

RUSSIAN ANTI-SHIP MISSILE NONPROLIFERATION ACT OF
2000

JUNE 12, 2000.—Committed to the Committee of the Whole House on the State of
the Union and ordered to be printed

Mr. GILMAN, from the Committee on International Relations,
submitted the following

R E P O R T

together with

MINORITY VIEWS

[To accompany H.R. 4022]

[Including cost estimate of the Congressional Budget Office]

The Committee on International Relations, to whom was referred the bill (H.R. 4022) regarding the sale and transfer of Moskit anti-ship missiles by the Russian Federation, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the “Russian Anti-Ship Missile Nonproliferation Act of 2000”.

SEC. 2. PURPOSE.

The purpose of this Act is to prohibit the forgiveness or rescheduling of any bilateral debt owed by the Russian Federation to the United States until the Russian Federation has terminated all sales and transfers of Moskit anti-ship missiles that endanger United States national security.

SEC. 3. FINDINGS.

The Congress makes the following findings:

(1) In February 2000, the first of two Russian-built Sovremenny-class destroyers sold to the People’s Republic of China arrived in the Taiwan Strait, manned by a mixed Russian and Chinese naval crew. Currently, the Russian and Chinese Governments are discussing the sale of 2 additional Sovremenny destroyers.

(2) Within weeks after the arrival of the destroyers, the Russians are scheduled to transfer the first of several of the ship’s most lethal weapon, the radar-

guided Moskit (also known as Sunburn) anti-ship missile, which can carry either conventional or nuclear warheads.

(3) The supersonic Moskit missile, which can be mounted on a naval or mobile land platform, was designed specifically to destroy American aircraft carriers and other warships equipped with advanced Aegis radar and battle management systems. The United States Navy considers the missile to be extremely difficult to defend against.

(4) The Moskit missile has an over-the-horizon range of 65 miles and can deliver a 200-kiloton warhead in under 2 minutes. One conventional Moskit missile can sink a warship or disable an aircraft carrier, causing the deaths of hundreds of American military personnel.

(5) The Russian Federation is helping the air force of the People's Liberation Army to assemble Sukhoi Su-27 fighter aircraft, which are capable of carrying an air-launched version of the Moskit missile, which has a longer range than the sea-launched version. The Russian Federation is reportedly discussing the sale of air-launched Moskit missiles to the People's Republic of China.

(6) Land-, sea-, or air-launched Moskit missiles raise the potential for American casualties and could affect the outcome in any future conflict in the Taiwan Strait or South China Sea. The transfer of the missile by China to Iran or other belligerent nations in the Persian Gulf region would increase the potential for conflict and for American casualties. A Moskit missile mounted on a mobile land platform would be difficult to locate and could wreak havoc on the coastline of the Straits of Hormuz.

SEC. 4. PROHIBITION OF DEBT FORGIVENESS.

(a) PROHIBITION.—Notwithstanding any other provision of law, the President shall not reschedule or forgive any outstanding bilateral debt owed to the United States by the Russian Federation, until the President certifies to the Congress that the Russian Federation has terminated all transfers of Moskit anti-ship missiles that endanger United States national security, particularly transfers to the People's Republic of China.

(b) WAIVER.—The President may waive the application of subsection (a) if the President determines and certifies to the Committee on International Relations of the House of Representatives and the Committee on Foreign Relations of the Senate that such waiver is vital to the national security interest of the United States.

SEC. 5. REPORTS ON THE TRANSFER BY RUSSIA OF MOSKIT MISSILES.

(a) IN GENERAL.—Not later than 30 days after the date of the enactment of this Act and every 6 months thereafter, until the certification under section 4, the President shall submit to the Committee on International Relations of the House of Representatives and the Committee on Foreign Relations of the Senate a report identifying the status of any contract and the date of the transfer of any version of the Moskit missile, particularly transfers to the People's Republic of China, occurring on or after February 1, 2000.

(b) SUBMISSION IN CLASSIFIED FORM.—Reports submitted under subsection (a), or appropriate parts thereof, may be submitted in classified form.

BACKGROUND AND PURPOSE

H.R. 4022, the “Russian Anti-Ship Missile Nonproliferation Act of 2000,” was introduced on March 16, 2000, by Mr. Rohrabacher, Mr. Spence, and fourteen other original sponsors. The bill prohibits the forgiveness or rescheduling of any bilateral debt owed by the Russian Federation to the United States until the Russian Federation has terminated all sales and transfers of Moskit anti-ship missiles that endanger United States national security. The purpose of the bill is clear: no further rescheduling or forgiveness of any of the Russian government's bilateral debt to the United States Government shall be provided by the United States either directly or in any multilateral forum, including the Paris Club of official creditors, until the President certifies that the Russian Federation has terminated all transfers of Moskit and anti-ship missiles that endanger United States national security, particularly transfers to the People's Republic of China.

