign investors and service providers to participate in the insurance sector. The legislation would work directly against your important goal of attracting additional foreign investment in Russia generally, by sending a strong message that foreign investors are not welcome.

Even more importantly, competition in this sector can lead to a more vibrant insurance industry providing services that strengthen all Russian companies. Openness to foreign investment in the sector thus has far reaching economic benefits for Russian industry. Finally, this legislation, if adopted, would also raise concerns connected with Russia's ongoing negotiations for membership in the World Trade Organization (WTO), just as Russia is preparing its initial offer for trade in services. Additional restrictions at this time could only slow down Russia's accession negotiations.

His Excellency
Sergey Vadimovich Stepashin.
Prime Minister of the Russian Federation.
Moscow.

I hope that these considerations will be kept in mind as the Government prepares its position regarding this draft legislation.

Sincerely,

A handwritten signature in black ink, appearing to read 'James F. Collins', with a stylized flourish at the end.

James F. Collins
Ambassador