S. HRG. 105–809

# FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1999

## HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

ON

## H.R. 4569/S. 2334

AN ACT MAKING APPROPRIATIONS FOR FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1999, AND FOR OTHER PURPOSES

**Agency for International Development**
**Department of Health and Human Services**
**Department of Justice**
**Department of State**
**Department of the Treasury**
**Nondepartmental witnesses**

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# FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1999

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**TUESDAY, MARCH 3, 1998**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 10:32 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Mitch McConnell (chairman) presiding.

Present: Senators McConnell, Specter, Bennett, Stevens, Leahy, and Mikulski.

Also present: Senator Faircloth.

## DEPARTMENT OF THE TREASURY

### INTERNATIONAL MONETARY FUND

**STATEMENTS OF:**

**HON. ALAN GREENSPAN, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

**HON. ROBERT E. RUBIN, SECRETARY OF THE TREASURY**

**ACCOMPANIED BY LAWRENCE H. SUMMERS, DEPUTY SECRETARY OF THE TREASURY**

OPENING REMARKS OF SENATOR MITCH MC CONNELL

Senator MCCONNELL. The hearing will come to order.

We are pleased to have Secretary Rubin, Chairman Greenspan, and Mr. Summers with us today as well as the chairman of our full committee, Senator Stevens.

As early as next week, the committee may consider the administration's two requests for the IMF: a $3.4 billion contribution to the new arrangements to borrow [NAB] and a $14.5 billion quota increase.

In both instances, there is no budget outlay nor will the commitment increase the deficit because the transfer is considered an exchange of assets. In return for our commitment, we receive a liquid, interest bearing claim against IMF holdings.

There are three points I would like to make regarding the request.

First, current conditions warrant prompt action on the NAB, but the quota should be considered as part of the fiscal year 1999 bill.

Second, Congress must have the time and opportunity to evaluate both IMF enforcement and recipient compliance with the largest loan agreements recently negotiated.

Third, the rapid and dangerous spread of this crisis suggests we should consider appropriate and real reforms in the lending and management practices of the IMF and sister institutions.

Let me review each point briefly.

As you know, the administration requested and the Senate passed the NAB last year. Unfortunately, White House negotiators decided a few million for population programs was more important than a few billion for this IMF emergency reserve. Despite the best efforts of many, including Chairman Stevens and my colleague, Senator Leahy, who will be here shortly, agreement could not be reached and the new arrangements to borrow was deleted from the bill.

We should be able to move promptly on the NAB given the Senate's prior support.

In addition to renewing the NAB request, the administration has now asked to accelerate consideration of the quota as part of the supplemental bill. Inclusion of the quota as a supplemental request in some ways comes as something of a surprise.

The administration had advised us late last year to expect a quota due to Asian pressures combined with historical or cyclical lending patterns.

While I appreciate the administration's desire to avoid having two votes on IMF loans, the urgency of the case for the quota, in my view, has not been made. In fact, all of the documents I have been provided by Treasury make clear that the IMF's liquidity ratio exceeds 50 percent, even taking the loans into consideration.

The NAB, combined with prior appropriations for the general arrangements to borrow, would make another $48 billion available in the unlikely event that the Asian contagion continues to spread.

The IMF's lending has been measured, producing a steady decline in liquid assets. This argues for congressional consideration of a request to replenish its resource base.

Now I have been a strong and consistent supporter of this and related multilateral institutions and I certainly recognize their importance to U.S. exports and to U.S. growth. It is with a clear commitment to our mutual goal of sustaining this growth that I would urge a careful and thorough review of IMF and recipient country performance, not a rush to judgment which might be misunderstood as an attempt to avoid this important debate.

Secretary Rubin, you have never had a "Chicken Little" complex. In the interest of market stability, I think we all need to exercise some restraint and avoid the urge to declare that the sky is falling.

To put the issue in perspective, during the Bush administration, when the Congress considered the last quota request, it took 20 months to pass that because the debate was mired in the unrelated issue of Israeli housing loan guarantees. The 1983 quota request took 8 months, even though IMF liquidity had fallen below 35 percent.

We need to take time to build confidence in the IMF and that will be directly affected by my second concern, which relates to the details of the stand-by agreements which have been negotiated.

There are critics who oppose the agreements reached in Asia as a formula response, raising taxes and interest rates and cutting spending. While aspects of the criticism may be justified, it seems the agreements in Asia reach far beyond the formula and address the systemic distortions and problems in banking, trade, and investment regulations and the practices which caused these economies to collapse.

If Korea fulfills its obligations—and I have confidence that the new government is on the right track—we can expect dramatic changes which strike to the core infection of crony capitalism. Insolvent banks owned by good friends rather than good bankers will no longer be protected by government subsidies.

Bankruptcy proceedings will operate independently of government interference. Foreign ownership, direct investment opportunity, and market access will expand significantly.

International accounting and capitalization ratio standards will be enforced, and key data on foreign exchange debt and financial holdings of banks will be a matter of public record.

Had some of these conditions been in place last year, Korea might not have suffered such an enormous shock.

Support for the NAB and the quota will depend on full compliance with the agreements. Of the four largest loan programs, it seems that Korea and Thailand have worked quickly and effectively to meet their obligations. Unfortunately, I do not see the same progress in Indonesia or in Russia.

Faced with the probability that Russia, once again, could not meet the IMF's targets, last week Mr. Camdessus announced plans to relax the terms of Russia's agreement and extend the length of the loan. The clear message here is: if you don't perform, don't worry. That is precisely the wrong message to send, I think, at least as far as I am concerned.

Similarly, there appears to be little progress in implementing the reforms required of the Suharto government. With an additional disbursement of more than $3 billion anticipated in mid-March, I know many of us will be interested in your assessment of the concrete steps the government has taken to meet IMF conditions, including the elimination of trade barriers which have protected preferred enterprises, an end to the marketing and distribution monopolies tied to the Suharto family, and moving more than 3,000 off-budget revenue accounts into the State budget.

As you both know better than any of us up here, compliance with loan agreements is essential. If the terms are not met, the Fund's long-term solvency can be put at risk.

Finally, I hope the hearing today begins a serious debate about reforms in management and lending practices needed at the IMF and related international financial institutions. I am not sure how many people realize that many of the ideas and legislation circulating are already a part of the Bretton Woods Agreement authorizing our participation in international institutions.

Just as a few examples, section 14 of the act says that it is U.S. policy to promote the removal of trade restrictions. Sections 44 and 49 tell our directors to work to eliminate agricultural subsidies. Section 42 instructs our directors to initiate discussions to gather information on the extension of credit by private banks and

nonbank institutions to borrowers and make that information available to the public.

There is no shortage of policy guidance. The problem is we are the only contributor paying any attention.

This agreements and its standards are not binding on the IMF, its boards or its activities. We do not need to pass more legislation urging the administration to use our voice and vote to assure a loan meets congressional mandate. Instead, we need to see the IMF Executive Board or the Board of Governors pass and implement resolutions agreeing to standards already enunciated in U.S. law.

Today I hope to review and discuss several specific items the IMF could take up to improve lending and management.

Before action on the quota, I hope to achieve a consensus working with both of you toward real reform and not just more bland recommendations in order to assure our continued participation in these institutions.

As a personal comment, let me thank both of our witnesses and Mr. Summers as well and their staffs for providing information and cooperating so fully with the subcommittee. As events in Asia developed, you and your staff have provided prompt and thorough information which has made an important difference in my level of confidence in this undertaking.

We have an ambitious agenda for today, so we will start momentarily.

Let me see if the chairman of the committee would like to make any observations.

OPENING REMARKS OF SENATOR TED STEVENS

Senator STEVENS. Thank you very much, Mr. Chairman. I welcome our two witnesses—three witnesses. I am sorry I will have to leave here and meet with Senator Byrd to discuss the timing for consideration of the supplemental. It is my feeling we will start hearings on Friday morning on the supplemental if it is received on Thursday afternoon, as we expect.

I congratulate you for moving forward on this portion.

My comment would be that I am one who believes that we should get the Senate on record again—we are on record already—as supporting these concepts that are in the supplemental request. I do believe that there should be delineation of the reforms that we expect and that we should find some way to assure that that will be accomplished, particularly with regard to the quota.

But after just one trip to my home this last week, I found people who are dealing in the Pacific rim, many of them involved in fulfilling substantial contracts out there who are very worried about being paid for the deliveries that are being made right now.

I think this is a virus and if we do not really demonstrate our willingness to help the IMF put it right, we could very well see some of this come back.

I think we will hear today from some of the people from the Midwest and in the Grain Belt who are facing similar problems now with regard to payment for some of the deliveries that are expected to be made of our grain in the Far East this summer.

This is not something that I think we can pass by, and I hope the Senate will go on record. I am not in disagreement with what

the chairman of the subcommittee has said about the necessity for reforms. That is where we will have to rely on you gentlemen, to help us delineate what those reforms can be within a reasonable period of time. At least I hope we will have an opportunity to consider them on the floor when the time comes.

I hope you will excuse me. I look forward to reading this record. Thank you.

Senator MCCONNELL. Thank you, Mr. Chairman.

It has been the policy of this subcommittee to limit opening statements by members to the chairman of the subcommittee and the ranking member, that is, unless the chairman of the full committee shows up, in which case he can do anything he wants to.

Senator Leahy will be here in a little while.

I understand that Chairman Greenspan has to leave at 11:30 a.m. I am completely open to which of you goes first. It is your call.

Mr. GREENSPAN. I will be delighted to start, Mr. Chairman. I have a statement which I would like to read into the record and then at some point I would answer whatever questions I can in the timeframe that I have available.

Senator MCCONNELL. Your full statement will be made a part of the record, Mr. Chairman.

SUMMARY STATEMENT OF HON. ALAN GREENSPAN

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

The global financial system has been evolving rapidly in recent years. New technology has radically reduced the costs of borrowing and lending across traditional national borders, facilitating the development of new instruments and drawing in new players.

Information is transmitted instantaneously around the world, and huge shifts in the supply and demand for funds naturally follow, resulting in a massive increase in capital flows.

This burgeoning global system has been demonstrated to be a highly efficient structure that has significantly facilitated cross border trade in goods and services and, accordingly, has made a substantial contribution to standards of living worldwide.

Its efficiency exposes and punishes underlying economic imprudence swiftly and decisively. Regrettably, it also appears to have facilitated the transmission of financial disturbances far more effectively than ever before.

Some 3 years ago, the Mexican crisis was the first such episode associated with our new high-tech international financial system. The current Asian crisis is the second.

We do not as yet fully understand the new system's dynamics. We are learning fast and we need to update and modify our institutions and practices to reduce the risks inherent in the new regime. Meanwhile, we have to confront the current crisis with the institutions and techniques that we have.

Many argue that the current crisis should be allowed to run its course without support from the International Monetary Fund or the bilateral financial backing of other nations. They assert that allowing this crisis to play out, while doubtless having additional negative effects on growth in Asia and engendering greater spillovers onto the rest of the world, is not likely to have a large or lasting impact on the United States and the world economy.

They may well be correct in their judgment.

There is, however, a small, but not negligible, probability that the upset in East Asia could have unexpectedly large negative effects on Japan, Latin America, and Eastern and central Europe that, in turn, could have repercussions elsewhere, including the United States.

Thus, while the probability of such an outcome may be small, its consequences, in my judgment, should not be left solely to chance. We have observed that global financial markets as currently organized do not always achieve an appropriate equilibrium or at least require time to stabilize.

Opponents of IMF support for member countries facing international financial difficulties also argue that such substantial financial backing, by cushioning the losses of imprudent investors, could encourage excessive risk taking. There doubtless is some truth in that although, arguably, it has been the expectation of government support of their financial systems that has been the more obvious culprit, at least in the Asian case.

In any event, any expectations of broad bailouts have turned out to have been disappointed. Many, if not most, investors in Asian economies have, to date, suffered substantial losses. Asian equity losses, excluding Japanese companies, since June 1997 worldwide are estimated to have exceeded $700 billion at the end of January, of which more than $30 billion have been lost by U.S. investors.

Substantial further losses have been recorded in bonds and real estate.

Moreover, the policy conditionality, associated principally with IMF lending, which dictates economic and financial discipline and structural change, helps to mitigate some of the inappropriate risk taking. Such conditionality is also critical to the success of the overall stabilization effort. At the root of the problems is poor public policy that has resulted in misguided investments and very weak financial sectors.

Convincing a sovereign nation to alter destructive policies that impair its own performance and threaten contagion to its neighbors is best handled by an international financial institution, such as the IMF.

What we have in place today to respond to crises should be supported even as we work to improve those mechanisms and institutions.

Some observers have also expressed concern about whether we can be confident that IMF programs for countries, in particular the countries of East Asia, are likely to alter their economies significantly and permanently. My sense is that one consequence of this Asian crisis is an increasing awareness in the region that market capitalism, as practiced in the West, especially in the United States, is the superior model; that is, it provides greater promise of producing rising standards of living and continuous growth.

Although East Asian economies have exhibited considerable adherence to many aspects of free market capitalism, there has, nonetheless, been a pronounced tendency toward government directed investment using the banking system to finance that investment.

Given a record of real growth rates of close to 10 percent per annum over an extended period of time, it is not surprising that

it has been difficult to convince anyone that the economic system practiced in East Asia could not continue to produce positive results indefinitely.

Following the breakdown, an increasing awareness bordering in some cases on shock that their economic model was incomplete or worse has, arguably, emerged in the region. As a consequence, many of the leaders of these countries and their economic advisors are endeavoring to move their economies much more rapidly toward the type of economic system that we have in the United States.

The IMF, whatever one may say about its policy advice in the past, is trying to play a critical role in this process, providing advice and incentives that promote sound money and long-term stability.

The IMF's current approach in Asia is fully supportive of the views of those in the West who understand the importance of greater reliance on market forces, reduced government controls, scaling back of government directed investment, and embracing greater transparency—the publication of all data that are relevant to the activities of the central bank, the government, financial institutions, and private companies.

It is a reasonable question to ask how long this conversion to embracing market capitalism in all its details will last in the countries once temporary IMF support is no longer necessary. We are, after all, dealing with sovereign Nations with long traditions not always consonant with market capitalism. There can be no guarantees. But my sense is that there is a growing understanding and appreciation of the benefits of market capitalism, as we practice it, that what is being prescribed in the IMF programs fosters their own interests.

The just-inaugurated President of Korea, from what I can judge, is unquestionably aware of the faults of the Korean system that contributed to his country's crisis. He appears to be very strenuously endeavoring to move his economy and society in the direction of freer markets and a more flexible economy. In these efforts, he and other leaders in the region with similar views, have the support of many younger people, a large proportion educated in the West, who see the advantages of market capitalism and who will soon assume the mantle of leadership.

PREPARED STATEMENT

Accordingly, Mr. Chairman, I fully back the administration's request to augment the financial resources of the IMF by approving as quickly as possible U.S. participation in the new arrangements to borrow and an increase in the U.S. quota in the IMF. Hopefully, neither will turn out to be needed and no funds will be drawn. But it is better to have it available if that turns out not to be the case and quick response to a pending crisis is essential.

Thank you very much, Mr. Chairman.

Senator MCCONNELL. Thank you very much, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF HON. ALAN GREENSPAN

The global financial system has been evolving rapidly in recent years. New technology has radically reduced the costs of borrowing and lending across traditional national borders, facilitating the development of new instruments and drawing in new players. Information is transmitted instantaneously around the world, and huge shifts in the supply and demand for funds naturally follow, resulting in a massive increase in capital flows.

This burgeoning global system has been demonstrated to be a highly efficient structure that has significantly facilitated cross-border trade in goods and services and, accordingly, has made a substantial contribution to standards of living worldwide. Its efficiency exposes and punishes underlying economic imprudence swiftly and decisively. Regrettably, it also appears to have facilitated the transmission of financial disturbances far more effectively than ever before.

Three years ago, the Mexican crisis was the first such episode associated with our new high-tech international financial system. The current Asian crisis is the second.

We do not as yet fully understand the new system's dynamics. We are learning fast, and need to update and modify our institutions and practices to reduce the risks inherent in the new regime. Meanwhile, we have to confront the current crisis with the institutions and techniques we have.

Many argue that the current crisis should be allowed to run its course without support from the International Monetary Fund or the bilateral financial backing of other nations. They assert that allowing this crisis to play out, while doubtless having additional negative effects on growth in Asia, and engendering greater spillovers onto the rest of the world, is not likely to have a large or lasting impact on the United States and the world economy.

They may well be correct in their judgment. There is, however, a small but not negligible probability that the upset in East Asia could have unexpectedly large negative effects on Japan, Latin America, and eastern and central Europe that, in turn, could have repercussions elsewhere, including the United States. Thus, while the probability of such an outcome may be small, its consequences, in my judgment, should not be left solely to chance. We have observed that global financial markets, as currently organized, do not always achieve an appropriate equilibrium, or at least require time to stabilize.

Opponents of IMF support for member countries facing international financial difficulties also argue that such substantial financial backing, by cushioning the losses of imprudent investors, could encourage excessive risk-taking. There doubtless is some truth in that, though arguably it has been the expectation of governments' support of their financial systems that has been the more obvious culprit, at least in the Asian case. In any event, any expectations of broad bailouts have turned out to have been disappointed. Many if not most investors in Asian economies have to date suffered substantial losses. Asian equity losses, excluding Japanese companies, since June 1997, worldwide, are estimated to have exceeded $700 billion, at the end of January, of which more than $30 billion had been lost by U.S. investors. Substantial further losses have been recorded in bonds and real estate.

Moreover, the policy conditionality, associated principally with IMF lending, which dictates economic and financial discipline and structural change, helps to mitigate some of the inappropriate risk-taking. Such conditionality is also critical to the success of the overall stabilization effort. At the root of the problems is poor public policy that has resulted in misguided investments and very weak financial sectors. Convincing a sovereign nation to alter destructive policies that impair its own performance and threaten contagion to its neighbors is best handled by an international financial institution, such as the IMF. What we have in place today to respond to crises should be supported even as we work to improve those mechanisms and institutions.