THE GROWING ARMS AND MILITARY TECHNOLOGY SALES
RELATIONSHIP BETWEEN RUSSIA AND CHINA

In 1991, Russia and China concluded their first big weapons contract when China agreed to purchase a reported twenty-six Su-27 "Flanker" fighter aircraft for an estimated \$1 billion. In a subsequent visit to China in December 1992, then-President of Russia Boris Yeltsin stated that Russia was prepared to go on to cooperate with China "on the most sophisticated armaments and weapons." Indeed, over the last few years, arms sales to China have expanded considerably, and it has been reported that Russia is now providing China with a broad range of military technology and arms. In 1994, China purchased four quiet-running, diesel-powered "Kilo"-class submarines from Russia. In 1996, China and Russia signed a contract to build an estimated two hundred Su-27 aircraft in China for a reported \$2.5 billion. In 1999, China agreed to buy thirty to sixty Su-30MK fighter aircraft from Russia for an estimated \$2 billion, and it is reported that negotiations may be underway for the purchase of the more advanced Su-37 fighter. In 1997, China purchased two "956-E" or "Sovremenny"-class guided-missile destroyers equipped with the advanced supersonic "Moskit" anti-ship missiles, and is now likely to purchase two more of the ships. According to a Washington Post report of February 10th, 2000, Asian officials believe "that as many as 2,000 Russian technicians are employed by Chinese research institutes working on laser technology; the miniaturization of nuclear weapons; cruise missiles; space-based weaponry; and nuclear submarines. On January 19, Russian Deputy Prime Minister Ilya Khlebanov told reporters that Beijing and Moscow "are close enough" to agreement on joint use of Russia's GLONASS satellite-based global positioning system, and accord that would aid the Chinese military in targeting its rockets [ICBMs] and air-to-air missiles." In addition to the advanced fighter aircraft, submarine, and guided-missile destroyer purchases and sensitive military technology agreements noted above, Russia is reported to have sold China a range of electronics, air-to-air and surface-to-air missiles, air defense systems (including one hundred SA-10 air defense missiles), Ka-27 and Ka-28 anti-submarine warfare helicopters, armored fighting vehicles and fifty T-72 tanks.

Today, slightly more than eight years after the first major Russian-Chinese arms deal, bilateral arms and military technology deals with China are now believed to be worth at least one billion dollars annually in revenues to Russian arms exporters, and some observers believe China accounts for more than 40% of all Russian arms exports. In testimony taken by the Committee in March 1999, one expert witness stated that such Russian exports to China reached over \$2.1 billion in 1996, comprising 70% of China's arms purchases in the foreign market. Russia, in fact, has become China's largest supplier of advanced weapons.

THE QUESTION OF POSSIBLE RUSSIAN-CHINESE STRATEGIC
COOPERATION IN SUPPORT OF A "MULTI-POLAR" WORLD

Russia seems unconcerned over the growing Chinese military power it is helping to create. Former Russian President Boris Yeltsin in fact declared that Russia has a "strategic partnership" with China and joined Chinese President Jiang Zemin in opposing

a “unipolar”, i.e., US-led, world in favor of a “multi-polar” world. Indeed, as a “Washington Post article of February 10th, 2000 stated: “Western experts and Asian diplomats say that * * * Moscow’s security ties to Beijing have surpassed the simple cash-for-weapons transactions that characterized the relationship for years and are evolving into something more complex and potentially far-reaching.”

Despite the Russian insistence on continuing arms sales to China, the United States should view with concern those sales, particularly sales of weapons such as the “Moskit” missile that present a possibly immediate threat to American naval forces that might be called to the defense of American interests in the Pacific. The United States must indeed view with concern the broader implications of the overall Russian-Chinese arms relationship. In testimony taken by the Committee in March 1999, Mr. Sherman Garnett, former Deputy Assistant Secretary of Defense and Director of the Project on Russian-Chinese Relations at the Carnegie Endowment for International Peace stated the following: “These [Russian] sales—and the broader defense and technology cooperation that are linked to them—could over time help to alter regional military balances in areas of vital U.S. interest in East and Southeast Asia or the Taiwan Strait. China does not need to match the military of the U.S. and its allies to effect this alteration. It need only develop capabilities that substantially raise the cost of U.S. intervention in the region.”

China has indeed held missile firing “tests” off the coasts of Taiwan in recent years, a sign of its growing military assertiveness, and through its arms purchases from Russia, China is obtaining modern air and naval weaponry that could well help it successfully challenge the American 7th Fleet, which is committed, in part, to the support of Taiwan. (For example, while the “Sovremenny” destroyers carry supersonic “Moskit” anti-ship missiles that are very difficult to defend against, the “Kilo” submarines are reportedly equipped with so-called “wake-homing” torpedoes designed to detonate beneath a ship’s keel, where their approach is more difficult to detect due to the nose of the ship’s propellers.) At a strategic level, China may be obtaining Russian technology that will allow it to improve and expand its relatively small strategic nuclear force (now an estimated 17 land-based and 12 sub-based long-range missiles and an estimated 300 warheads)—ironically at the very time that the U.S. is reducing its strategic arsenal through agreements with Russia. The Washington Times of January 19, 2000 reported that Russian nuclear weapons experts may now be assisting China in the extraction of Tritium for thermonuclear warheads.

THE RUSSIAN GOVERNMENT’S QUEST FOR FURTHER DEBT RESCHEDULING AND FORGIVENESS OF DEBT

Upon the dissolution of the former Soviet Union in December 1991, the Government of the newly-independent Russian Federation, the largest successor state to the Soviet Union, insisted that it receive various assets of the Soviet government at home and abroad, including ownership of Soviet embassies and facilities around the world, Soviet-created banks abroad, and the stocks of Gold held by the Soviet regime, among other things. The new Russian government also agreed to assume responsibility for the pay-

ment of debts owed to both private sector and official creditors by the Soviet Union upon its demise. Since that time, while enjoying the benefits of such Soviet-era assets, the Russian Government has failed to meet its obligations to re-pay Soviet-era debts, restoring instead to outright default and to reschedulings to avoid honoring the bulk of those debts.

With regard to debt to other governments, the Russian government has, in fact, been the beneficiary of debt rescheduling by the “Paris Club” of official creditors several times over the last decade, in 1993, 1994, 1995, and 1996. The rescheduling and restructuring of the Russian Government’s Paris Club debt in April 1996 was indeed the largest-ever such debt-rescheduling arrangement in the history of the Paris Club, cutting Russian’s debt-serving obligations in 1996 from \$8.5 billion to \$2 billion by giving it twenty-five years to repay \$38.7 billion in such debt to other governments, including a six-year grace period during which it would pay only interest, not principal. The August 1999 “interim” rescheduling simply postponed until the second half of 2000 those payments on about \$8 billion in obligations that were due over the course of 1998–2000. (That portion of the Russian Government’s debt to official creditors that is covered by the Paris Club was estimated to total about \$42 billion by early 2000.)

With regard to debt owed to private lenders, over the last eight years the Russian government has almost completely failed to meet its obligations to the “London Club” of commercial creditors for the Soviet-era debts for which it assumed responsibility. According to information obtained by staff of the Committee on International Relations, the Russian Government did not honor those commercial obligations from 1992 to 1997, and honored them for only a short period following a rescheduling that the London Club accepted in 1997. After August 1998, the Russian government yet again defaulted on its debts to the “London Club.” In February 2000, despite a considerable rise in the price of oil, one of Russia’s main exports, that helped create a Russian trade surplus of about \$30 billion in 1998; despite increased Russian tax collections; and despite its failure to meet its debt obligations to the London Club for over a year, the Russian Government obtained from the London Club a rescheduling under which approximately \$12 billion was simply written off and the remainder (approximately \$20 billion) transformed into long-term (30-year), low-interest bonds.

THE GENEROUS BENEFITS GRANTED THE RUSSIAN GOVERNMENT
THROUGH REPEATED DEBT RESCHEDULINGS AND FORGIVENESS

The Russian government has benefitted in several important ways from the leniency shown by both officials and commercial creditors towards the payment obligations Russia assumed when it insisted that it be granted many of the international assets of the former Soviet regime. Above all else, its defaults on commercial debt and forgiveness of much of that debt and the constant rescheduling of its official debt have alleviated the burden of billions of dollars of annual payments it would otherwise have had to make to its creditors. Other very important, but less-recognized benefits have accrued to the Russian government, however, from the leniency shown by both the Paris Club and the London Club of creditors.