Some observers have also expressed concern about whether we can be confident that IMF programs for countries, in particular the countries of East Asia, are likely to alter their economies significantly and permanently. My sense is that one consequence of this Asian crisis is an increasing awareness in the region that market capitalism, as practiced in the West, especially in the United States, is the superior model; that is, it provides greater promise of producing rising standards of living and continuous growth.

Although East Asian economies have exhibited considerable adherence to many aspects of free-market capitalism, there has, nonetheless, been a pronounced tendency toward government-directed investment, using the banking system to finance that investment. Given a record of real growth rates of close to 10 percent per annum over an extended period of time, it is not surprising that it has been difficult to convince anyone that the economic system practiced in East Asia could not con-

tinue to produce positive results indefinitely. Following the breakdown, an increasing awareness, bordering in some cases on shock, that their economic model was incomplete, or worse, has arguably emerged in the region.

As a consequence, many of the leaders of these countries and their economic advisors are endeavoring to move their economies much more rapidly toward the type of economic system that we have in the United States. The IMF, whatever one might say about its policy advice in the past, is trying to play a critical role in this process, providing advice and incentives that promote sound money and long-term stability. The IMF's current approach in Asia is fully supportive of the views of those in the West who understand the importance of greater reliance on market forces, reduced government controls, scaling back of government-directed investment, and embracing greater transparency—the publication of all the data that are relevant to the activities of the central bank, the government, financial institutions, and private companies.

It is a reasonable question to ask how long this conversion to embracing market capitalism in all its details will last in countries once temporary IMF support is no longer necessary. We are, after all, dealing with sovereign nations with long traditions, not always consonant with market capitalism. There can be no guarantees, but my sense is that there is a growing understanding and appreciation of the benefits of market capitalism as we practice it—that what is being prescribed in IMF programs fosters their own interests.

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Accordingly, I fully back the Administration's request to augment the financial resources of the IMF by approving as quickly as possible U.S. participation in the New Arrangements to Borrow and an increase in the U.S. quota in the IMF. Hopefully, neither will turn out to be needed, and no funds will be drawn. But it is better to have it available if that turns out not to be the case and quick response to a pending crisis is essential.

SUMMARY STATEMENT OF HON. ROBERT E. RUBIN

Senator MCCONNELL. Secretary Rubin, do you want to go ahead with your statement?

Secretary RUBIN. Thank you, Mr. Chairman.

Let me say that I, too, regret that the NAB did not pass at the end of the last year, although our analysis of the cause might differ a little bit. In any event, it is a pleasure to be with you and to discuss funding for the IMF.

I would like to do that, if I may, in the context of American leadership with respect to the global economy, the situation in Asia, and also briefly bring you up to date on the international response in the crisis and our efforts to modernize the architecture for the financial markets.

As you well know, Mr. Chairman, because you have been very much involved in these issues, there is truly a new era. I lived it when I was in the private sector before coming into government. It is a new era of the global financial markets and a global economy—20 years ago, most of our businesses in this country were predominantly domestic. Today the large businesses are predominantly global entities—20 years ago, developing countries accounted for virtually none of our exports. Today they account for something over 40 percent of our exports.

Moreover, our leadership in the international financial institutions, including the IMF, have contributed enormously to the economic wellbeing of our workers, our farmers, and our businesses.

But, as Chairman Greenspan said, with these opportunities have come risks.

I do not think there is any question but, if we are going to deal with these risks, we are going to have to have a strong and effective American leadership. In that way we can try to make the most of the opportunities while, at the same time, effectively manage the risks.

Whether or not we provide that leadership will, in my judgment, profoundly affect our economic and national security interests in the years to come.

This need for American leadership has been brought home by the recent crisis in Asia. We have critical economic and national security interests in Asia.

Chairman Stevens said before he left that we have very substantial exports to Asia. They are now something like 30 percent of our total exports, and we export more to Asia than we do to Europe. In States like California, Oregon, and Washington, exports to Asia represent over 50 percent of each State's exports.

Financial instability, economic distress, and depreciating currencies all have direct effects on the pace of our exports to the region and on the competitiveness of our goods and services in world markets as a consequence of the depreciation of the currencies of the affected countries in that region.

Moreover, if the problem were to spread to developing countries around the globe, as Chairman Greenspan mentioned, the potential impact to our economy could be severe. By doing everything sensible to help these Asian countries get back on track, we support our exports to the region and help strengthen their currencies, which, in turn, helps the competitiveness of our goods in world markets, and we reduce the risk that the financial instability will spread to other developing countries.

While this particular crisis is in Asia, I think its characteristics are the kind of characteristics we may see in similar sorts of events in the future. It is precisely in order to protect our economic interests against the possibilities that exist in these kinds of crises that, in our judgment, we need to have a capacity, an IMF with the capacity to deal with a major world crisis should it occur, however low the probability of such a crisis may be.

The United States has exercised strong leadership throughout this situation in Asia. In Thailand, we saw the possibility of problems early. We went to the government to try to obtain reforms. We went to the government with the IMF to try to obtain reforms. Then, when problems did develop, we worked with the IMF to develop a strong program.

In Korea, the situation had deteriorated very rapidly by this past Christmas, and I think it would be fair to say that the Korean banking system was on the verge of systemic default which, had it occurred, could have created the risk of the kind of contagion that Chairman Greenspan referred to.

The Treasury and the Federal Reserve Board worked together over a very few days to catalyze the participation of banks on three continents to refinance short-term loans in order to give Korea breathing room to address its economic problems.

In Indonesia, just this week, former Vice President Mondale, as a personal representative of the President, has met with President Suharto to encourage Indonesia to make the critical reforms necessary to get back on the right track.

More broadly, we have been part of an international effort, again working through the IMF, to encourage countries outside of the region to put policies in place to limit their vulnerability to crisis.

Through all of this, the United States has strongly supported the IMF as the central institution in the effort to resolve financial crises such as exist in Asia.

The IMF programs have been focused predominantly on structural reforms to address the specific causes of the crisis in each nation. These reforms include, as Chairman McConnell said, reshaping the relationship between banks, the government, and commercial entities, financial sector regulations and trade liberalization. These are not—I repeat, these are not—austerity programs, though they do involve macroeconomic policy regimes necessary to regain financial market confidence.

In our view, the IMF is, without question, the right institution to be at the center of this effort for three important reasons. First, it has the expertise to shape effective reform programs. Second, it has the ability to require a country to accept conditions that, for political reasons, no assisting Nation could require bilaterally on its own. Finally, it internationalizes the burden.

Moreover, as Chairman McConnell discussed in his opening remarks, funding for the IMF has not cost the taxpayer one dime in 50 years. When the IMF draws on our commitments, we receive an interest bearing, offsetting claim on the IMF of equal value. There are no budget outlays under CBO scoring, no increase in the deficit, nor reductions in resources for other spending priorities.

Today, we ask you to support two critical requests—an increase in our IMF quota subscription and American participation in an augmented backup facility, the new arrangements to borrow, to supplement the IMF's regular resources, if needed, to deal with systemic crisis.

We need this money as quickly as possible because right now the IMF does not have sufficient funds to deal with a truly major crisis, though we believe the probability of such a major crisis is low. It is in our economic interest to have that vulnerability exist for as little time as possible.

At the moment, the IMF has about $45 billion in uncommitted resources, but only $10 billion to $15 billion is available because an amount that we estimate at $30 billion to $35 billion must be held in reserve to accommodate withdrawal by members.

In addition, the IMF has access to roughly $23 billion in the general arrangements to borrow, for a total of roughly $33 billion to $38 billion of lending capacity.

To give you a sense of how inadequate that amount could be, in the last 6 months alone, the IMF's commitment to these Asian programs amounted to some $35 billion. The IMF could well not have the capacity to respond effectively if that crisis were to deepen and to spread to developing countries throughout the globe or a new crisis were to develop in the near-term—low probability events, in our

judgment, but events whose occurrence could have severe effects on the American economy.

It is not sensible for us to remain vulnerable and unprotected with respect to such possibilities. Even if the $3.5 billion for the NAB alone is approved, we still remain exposed, with the IMF not having sufficient resources to deal with a truly major crisis.

The $3.5 billion would become an additional, roughly, $21 billion with the contributions by all others who are members.

The U.S. contribution, totaling $18 billion, will leverage to a total of about $90 billion in usable resources. If we do not act, neither the quota nor the NAB will come into effect.

On the other hand, once we act, the rest of the world will act very quickly.

At the last IMF replenishment in 1992, all of the other countries acted within 6 days of action by the U.S. Congress. Moreover, failure to fully support the IMF now could adversely affect confidence in American leadership in the global economy just at a time when confidence in American leadership is so important in reestablishing stability in Asia.

Mr. Chairman, you have suggested and many others have as well that, in consideration of providing new moneys to the IMF, we should also consider conditions with respect to the IMF and its reform programs. We agree with the importance of many of these objectives, and I believe that we can work out constructive approaches to deal with these purposes.

However, there are practical limits on what can be done while also still accomplishing our overall objectives of protecting the American economy by dealing effectively with financial instability in other parts of the world.

As we work to secure this funding and also to deal with the critical problems in Asia, we are, at the same time, working to strengthen the architecture of the international financial system. As Chairman Greenspan said, the global economy and the global financial markets have grown very rapidly and the institutions have not changed accordingly.

At Treasury, we have been working with the Federal Reserve Board on these enormously complex issues and we are working to develop consensus around the world. But these are deeply complicated issues and major steps forward will take time.

One criticism that has arisen with respect to the international response is the so-called "moral hazard" issue. Chairman Greenspan dealt with that fully. Let me just say that we are in total accord with Chairman Greenspan, and trying substantially to improve the international architecture is very high on our list of priorities as we deal with both the Federal Reserve Board and other Nations around the world toward advancing in significant ways this architecture.

Mr. Chairman, before I conclude, let me say a few words about the status of the situation in Asia.

As a result, in our view, of American leadership and prompt action by the IMF and other international organizations, the spread of instability to other developing nations was limited after an initial burst. In the countries where instability has occurred, there was a long way to go and a great deal to do before we could feel

secure that the period of instability is over, that these countries are back on a path of solid growth.

The countries in the region have great underlying strengths—a commitment to education, a strong work ethic, and high savings rates—and those, combined with strong reform programs, should provide the basis for a successful resolution over time.

Thailand and Korea are in a constructive path of reform, though there are certainly great challenges ahead. Such a path is most certainly the best path for Indonesia as well.

PREPARED STATEMENT

Mr. Chairman, to conclude, as I said at the beginning of my remarks, we live in an era of global financial markets and a global economy which present enormous opportunities for American workers, farmers, and businessmen but also new risks. Within that context, to come again to the point of this hearing, in our judgment we cannot afford to take the risk, however small the probability, that a major crisis develop while the IMF is without the capacity to respond. So we strongly recommend providing the full $18 billion funding request that we have submitted to this Congress.

Thank you very much.

We would be delighted to respond to your questions.

[The statement follows:]

PREPARED STATEMENT OF HON. ROBERT E. RUBIN

Mr. Chairman, members of this Committee, it is a pleasure to appear before you today to discuss funding for the International Monetary Fund in the context of U.S. leadership in the global economy and the situation in Asia. I would also like to bring you up to date on the international response to the crisis and our efforts to modernize the architecture of the international financial markets to better prevent financial crises, or better manage them should they occur.

Mr. Chairman, as you well know, we live in a new era of the global economy and global financial markets. Twenty years ago, the vast majority of our businesses were predominantly domestic. Now many are global entities. Developing countries have gone from having little impact on our economic well being to absorbing over 40 percent of our exports. Our leadership in international financial institutions such as the IMF has played a key role in these developments that have contributed so much to the economic well being of our workers, farmers, and businesses.

But with the opportunities have come risks. Strong and effective U.S. leadership on the issues of the global economy is essential if we are to make the most of these opportunities, and effectively manage the risks; and whether or not we provide that leadership will profoundly affect our national economic and security interests in the years ahead.

The need to exercise U.S. leadership in the global economy to protect and promote our interests has been brought home by the recent situation in Asia. We have critical economic and national security interests in Asia. Thirty percent of U.S. exports go to Asia, supporting millions of U.S. jobs, and we now export more to Asia than Europe. In States like California, Oregon, and Washington, exports to Asia account for more than half of each state's total exports. Financial instability, economic distress, and depreciating currencies all have direct effects on the pace of our exports to the region, the competitiveness of our goods and services in world markets, the growth of our economy and, ultimately, the well-being of American workers. Moreover, if the problem were to spread to developing countries around the globe, the potential impact to our economy could be severe. By doing everything sensible to help these Asian countries get back on track, we support our exports to the region and help strengthen their currencies, which helps the competitiveness of our goods in world markets and we reduce the risk that financial instability will spread to other developing countries.

In addition, the United States also has critical national security interests in seeing a restoration of financial stability in the region. We have 100,000 troops based in Asia, 37,000 on the Korean peninsula alone. As the members of this committee

know well, financial stability and prosperity promotes social stability and peace—both in Asia and throughout the globe.

The United States has exercised very strong leadership throughout this situation to help resolve the Asian crises. In Thailand, we saw the signs of problems early on and we moved with the IMF to put into place a reform program which the Thai government is currently implementing. In Korea, the situation deteriorated very rapidly and by Christmas the Korean banking sector was on the verge of systematic default. Treasury and the Fed worked together over a very few days to catalyze the participation of banks on three continents to refinance short term loans in order to give Korea breathing room to address its economic problems. In Indonesia, just this week President Clinton has sent former Vice-President Mondale as a personal representative to encourage Indonesia to make the critical reforms necessary to succeed. More broadly, we also have been part of an important international effort to encourage countries outside of the region to put policies in place to limit their vulnerability to crises.

Through all of this, the United States has strongly supported the IMF, as the central institution in the effort to resolve the financial crises in Asia. The IMF programs have been focused predominantly on structural reforms, to address the specific causes of the crisis in each nation. These reforms include reshaping the relationships between banks, the government, and commercial entities; financial sector regulations; trade liberalization; and appropriate monetary and fiscal policies. These are not austerity programs, though they do involve macro-economic policy regimes necessary to regain financial market confidence.

The IMF is the right institution to be at the center of this effort for three important reasons. First, it has the expertise to shape effective reform programs. Second, it has the leverage to require a country to accept conditions that no assisting nation could require on its own. Finally, it internationalizes the burden. Moreover, our contributions to the IMF have not cost the taxpayer one dime in fifty years. When the IMF draws on our commitments, we receive an interest bearing offsetting claim on the IMF of equal value. There are no budget outlays under CBO scoring and no increase in the deficit, or reduction in resources for other spending priorities.

Today we ask you to support two critical requests: an increase in our IMF quota subscription, and U.S. participation in an augmented back-up facility, the New Arrangements to Borrow, to supplement the IMF's resources, if needed, to deal with crises such as this one.

We need this money as quickly as possible, because right now the IMF does not have sufficient funds to deal with a truly major crisis and it is in our economic interest to have that vulnerability exist for as little time as possible. As a result of the recent situation in Asia, the IMF's normal financial resources are approaching a historically low level. At the moment, the IMF has about $45 billion in uncommitted resources, but only $10–15 billion is available because an amount we estimate at $30–35 billion must be held in reserve to accommodate withdrawals by members. In addition, the IMF has access to roughly $23 billion in the General Arrangements to Borrow, for a total of $33 to $38 billion of total lending capacity. To give you a sense of how inadequate that amount could be, in the last six months alone the IMF's commitment in these Asia programs amounted to some $35 billion. The IMF might not have the capacity to respond effectively if that crisis were to deepen, spread to developing countries throughout the globe, or a new crisis were to develop in the near term. Even if the $3.5 billion for the NAB alone is approved, we still remain exposed with the IMF not having sufficient resources to deal with a truly major crisis. The U.S. contribution totaling $18 billion will leverage a total amount of about $90 billion in usable resources. If we don't act, neither the quota nor the NAB will come into effect. However, once we act the rest of the world will act very quickly. At the last IMF replenishment, in 1992, all of the other countries acted within six days of action by the U.S. Congress.

The probability of a serious reversal in the Asia situation and contagion to developing countries around the world, or of a new crisis in the short term, may be small. But, these occurrences are possible and the consequences could be immense. We cannot afford to take the risk that such events could start to unfold and the IMF not have the capacity to try to cope effectively. Again, the full IMF funding is needed now, to protect our interests. Moreover, failure to support fully the IMF now could shake confidence in American leadership in the global economy just at a time when confidence and American leadership are so important in re-establishing stability in Asia.

Some have suggested that we should not advance new monies to the IMF unless it agrees to attach certain conditions to its reform programs. We agree with the importance of many of their objectives, and I believe we can work out constructive measures responsive to them. However, there are also practical limitations on what

can be done while still accomplishing the overall objective of protecting the American economy as fully as possible from the effects of financial instability in other parts of the world.

Mr. Chairman, even as we work to secure this funding and to solve the immediate problems in Asia, we are working to strengthen the architecture for the international financial system. While the global economy and the global financial markets have grown very rapidly and become very sophisticated in recent years, the institutions for preventing and dealing with these crisis has changed far less. We need to make that architecture as modern as the markets. At Treasury, we have been working with the Federal Reserve Board on these enormously complex issues. And we are working to develop international consensus. But, these are deeply complicated problems and major steps forward will take time.

One criticism that has arisen with respect to the international response to the situation is that providing financial assistance to these countries shields investors from the consequences of bad decisions. This, the so-called moral hazard issue, concerns us as well. We do not believe that international efforts to resolve financial crises should protect investors or creditors from the consequences of their actions and as you know numerous banks, investors and creditors have taken or will take huge losses in Asia. However, a byproduct of the international assistance effort may be that some creditors will be shielded from the full consequences of their actions. Addressing this issue is a high priority for us as we work to strengthen the international architecture, but is also extremely complicated.

Mr. Chairman, before I conclude, let me say a few words about the status of the situation in Asia. As a result of U.S. leadership and prompt action by the IMF and other international organizations, the spread of instability to other developing nations was limited after an initial burst. In the countries where instability has occurred, there is a long way to go and a great deal to do before we can feel secure that the period of instability is over and these countries are back on a path of solid growth. The countries in the region have great underlying strengths, such as high savings rates, a strong work ethic, and a commitment to education and that combined with strong reform programs, should provide the basis for a successful resolution over time. Thailand and Korea are on a constructive path of reform—though there are great challenges ahead—and that is the best path for Indonesia as well. In the meantime, it is critical that we have an IMF with the capacity to respond further—or in other developing countries—if necessary.