In particular, the 1996 rescheduling arranged with the Paris Club, by avoiding a Russian Government default on its debts to other governments, also made the Russian government eligible for other, very lucrative forms of foreign financing, specifically, making it possible for the Russian government to receive a three-year loan of more than \$10 billion from the International Monetary Fund and paving the way for the Russian government to re-enter international capital markets as a sovereign borrower. The 1999 interim rescheduling ensured that Russia remained eligible to access those sources of finance. The general benefits to the Russian economy provided by the London Club's forgiveness and restructuring of the Russian government's debts this year will also be considerable. Negotiation of the deal set the stage for upgrades in assessments of the creditworthiness of the Russian government and of Russian enterprises, which in turn increases the chances of more commercial lending to that government and those entities as well as the possibility of greater foreign direct investment in Russia.

QUESTIONS ABOUT THE NEED TO PROVIDE FURTHER LENIENCY WITH
REGARD TO RUSSIA'S DEBT OBLIGATIONS

Despite the many reschedulings of Russia's debts and the recent, outright forgiveness of at least one-third of its debt to commercial creditors of the London Club, there is a high probability that the Russian government will choose to continue to default on its debts. Former Russian Finance Minister Aleksandr Shokhim in fact stated after the conclusion of the 2000 debt forgiveness and rescheduling agreement with the London Club that the agreement would likely merely delay Russia's default on that particular component of its debt for only a few years.

Indeed, the need to restructure Russia's debt to either the London Club or Paris Club at this time is questionable. As the New York Times reported in a story of February 13th, 2000 concerning the London Club restructuring: "The fact that Russia's debt—much of it stemming from the Soviet era—needs to be restructured at all is something of a puzzle * * * Russia, according to key economic indicators, should have the money to meet its debt payments. * * * The government should * * * be reaping high taxes from the profits of Russian oil companies. In fact, the state has a huge trade surplus * * * Charles Blitzer, chief international economist for the brokerage Donaldson, Lufkin & Jenrette, said: "This isn't so much a question of ability to pay as willingness to pay," The Economist stated the following in its August 7th, 1999 edition: "As with the Paris Club negotiations, cynics suspect that nobody is particularly bothered about the underlying sustainability of any agreement. Given that Russia shows no willingness to live within its means, it is reasonable to suspect that the main priority is to clear the way for another borrowing splurge after the elections."

The lenient treatment of the Russian government with regard to its debts and its continued borrowing from international financial institutions must be viewed with some concern, given the record of Russian willingness to benefit from the assets it inherited from the former Soviet regime and from loans it has borrowed abroad while clearly showing, at the same time, an unwillingness to live up to the debt obligations it took on from the former Soviet regime or to carry out its dealings with international financial institutions in a

proper and transparent manner. With regard to the latter point, the Economist, in its August 7th, 1999 edition, made the following comment: "Already they [the Russian government] have secured a highly irregular \$4.5 billion loan-renewal from the IMF despite having been caught out lying to the Fund about their reserves."

In the on-going negotiations with the Paris Club, the Russian government is reportedly seeking the outright forgiveness of debt similar to that it gained from the London Club after refusing to pay its debts to the latter organization. Should a similar proportion of debt be written off by the Paris Club (at least one-third of the approximately \$42 billion in debt reportedly covered by the negotiations), the Russian government will likely gain the forgiveness of approximately \$12 billion in such debt in 2000. As a member of the Paris Club, the United States would undoubtedly participate in any such agreement, contributing an as-yet-undetermined amount of outright debt forgiveness to the Russian government.

RUSSIAN GOVERNMENT DEBT TO THE GOVERNMENT OF THE UNITED STATES

According to the Congressional Research Service, as of December 1999, the Russian Government's bilateral debt to the Government of the United States consisted of about \$1.4 billion in direct loans and credits and about \$4.1 billion in other loans and loan guarantees. The components of this debt were reported to be: \$602 million in Lend-Lease debt from the period of the Second World War; \$783 million in outstanding direct credits under the U.S. Department of Agriculture's "P.L. 480" program administered by the Commodity Credit Corporation; a further \$1.9 billion in outstanding loan guarantees under the "P.L. 480" program; and outstanding loans and loan guarantees through the U.S. Export-Import Bank of approximately \$2.2 billion. Staff of the Congressional Research Service also reported that approximately \$2.7 billion of the total bilateral debt owed to the United States by the Russian Federation is a component of the Paris Club debt being renegotiated during 2000 by the Paris Club and Russia.

As a member of various international financial institutions such as the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (the "World Bank"), and the European Bank for Reconstruction and Development (EBRD), the United States also stands behind the Russian Government's repayment of a large portion of the loans extended to Russia by those institutions. Loans disbursed to the Russian Government over the last eight years have approached a total of about \$20 billion through the IMF alone, according to information provided to the Committee on International Relations.

While H.R. 4022 does not speak to the issue of debt owed such international financial institutions, the United States Government's leniency in previous Paris Club reschedulings with regard to Russian Government bilateral debt owed to it and the United States' support for extensive loans to the Russian Government by those international financial institutions have supplemented the American government's policy of providing extensive aid and financial support to the Russian government since the end of the Soviet Union. Such direct aid and financial support to the Russian Government has been provided through various programs, including

the “FREEDOM Support Act” assistance program for economic and political reforms, the “Nunn-Lugar” Cooperative Threat Reduction program to assist Russia to meet its START-I arms reductions obligations, donations, of large amounts of food commodities, purchases of recycled Uranium, NASA contracts with the Russian Space Agency in support of the International Space Station project, and a quota for Russian launches of U.S.-made satellites.

COMMITTEE ACTION

H.R. 4022 was introduced on March 16, 2000, and referred by the Speaker to the Committee on International Relations.

The Committee has held a series of hearing on Russian foreign policy and related matters. At these hearing the issues raised by this bill were considered at length. The Committee held a hearing on March 25, 1999 on “Russian Foreign Policy: Proliferation to Rogue Regimes,” and received testimony from five R. James Woolsey, Anthony Cordesman, Henry Sokolski, Sherman Garnett, and John McMahon. On May 12, 1999, the Committee held a hearing on “Russia’s Foreign Policy Objectives: What are They”, and took testimony from Steven Sestanovich, Ambassador at Large for the New Independent States, Brent Scocroft, former National Security Advisor, and Michael McFaul.

MARKUP OF THE BILL

On April 13, 2000, the International Relations Committee marked up the bill, pursuant to notice, in open session. The Committee considered an amendment offered by Mr. Gejdenson which would strike the world “permanently” (regarding the President certifying to Congress that the Russian Federation has permanently terminated all transfers of Moskit anti-ship missiles . . .), and would provide the President with a national security waiver. Mr. Bereuter asked unanimous consent to amend the Gejdenson amendment by changing the word “important” to “vital”. There was no objection. The Gejdenson amendment, as amended, was agreed to by a recorded vote of 20 ayes to 16 nays. Chairman Gilman asked unanimous consent that the Committee be deemed to have before it an amendment in the nature of a substitute consisting of the bill as amended to that point. The unanimous consent request was agreed to.

Subsequently, a quorum being present, the Committee agreed by voice vote to a motion offered by Mr. Bereuter to favorably report the bill, as amended, to the House of Representatives.

ROLLCALL VOTES

Clause (3)(b) of rule XIII of the Rules of the House of Representatives requires that the results of each record vote on an amendment or motion to report, together with the names of those voting for or against, be printed in the committee report.

Description of amendment, motion, order, or other proposition (votes during markup of H.R. 4022—April 13, 2000)

Vote No. 1—Gejdenson amendment, as amended.

Voting yes: Bereuter, Salmon, Gejdenson, Ackerman, Faleomavaega, Payne, Brown, Hastings, Danner, Hilliard, Sher-

man, Wexler, Rothman, Davis, Pomeroy, Delahunt, Meeks, Lee, Crowley, and Hoeffel.

Voting no: Gilman, Goodling, Smith, Burton, Gallegly, Ballenger, Rohrabacher, Royce, King, Chabot, Sanford, Campbell, Brady, Radanovich, Tancredo, and Menendez.

Total: Ayes—20, Noes—16.

OTHER MATTERS

COMMITTEE OVERSIGHT FINDINGS

In compliance with clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee reports the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

COMMITTEE ON GOVERNMENT REFORM FINDINGS

Clause 3(c)(4) of rule XIII of the Rules of the House of Representatives requires each committee report to contain a summary of the oversight findings and recommendations made by the Government Reform Committee pursuant to clause (4)(c)(2) of rule X of those Rules. The Committee on International Relations has received no such findings or recommendations from the Committee on Government Reform.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

APPLICABILITY TO THE LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

CONSTITUTIONAL AUTHORITY STATEMENT

In compliance with clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee cites the following specific powers granted to the Congress in the Constitution as authority for enactment of H.R. 4022 as reported by the Committee: Article I, section 8, clause 1 (relating to providing for the common defense and general welfare of the United States); Article I, section 8, clause 3, (relating to the regulation of commerce with foreign nations); and Article I, section 8, clause 18 (relating to making all laws necessary and proper for carrying into execution powers vested by the Constitution in the Government of the United States or in any Department or Officer thereof).