Mr. Chairman, as I said earlier, we live in an era of global financial markets and a global economy which presents both opportunities and risks for American workers, farmers and businessmen. Within that context, and to come again to the point of this hearing, we cannot afford to take the risk—however small the probability—that a major crisis develops while the IMF is without the capacity to respond, and so we should provide the full $18 billion IMF funding requested now.

RECOVERY IN ASIA

Senator MCCONNELL. Thank you. What I would like to do, in order to give all four of us an opportunity to question Chairman Greenspan before he leaves is limit the first round of questioning to 5 minutes each. This should give everybody an opportunity to interact with Chairman Greenspan before he leaves. Then subsequent rounds will be 10 minutes.

Chairman Greenspan, it seems that there are two components—maybe many more—but at least two components, central to a regional recovery in Asia: a Japanese budget stimulus package enabling absorption of more exports and China maintaining its pledge not to devalue its currency.

What are the implications for the latter if the Japanese do not move swiftly to stimulate their economy?

Mr. GREENSPAN. Do you mean what are the implications to China if the Japanese do not do so?

Senator MCCONNELL. Yes.

Mr. GREENSPAN. I think, as the Deputy Secretary, who met with Zhu Rongji and publicly discussed the strong commitment to hold the exchange rate can testify, all of our contacts have indicated

that they recognize that sustaining their exchange rate is important both to them and to the region generally. I see no reason that any significant pressures will emerge in the near-term to break them off that path.

I would suspect that, even were the Japanese not to engage in some strong fiscal expansion, the Chinese would respond in a negative way to that.

Having said that, however, I want to emphasize that Japan is a very large player in the Asian system and, indeed, dominates virtually all aspects of it. A necessary condition for the stability of East Asia is the restabilization and growth of Japan.

Japan has two problems, as I see it. One, they have a financial system which is bloated with nonperforming loans and, unless and until those are excised from the system, it is going to be difficult to expand, even with significant fiscal actions. So there is, essentially, a two-stage issue, which I have discussed elsewhere, with respect to Japanese recovery. One is the rectification of the financial imbalances which they are now finally beginning to address after a long number of years of poor financial performance. Second is to come to grips with what I suspect is going to be significant further financial impetus from the tax side.

Senator MCCONNELL. Senator Mikulski, I am going to hold my questions to one and would see if you would like to ask Chairman Greenspan a question.

Senator MIKULSKI. Thank you, Mr. Chairman.

First, to both Mr. Greenspan and Mr. Rubin, we normally would be inclined to take your advice. Mr. Greenspan, you have presided and led over a monetary policy that has helped create a tremendous, robust economy in the United States of America. Mr. Rubin, you, through being Secretary of the Treasury and your advice to the President and the Congress, helped us arrive at a balanced budget, helped us get through a Mexico crisis that was fiscally sound and that enhanced the dignity of both Nations in the way it was handled. So we would normally be inclined to take your advice.

But there are a couple of yellow, flashing lights. This, then, goes to you, Mr. Greenspan, and perhaps the Secretary could comment.

CRONY CAPITALISM

We have nations that are in difficulty because they practiced crony capitalism, and there was no push for reform until Western financial institutions started to take significant and large losses. Then they cried out for help and went to the IMF, which has been a stabilizer and a leader in reform.

So, then, this takes me to the question. Everybody was content with crony capitalism as long as the banks did not take a hit, nor did any Western financial institution that was making very heavy investments in East Asia.

So here is the question. With asking the American people to do this, many of whom have lost their jobs to Asia, particularly in shipbuilding, garments, steel—my core constituency—what, then, can we say to them if we follow the two requests being made under your advice, Mr. Greenspan and the Secretary, for coming in with the supplemental, raising the quota, and supporting IMF? How do

you really think we could go back to our constituents and say, No. 1, we are going to clean up crony capitalism so that it not only does not happen here but is it in a lot of the other aspects of the world? Second is that the banks or financial institutions do have to eat a substantial amount of their loss, the so-called moral hazard. Third is in doing this, we continue to enhance jobs in their countries even though we have had irrevocable losses in manufacturing such as shipbuilding and steel over here.

Mr. GREENSPAN. Senator, the problem that I think we had is not the issue of nobody getting losses. Rather, it was very difficult to look at what seemed to be a very odd form of economic organization in East Asia prospering or ostensibly prospering as strongly as it was for so many years.

I can sit and look at that phenomenon as an economist and say I don't know what the levitation is that is keeping it going. I think we do know in retrospect how it was done. But it is very difficult to argue against the economic policies of sovereign nations which have engendered near 10 percent growth for two or three decades and say that you are doing it wrong.

What has happened is that that system inevitably broke down, and what we are now beginning to see is a really extraordinary comparison between the types of institutions that we have in the West and they had in the East, and we can see why it doesn't work. Far more importantly they are beginning to see that as well.

Senator MIKULSKI. That is what I was going to say. Do they have a sense of urgency?

Mr. GREENSPAN. Yes; but not fully.

Senator MIKULSKI. I know that Indonesia is separate.

Mr. GREENSPAN. I do not think that one can realistically expect that you can have regimes, which have been very successful for a very long period of time, run into one serious crisis and all of a sudden their whole sense of what makes the world run gets changed.

I do think, however, that what we are seeing, for example, in Korea is a very major change because the new incoming government has always been very questioning of the stability of what that regime was.

I do think that is true increasingly in Thailand. I cannot say to you it is evidently true in Indonesia. Nor can I say with any degree of certainty that it will continue.

All I am saying is that there is a very dramatic shock that has occurred. It is having a significant impact on the views of the people, especially the younger people who are coming up in the ranks and who have been largely educated in the West.

There are no guarantees. But I would say that I am far more encouraged now, that they are going to restructure their systems in a far more viable, open manner, which will be far more beneficial to the world trading system than it has been in the past. Certainly our assistance and the assistance of the IMF are crucial players in making certain that occurs.

Senator MIKULSKI. Thank you.

Senator MCCONNELL. Senator Faircloth.

Senator FAIRCLOTH. Thank you, Mr. Chairman.

Chairman Greenspan, thank you again for being before the Congress.

As you say, the systems were doing well there for a good while, the Asian systems. Plonsit did well for a while.

Mr. GREENSPAN. I said "ostensibly well." I think I did. I hope I said that.

GLOBAL MARKETS

Senator FAIRCLOTH. They appeared to be.

I have a couple of questions. First, we have global markets, as you said. It is a very global market. And we have very, very global banking with all sorts of potential for information and insight as to what is happening.

Why did we not suspect or see? The IMF wrote a great report on how wonderful things were in South Korea just moments before the collapse. It was somewhat like playing tennis before the Khymer Rouge took the club.

Would you explain why we knew so little?

Mr. GREENSPAN. That is a very important point, Senator. I think the answer to that is in the nature of these apparently newly developing types of financial crises which are associated with this new, high tech financial structure.

I look at these various, different episodes which nobody forecast—we had some general views of excess flows of funds into these countries; we had concerns about very large current account deficits in Thailand—and a lot of people in retrospect are saying well, you know, we saw it coming. The truth of the matter is nobody saw the virulence of what this is.

The reason why not, is there is something that is extremely difficult to forecast, and that is the onset of a vicious cycle. It is almost a type of phenomenon which, so long as confidence seems to be in place, even with distorted and not terribly well functioning economies, you do have equilibrium. You have balance. The system does not break apart.

But there comes a point every once in a while when you go over the edge, and it is like breaching a dam. All of a sudden the confidence just flows out radically and everything turns 180 degrees in a very short period of time.

I think we know the necessary conditions for that type of phenomenon occurring. We do not know the sufficient conditions. In other words, I do not believe that we will ever be in a position where we can effectively forecast in advance those types of crises. What we can do is put into place a series of preventive measures which lowers the probability that that type of event will occur.

But I do not believe we can ever reduce that probability to zero nor have any technical capability through some sophisticated set of indicators or some great financial insight in being able to predict those things in advance.

So I fully agree with you. I think if you go back and read that South Korean report, you have characterized it exactly right. What they should not have done is make the presumption, which was implicit in that report, that, therefore, everything is fine.

It is one thing to report what is happening; it is another thing to say what you think is going to happen all the time in the future.

Senator FAIRCLOTH. Thank you, Mr. Chairman.

Senator MCCONNELL. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

Senator Faircloth asked the question I wanted to ask.

Senator FAIRCLOTH. You can ask it again. [Laughter.]

Senator BENNETT. No; no; you have made your point. It leads to the next question, though, dealing with the IMF itself.

I can accept that no one has a crystal ball that is infallible and we can, with hindsight, say well, they have missed it. Now we are talking about the IMF playing a very significant role in making policy in these countries. They come in with a very big stick and they say you do as we tell you or we will beat you with our stick.

The question of the personnel of the IMF, how many and how good in the face of this crisis, becomes a question we have to ask ourselves.

I have information—I am not sure that it is correct—that the IMF personnel with any degree of expertise in these areas is stretched pretty thin over the Asian crisis; that the number available for any one particular country of people who really know what they are doing is relatively small. Also I hear that they are harried and they are driven.

We speak of the IMF as if it were a monolithic entity capable of doing all of these things and producing all of these reforms. It's kind of the way we speak of the U.S. military.

Well, the U.S. military breaks down into commanders and divisions, and sometimes we have good commanders and sometimes we have bad ones.

Can any of you speak to this issue of the capability and size, the numbers, of the IMF personnel to carry on this particular challenge, particularly back to the comments of Senator Mikulski, with respect to Indonesia? I mean, we have a glowing IMF report about Indonesia, too, about how wonderful it is. It was not quite as current as the one in Korea. But that is the area where I am most concerned about crony capitalism.

I have asked the question is any of this money going to go to the Lippo Group. Going back to my other incarnation, knowing what I now know about the Lippo Group, I get very, very concerned about that. Do the IMF people care about these kinds of things?

Can we address this whole general area?

Mr. GREENSPAN. Let me start off, Senator, but first with the very important stipulation that this new, high tech international financial system is qualitatively different from what existed before we had this huge proliferation of various different types of financial products and extraordinary expansion in cross border finance and trade.

We do not have enough in the way of observation to really fully sense that we know exactly how it works—the dynamics of it. We are beginning to get a sense, having enough examples and seeing what happened in Mexico, Thailand, Indonesia, and Korea. We are beginning to learn what the mechanisms are and, consequently, to what extent an international organization with liquidity, which I presume, Senator, is not browbeating the individual nations but is merely saying if you want our help, you do X, Y, and Z. I presume

there is a voluntary aspect in there. Sometimes I grant you that it does not appear that way.

The major issue is that we are all groping along our way to learn as quickly as we can from these experiences, and I think the IMF is, also. In other words, the IMF has been functioning in a manner to try to understand what is going on, clearly more intensively than we who have other things to do as well.

Are they fully successful? I think not. I think we are not fully successful, either. Are we more positive than negative? I would say yes to that. I think that the situation is improving, our knowledge is improving, the techniques of handling these situations are improving. But there is a long way to go, and I do suspect that you are probably right that resources are stretched thin.

I don't know of any organization whose resources would not be stretched thin confronting this size problem.

I would like to say to you that everything is in great shape, that everyone knows exactly what they are doing, that nobody has made any mistakes. That would be false.

Senator BENNETT. That would be false in any organization I can think of.

Mr. GREENSPAN. It would be false of any organization and particularly when confronted with something as difficult to handle as this particular problem.

Senator MCCONNELL. Senator Specter, we are having a 5-minute round here because Chairman Greenspan needs to leave. You lucked out. It looks to me like you may get the last 5 minutes.

Senator SPECTER. Thank you very much, Mr. Chairman.

Dr. Greenspan, when you were in the Republican caucus some time ago, I had asked you about the U.S. contribution compared to our voting shares and you commented that we had an 18-percent voting interest and we would be contributing 18 percent of the funding.

Secretary Rubin, although this is not your round of questions, I had written to you on February 12 inquiring about that and a number of other matters.

Secretary RUBIN. We have responded. I don't know if you got the letter yet, but I signed it, I think yesterday.

Senator SPECTER. When did you respond?

Secretary RUBIN. When?

Senator SPECTER. Yes.

Secretary RUBIN. Senator, it was in the last couple of days. I remember signing the letter.

Senator SPECTER. Well, the mails are slow, I guess.

Secretary RUBIN. The mails are slow or whatever.

Senator SPECTER. Are the contributions being made by others proportionate to their shares so that we are contributing 18 percent, which is our voting interest, and others are carrying their proportionate share of the burden?

Mr. GREENSPAN. That is my understanding.

NEW ARRANGEMENTS

Secretary RUBIN. I can give you a very quick answer, Senator.

We expect, my recollection is that in the new arrangements we will have a 17.5 percent, or thereabouts, voting share, and we will

be contributing about 21 percent or something like that. So it is roughly equivalent.

The reason for the differential is there is a whole host of member countries who cannot afford to contribute funds and who yet have a vote. There is a rough correspondence, though not exact.

Senator SPECTER. Well, there are a lot of dollars between 17.5 percent and 21 percent. Why isn't it adjusted on the basis of what people contribute financially?

Secretary RUBIN. Because the judgment was made when the IMF was set up at Bretton Woods 50 years ago that there should be a much broader membership than just those who could afford to contribute. There are estimated to be about 35 countries who can afford to contribute of the 182 members. So, as I say, the difference is between—I won't swear to these numbers—but I think it is roughly 17.5 and 21 percent, something like that.

Mr. GREENSPAN. The crucial issue, Senator, is the fact that there are a number of policy questions which come before the IMF which require 85 percent majorities. We, therefore, have a veto, and the veto would exist whether it were 17 or 20 percent.

Senator SPECTER. We would still have the veto at 17.5 percent and might have to contribute less money if the proportions were identical.

Mr. SUMMERS. Senator Specter?

Senator SPECTER. I only have 5 minutes. But I will let you comment on the chairman's time.

There is an enormous problem, obviously, with markets being closed to the United States, the issue of reciprocity, and that comes up with a great many of the countries where the IMF is helping them.

Dr. Greenspan, is it realistic to try to use this situation, which might be to their benefit economically, to say that a condition is that there is reciprocity on markets being opened where we are helping to bail out these countries, that they should at least open their markets to the extent our markets are open to them?

Mr. GREENSPAN. Well, I would not even say whether it reflects the fact of whether our markets are open to them. It is a question of whether it is to their advantage to have open markets. I would say one of the important aspects of a full, free market system is that the real beneficiaries of open markets are those who open their own markets first.

But in answer to your question, I would prefer to let the Secretary answer that specifically because that gets into conditionality questions with respect to this legislation.

Senator SPECTER. How about the Deputy Secretary.

Mr. GREENSPAN. Or the Deputy Secretary.

Senator SPECTER. I'll give you some speaking room, Mr. Summers.

Mr. SUMMERS. On the trade question, I think there is no question that it is appropriate, as the chairman's reference to the Bretton Woods legislation suggested, for the IMF to impose conditions directed at broad liberalization because that is very much in these countries' interests. It is very much in the interests of all the IMF members to avoid, for example, the kind of distortion you have seen

of, to take two examples, the world's semiconductor and the world's chemical markets because of subsidized credits in these countries.

Senator SPECTER. Could we use this occasion of the bailout to have access to their markets one way or another?

Mr. SUMMERS. The Korean program, for example, involved significant reductions in Korean tariffs and also, and I think very significantly, involved a commitment by the Korean Government which will be monitored closely by the IMF going forward to end the practice of subsidized credits. Subsidized credits have led Korean firms to get cheap access to capital and build very large excess capacity which in steel, semiconductors, and a number of other industries has quite significantly distorted world markets and put our firms at a very substantial competitive disadvantage.

Senator SPECTER. But that does not go directly to the issue of our having access to their markets. How about that issue head-on?

TARIFF REDUCTIONS

Mr. SUMMERS. Tariff reductions I think do go directly to that, tariff reductions and reductions in quotas. For example, in Indonesia there were significant reductions in the quotas that were put on a number of agricultural products, which I think goes very directly to the question of market access.

Senator SPECTER. My yellow light is still on, Mr. Summers. Would you care to make a comment about our percentage of voting compared to our percentage of contributions?

Mr. SUMMERS. Thank you. Thank you, Senator Specter.

I just wanted to make the point that countries can all contribute, and they all do contribute their own currencies. Some countries' currencies are more suitable to provide a loan in than other countries' currencies.

For example, when we contribute dollars, those dollars can then be lent. Other countries, who are not in the kind of strong financial position we are, are not able to provide a currency which is suitable for lending.

Senator SPECTER. Why not? Their currencies, whatever they are, have some value, don't they?

Mr. SUMMERS. Well, in many cases they are not freely convertible on international markets or those countries themselves are facing a balance of payments crisis.

Senator MCCONNELL. You need to wrap it up, Secretary Summers. We will be coming back on this I am sure.

Thank you, Senator Specter.

Thank you, Chairman Greenspan. We appreciate your being here.

Mr. GREENSPAN. Thank you, Mr. Chairman, Senators.

Senator MCCONNELL. I think we all know what the real nub of the issue is here in the Senate. I am unaware of anyone—there may be someone, but I am unaware of anyone—at least on the Republican side of the aisle—who is not willing to go along with the new arrangements to borrow, which passed the Senate last year and was lost in the course of discussions between the House and the administration toward the end of the year.

So, fundamentally, the question is what kind of conditions, if any, would the Congress hope the administration could deliver as a condition for the $14.5 billion quota.

Mr. Secretary, it is my understanding that important reforms can be implemented at the IMF by a vote of the Executive Board of the Board of Governors on a resolution. As we have discussed over the last couple of months and as I have just said, I believe the Congress expects explicit action like this, rather than, once again, sort of bland policy statements urging the administration to make its best effort to use the voice and vote to change policy.

The basic question affecting support for the quota is what reforms can you support and secure in the IMF and when can you get them? In other words, what can you get and when can you get it?