PREEMPTION CLARIFICATION

Section 423 of the Congressional Budget Act of 1974 requires the report of any committee on a bill or joint resolution to include a committee statement on the extent to which the bill or joint resolution is intended to preempt state or local law. The Committee

states that H.R. 4022 is not intended to preempt any state or local law.

NEW BUDGET AUTHORITY AND TAX EXPENDITURES, CONGRESSIONAL
BUDGET OFFICE COST ESTIMATE, AND FEDERAL MANDATES STATE-
MENTS

Clause 3(c)(2) of rule XIII of the Rules of the House of Representatives requires each committee report that accompanies a measure providing new budget authority, new spending authority, or new credit authority or changing revenues or tax expenditures to contain a cost estimate, as required by section 308(a)(1) of the Congressional Budget Act of 1974, as amended, and, when practicable with respect to estimates of new budget authority, a comparison of the estimated funding level for the relevant program (or programs) to the appropriate levels under current law.

Clause 3(d) of rule XIII of the Rules of the House of Representatives requires committees to include their own cost estimates in certain committee reports, which include, when practicable, a comparison of the total estimated funding level for the relevant program (or programs) with the appropriate levels under current law.

Clause 3(c)(3) of rule XIII of the Rules of the House of Representatives requires the report of any committee on a measure which has been approved by the Committee to include a cost estimate prepared by the Director of the Congressional Budget Office, pursuant to section 403 of the Congressional Budget Act of 1974, if the cost estimate is timely submitted.

Section 423 of the Congressional Budget Act requires the report of any committee on a bill or joint resolution that includes any Federal mandate to include specific information about such mandates. The Committee states that H.R. 4022 does not include any Federal mandate.

The Committee adopts the cost estimate of the Congressional Budget Office as its own submission of any new required information with respect to H.R. 4022, on new budget authority, new spending authority, new credit authority, or an increase or decrease in the national debt. It also adopts the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act. The estimate and report which has been received is set out below.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, April 28, 2000.

Hon. BENJAMIN A. GILMAN,
*Chairman, Committee on International Relations,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 4022, the Russian Anti-Ship Missile Nonproliferation Act of 2000.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Joseph C. Whitehill.

Sincerely,

BARRY B. ANDERSON
(For Dan L. Crippen, Director).

Enclosure.

H.R. 4022—Russian Anti-Ship Missile Nonproliferation Act of 2000

H.R. 4022 would prohibit the President from rescheduling or forgiving any bilateral debts of Russia until the President either certifies that Russia has ended all transfers of Moskit anti-ship missiles to other countries or waives that prohibition and certifies that the waiver is vital to U.S. national security. The bill would require the President to report to the Congress on the status of any missile transfers to China. CBO estimates the additional reporting requirement would cost less than \$500,000, assuming the appropriation of the necessary funds. Although the other budgetary impacts of enacting the bill are highly uncertain, CBO estimates that they would not be significant. Because the bill could affect direct spending and receipts, pay-as-you-go procedures would apply.

In August 1999, creditor countries agreed to reschedule payments on Soviet-era debts coming due between July 1, 1999, and December 31, 2000. Rescheduling those payments would increase the likelihood that the debt would be repaid. Under that 1999 agreement, the United States would create a new debt instrument out of the \$496 million due on World War II lendlease loans and agricultural commodity credits extended to the Soviet Union before December 31, 1991. That amount plus interest would be repaid over the 2001–2020 period. The United States has not yet signed the bilateral accord with Russia that would implement the multilateral agreement.

CBO assumes that the two most likely events under H.R. 4022 are that either Russia would agree to end shipments of the missiles or the President would use the waiver authority. If either of these outcomes occur, the bill would not affect direct spending or receipts. If neither of those outcomes occur, the United States would be unable to reschedule Russia's debts under the bill. Not rescheduling Russia's debts would increase net outlays from the forgone payments due upon signing of the bilateral agreement. A Russian default on its lendlease loans could affect governmental receipts because Russia could lose its normal trade relations status thus affecting tariff collections.

H.R. 4022 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

The CBO staff contact is Joseph C. Whitehill. This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

SECTION-BY-SECTION ANALYSIS

Section 1. Short title

The bill may be cited as the "Russian Anti-Ship Missile Nonproliferation Act of 2000".

Section 2. Purpose

States that the purpose of H.R. 4022 is to prohibit the forgiveness or rescheduling of any bilateral debt owed by the Russian Federation to the United States until the Russian Federation has terminated all sales and transfers of Moskit anti-ship missiles that endanger United States national security.

Section 3. Findings

This bill contains a number of findings with regard to the ongoing sale of Russian-made “Moskit” anti-ship missiles to the People’s Republic of China. It states that the first of two “Sovremenny” class destroyers sold to the PRC by Russia has now been delivered to the PRC and that the transfer of Moskit (or “Sunburn”) anti-ship missiles with which to equip those destroyers, is scheduled to begin soon after. It states that the Moskit missile is capable of carrying either a conventional or nuclear warhead, is considered by the United States Navy to be very difficult to defend against, and was designed specifically to destroy American aircraft carriers and other American warships equipped with the “Aegis” radar and battle management system. The bill also states that the Russian Federation is assisting the PRC to assemble Su-27 “Sukhoi” fighter aircraft capable of carrying an air-launched version of Moskit missile and that Russia is reportedly discussing the sale of such a variant of the Moskit missile with the PRC.

The bill states that Moskit missiles in any variant, whether land-, sea-, or air-launched, raise the potential for American casualties and could affect the outcome in any future conflict in the Taiwan Strait or South China Sea. It also states that the transfer of the missile by the PRC to Iran or other belligerent states in the Persian Gulf region would also increase the potential for conflict and for American casualties.

Section 4. Prohibition of debt forgiveness

The bill, notwithstanding any other provision of law, prohibits any rescheduling or forgiveness of any outstanding bilateral debt owed to the United States by the Russian Federation until the President can certify to the Congress that the Russian Federation has terminated all transfers of Moskit anti-ship missiles that endanger United States national security, particularly transfers to the People’s Republic of China. The bill provides the President with the authority to waive the prohibition if he certifies that such a waiver is vital to the national security interest of the United States.

Section 5. Reports on the transfer by Russia of Moskit missiles

The bill requires that, no later than thirty days after enactment of this Act and every six months thereafter, the President report on the status of any contract and the date of the transfer of any version of the Moskit missile, particularly transfers to the People’s Republic of China, occurring on or after February 1, 2000. It allows for submission of all or part of that report in classified form.

MINORITY VIEWS

DANGER OF MOSKIT MISSILES

H.R. 4022 would prohibit the rescheduling or forgiveness of the \$3.1 Billion in former Soviet debt owed to the U.S. by the Russian Federation¹ until the President certifies that Russia has “permanently terminated” all transfers of the Moskit anti-ship missile “that endanger U.S. national security,” especially to the People’s Republic of China (PRC). The bill would also require that the President report to Congress 30 days after enactment and every 6 months thereafter on the status of any contract and transfer of Moskit missiles to the PRC.

The Moskit anti-ship missiles, in air- or sea-launched variants, are capable of traveling at speeds in excess of Mach 2 at low altitudes, greatly reducing the reaction time for the targeted vessel to defend itself. Russia has delivered the first of two new “Sovremenny” class destroyers contracted by the PRC, each of which will carry eight Moskit missiles; Beijing may order two more of these destroyers. These missiles are specifically designed to destroy American aircraft carriers and other warships equipped with advanced Aegis radar and battle management systems, and the U.S. Navy considers the missile to be extremely difficult to defend against. The Russians are also discussing the sale of the air-launched version of the missile to the PRC. We agree that these missiles may well constitute a significant threat to U.S. vessels operating in the Taiwan Straits and South China Sea; however, we question the use of Russian debt rescheduling as the right leverage to address this issue and we are concerned about the possible impact of a failure to reschedule Russian debt.

PREVIOUS RUSSIAN DEBT RESCHEDULING

The Russian Government’s Soviet-era debt that is covered by the Paris Club of official creditors is estimated at \$42 billion. The Paris Club rescheduled portions of this debt in 1993, 1994, 1995, and 1996. These reschedulings aimed to (1) ease Russian debt burden in exchange for the Russian government implementing a macro-economic stabilization program and (2) ensure that Western official creditors, including the U.S. will get repaid. The August 1999 interim rescheduling postponed until the second half of 2000 those payments on about \$8 billion in obligations that were due over the course of 1998–2000. The U.S. completed negotiations with Russia on implementing the August 1999 agreement under Paris Club

¹This debt is the Soviet-era, pre-1992 debt, assumed by the Russian Federation after the break-up of the Soviet Union. It includes World War II lend-lease loans and agricultural commodity credits extended to the Soviet Union before December 31, 1991.

guidelines² on May 26, 2000. The Congressional Notification (CN) on this agreement was presented to Congress on the same day.³

The goal of H.R. 4022 is to utilize the U.S. leverage obtained by ongoing reschedulings of Russian official debt to obtain more responsible Russian behavior in its arms sales to China. In fact, the legislation explicitly prohibits the President from rescheduling or forgiving any Russian debt until he certifies that the Russians have terminated all transfers of Moskit anti-ship missiles, particularly transfers to the PRC.