IMF

Secretary RUBIN. Well, as you and I have discussed, Mr. Chairman, I think that there are many reforms that people have focused on. I know that transparency, transparency with respect to the IMF operations themselves, has gotten a lot of focus. I might add that there is a great deal more IMF transparency, I think, than most people realize. They have an audited financial statement each year of their financial condition. We are now encouraging countries to put out their letters of intent. In the case of Korea, Thailand, and Indonesia, they all did put out their letters of intent.

I think once a year now, the IMF puts out a statement on about 45 countries with respect to their economic conditions. These are called PINS.

With respect to ESAF, the IMF has now agreed to have, and, in fact, at the present time does have an outside board reviewing their operations. So there has been a lot of progress in this area.

Having said that, we are clearly prepared to support additional progress.

As you may know, the Senate Foreign Relations Committee has raised the question of a possible GAO review with respect to the IMF and we are in the process of seeing what can be arranged in that regard right now.

I think the question is what mechanisms we can develop to try to create measures that meet the various kinds of concerns that people have as they talk about conditions. Many of those concerns are concerns that we share, and many of those objectives are objectives that we share. But at the same time, they are practical to get done in a very short, a reasonable period of time.

We have some thoughts on this. We are in the process of trying to develop them to see whether they are practical or not. Whether it is possible to get Executive Board votes or Board of Governors votes in a relatively brief period of time I would tend to doubt. The problem with that is that you have to work your way through the countries that are members.

I will tell you, having worked in these international organizations, these international fora, is a very time consuming process because every country has its own parliament, has its own concerns, its own interests, and its own views.

But, having said that, we are attempting to work with members who have expressed these concerns and who are deeply involved in these issues in trying to see what we can do to provide measures responsive to these concerns in ways that are practical in the context of the organization we are dealing with.

Let me add, in fairness I think I should add one more thing.

Michel Camdessus, who is the Managing Director of the IMF, is also very much committed, I think, to trying to work with us to see what is the maximum that we can do to meet the kinds of concerns that have been raised.

Senator MCCONNELL. Let me make another run at it.

Section 42 requires you to work with the IMF to establish procedures for the public dissemination of information. Do you believe either board would support a resolution—and you were talking earlier about transparency—to create transparency by requiring that a full-disclosure clause be included in all loan agreements?

What is your assessment of the prospects for a resolution that would make it a matter of IMF policy not to lend to countries in which governments have established trade and investment barriers inconsistent with open markets and free competition? That is another question. Those are really two questions.

Secretary RUBIN. Well, every country has trade restrictions. The United States, for example, although we have a very open market, and I totally agree with Chairman Greenspan that the primary beneficiary of having open markets is the country that has the open market. But all countries have trade restrictions of one sort or another.

So I think that, as you framed it, at least, would not be answerable.

Senator MCCONNELL. Well what about the full-disclosure clause being required in all loan agreements?

Secretary RUBIN. And that is full disclosure of what?

Senator MCCONNELL. Of the loan agreement.

Secretary RUBIN. Oh, do you mean disclosure of the letter of intent?

Senator MCCONNELL. Yes; my understanding is that this happens now only if the recipient agrees to public disclosure. Is that right?

Secretary RUBIN. Yes; and in the case of the three—we are in favor of disclosing letters of intent. I think you are going to see that become more and more the practice.

Now what you are asking me is can we get an Executive Board or Board of Governors approval within some reasonable period of time.

Larry, do you have a view on that?

Mr. SUMMERS. I don't know whether it is possible.

Secretary RUBIN. I'll tell you where you might run into trouble.

Senator MCCONNELL. You know, there are a lot of us who really would like to help you on this.

Secretary RUBIN. Oh, Mr. Chairman, you are not helping us. We all agree the United States has some very substantial economic interests at stake here. This is not helping us. I think the problem, though, is like anything else. The question is what is practical in the context of the organization you are dealing with.

If somebody comes to the United States and says we want you to do certain things, they have to deal with the context of the realities of our administration, our Congress, and all the other ways in which we function. We have exactly the same problem with respect to the IMF. What is the most that we can accomplish in the context of an organization of 182 member countries, each of which has its own parliament, its own administration, and all the rest?

I think you are going to find that we will do everything possible to try to accomplish these purposes within those limits.

Larry, do you have anything to add to that?

Mr. SUMMERS. I think it is the right thing to do. I think we have achieved very substantial increases in transparency with many of the letters of intent now being published, with many countries making available the IMF's annual surveillance report with much freer dissemination of IMF views on countries.

We would support publication of letters of intent. Whether it is possible that there is an international consensus on that, given that the content of letters of intent in many cases goes to questions about executive branch strategies for seeking to pass legislation, for example, or subsequent activities of central banks, or possible future changes in exchange rate regimes, whether we could get a vote in favor of full transparency with respect to letters of intent I am not entirely certain. I am not certain whether that could happen.

Senator MCCONNELL. Let me come at it another way.

What kind of latitude does Mr. Camdessus have? I am just thinking that consistency may be the hobgoblin of little minds. We have heard that all of our lives. But I think, for example, of the approach in Russia.

Some 2 weeks ago, Yeltsin urged the Duma to pass his budget or face suspension of the IMF loans. They did not pass the budget. Mr. Camdessus arrived and announced the terms would be relaxed and the length of the loan extended by at least a year.

Some would argue that this might have been a largely political decision. But it illustrates what I am trying to get at. How much latitude does he have? Could he just unilaterally adopt, as a practical matter, an operational matter, the kinds of reforms that we are suggesting here? Then that would short-circuit this 18 months, 2 years, all of this other elaborate procedure that you are suggesting we would have to go through in order to—I mean, could he just say that henceforth this is the way we are going to operate?

RUSSIA

Secretary RUBIN. One of the issues we are exploring, Mr. Chairman—I would like, if I may, to have Larry Summers respond on Russia because I think it is a very important issue—but one of the issues we are exploring is how much the managing director can do on his own volition within the context of the bylaws and the founding agreement of the IMF. That is an issue that we are exploring right now.

Larry, do you want to respond on Russia?

Mr. SUMMERS. Mr. Chairman, in Russia, the Russians had not met the conditions for the disbursement of a tranche at the end of the fourth quarter, and the managing director did not indicate that

those conditions had been met or authorize a disbursement of that tranche.

That would depend upon a subsequent, thorough review by the IMF staff of the situation in Russia which, in turn, would require board approval before any action could be taken; nor was he able to make any absolute commitment to the Fund because that also depends on board approval.

What he did indicate was, assuming Russia comes back into compliance—a judgment he did not make as to whether they had come back into compliance or not—he would be prepared to call for Russia to be in an IMF program continuing into 1999. He didn't indicate that any money that was owed could be deferred in its repayment. He only held open the prospect of an IMF program being continued into 1999.

Senator MCCONNELL. So he didn't have the authority to say what he said? Or he was misquoted? Or what?

Mr. SUMMERS. Of course he had the authority to say what he said. But I think what he said in each case referenced the recommendations he would make to the board, the suggestions he would make to the board. But it was all contingent upon board approval.

Senator MCCONNELL. All right. I am about to run out of time on this round. But I will get back to this question. Would it be possible to get certain kinds of unilateral assurances, Mr. Secretary? If so, how enforceable are those if they are from the Director himself?

Secretary RUBIN. I understand. I think the answer to the question, Mr. Chairman, is, given the enormous influence that we have, which we do have, and given the managing director's position, and I don't know what the managing director would be prepared to do in these areas because he has 182 members—we are not the only members and we have about 18 percent of the votes, as indicated before—I think we could probably create a situation that is not legally binding but that practically has a very substantial effect, that is, if the managing director felt comfortable—and I don't know whether he would or would not because he has a lot of other constituencies to worry about—but if he felt comfortable in certain areas—and whether this area would be one of them or not, I don't know—if he felt comfortable issuing a policy statement.

Senator MCCONNELL. We need to keep exploring, as you and I have been before today, ways in which we might raise the comfort level of the Senate——

Secretary RUBIN. Correct.

Senator MCCONNELL [continuing]. As a precondition for us supporting the quota.

Secretary RUBIN. As I say, I have tried to be very careful in the way I have responded. We are exploring this and as we get greater definition, we will obviously share that with you. We will try to get the greatest comfort that we can within the practicalities that we have.

Senator MCCONNELL. The ranking member of the subcommittee has arrived.

I would just say, Senator Leahy, that we are having 10 minute rounds. You are welcome to do your 10 minutes and then we will come back to the Republican side.

Senator LEAHY. Thank you, Mr. Chairman. I appreciate that offer. Unfortunately, as often happens, I am in another hearing upstairs with members of the computer industry from Microsoft, Netscape, and so on.

I did want to come here to say that I know what the Secretary and Mr. Summers are speaking about is primarily the IMF. There are a lot of other things, and I will submit my questions for the record, from the global environment facility to the World Bank's support for family planning and health.

I have discussed the IMF situation with the Secretary and with Mr. Summers. I do feel, with the Asian financial crisis threatening to spread to China, Russia, and even this hemisphere, these are two people in the government that we need to hear from I am sorry I missed Mr. Greenspan.

The $3.5 billion request for the new arrangements to borrow will be in the supplemental. The real question, of course, is the IMF quota increase.

In a perfect world, I would say let's just put it in right now. In fact, that is what I would like to see. I think the difficulty is going to be what happens with the IMF and people there who are seen as being too stuck in their ways, who seem to feel what we don't know won't hurt us. I know that the Secretary and the Deputy Secretary have been working hard to get them to open up.

I also know that there is a limit to what kind of conditionality we can impose on a multilateral institution. But I think we are going to have to work a lot closer both in the Congress and with the administration to find out what is possible—policy directives on the environment, on information disclosure, rights of workers, and so on. These are already in U.S. law. We have to see how they get adopted by the IMF Board.

One part of me, I must admit, finds it very easy to say the heck with them, we'll hold back the money, just straighten it out—to make sure they know we are serious. But I have come to the conclusion that is not the responsible way. It would be gratifying but it is not the responsible thing to do.

I would like to see us go with the full amount of money now with a very, very strong message about what changes we expect to see. I take that position, Mr. Chairman, partly as an ad hominem because of my respect for the Secretary and the Deputy Secretary, and knowing that they will work hard to get some of the changes made.

I think the IMF is important. I think that we have to have the ability to move far more quickly than sometimes we can move here with congressional actions in a world where trillions of dollars can be literally moved around over a weekend just by keystrokes.

So that is where I am, Mr. Chairman. It is not so much to ask questions. I know that you have taken one of the most responsible views on these issues of anyone I have worked with and I would suggest that perhaps prior to the markup we may want to meet together, as we always do anyway, perhaps to discuss these issues further with the Secretary.

That is not a question. [Laughter.]

Secretary RUBIN. I wasn't going to respond to it.

Senator LEAHY. But feel free if you want to say anything.

Secretary RUBIN. Oh, no. Senator, we had a little discussion before you came in and Chairman Greenspan was here as well. We all feel that there are changes that could be made.

I happen to think the IMF does a very good job in a very difficult situation. And, as Chairman Greenspan said, this is a new world. This is a new era. I have been, as you know, in investment banking for 26 years. The issues that we are dealing with now are not issues that I saw back then. I think they actually do a very good job.

Having said that, these are new issues. This is a pioneering world that we are in right now. I think all of us can look to areas where we wished, or thought that the IMF should perhaps function differently. I think transparency, for example, Mr. Chairman, is one place where I think the more the better up to the point where it perhaps has its disfunctionalities.

But we will need to work with this committee and with others to see what we can accomplish in these areas.

Senator LEAHY. The IMF can try the patience of a saint, and, with the exception of the chairman, there are not many saints in the Senate. [Laughter.]

Senator MCCONNELL. Thank you, Senator Leahy. I will certainly agree with that observation.

Secretary RUBIN. We will stipulate as to the chairman. [Laughter.]

Senator MCCONNELL. Senator Faircloth.

Senator FAIRCLOTH. Thank you, Mr. Chairman and also, Mr. Secretary, thank you. I have not been, to put it mildly, supportive of the IMF. But in no way does that lessen the admiration I have for the job you have done and that you do. We don't agree on everything, but I have the greatest respect for the job that you have done and the position you have.

Let me ask you this. As has been mentioned here, we all have very good hindsight. But in the bailout in Mexico, if we had left it alone and allowed the private sector to function, which we really did, would it not have worked itself out? No. 2, right after going into Mexico as quickly as we did, and then almost immediately coming with the new arrangements to borrow, did that send the wrong signal to the lenders around the world that we will, to get with it, boys, we are going to jump in?

Secretary RUBIN. Let me try to answer the questions in the order you posed them.

My view on Mexico, Senator, and reasonable people can disagree on this, is I feel very strongly, and I think this is, far and away, the predominant view, that Mexico was probably days away from default when we announced our support plan with the IMF. I think, had we not gotten involved, Mexico almost surely would have gone into some form of default, whether technical default I am not sure, but some form of default.

Senator FAIRCLOTH. I'm sorry. What was that?

Secretary RUBIN. That if we had not gotten involved with a support plan, I think Mexico almost surely would have gone into a de-

fault. Whether it would have been technical default or not, I don't know, but it would have been at least a de facto default. I think, had they done that, not only would they have been mired in a far deeper recession for a vastly longer period of time than they wound up being involved in, but, as you may remember, at the time, the Argentinean markets, the Brazilian markets, even markets in central Europe were being affected by what was happening in Mexico.

So I think for a brief period of time there, there was a real risk. That is what animated a lot of the work that the chairman, that Larry Summers and I did. There was a real risk that this could have spread around the globe and had enormous impacts on other countries and on us.

Senator FAIRCLOTH. I think we encouraged more risky lending. I have heard the term and words get flipped around, but would you tell me what "moral hazard" means?

Secretary RUBIN. Sure. Moral hazard is a concern—and it is a concern we share. I might add this. Could I just say one thing before that, though, on moral hazard?

I speak to an awful lot of people involved in credit markets, investors, and the like, and I have heard the chairman say the same thing, but I do not believe what we did in Mexico had an effect when creditors and investors decided to function in Asia. I do think people over-invested and over-extended credit in Asia, but I don't think it was affected by what happened in Mexico. I think it was affected by the kinds of things that always affect markets when they go to extremes, and in my judgment they always do.

Moral hazard is, basically, the notion that if undesirable behavior, one way of looking at it is if undesirable behavior is not punished, or, to put it differently, is rewarded, then it is likely to repeat itself.

Senator FAIRCLOTH. I'm sorry. Say that again.

Secretary RUBIN. If creditors lend into a country, as an example, and those credits would have gone bad but for, say, the help of the IMF, then, because of the help of the IMF and the fact the people were made whole on loans that otherwise would not otherwise been made whole on, they will be encouraged to worry less about risk than they should in the future.

ASIAN SITUATION

Mr. FISHER. All right.

Secretary RUBIN. I don't think in the Asian situation, however—as I say, I speak to an awful lot of people and I don't believe that what happened in Mexico did influence people in Asia. But, having said that, we share the moral hazard concern. I think one can feel, if one wants to feel good about losses, I think—not I think—there have been huge losses in Asia and I think an awful lot of creditors and investors found out what it means not to take appropriate cognizance of risk when they lend.

Senator FAIRCLOTH. It's what we used to call cold comfort.

We have been talking about opening the trade doors. I have been hearing it for 50-good odd years, and we have scarcely cracked more than one or two.

The IMF and Mr. Camdessus talk about changing the government, the problems that were created by the collusion and crony-

ism between government and the opaqueness of any sort of financial institution and our inabilities, and the trade problems just simply mount. They go on and on.

Mr. Camdessus tells us what is going to happen, and if the company does not do this, it changes. In Peru, he has changed it 17 times; in Russia, 2 or 3 times. If you don't do this—in other words, whatever they do, he moves to it.

Take Suharto. What are his options? You cannot spank him. [Laughter.]

You cannot take his dating privileges away. I mean, what do you do if he does not comply? What do we do?

Secretary RUBIN. Leaving aside those two possibilities—which I think I will leave to the chairman or others—Indonesia is a very complicated situation. I think in South Korea to a far greater degree it has been the key country in this whole thing. It is the 11th largest country in the world. I will tell you that around Christmastime it was very troubling. It really was for reasons I said in my remarks.

Had South Korea gone into default in the private banking sector, we might have had a crisis on our hands of a dimension far greater than anything we have ever seen. Fortunately, South Korea is back on a constructive path and, hopefully, the probability of that sort of thing is very low now.

Indonesia is a very complicated situation. The reason I contrast it is in South Korea I think there are a lot of reasons to feel good about what is happening. This is not to say that there are not a lot of problems ahead, though. But I think Indonesia is a very troubling and very complicated situation. I do not have great wisdom for you at this moment, Senator, about that. We are waiting for Mr. Mondale to come back. I have seen his report from his visit, obviously, but we have not had a chance to speak to him yet.

I do think that Deputy Secretary Summers spoke to Under Secretary Lipton, who was with Mr. Mondale and he may have something to add to this. But the general principle is that the IMF provides resources to countries that implement the kinds of strong reform programs that the IMF and the rest of us working together construct. I think that the IMF is going to have to make a very difficult judgment when it comes to the middle of March. I do not want to try to foretell what that might be. But I think Indonesia is a very difficult situation. But it is one that is of great consequence both economically and sort of geopolitically, if you will. It is the reason, or it is one of the reasons that Secretary Cohen went and briefed the Republican House leadership on these issues and testified before the House Banking Committee.

We have enormous stakes there. But having said that, I think it is a very difficult and very complicated situation.

You are very right to raise it as a focus of concern.

Larry.

Mr. SUMMERS. Senator Faircloth, I think you do raise the critical question of is there really conditionality or does the IMF just follow what the countries do.

My own reading is that there are a number of examples in which IMF conditionality has been quite effective.

Senator FAIRCLOTH. Give them to me.

Mr. SUMMERS. I will give you a couple. In Russia, at several points in the last 4 years the IMF has cut Russia off and has said that until they come back on track, there would be no further disbursements. There is a great deal of problems that remain in Russia. The fact is in a way that looked extraordinarily unlikely 3 years ago Russia has now achieved a stable currency.

Senator FAIRCLOTH. Excuse me. You say Russia is safe and stable now?