The Administration was and continues to be strongly opposed to this legislation. In the Administration's view, prohibiting rescheduling and forgiveness will not only cripple U.S. leadership in the Paris Club but also undermines a key Paris Club principle—equal treatment of creditors—and encourage other creditors to cut special deals with Russia to the detriment of the United States. The Administration believes that U.S. efforts with Paris Club members for debt relief for the highly indebted poor countries (HIPC) would also be jeopardized.

THE ISSUE OF RUSSIAN DEBT RESCHEDULING AND FORGIVENESS

In 1999, following the August 1998 financial crisis, Russia could not meet its \$17.8 billion debt service obligations.⁴ Collapse of the ruble made servicing the dollar denominated debt unsustainable. Full debt servicing would have absorbed over 80% of the total projected Russian federal revenue. Russia chose to seek rescheduling and forgiveness of the Soviet-inherited debt, while continuing to service its post-Soviet debt (primarily Eurobonds and other capital market issues but also including debt owed to the United States, such as to the Export-Import Bank). The August 1999 Paris Club agreement, as well as the February 2000 London Club (private holders of the Russian Soviet-era debt) agreement, are the outcomes of this period.

The Russian economic situation looks significantly different today. Partially fueled by higher prices for Russia's oil exports as well as import substitution driven growth, the Russian economy is on the rise. Foreign exchange reserves are at the highest level in nearly 2 years. However, without significant economic reforms and sustained growth, Russia is still expected to have payment difficulties on the Soviet-era debt. Russian government officials said publicly that they will attempt to seek additional debt rescheduling and forgiveness at the upcoming G-7 Summit in Okinawa in July. Germany, with 48% of the estimated \$42 Billion Russian Paris Club debt, will chair the upcoming Paris Club meeting, and has publicly questioned the need for any new Russian debt forgiveness. However, further debt rescheduling has not been ruled out by the Paris Club.

²Under the Paris Club guidelines, any debt rescheduling or forgiveness must be negotiated and agreed by all members under a general framework; individual bilateral agreements between debtor and creditor country follow.

³Current law requires a Congressional Notification on debt rescheduling after the bilateral negotiations have been completed and a bilateral agreement has been signed. On debt rescheduling, the law does not require consultations with Congress before entering into the Paris Club framework agreement. On debt forgiveness, the law states that the Administration must come to Congress for an appropriation to fund any forgiveness of Russian debt to the United States.

⁴Includes official and private Soviet and post-Soviet debt. The Soviet-inherited debt represents two-thirds of Russia's total debt obligations.

The bilateral U.S.-Russia debt re-scheduling agreement, signed on May 26, 2000, is the outcome of the August 1999 Paris Club framework. It normally takes approximately a year to negotiate and sign a bilateral agreement. There is no mechanism in the Paris Club to amend the original framework if the economic situation, as is the case of Russia today, changes. If the U.S. can't sign an agreement with Russia to implement the August 1999 agreement, the Russians will have two choices: either pay the U.S. the upcoming \$150 million of the Lend Lease portion of the Soviet debt on/around July 1, 2000 or default and lose its annual NTR status. Since Russia greatly values its NTR status and has sufficient foreign exchange reserves, it would most likely make this payment. While it may sound very attractive to have the Russians pay the United States right away, or Paris Club partners will immediately demand the same treatment from the Russians. Russia may suddenly face the prospect of default to major Western creditors. A Russian default to key Western governments will undermine the fragile stability of the Russian economy, and decrease the chances that the government of President Putin would implement any type of economic reforms. This type of economic hardship could even force the Russians to export more military items to China and other countries of concern to the U.S. Therefore, the remedy chosen by this bill could have the effect of increasing the problem the bill is seeking to address. These were the concerns we had in mind when the Committee supported the Gejdenson (D-CT) amendment which granted the President a national security waiver that would allow the president to waive the prohibition on debt rescheduling and forgiveness if the President finds such waiver is vital to the national security interest of the United States. We are gratified that the Committee recognized that this issue required a degree of flexibility.

SAM GEJDENSON.
GARY L. ACKERMAN.
EARL POMEROY.
HOWARD L. BERMAN.
ALCEE L. HASTINGS.

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