Mr. SUMMERS. No, Senator.

Senator FAIRCLOTH. What did you say?

Mr. SUMMERS. I said that Russia has had a stable currency for the last 2 years and I think that is in substantial part because of the kick they received from conditionality.

Senator FAIRCLOTH. One quick question while we are on Russia. What would you say the likelihood of a financial problem is there—I mean like big time?

Mr. SUMMERS. Those kinds of questions are awkward to answer in this kind of session about any country.

Senator FAIRCLOTH. All right. But I want to talk to you further about that.

Mr. SUMMERS. Senator Faircloth, may I just make two other points very quickly?

One is that I think the IMF's conditions and the possibly of a withdrawal of IMF funds had a great deal to do with a rather sharp turn in the direction of Thai policy that took place in late October that has brought about a situation with the new government in Thailand where Thailand is moving back toward making very substantial progress. I think it is also important to emphasize, as the Secretary did, that the IMF has not made any disbursement to Indonesia since the first disbursement that was made at the time the program was agreed nearly 4 months ago. And any subsequent disbursement would be based on a very careful review.

There are other examples in Kenya, in Egypt, where you have seen countries that have fallen off IMF programs. The IMF has recognized that until they, the country, wanted to do what it had to do, there was no way in which financial support could be useful and that served as an important spur to reform.

Senator MCCONNELL. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

Mr. Rubin, I am sure you have seen the Wall Street Journal editorial about you and the rupiah.

Secretary RUBIN. I noticed it.

MEXICAN ISSUE

Senator BENNETT. We have been through this before in the Mexican issue. I disagree with my friend from North Carolina and agree more with you that the Mexican experience was a productive one. It was, for me, a very instructive one.

As the leader, Senator Dole, for whatever reason, gave me the assignment to handle that on his behalf. I found out more about tesobonos and pesos than I ever thought I wanted to know.

I find that this is a similar kind of experience. And yet, there are significant differences. I want to outline some of both of those to

help you understand why I am having some trouble going beyond the $3.5 billion that the chairman referred to.

In the difference category, with Mexico we knew who was going to get the money. We knew where it was going to go and we knew what Mexico was going to do. Mexican officials were here often. I remember meetings in Senate Dole's office with the Finance Minister, with the Foreign Minister, meetings in Speaker Gingrich's office with Mexican officials—not once but several times. We could tell them directly how we felt about the reforms that had to take place in Mexico before we would get involved with American money.

When I finally recommended to the Speaker and the leader that they move ahead in the direction in which we all ultimately moved, it was from that basis of direct information, not necessarily just to me but to the other participants in the meeting—I do not want to imply in any sense that I was alone on that. There were members of the House Banking Committee, Chairman Leach and others, heavily involved in all of those discussions.

Necessarily in this situation we do not have that. I have never met anybody from the Indonesian Government other than when Senator Specter and I were with President Suharto down there and that was in the period when everything was going wonderfully well and they were instructing us as to how we should handle our economy.

I do not have a sense of where the money is going to go. I get questions. Secretary Summers, you and I talked about this in my office. I get questions from constituents who are saying we don't want American money to bail out our competitors. We have been facing a tough competitive situation in the international market with people who have been State subsidized. Now they have gone under and you are going to take our tax money and spend it to put our competitors back on their feet. We absolutely are not going to stand for that.

That is a simplified and perhaps erroneous view, but it is certainly out there because we don't know where the money is going to go.

I have raised the question here: Is the Lippo Group going to get any of this money? This comes out of my experience in the Governmental Affairs Committee of who the Lippo Group is and what they do.

So the thing of concern about the IMF in this situation, as with respect to the Mexican situation, is that they stand almost as a shield between American policymakers and the people who are going to get the money whereas in Mexico that was not the case. There was no shield. The IMF was off to the side. We were dealing directly with the Mexicans and we knew exactly what we were getting when we took the steps that we took.

So until that greater sense of comfort that we really know what is going on and that it is not being filtered through a shield can take place, you are going to have problems up here with the request.

Now, over on the side of similarities, the reference that you made, Secretary Summers, to Senator Faircloth about Russia and

the stable currency there is the best touchpoint to talk about similarities.

One thing that I was very, very insistent on in the Mexican situation—and you will recall all of the telephone conversations we had about this plus some face to face meetings—was that the Mexicans focus on a stable currency; that the Mexican Central Bank should do whatever they could to see to it that there was a stable currency. That comes back to the Wall Street Journal piece, Mr. Secretary. They are in favor of a Currency Board. I am perfectly willing to suggest that the Currency Board may not be the best way to get a stable currency and give you the benefit of the doubt that there are other ways to do that.

But I think the issue of saying that we have to fix the money at the same time as we concentrate on fixing the banking system is an issue we have to address. If the Currency Board is not the way to do it—and it was not in Mexico; we used the Central Bank and our power to get at them directly to make that point—it is, nonetheless, for me an overriding factor here.

My experience with the IMF is that they are not as dedicated to a stable currency as certainly I am. They didn't seem to be in Mexico, but it didn't matter in Mexico because we were able to make our points directly.

They do not seem to be here. They seem to put the stable currency far down the list of things that they are after. They pay lip service to it, but they have a bunch of other things that they want first.

With that background of the differences and the similarities, can you give an old Mexican warrior a little bit of comfort as to where we are going here because at the moment, I do not have it?

Secretary RUBIN. Let me, if I may, Senator, take a first shot at this. Then, if I could, I would ask Deputy Secretary Summers to do the same.

There are differences and similarities, as you say, and we have been struck a little bit by the same thing. We are dealing now with a number of countries, not just one country. We are dealing even beyond the numbers that are involved in the crisis because we have been very concerned about the possibility of contagion, about the possibility of this becoming a worldwide problem. So we actually have been focused on and involved with the countries way beyond the ones that are just involved here.

I do not think, though—at least I will speak for myself—I do not feel as if we are shielded by the IMF. We at Treasury and the people at the Federal Reserve Board as well have a constant interaction with the troubled countries, certainly with South Korea and Thailand, though to a somewhat lesser extent with Indonesia, but with South Korea and Thailand.

I spoke to the Finance Minister of Thailand at 9 o'clock last night our time. So I would say that we have a great deal of interaction and also have a great deal of impact on the IMF, although they have many other members and we are only one, as I mentioned before.

In terms of where the money goes and all the rest, I think——

Senator BENNETT. Let's focus on Indonesia because that is one I am very concerned about.

Secretary RUBIN. It is worth both focusing on but also distinguishing Indonesia.

We are very troubled about Indonesia as well, Senator. I would say that with South Korea and Thailand, at least in our view, you have governments—and it so happens in both cases new governments—that, in our judgment, are very carefully focused on the structural issues, on the crony capitalism, on a lot of the issues that have created the subsidized trade problems that you are worried about.

On Indonesia, I think we have a very complicated situation. As I say, I would like to wait for Mr. Mondale to come back to have a more fully developed view. But as Larry Summers said, the IMF has not disbursed to them since, I guess it was early November. I think on the money, so far you can feel comfortable.

My recollection—you can check me, but I think I am right on this—is that we disbursed, the IMF disbursed a little over $3 billion and Indonesia spent well over $5 billion on interventions. So they spent more than was disbursed. In fact, I remember you and I discussed this before. They spent far more than was disbursed.

Money is fungible. But I would say that in excess of what has been disbursed has been used on intervention.

CENTRAL BANK

The money does go to the Central Bank. Then it is supposed to be used from the Central Bank in ways that are consistent with the IMF program.

I think with Korea and Thailand, although we do not have the constant interaction there that we had with the Mexican Government, the IMF has resident people certainly in South Korea and I think they have them in both countries. We have a lot of contact with both the officials of the countries and the IMF.

In terms of stability of currency, you have an interesting thing here. We are very focused on stability of currency and I think it would be fair to say that the IMF is very focused. The idea, the notion is that as long as these countries are suffering financial instability, the currencies are going to continue to depreciate and that affects us around the world. It is very bad for them and it is very bad for us. So if we could reestablish financial stability, we could reestablish stable currencies, and you can see that the baht and some of these other currencies have come back a fair bit.

There is a conflict, though, in this Congress between the kinds of monetary policy that we believe in and that you need if you are going to provide support to the currency and the criticism that these are austerity programs. I do not believe they are austerity programs. I think they are structural programs. But they are very much focused on reestablishing financial stability, and, by reestablishing financial stability, establishing stable currencies and having associated with them a disciplined monetary and fiscal regime.

Is there time, Mr. Chairman, for Deputy Secretary Summers to respond as well?

Senator MCCONNELL. Yes; go ahead.

Mr. SUMMERS. Thank you. Thank you very much.

Senator Bennett, let me focus on the situation in Indonesia.

The first keystone Secretary Rubin laid down with respect to our policy with respect to all of these countries is we cannot want them to reform their economies more than they want to reform their economies, and support cannot flow unless they are doing the right things.

Obviously, since we were putting up a large part of the money in the Mexican thing, the situation was different than it is in Indonesia. But, as I speak to you, there are a number of people from the Treasury who are in Indonesia right now who have been there speaking with Indonesian economic officials and reporting back to us with great frequency.

My children have been awakened often enough at 1 a.m., to provide testament to the fact that we do speak very frequently with senior Indonesian economic officials and that takes place at all levels within our Government.

I do not think there is any disagreement on the question of a stable currency just as in Mexico. There is no possible success in Indonesia without a stable currency.

But what I think is also true, is that, in order to achieve a stable currency, it is necessary to credibly attack some of the problems of crony capitalism that Senator Faircloth referred to in his question.

So, as we speak about the approach, the approach is an approach that has a number of elements. But the other elements can all be thought of as necessary preconditions for achieving a currency that is stable in the same sense that currency stability was achieved in Mexico.

But what is ultimately decisive and what we are watching for very carefully, and what will determine our response is the kind of policy commitment there is to doing the things that are necessary to make a stable currency possible. At a certain stage, that commitment became very clear in Mexico. It was on the basis of that commitment that we were in a position to provide support.

There were periods when that commitment was not there, frankly, at the very beginning in Mexico. But when that commitment was there and when we could monitor it, that is when support was able to flow.

There has not been, as I mentioned, a flow of support since November and what will happen going forward depends on what happens in Indonesia.

Senator MCCONNELL. Let me, if I may, just pick right up on where we are.

It is my understanding that $3 billion is scheduled for release March 15. What criteria are you looking to be met, or is IMF looking to be met? Even though there has been no disbursement since November, there is supposed to be one next week. So, the question is, "What are you looking for? What is IMF looking for? What do you expect to hear from Vice President Mondale that is going to make you comfortable about releasing this $3 billion next week?"

BUDGET POLICIES

Mr. SUMMERS. The IMF will review compliance with the program. That will include at least four areas, Mr. Chairman. First, it will include compliance with certain key provisions having to do

with structural policy, monopolies of various kinds, where there was a commitment that those monopolies would be broken up.

Second is budget policies. A number of indications suggested that, for example, certain off-budget funds were being used in ways that were hidden and were not part of the budget. They will be looking for clear evidence that all of those funds have been fully accounted for.

Senator MCCONNELL. Could I interrupt you?

What I suspect will happen is that, having raised the straw man of the Currency Board, Suharto just gives up on the Currency Board and IMF says gee, that's great, and just goes ahead.

What do you think is the likelihood of that?

Mr. SUMMERS. It will not go ahead with American support, support of the American executive branch, unless it is possible to demonstrate much more than that the Currency Board is not there, but that it is also possible to demonstrate a satisfactory position with respect to the issues that I was outlining—monopolies, subsidies, monetary policies and approach to the financial system. Appropriate progress in those things would be prerequisite for our support.

This is not different in Indonesia, by the way, than in other countries where the IMF completes a review. It has to make a report on the progress under the program and that forms the basis for judgments about what will happen.

Senator MCCONNELL. So the release of funds is not going to be in any way connected to the Currency Board decision?

Secretary RUBIN. Let me just comment. Maybe this is adding too much or repeating. I am not sure which.

The Currency Board issue is one issue. That is here. Then there are the criteria which the Deputy Secretary outlined and the IMF is going to make a very difficult judgment.

Mr. Mondale's coming back is yet a third factor. But he is not going to be able to give us, I don't think—well, we will see what he says when he comes back. I just saw a cable this morning. But, basically, it is the IMF that is going to have to try to make a judgment on what is going on there.

It is an interesting problem, Mr. Chairman. The IMF faces a very difficult issue. On the one hand, it seems to me that you do have to have compliance with their conditions if they are going to release. On the other hand, I don't think any of us should have illusions about the seriousness of this decision because Indonesia is in a very difficult situation and there are all sorts of very serious consequences that can come from that situation.

So this is a very complex situation, a very great moment in terms of its possible consequences. But, having said that, I will go back to what I said before. The Currency Board is one issue and then the criteria they need to meet is a separate issue.

Had they done the Currency Board on their own—this was not a U.S. situation. Theo Waigel, the Finance Minister of West Germany, now Germany, said that that was not something they should do and many other countries have similar views.

Senator BENNETT. Mr. Chairman?

Senator MCCONNELL. Yes, Senator Bennett.

Senator BENNETT. I have just one summary point here.

The Currency Board to me is not the issue because the Currency Board is simply a means to an end. I am perfectly willing to reach that end by some other means. But I do not want us to lose sight of the end, which is fix the currency.

I think you have to fix the currency now. I don't think you can wait for a stable currency being a by-product of other things because, if you don't fix the currency, the riots, the killings that occurred the last time the currency went crazy, will happen again.

I made this point to the Mexican minister who said: "Oh, with our devaluation, we are now more competitive in the world." I said you have never run a business because when your employees cannot pay their bills, they come home to wives who are upset because they are going to lose their homes because they cannot pay their mortgages. The middle class is wiped out because the money is worthless. Such workers are not automatically more productive.

That is the human toll here if we don't get the currency stable. That is the only point I want to make. Forget whether it is a Currency Board or anything else. A stable currency is the end that we should be focusing on as one of our major, first, up-front kind of challenges in Indonesia.

I hope you tell the IMF that.

Secretary RUBIN. Senator, we agree with that. I still think Indonesia is a very special case because of all the problems. But it is worth talking about. I know we have had this discussion many times in the Mexican context and others.

There are only two ways—no, three ways—to try to create a stable currency. I think there are three. Maybe there are others, but three come to my mind, forgetting the Currency Board for a moment. One is to reestablish financial stability. Another is to intervene, but I, at least, think that has its limits because the global market is going to overwhelm your intervention. The third is to have very tight money and extremely high interest rates.

As you know, we were very strong proponents in the Mexican context of high interest rates. But as you also remember, there was always the threat that if you had them too high for too long, they could overwhelm the economy.

So, we agree with your purpose. But these are very complicated balances we all have to make.

Senator BENNETT. I just wanted to make the point one more time.

Senator MCCONNELL. Secretary Summers mentioned four things: structural, budgetary, monetary, and financial. They are not anywhere near in compliance on any of these yet, right? Are they on any of the four?

Mr. SUMMERS. I would not, until the IMF team has completed its review, want to pass judgment on this. I don't think it would be appropriate for me to pass judgment on where they are with respect to each of those issues.

Certainly there have been a number of troubling reports and we are concerned about the situation.

Senator MCCONNELL. And so, what you are saying, I gather, is that you do not expect this $3 billion release to go forward unless all four of these are met? In a week?

Mr. SUMMERS. I think, Mr. Chairman, what I said was that, unless there was adequate progress with respect to each of those——

Senator MCCONNELL. Is that one of them, two of them, three of them? How many?

Mr. SUMMERS [continuing]. Adequate progress with respect to each of, within each of the four areas. I could not imagine a program going forward with a totally unsuitable structural policy, or a totally unsuitable banking policy.

Senator MCCONNELL. So a little bit of progress in each of the four categories?

Mr. SUMMERS. Adequate progress.

Secretary RUBIN. Mr. Chairman, let me say that I think the IMF is going to have to make a judgment as to what constitutes adequate progress with respect to the totality and each individually. That is the what they are working, will be doing between now and March 15.

Senator MCCONNELL. That gets back to the point we were discussing earlier about the latitude of the Director. He seems to have been rather flexible, shall we say, in Russia.

Secretary RUBIN. Well, no.

Senator MCCONNELL. And should we anticipate the same degree of flexibility here?

Secretary RUBIN. First, as Deputy Secretary Summers said, in a number of instances he actually has discontinued a program in Russia and I think with good effect.

Mr. SUMMERS. He did not disburse a penny on his recent trip to Russia, Mr. Chairman.

Secretary RUBIN. I think in this situation, Mr. Chairman, he is facing an extremely difficult judgment. We all remember the circumstances in the history of Indonesia that have occurred. I think that he just has a very difficult set of judgments to make and that is what he has to do.

Senator MCCONNELL. At the risk of being redundant, then, if he has that kind of latitude, we may be looking forward to having a number of our requirements for passing the quota addressed by the Director himself. Is that something we are going to explore?

Secretary RUBIN. I think, as you suggested, and as——

Senator MCCONNELL. He seems to have a good deal more power here.

Secretary RUBIN. Well, let me respond in two respects.

First, I think that, as you and I discussed yesterday, we have to discuss this with the managing director because he has a lot of other members, as I said before. But I think one possibility is to work with him in terms of policy statements he would be prepared to make.

Second, we have enormous influence at the IMF, Mr. Chairman, and I think it would be fair to say that we and a number of other countries, who are the principal providers of resource, will express some views on these subjects.

Mr. SUMMERS. Mr. Chairman, may I be clear on one point?

Senator MCCONNELL. Yes.

Mr. SUMMERS. Any recommendation that the managing director would make with respect to completion of a review or financial support to any country would, to be operative, require approval by the

Board. He has no capacity to make a unilateral commitment on his own of financial resources. Any such commitment, or any judgment about a review, or any waiver of a condition, all of that requires the approval of the Board.

Senator MCCONNELL. I want to switch to one other country very quickly and Senator Faircloth and Senator Bennett are still here.

Senator FAIRCLOTH. That's all right. I'm in no hurry.

Senator MCCONNELL. I want to just switch to Burma for 1 minute. This has probably not been on your radar screen lately. It is not on anybody's radar screen except it is an outrageous military junta that exploits its own people and nobody seems to care.

This week, Japan announced plans to restore bilateral aid to Burma. I am concerned about bank assistance to the junta in Rangoon.

I see blank faces back there, so I am not sure anybody has been following this.

Mr. SUMMERS. Not only is it not on our radar screen, it is not in our briefing book.

Senator MCCONNELL. Oh, then you are in deep trouble. [Laughter.]

Well, let me just tell you the question I want to ask and you all can get me an answer when you can.

We have just been spending an enormous amount of time talking about the struggling economies in Asia. Aung San Suu Kyi, who some of you may remember is the Nobel Prize winning duly elected leader of Burma who was cooling her heels in jail for 6 years, is more adamant than ever that now is not the time to relax pressure on the regime in Burma. What I am seeking—and you don't have to answer this today since it is not in the briefing book, as you indicated—is your commitment to sustain the multilateral ban that has been in existence on bank loans to the junta in Rangoon.

If you would take a look at that, I would appreciate it.

Senator Faircloth.

Senator FAIRCLOTH. Thank you, Mr. Chairman. I will be very brief.

As we so often do, I have more of a statement than a question.

We have been talking about Mr. Camdessus and I have looked at what the IMF and particularly under him how it has wavered and vacillated around the world. I somewhat feel that to compare him and Suharto is like putting a boa constrictor and a rabbit in a battle. I think we are going to wind up with Suharto coming right back to where we are. He will make some little minor change. He is going to get the money and will move on.

That has somewhat been the history of many, many IMF bailouts around the world. I read of 30 or 40 of them where they get the money and then do not make the change. I think that is exactly what we are looking at in Indonesia.

I don't think there is any reason for us to think it is going to be different. That is the problem that you are having, that the IMF or whatever is having, the money. It is that we don't have confidence in the IMF.

Now I saw that they had the French at the G–7 meeting.

Mr. Dominic Strauss-Kahn said, and the Japanese are saying the same thing, that we need to increase international regulations of

cross border bank lending and slow the flow of capital into developing countries until they have the financial and regulatory structure to handle it.

Now what we have done is flowed the money in and hoped that the financial and regulatory structure would be put in place to handle it. Almost without exception, it has not. Some 40 countries that IMF has loaned to, roughly one-half of the countries, are in worse shape, in worse debt, than they were when they started.

Now the French Finance Minister says that: "It is our responsibility to invent a new system for international regulations." Strauss-Kahn wrote that in a letter to the other ministers that provided a framework for the discussion.

As long as we keep sending the money first, the reforms are not going to happen.

Secretary RUBIN. Senator, his comments with respect to the money were not flows of IMF money. What he was saying was—and this, I think, is an issue that needs to be very carefully discussed and analyzed; I am not sure what we think about it, frankly—his view was that there are vast flows in the global financial markets—which is true—which are going into developing countries that have immature financial sectors. What the IMF has been doing is focusing on trying to make those financial sectors better and stronger so that they can absorb these flows of capital.

What he was saying, and I think someone else said it as well—it may have been the Japanese; I don't remember—was that it may be that we need to have some kind of restraints on these flows of private sector capital until these systems become strong enough to absorb them.

We happen to be great believers in freedom of flows of capital. So we have, I would say, a rebuttal presumption against that. But, nevertheless, we are not opposed to it dispositively. We have to analyze it.

In terms of his comment with respect to the financial structure and architecture and so forth, we are all—Chairman Greenspan, Secretary Summers, and myself—all of us are convinced that there have to be major steps forward. That is not going to happen quickly. These are enormously complex issues.

We are spending a tremendous amount of time on it and so is the Fed, so is the group of countries called the G–10. We have a meeting of finance ministers here sometime in the spring to attempt to carry this forward.

There is a tremendous focus on this and a tremendous energy around it around the world.

Senator FAIRCLOTH. Mr. Secretary, I understand exactly what you are saying. I know what you are saying. But the Congress needs to hold the money until it is done. If we do not, it will never be done.

We talk about it. We have been talking about better, you know, access to foreign markets. A little here, a little there, but it's all very little. What we are saying here is—and the same thing the IMF to the countries—is give us the money and then we'll reform. The IMF says to this country give us the money and we are going to change the rules.

But once the money is gone, the countries go back to where they were, and once we send the money to the IMF, it changes nothing, just maybe something cosmetic.

That is the reason I am not for sending the money until reforms are in place—at least a structure for them to be in place so we know where we are going.

Thank you.

Senator MCCONNELL. Thank you, Senator Faircloth.

Secretary Rubin has already stayed a good deal beyond where he indicated he was going to earlier.

Senator Bennett, do you have any sort of closing thoughts? Then we will let the Secretary go.

Senator BENNETT. I have made my points, none of which will surprise the Secretary.

Thank you.

Senator MCCONNELL. Mr. Secretary, we would like to figure out a way to help you, and I think you now know what we are looking for.

We thank you very much for coming up here and you, too, Secretary Summers.

Thank you very much.

SUBCOMMITTEE RECESS

The subcommittee will stand in recess until 3:30 p.m., on Tuesday March 31, when we will hear from Hon. Strobe Talbott, Deputy Secretary of State and Hon. Stuart Eizenstat, Under Secretary For Economic, Business, and Agricultural Affairs.

[Whereupon, at 12:35 p.m., Tuesday, March 3, the subcommittee was recessed, to reconvene at 3:30 p.m., Tuesday, March 31.]

# FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1999

**TUESDAY, MARCH 31, 1998**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 3:30 p.m., in room SD–192, Dirksen Senate Office Building, Hon. Mitch McConnell (chairman) presiding.

Present: Senators McConnell, Gregg, Campbell, and Leahy.

## DEPARTMENT OF STATE

### CAUCASUS AND CASPIAN: ECONOMIC AND POLITICAL SECURITY

**STATEMENTS OF:**

**HON. STROBE TALBOTT, DEPUTY SECRETARY OF STATE**

**HON. STUART EIZENSTAT, UNDER SECRETARY FOR ECONOMIC, BUSINESS, AND AGRICULTURAL AFFAIRS**

#### OPENING REMARKS OF SENATOR MITCH MC CONNELL

Senator MCCONNELL. Good afternoon everyone. I want to thank Secretary Talbott and Ambassador Eizenstat for accommodating a problem we had this morning and for rescheduling to the afternoon. Welcome to you both.

Mr. Talbott, as cochair of the Minsk Group, I thought it would be helpful to the subcommittee to hear your view on the status of that effort as well as gain your sense of regional stability, particularly in light of the recent Armenian and Ukrainian elections—actually, you may be able to give us an update on those—the assassination attempt on President Shevardnadze, and the dramatic shakeup of the Russian Government. In short, lots has been happening in your area of responsibility.

There is an old saying that the more things change, the more they stay the same.

When you appeared before the committee in 1995 to offer the Department's perspective on the New Independent States, NATO expansion was center stage and the disaster in Chechnya was causing considerable unease throughout the Caucasus, the Kremlin had just experienced a personnel shakeup, leaving doubts about the fate of reformers and reforms, the head of the Russian Security Services was arguing against foreign ownership or access to oil pipelines, and George Soros was accused of being a spy.

Here we are, 3 years later, and the debate over NATO expansion is on the Senate's agenda shortly. There is quiet, but not peace, in the Caucasus. We have just witnessed an even more dramatic shakeup at the Kremlin, and the question of pipeline routes, ownership, and access is the issue of the day.

I guess we can take comfort that Mr. Soros' status has changed.

Russia's role, for better or for worse, continues to dominate regional developments. Each leader in the area with whom I talk attached great significance to President Yeltsin's statement, issued in the wake of Ter-Petrossian's resignation. He said:

> New leaders will walk on to the scene which everyone must take into account. They may be tough, but everyone understands that they must deal with and maintain friendly relations with Russia. Armenia is in the field of Russia's strategic interest. It is an orthodox State and we cannot and will not lose it.

That is a quote from President Yeltsin.

I am not sure Georgia, Ukraine, Armenia, or any other nation believes that they should be cast as Russia's to lose. To the extent that this attitude plays out in the Minsk process, I question the possibility of ever achieving a permanent and peaceful settlement between Armenia and Azerbaijan.

With the elections behind Yerevan, there is obviously a new opportunity to settle issues surrounding the conflict. However, it is my sense that a settlement and stability may not serve Russian interests of maintaining exclusive control over pipeline transportation of Caspian oil.

Uncertainty over Nagorno-Karabakh yields to Russian interests and dominance, but it is a formula that also holds true in Georgia. Although the assassins in the most recent attempt on President Shevardnadze's life claimed allegiance to his old rival, I understand they carried Russian passports and those who managed to escape, fled to a Russian base.

As we all know, the criminal guilty of the last attempt on his life continues to live in Russia free from the fear of extradition.

As energy fields are developed and transportation routes negotiated, regional politics are bound to become more complex. It is important for us to understand how you define United States interests separate and apart from Russian ambitions.

There is one other problem I want to address before turning to your comments. The most troubling issue, which has implications far beyond the region, is Iran's aggressive plans to acquire a nuclear weapons capability. It took enormous courage for President Kuchma to withstand the considerable pressure from Moscow to provide a turbine for the Iranian reactor, especially in view of the employment impact on the factory which lost its business.

Unfortunately, the Russian-Iranian relationship has expanded substantially over the past several years. Press reports suggest Iran may be able to conduct test flights on a missile launcher later this year, thanks to extensive cooperation between Russian and Iranian nuclear engineers as well as the transfer of equipment and technology.

This program directly undermines American security interests. While Ambassador Wisner succeeded in focusing Moscow's attention on this problem, real, permanent results are slim.

It strikes me that the Gazprom/Total/Petronas investment in Iran only serves to finance this lethal effort, which is precisely why the sanctions legislation was passed. This is one of several areas in which I hope you may be able to clarify the administration's position.

We have a great deal of ground we want to cover here this afternoon. So why don't we go to your statement, Mr. Talbott and to yours as well, Mr. Eizenstat, if you have one.

SUMMARY STATEMENT OF HON. STROBE TALBOTT

Mr. TALBOTT. Thank you, Mr. Chairman. I hope it is in the spirit of this event for me to begin by congratulating you for the second time today on a great occurrence for the State of Kentucky last night.

Senator MCCONNELL. Yes; it was a marvelous ballgame. It is getting to be something we are used to every year, being No. 1. I can't wait till next year. [Laughter.]

Mr. TALBOTT. Some of my colleagues will be distressed to hear that. [Laughter.]

Mr. Chairman, I truly do welcome the opportunity to meet with you and any of your colleagues who can be present this afternoon for a chance to talk about the administration's strategy toward the Caucasus and the Caspian Basin. I am joined, as you have already noted, by my friend and colleague, Stu Eizenstat, and in my opening statement, which will be, by the way, an abbreviation of what I am submitting for the record, I will focus on the American determination to help bring peace to the South Caucasus and then Secretary Eizenstat will address American efforts to insure that the vast energy resources of the Caspian Basin are developed and transported in a way that conforms with U.S. strategic and commercial interests.

INTRODUCTION OF ASSOCIATES

Let me also, if I may, introduce two other colleagues who are here today: Lynn Pascoe, who is the special negotiator for Nagorno-Karabakh and regional conflicts in the New Independent States, and Bill Taylor, Deputy Coordinator for U.S. Assistance to the NIS. They are available to answer in detail any questions that you, Senator Campbell, and any of your other colleagues may have about our diplomatic and assistance efforts.

In our view, the South Caucasus, by which I mean the area covered by Armenia, Georgia, and Azerbaijan, has the potential to become one of the real success stories of the next century. As you know, Mr. Chairman, from your own visit to the area last year—and we talked about it immediately after your return—these countries are blessed with both human and natural resources. However, history has not been so kind.

While the people of the region have gained, or in some cases regained, their freedom, they are struggling against what might be called the opportunity cost of a lost century—that is, the inadequacy of the social, political, and economic institutions that they inherited and the difficulty of building new ones that will allow them to develop as modern states.

Seeing that the ranking member has joined the subcommittee, Mr. Chairman, I had complimented the chairman, Senator Leahy, on an event last night and I congratulate you on a great birthday for your State today.

Senator LEAHY. Now that I have reached the ripe old age of 58, Mr. Secretary, I want to be reminded of past birthdays not current ones. But thank you, though. [Laughter.]

Mr. TALBOTT. The chairman has asked me to look to the future, but I will certainly pay obeisance to the past, as well.

The United States has made it a priority to help these three countries—Armenia, Azerbaijan, and Georgia—overcome the burdens that I just described. Our assistance programs support democratic institution building, economic reforms, and numerous programs that are aimed at strengthening the rule of law and civil society.

It is against that backdrop that, with the leadership of Stu Eizenstat and also the extensive work and participation of the Departments of Commerce and Energy, the United States is promoting an East-West Eurasian Transportation Corridor for the export of Caspian energy resources.

Azerbaijan, a Caspian littoral State, will profit from development of its oil reserves. Georgia and Armenia, even though they are not, as the journalistic cliche would have it, "oil rich," do stand to benefit from being part of a robust economic hub fueled by the petroleum of their neighbors.

But none of those objectives stands a chance if the people of the Caucasus are living and, too often, dying in a state of hostility. That is why our efforts on behalf of regional peace are so essential.

Let me concentrate on the enterprise to which we have devoted the most energy, Nagorno-Karabakh. This is not just a dangerous and potentially contagious conflict in its own right. It is also emblematic of one of the most vexing challenges of the post-cold-war world. From Slovenia, on the border of Italy, to Kyrgyzstan on the border of China, the 1990's have seen the eruption of ethnic and religious animosities that had been mostly dormant during the ice age of Communist rule.

Another manifestation of this threat to international peace requires the presence today of approximately 8,000 American troops helping to keep the peace in Bosnia and another threat still imperils Europe anew in Kosovo.

We have been involved in the quest for a negotiated settlement to the Nagorno-Karabakh conflict since 1992. Today, the United States is working with France and Russia, under the auspices of the Organization for Security and Cooperation in Europe to help the parties negotiate a settlement.

I serve as the American cochair of the so-called Minsk Conference and I rely heavily on Ambassador Pascoe, who works full-time on this immensely thorny and important problem.

He and his Russian and French partners worked especially hard last summer and fall to develop a sound and promising approach that concentrated on the security aspects of ending the armed conflict in the first place with talks on status issues to follow.

President Aliyev of Azerbaijan and then President Ter-Petrossian of Armenia agreed to this approach. But the Nagorno-Karabakh

authorities refused to participate in negotiations on the basis of this proposal.

The resignation of President Ter-Petrossian on February 3 and the Armenian presidential elections, the second round of which were held yesterday, have forced a pause in the peace process. But a pause does not mean a halt. We are not giving up. We owe it to ourselves and to the parties to persist.

We have made clear that we hope and expect the new Armenian Government to take a serious approach to negotiations aimed at achieving real progress toward a lasting, fair settlement.

We are also actively engaged in the quest for a solution to another nearby dispute, and that is the one in Georgia—the simmering on again/off again conflict in Abkhazia. The effort is under the auspices of the United Nations and Ambassador Pascoe is hard at work on this project as well.

Mr. Chairman, Senators, I would like to stress that our assistance programs are an important component of our diplomacy in the Caucasus. The $12.5 million earmarked by Congress for the victims of the Nagorno-Karabakh conflict and the $5 million appropriated for the relief of victims of the Abkhazia conflict are both welcome and useful.

United States assistance also contributed to the monitoring of yesterday's elections in Armenia. There is, however, one congressionally imposed obstacle to our diplomacy and that is section 907 of the Freedom Support Act, which prohibits certain assistance to the Government of Azerbaijan.

I would only reiterate Secretary Albright's urging before the Foreign Relations Committee on February 10 to lift legal restrictions on nonmilitary assistance to Azerbaijan while maintaining support for aid to Armenia. But I would also say that, thanks to the further loosening of 907 restrictions contained in the fiscal year 1998 Foreign Operations Appropriations legislation, we will have the means to work with the Azerbaijanis to make sure that this fall's presidential elections are as free and fair as possible.

Let me now turn to the question that you stressed in your opening comments, Mr. Chairman, about other States that have an active interest in the region.

We believe that the zero-sum rivalries among large powers trying to impose their will on smaller States are or at least should be a relic of history. There is more than enough wealth and economic opportunity in the Caspian Basin to go around if all the States of the region, large and small, cooperate in an open, mutually beneficial and mutually respectful manner, and if they play by today's rules of international life. That principle applies particularly to Russia.

We believe it is in everyone's interest for Russia to build strong relations with its neighbors so long as those relations are founded on respect for the rights, the sovereignty, and the independence of all concerned.

Since the breakup of the U.S.S.R. 7 years ago, Russia has demonstrated what I would call strategic ambivalence about the region that we are discussing here today. Some forces in that country are nostalgic for the Soviet and Russian empires. But there are also other forces at play in the great drama of Russian politics today—

and, as you noted, they have been particularly dramatic in recent days—that want to see their country adapt itself to the challenges and opportunities of the 21st century rather than replaying the "Great Game" of the 19th.

In our own policy toward the Caucasus and Central Asia, as well as in every other aspect of our policy toward the former Soviet Union, we are doing what we can to create conditions in which those committed to Russia's transformation into a normal, modern State will prevail over those that are bucking the tide of history.

With respect to the conflicts that are roiling in the South Caucasus, Russia has, over the past several years, been both part of the problem and, more recently, part of the solution. Earlier Russian attempts to exploit the indigenous trouble in the region not only failed to enhance Russia's security along its southern flank, they may even have contributed to the outbreak of Russia's single greatest trauma within its own borders—the devastating war in Chechnya.

Today, as I indicated earlier, Russia is working cooperatively with the OSCE on Nagorno-Karabakh and with the U.N. in Georgia.

Let me say a final word, if I could, about another regional power, Iran.

We continue to caution nations throughout the region about the development of close relations with Iran. We will continue to work with all the States of the Caucasus to thwart the growth of Iran's influence in the region while those States strengthen their ties to Europe and the transAtlantic community.

PREPARED STATEMENT

Secretary Eizenstat has been the administration's point man in maximizing cooperation between the United States and its friends and allies with regard to Iran. So I think this would be a good point for me to turn the microphone over to him.

[The statement follows:]

PREPARED STATEMENT OF STROBE TALBOTT

Thank you, Mr. Chairman, for the opportunity to discuss with you and your subcommittee the Administration's strategy toward the Caucasus and the Caspian Basin. I am joined by my friend and colleague, Stuart Eizenstat, Under Secretary of State for Economic, Business, and Agricultural Affairs.

In my opening statement, I will focus on the American determination to help bring peace to the Caucasus; then Secretary Eizenstat will address American efforts to ensure that the vast energy resources of the Caspian Basin are developed and transported in ways that serve U.S. strategic and commercial interests.

Let me first introduce two other colleagues with us here today: Lynn Pascoe, Special Negotiator for Nagorno-Karabakh and Regional Conflicts in the New Independent States; and Bill Taylor, Deputy Coordinator for U.S. Assistance to the NIS. They are available to answer in detail any questions you may have about our diplomatic and assistance efforts.

Since the collapse of the U.S.S.R. 7 years ago and the birth of independent states where before there had been Soviet republics, the U.S. has worked aggressively to foster peace, prosperity, democracy, and respect for human rights.

In 1992, within months of the Soviet Union's collapse, the United States, under the Bush Administration, opened embassies in all 11 non-Russian New Independent States, including the eight of Central Asia and the Caucasus. Since then, under President Clinton, our engagement in the region has intensified.

Let me concentrate on three of those states in particular: Armenia, Georgia, and Azerbaijan. In our view, the South Caucasus has the potential to become one of the

real success stories of the next century. The area is blessed with both human and natural resources. History, however, has not been so kind. In the 19th century, the region was a battleground for Great Powers encroaching from all points of the compass. And, of course, for most of the 20th century, Armenians, Georgians, and Azerbaijanis labored under a stultifying and repressive Soviet Communist system imposed by Moscow. Today, while they have gained—or in some cases, regained—their freedom, they are struggling against what might be called the opportunity cost of a lost century—the inadequacy of the social, political, and economic institutions they inherited and the difficulty of building new ones that will allow them to develop as modern states.

The United States has made it a priority to help these three countries overcome those burdens. Our assistance programs support democratic institution-building, economic reforms, and numerous programs aimed at strengthening the rule of law and civil society.

It is against this backdrop that, with leadership from Stu Eizenstat and the Departments of Commerce and Energy, the U.S. is also promoting an east-west Eurasian transportation corridor for the export of Caspian energy resources. This commitment is a vital element in promoting the prosperity of the Caucasus, as it is for central Asia. Azerbaijan, a Caspian littoral state, will profit from development of its oil reserves. Georgia and Armenia, while not, in the journalistic cliche, "oil-rich," will benefit from being part of a robust economic hub fueled by the petroleum of their neighbors.

The political and economic dimensions of our policy are mutually reinforcing; they are integral to a single strategy. The nations of the South Caucasus can achieve their potential only if democracy and civil society thrive and only if their physical and economic infrastructures—that is, their pipelines and their markets, their oil fields and their legal and regulatory structures—open them to the outside world.

But none of those objectives stands a chance if the people of the Caucasus are living and too often dying in a state of hostility. That's why our efforts on behalf of regional peace are so essential.

Let me concentrate on the enterprise to which we have devoted the most energy: Nagorno-Karabakh. This is not just a dangerous, potentially contagious conflict in its own right. It is also emblematic of one of the most vexing challenges of the post-Cold War world: From Slovenia on the border of Italy to Kyrgyzstan on the border of China, the 1990's have seen the eruption of ethnic and religious animosities that had been mostly dormant during the ice age of communist rule. Another manifestation of this threat to international peace requires the presence of approximately 8,000 American troops to help keep the peace in Bosnia today, and another still imperils Europe anew in Kosovo.

We have been involved in the quest for a negotiated settlement to the Nagorno-Karabakh conflict since 1992, when the Organization for Security and Cooperation in Europe (then known as the CSCE) called for a peace conference to take place in Minsk. The conference never took place, but the Minsk Group has become a standing body, including the U.S., seeking a negotiated peace in the conflict.

In early 1997, we strengthened our direct involvement by becoming a co-chair of the OSCE process, along with Russia and France. I serve as the American co-chair of the Minsk Conference, and Ambassador Pascoe is co-chair of the Minsk Group, which works full-time on this immensely thorny and important problem. He and his Russian and French partners worked especially hard last summer and fall to develop a sound and promising approach that concentrated on the security aspects of ending the armed conflict in the first phase, with talks on status issues to follow.

The rationale was this: At present, there is no status for Nagorno-Karabakh that would be acceptable to all sides. Short of imposing a solution on one side or another—something we have vowed not to do—discussion of status could take many years. During that time, the life of the region would be disrupted and the threat of war ever-present. The stunted economic development, especially of Armenia, would continue to deprive the people of the Caucasus of the well-being and stability we seek and they deserve.

President Aliyev of Azerbaijan and then-President Ter-Petrossian of Armenia had hoped to sign a first-phase agreement that would have done the following: Ended the threat of renewed fighting and allowed hundreds of thousands of refugees to go home; returned to each side much of the territory occupied by the other; opened up borders and lines of communication and trade; lifted all embargoes; left the land connection between Nagorno-Karabakh and Armenia intact and secure; and provided international peacekeeping forces and security guarantees.

This security would allow Azerbaijan and Nagorno-Karabakh to discuss status issues without preconditions, free of any military, political, or economic pressure to sign a deal until both sides found a settlement on which they could agree.

Unfortunately, the Nagorno-Karabakh authorities refused to participate in negotiations on this proposal. They insist on discussing status from the beginning. Our concern is that concentrating on status first would return the talks to the endless exchanges of maximalist positions that characterized the negotiations before we became co-chairs. Meanwhile, the vast number of displaced persons would remain in camps, miserable and increasingly radicalized. Neither Russia, France, nor the U.S. is willing to sponsor such negotiations. This is not out of impatience—we are prepared to be patient. But we are only prepared to sponsor negotiations seriously aimed at achieving a settlement, not an exercise in futility.

As I said, Presidents Aliyev and Ter-Petrossian were prepared to proceed on what we regarded as a constructive and promising basis. The Nagorno-Karabakh authorities were not.

The resignation of President Ter-Petrossian on February 3 and the Armenian presidential elections—the second round was held yesterday—have forced a pause in the peace process.

But a pause does not mean a halt. We are not giving up. We owe it to ourselves and to the parties to persist. The co-chairs plan to return to the region in April. We have made clear that we hope and expect the new Armenian Government to take a serious approach to negotiations aimed at achieving real progress toward a lasting, fair settlement.

The quest for a solution to another dispute nearby, in Georgia, also has our active support and participation. This is the simmering, on-again/off-again conflict in Abkhazia. In the last year we have worked hard to open up the negotiating process so that U.N.-sponsored talks might be more successful than the stalled Russian-led effort. Frustrated by lack of progress, Russia has also recently welcomed an increased role for the U.N. in peace negotiations. Ambassador Pascoe is hard at work on this project as well.

The U.S., as one of the so-called Friends of the Secretary General on this issue, has become more directly involved in efforts toward an international settlement, led by the U.N. Secretary General's Special Representative, Liviu Bota. The most recent round of negotiations, in Geneva last November, produced a series of working groups that have begun to address the pressing problems of economic and humanitarian cooperation, refugee return and security issues. Ambassador Bota and the Friends are meeting today in Sukhumi with representatives of the parties to assess the progress of the working groups and to set concrete goals for another Geneva meeting later this spring.

The U.S. also contributes observers to the U.N. peacekeeping mission in Abkhazia—UNOMIG. In the wake of recent violence, including the attempted assassination of President Shevardnadze on February 9, we have decided to pull back our presence from Abkhazia itself. We now have two U.S. military observers in Tbilisi. Two other American military observers will be redeployed to Abkhazia once we are confident that the security arrangements for UNOMIG are adequate. The U.N. is currently working on a proposal to provide adequate force protection for the U.N. observers that would allow the United States to resume full participation in UNOMIG.

Mr. Chairman, I would like to stress that our assistance programs are an important component of our diplomacy in the Caucasus. We are moving forthwith to utilize the $12.5 million earmarked by Congress for the victims of the Nagorno-Karabakh conflict and the $5 million Congress has appropriated for the relief of victims of the Abkhazia conflict.

This contribution on the part of the U.S. has been a key tool in inducing the Abkhaz to participate in a broader, multilateral effort on peace negotiations. USAID and our embassy in Tbilisi have sent an assessment team to Abkhazia to determine how best to use this assistance. Spurred on by our efforts, the U.N. and international financial institutions have sent teams of their own in to work on post-conflict reconstruction.

In addition to these high-profile humanitarian assistance programs, American funds have helped make it possible for reformers in Armenia and Georgia to institute judicial reform and to draft economic legislation and electoral laws. U.S. assistance contributed to the monitoring of yesterday's election in Armenia. Overall, U.S. assistance to Armenia and Georgia is among the highest in the world on a per capita basis.

There is, however, one congressionally imposed obstacle to our diplomacy. That is Section 907 of the FREEDOM Support Act, which prohibits certain assistance to the Government of Azerbaijan. I would only reiterate Secretary Albright's urging before the Foreign Relations Committee on February 10 to lift legal restrictions on non-military assistance to Azerbaijan while maintaining support for aid to Armenia. But I would also say that, thanks to the further loosening of Section 907 restrictions

contained in the fiscal year 1998 foreign operations appropriations legislation, we will have the means to work with the Azerbaijanis to make sure that this fall's presidential elections there are free and fair.

Let me now turn to the question of other states that have an active interest in the region. We believe that the zero-sum rivalries among large powers trying to impose their will on smaller states are—or at least should be—a relic of history. There is more than enough wealth and economic opportunity in the Caspian Basin to go around if all the states of the region, large and small, cooperate in an open, mutually beneficial and mutually respectful manner and if they play by today's rules of international life.

That principle particularly applies to Russia. We believe it is in everyone's interest for Russia to build strong relations with its neighbors—so long as those relations are founded on respect for the rights of sovereignty and independence of all concerned.

Since the breakup of the U.S.S.R. 7 years ago, Russia has demonstrated what I would call strategic ambivalence about the region we are discussing. Some forces in that country are nostalgic for the Soviet and Russian empires. But there are also other forces at play in the great drama of Russian politics today that want to see their country adapt itself to the challenges and opportunities of the 21st century rather than replay the "Great Game" of the 19th.

In our own policy toward the Caucasus and Central Asia, as well as in every other respect of our policy toward the former Soviet Union, we are doing what we can to create conditions in which those committed to Russia's transformation into a normal, modern state prevail over those that are bucking the tide of history.

With respect to the conflicts roiling in the South Caucasus, Russia has, over the past several years, been both part of the problem and part of the solution. Earlier Russian attempts to exploit the indigenous trouble in the region not only failed to enhance Russia's security along its southern flank, they may even have contributed to the outbreak of Russia's single greatest trauma within its own borders—the devastating war in Chechnya.

Today, as I indicated earlier, Russia is working cooperatively with the OSCE on Nagorno-Karabakh and with the U.N. in Georgia.

A final word, if I might, about another regional power: Iran. We continue to caution nations throughout the region about the development of close relations with Iran. As a state-sponsor of terrorism and a nation bent on the development of weapons of mass destruction, Iran still poses a threat to all its neighbors.

Moreover, we are against any state in the region being allowed to dominate the region, politically or economically. We will continue to work with all the states of the Caucasus to thwart the growth of Iran's influence in the region while those states strengthen their ties to Europe and the Trans-Atlantic Community.

Secretary Eizenstat has been the Administration's point man in maximizing cooperation between the United States and its friends and Allies with regard to Iran. So this, I think, is a good point to turn the microphone over to him.

Thank you.

SUMMARY STATEMENT OF HON. STUART EIZENSTAT

Senator MCCONNELL. Go right ahead, Secretary Eizenstat.

Ambassador EIZENSTAT. Thank you, Mr. Chairman, members of the committee. With your permission, I would like to concentrate my testimony on energy issues in the Caspian region that have a profound impact on the long-term economic development and political stability of the States in the region.

As a key element of our broader foreign policy objectives in the Caucasus and Central Asia, the United States is actively promoting the establishment of an East-West or Eurasian transit corridor for the export of oil and gas resources from the Caspian region.

Realization of such a corridor will support our strategic and economic interests. We have three strategic concerns. First, it is essential to the independence and sovereignty of the New Independent States to avoid a monopoly on export routes from the region. We have supported a policy of multiple pipelines from the region so that Caspian oil and gas resources can enjoy unfettered access to

world markets, not subject to undue influence by other exporters or any other country.

Second, we want Caspian energy to diversify world energy supplies. The United States, as a matter of policy, strongly opposes any pipeline across Iran due to Iran's support for terrorism and its drive to acquire weapons of mass destruction and missile technology.

Third, we want to avoid creating a bottleneck in the Bosporus in terms of getting Caspian energy out. We share Turkey's concerns about the environmental and safety impact of putting large volumes of oil through the Bosporus Straits. It is, therefore, important to find long-term solutions that avoid the Bosporus.

To address these three concerns, the United States has supported the development of an east-west, or Eurasian, energy transportation corridor for export of the region's oil and gas. A key element of this corridor is an oil pipeline from Baku, in Azerbaijan, to Ceyhan, on Turkey's Mediterranean coast. A Baku-Ceyhan pipeline will promote a diversification of export routes, will allow Caspian oil to get to world markets without transiting Iran, and will avoid putting more oil through the Bosporus.

A second key element of our strategy is Trans-Caspian gas and oil pipelines, which will link together the states on both sides of the Caspian. In particular, we believe that a gas pipeline across the Caspian Sea and through the Caucasus to Turkey will provide a much needed outlet for Turkmenistan's energy. Ultimately, it could also accommodate gas from Uzbekistan, Kazakhstan, Azerbaijan, and Russia.

In recent months, with the very strong leadership of the Vice President's office and an interagency group, we have made significant progress in promoting this east-west corridor. We have been working with Turkey, for example, to make this Baku-Ceyhan pipeline a commercially attractive option for private companies. Turkey has embraced taking a leading role in promoting this pipeline. It is finishing its own feasibility study and our own Export-Import Bank and OPIC are actively considering their appropriate role in financing such a pipeline.

We have also urged the countries of the region to increase their levels of regional cooperation. We are very pleased that recently the foreign ministers of Turkey, Kazakhstan, Azerbaijan, Turkmenistan, and Georgia met in Istanbul and issued a communique supporting an east-west corridor.

We also have urged the littoral States surrounding the Caspian to adopt a legal regime conducive to the investment which will be required for energy development. Our efforts to help resolve the Turkmenistan-Azerbaijan border dispute, including sending a team of experts to the region, is beginning to bear fruit. We are also encouraged by efforts between Kazakhstan and Russia to delimit their Caspian boundary.

We are also continuing to work with Russia to find common ground on Caspian energy development. Our strategy is not intended to exclude Russia. We support, for example, the Caspian Pipeline Consortium project through Russia.

Finally, we have had a number of discussions with our allies in Europe and Japan regarding the Caspian and, based on these dis-

cussions, I believe that our allies understand our shared interests in this important part of the world to insure Caspian resources which will enhance world energy security.

PREPARED STATEMENT

In closing, Mr. Chairman and members of the committee, we appreciate the support Congress has provided to us in this region. We welcome the fact that congressional delegations are scheduled to visit the region over the Easter recess, and we look forward to working with you.

Senator MCCONNELL. Thank you, Mr. Secretary.

[The statement follows:]

PREPARED STATEMENT OF STUART EIZENSTAT

Thank you, Mr. Chairman, for inviting me to testify before the Subcommittee. Secretary Talbott has laid out the Administration's broad views on political developments in the Caucasus and Central Asia. I thought it might be helpful to concentrate my testimony on energy issues in the Caspian region since they have such a profound impact on the long-term economic development and political stability of these states—and will thus directly affect important American interests that Secretary Talbott just discussed.

As a key element of our broader foreign policy objectives in the Caucasus and Central Asia, the United States is actively promoting the establishment of an East-West, or Eurasian, transit corridor for the export of oil and gas resources from the Caspian region. We believe that the realization of such a corridor will support our strategic and economic interests in the region if it is done in the right way. In this regard, while we do not want to intervene in the commercial decisions of private companies, we have three strategic concerns with respect to the routing of pipelines.

First, it is essential to the independence and sovereignty of the newly independent states of the Caucasus and Central Asia to avoid a monopoly on export routes from the region. For several years now, we have supported a policy of multiple pipelines from the region so that Caspian oil and gas resources can enjoy unfettered access to world markets, not subject to undue influence from or commercial vulnerabilities to other exporters.

Second, we want Caspian energy to diversify world energy supplies. The United States, as a matter of policy, strongly opposes any pipelines across Iran due to Iran's support for terrorism and drive to acquire weapons of mass destruction and missile technology. It would be important to avoid pipelines across Iran from an energy security standpoint—we simply do not need a greater share of the world's oil to transit the Straits of Hormuz.

Third, we want to avoid creating a bottleneck in the Bosporus. Moving Caspian oil to the Black Sea and then by tanker through the Turkish Straits is a commercially attractive option. We share Turkey's concern, however, about the environmental and safety impact of putting large volumes of oil through the Bosporus Straits. We think it is important, therefore, to find long-term solutions that avoid the Bosporus altogether.

In order to address these three concerns, the United States has supported the development of an East-West, or Eurasian, energy transportation corridor for export of the region's oil and gas. A key element of this corridor is an oil pipeline from Baku, Azerbaijan, to Ceyhan, on Turkey's Mediterranean coast. A Baku-Ceyhan pipeline will provide a diversification of export routes, will allow Caspian oil to get to world markets without transiting Iran and will avoid putting more oil through the Bosporus.

A second key element of our strategy are Trans-Caspian gas and oil pipelines, which can link together the states on both sides of the Caspian. We believe, in particular, that a gas pipeline across the Caspian and through the Caucasus to Turkey would provide a much-needed outlet for Turkmenistan's energy. Ultimately, it could also accommodate gas from Uzbekistan, Kazakhstan, Azerbaijan and Russia. Moving Caspian and Russian gas through the Caucasus could help address the energy shortages that have plagued Georgia and Armenia and give all the states in the region a stake in pipeline security, for both oil and gas pipelines.

The State Department has been working, in a coordinated effort with several other agencies led by the Vice President's Office, to implement this strategy. In recent months, we have made significant progress.

—We have been working with Turkey to make a Baku-Ceyhan pipeline a commercially attractive option for private companies. Turkey has embraced taking a leading role in promoting this pipeline. Turkey is finishing a comprehensive feasibility study for this pipeline and EXIM and OPIC are actively considering what role they might play in financing such a pipeline.

—We have urged the countries of the region to increase their levels of regional cooperation with one another. We were pleased to see that the foreign ministers of Turkey, Kazakhstan, Azerbaijan, Turkmenistan and Georgia met earlier this month in Istanbul and issued a communique supporting an east-west corridor. They also scheduled a follow-on meeting to be held in Tbilisi in May.

—We have urged the littoral states surrounding the Caspian to adopt a legal regime that is conducive to the investment, which will be required for energy development. Our efforts to help resolve the Turkmenistan-Azerbaijan border dispute, including sending a team of experts to the region, is beginning to bear fruit. We have seen some signs that Azerbaijan and Turkmenistan are moving toward resolution of their boundary dispute and are also encouraged by efforts between Kazakhstan and Russia to delimit their Caspian boundary.

—We are continuing to work with Russia to find common ground on Caspian energy development. Let me emphasize that our strategy is not intended to exclude Russia. We support the Caspian Pipeline Consortium project through Russia, and USAID has even funded a study that looks at ways to move more Caspian oil through Russia's existing pipeline network. Caspian issues were discussed at the most recent Gore-Chernomyrdin Commission meetings and the G–8 energy ministerial, which is currently taking place in Moscow, will provide other opportunities for dialogue.

—Finally, we have had a number of discussions with our allies in Europe and Japan regarding the Caspian and, based on those discussions, I believe our allies understand our shared interests in this important part of the world, including a desire for peace and stability in the region and ensuring that Caspian resources enhance world energy security.

In closing, we appreciate the support that Congress has provided the Administration's policy in this region; we welcome the congressional delegations that are scheduled to visit the region over the Easter recess.

Finally, let me reiterate the point made by Secretary Talbott regarding Section 907 of the Freedom Support Act. We need your help in lifting legal restrictions on non-military assistance to Azerbaijan so that we can continue to make progress in this region.

REMARKS OF SENATOR PATRICK LEAHY

Senator MCCONNELL. Senator Leahy has an opening statement and then we have two votes beginning at 4 o'clock. What I think we will do is try to catch them at the end of the first 15 minutes and at the beginning of the second, which would require just a brief recess, sometime like around 4:10 to 4:20 p.m.

Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman. Most Americans have not heard of the countries that surround the Caspian Sea and I don't think too many are aware of the conflict in Nagorno-Karabakh. But, as you both said, the Caucasus region is an area of rapidly growing economic and strategic importance. We see this in all of our briefings.

Mr. Secretary, you have done as much as anyone to shape policy in the administration, but, Mr. Chairman, you have done an enormous amount to shape our policy here in the Congress in a way that emphasizes our national interests. I commend you for that.

Senator MCCONNELL. Thank you.

Senator LEAHY. The problem we have is these newly independent countries face every kind of problem there is. The situation changes so rapidly that nobody in this room is going to try to predict where it is going to be a year or two year from now.

We have strong ties to Armenia. We have broad interests in promoting prosperity and democracy throughout the Caucasus and Central Asia. We obviously have an interest in the cooperative development of the vast oil and gas reserves in the area.

But look at the obstacles. There are unresolved conflicts in Nagorno-Karabakh, Abkhazia, and Tajikistan. These threaten the stability of the entire region.

Last year, Ambassador Eizenstat described how in another century Central Asia and the Caucasus were the subject of the "Great Game," where, as I recall you saying, Russia and Great Britain vied to see who could have the most control over some weak, local regimes.

I think that kind of external manipulation and dominance is still a threat. There are maybe different parties, but it is still a threat.

Russia still continues to meddle in the affairs of former territories. Perhaps that is predictable, but, unfortunately, it is a reality.

There is the proximity of Iran and I suspect their motives. We continue to have very serious concerns about Russia's support for Iran's nuclear and ballistic missile progress. At the same time, as Secretary Talbott knows, there are examples of how we are working cooperatively with Russia, sometimes in ways that we probably had not foreseen but are very happy to have.

But you see corruption and organized crime flourishing throughout the region. That makes it very difficult for our own companies to compete fairly. There is a history of environmental neglect. In fact, if you want to increase oil production, you could almost guarantee if the past is any prologue, it could be an environmental disaster that is going to happen. It is going to be worse than our own gold rush of a century ago.

Section 907 you have already talked about. It has become a rallying cry for people on both sides of the Armenia-Azerbaijan debate. I am sympathetic to the arguments of the Armenians, but we have been very generous in our aid to them. I think it is the second highest per capita aid we give to any country, even though elections there have been marred by fraud.

I also strongly support helping the victims of the Nagorno-Karabakh conflict, although it does not appear the situation there amounts to the humanitarian emergency that some have described.

But I also know that section 907 has impeded our ability to pursue our own interests in the region.

The administration's goals are such that you could not disagree with them: to support market economies, democratic reform, resolve regional conflicts, cooperative development of Caspian energy resources, strengthening the stakes for Russia and Turkey to cooperate. Less obvious is how effective we are in pursuing these goals.

I don't think the Minsk Group negotiation on Nagorno-Karabakh is really going much of anywhere. The Caucasus are a turning point. They have weak, authoritarian, corrupt governments. They seem quite capable of squandering what could be a great opportunity to those who show more enlightened views.

I think we have to treat them with a lot more attention and assertiveness because, unfortunately, some of the people there are not doing it.

Thank you, Mr. Chairman.

Senator MCCONNELL. Thank you, Senator Leahy.

It has been the policy of the subcommittee to have opening statements only from the chairman and the ranking member. I see Senator Gregg here as well. But in order to try to accommodate those who have questions, we will limit our questions to 10 minutes each and, hopefully, that will give everybody a chance to ask both of you questions.

We all referred to the elections. I gather in Armenia Kocharian won roughly 59 to 41 percent. Is that accurate? If it is, do we have any early reports from the international monitors as to whether or not this election is going to, shall we say, pass the smell test?

ELECTIONS IN ARMENIA

Mr. TALBOTT. The vote counting does continue. The results I have show 72 percent of the precincts counted with Mr. Kocharian at 60 percent, as you say, and Mr. Demergian at 40 percent.

The elections are being very thoroughly monitored by the international community. There are 160 OSCE monitors there, and 90 of those are Americans, by the way.

I would be loath, Mr. Chairman, to prejudge or predict the ruling that the monitors will make. I think it is fair to say, though, that we have seen an improvement in Armenia's ability to carry out elections since the 1996 presidential elections where there were some serious troubles. There were still some difficulties in the first round of this election. But let's hope that the trend continues in the right direction.

Senator MCCONNELL. And over in Ukraine, can you give us an evaluation of the Rada elections?

Mr. TALBOTT. Well, again, the results are still coming in. Here one has to be particularly careful. But there are some preliminary indications that those parties which the Ukrainians themselves describe as leftist are doing somewhat better than in the last election, which is to say in 1994.

But it is certainly impossible to predict at this point what kind of a new Rada the executive branch of the Ukrainian Government will be dealing with.

The turn-out, by the way, so far has been 70 percent. That is down a bit from 1994, when it was 74 percent.

Once again, the Ukrainian authorities are to be congratulated for allowing a very high and intense degree of international monitoring. The OSCE, once again, which had the largest number of international observers on the ground, has issued a positive preliminary assessment of the conduct of the voting while, at the same time, noting that there were some fairly serious shortcomings and deficiencies in the conduct of the campaign itself.

But once again, I think we need to watch and wait.

SECTION 907

Senator MCCONNELL. Shifting back to Armenia, you mentioned section 907 and Senator Leahy did as well.

Administration officials have always come up to the Hill and complained about 907, and you did not disappoint me today by failing to do that. I am curious as to how much of a handicap it really is. Why haven't you just simply waived the restrictions?

What would you think would amount to demonstrable steps by Baku to qualify to lift the blockade?

Mr. TALBOTT. We never complain, of course, Mr. Chairman. We suggest and consult with you and work together to bring our positions as close together as possible.

Senator MCCONNELL. Well, whining is actually the word I would have used. [Laughter.]

Mr. TALBOTT. Never that. Never that. [Laughter.]

As somebody who has been involved, myself, in the diplomacy there, I can tell you that the continuation of 907 is something of a handicap for us. It undercuts us, by no means devastatingly, but nonetheless in a way that is discernible as Ambassador Pascoe and I go about our business in that part of the world. It undercuts our claim and conviction that we are using our good offices and we are doing so in a way that is fair to all parties.

Senator MCCONNELL. That is my question: why have you not waived it? Could it not be argued that Aliyev's willingness to sign an agreement last year was a demonstrable step under the bill that would have given you the ability to waive 907 had you wished to?

Mr. TALBOTT. Our feeling is that the right thing to do is to repeal it and to take it off of the books altogether.

Now the most trenchant issue here, of course, is the continuation of the Azerbaijani embargo against Armenia. We have made some progress in that regard, which is to say when President Aliyev was in Washington last year, he did indicate, as he put it, that his government would be prepared to normalize all relations, including commerce, with Armenia, with the successful conclusion of the first stage of the Nagorno-Karabakh negotiations that we are now trying to get started again once the Armenian elections are behind us.

But let me, in a spirit of comity here, say that the alleviation of the stringency in 907, which has now taken place 2 years in a row, has definitely helped, not least in that it has allowed us to address the problem of humanitarian needs within Azerbaijan and also to provide assistance to nongovernmental organizations that are working within Azerbaijan to promote democracy. That I think will be particularly useful to us as we approach an election in Azerbaijan itself.

Senator MCCONNELL. I listened to your answer, but it seems to me that 907 must be useful to you or you would have waived it because of the efforts by Aliyev to enter into the peace agreement last year.

Mr. TALBOTT. The Azerbaijanis, quite simply, under the terms of the legislation, have not met the conditions for a waiver.

Senator MCCONNELL. So, obviously, the answer to my question is you don't think Aliyev's step in the direction of peace last year was a demonstrable step under the legislation?

Mr. TALBOTT. We think 907 is a mistake and is not a useful tool for trying to move the parties forward. We feel that, until the pause that I mentioned earlier, because of the workings of Armenian democracy, we were making some progress toward a com-

prehensive settlement of the Nagorno-Karabakh conflict. Both President Aliyev and former President Ter-Petrossian had agreed to proceed on the basis of the proposal that the Minsk Group had put forward.

Now we have to see if we can't get back to that now that there is a new leadership in Yerevan.

Senator MCCONNELL. So is this a sort of general reluctance to use waivers? Is that what you are suggesting?

Mr. TALBOTT. I think it is a preference on our part to persuade you and your colleagues of the lack of wisdom of this particular piece of legislation and to take it off the books.

Senator MCCONNELL. So you don't have any problem between your decision not to waive here and your decision to waive restrictions we had on Russia regarding nuclear cooperation with Iran?

Mr. TALBOTT. Are you referring to the issue of sanctionability?

Senator MCCONNELL. Yes.

Mr. TALBOTT. Could you be a little more specific with your question?

Senator MCCONNELL. Well, you did exercise a waiver to override restrictions we have had in previous bills on Russian assistance if they continued nuclear cooperation with Iran. I gather that must have been a 614 waiver that you used in that situation?

Mr. TALBOTT. I'm sorry, Senator.

Senator MCCONNELL. We have had in this bill in previous years restrictions against aid to Russia related to Russia's cooperation with Iran in the area of nuclear power. You have exercised a waiver to get around that restriction so that Russian aid could continue to flow.

Admittedly, a 614 waiver may be different from a waiver of 907. But I am just trying to get a sense of what is waivable here and what is not. In that particular instance, you did not seem to be troubled by exercising the waiver.

Mr. TALBOTT. We felt in that particular instance that the activity, the pattern of activity, the direction of Russian behavior met the terms of a waiver, which we do not feel is the case under the terms of 907 with respect to Azerbaijan.

Senator MCCONNELL. So in that particular instance, you used a 614 national interest waiver, is that right?

[Pause.]

Senator MCCONNELL. I am told by staff that it was actually built into the legislation.

Ambassador EIZENSTAT. May I just mention——

Senator MCCONNELL. Yes.

Ambassador EIZENSTAT [continuing]. On the 907 that there are two conditions that Azerbaijan has to meet. They have to take demonstrable steps to cease offensive uses of force and lift their embargoes. While they have made significant strides in the first condition, that is not the case with the second.

So, as Secretary Talbott was saying, it is a question of simply not meeting the statutory requirements.

Senator MCCONNELL. We are getting close to when Senator Leahy and I need to run to cast two votes. But let me try to get in one more question.

In a recent staff briefing, Ambassador Pascoe could not recall whether we had suggested, encouraged, or agreed formally or informally to a Russian leadership role in a peacekeeping force related to settlement of the Nagorno-Karabakh dispute.

How do you envision this peacekeeping force? What do you envision the composition of this peacekeeping force should we get a deal on the Nagorno-Karabakh between the Azeris and the Armenians?

PEACEKEEPING FORCE

Mr. TALBOTT. Well, first, it will have to be a genuine peacekeeping force, which is to say there must be a peace to keep.

Senator MCCONNELL. Obviously I am assuming there is a peace to keep. I am asking you about the composition of some peacekeeping force in the wake of such an agreement——

Mr. TALBOTT. I understand.

Senator MCCONNELL [continuing]. That would be mutually comforting to the Azeris and the Armenians.

Mr. TALBOTT. From my own dealings with the three parties to this conflict, I think one of the requirements would be that it be genuinely international. This is to say that the composition of the peacekeeping force include representatives of significant diversity of countries.

Senator MCCONNELL. Would it be a majority Russian?

Mr. TALBOTT. I would think not because that would raise concerns on the part of those in the area who are worried about excessive Russian influence.

Senator MCCONNELL. Would it include Americans?

Mr. TALBOTT. We do not foresee that it would involve any American combat forces.

Senator MCCONNELL. Combat forces.

Mr. TALBOTT. In Georgia, for example, in Abkhazia, we have a strong number of American officers there in a monitoring capacity. We are nowhere near the point of deciding on the composition of a peacekeeping force for Nagorno-Karabakh. But soldiers, I think, would not be envisioned.

Senator MCCONNELL. Senator Leahy, I think I am going to go and vote. I don't know whether you would like to go now and come back.

Senator LEAHY. I will stay for a couple of minutes and then will leave, too.

Senator MCCONNELL. I am going to let Senator Leahy take over for a while.

Senator LEAHY. Do you want me to just recess the hearing when I am through if you have not returned?

Senator MCCONNELL. Yes; and I will then come right back.

Senator LEAHY [presiding]. Let me follow up a little bit on this because I know on the law, in the 1998 foreign operations bill we withheld 50 percent of the assistance to the Government of Russia unless the President certified that they had terminated their support for the development of Iran's nuclear ballistic missile program. You also had some other ways you could do that.

I assume Russia has not ended its support completely for these programs. I now see that the Minsk Group made a proposal for an

interim settlement for Nagorno-Karabakh. The Azerbaijan and Armenian Governments, at least their former governments, said they would accept it, but Nagorno-Karabakh has not. So I am wondering if that means it is not settled and, if it is not, our law provides up to $43 million in assistance for the Caucasus region may be shifted to other areas in the former Soviet Union if the settlement proposed is not agreed to by May 1998.

It appears that will not happen. Do we shift the money?

Mr. TALBOTT. You ask would we shift the money elsewhere in the NIS?

Senator LEAHY. Yes.

Mr. TALBOTT. I think the short answer is that would probably be the best use of the money. We have until the end of May. The Secretary of State specifically has until the end of May.

Senator LEAHY. That is just 2 months away.

Mr. TALBOTT. Pardon?

Senator LEAHY. That's 2 months away.

Mr. TALBOTT. Well, the Armenians have now had their election and soon we will know who the next President of Armenia is going to be. Ambassador Pascoe and his colleagues from the Minsk Group will be returning to the area quite soon—I would guess probably after the inauguration of the new president. They will make the case, which we find to be very compelling, that we should get these negotiations going again.

So I would certainly not rule out that the Secretary might be in a position to decide that this earmarked money could go forward.

Senator LEAHY. Well we say that you have to agree to it by May 1998. Can Nagorno-Karabakh block a settlement? They are not a country, but can they block a settlement?

Mr. TALBOTT. It is difficult to see how there can be progress in these negotiations if all three parties are not agreed on the basis for the ongoing negotiations. The essence of the problem to date has been that two of the parties, the Governments of Armenia and Azerbaijan, have been prepared to negotiate on the basis of the suggestions that the Minsk Group made. But the Nagorno-Karabakh authorities were not.

We think that this is contrary to their own interests and now we have to see how the equation will change with a new president in Armenia and without wanting to prejudge.

Senator LEAHY. But Kocharian has already said that there is no compromise on Nagorno-Karabakh.

Mr. TALBOTT. But, Senator, the last votes are not in. So pardon me if I do more than just stand on a formality here.

Senator LEAHY. I understand. I am just thinking out loud.

Mr. TALBOTT. As a general rule, as you know from our past conversations, I try to avoid hypotheticals. But I think it is safe to say if the next President of Armenia is Mr. Kocharian, he knows the Nagorno-Karabakh issue very, very well. He was, of course, the principal leader in Nagorno-Karabakh.

Senator LEAHY. We will wait for those elections.

I have only saved in 30 years in office three items from the press about me. I actually liked them enough to frame them. Two are a pair of headlines that appeared 5 days apart, the first time I ran for the Senate. The first one said, in huge type—it was the State's

largest newspaper—"Poll Dooms Leahy." The next one, 5 days later, same sized type, same placement, said, "Leahy Wins Senate Seat." The other article is a family item. Everything else got trashed, which is probably just as well.

So I always wait until the final results are in.

I am going to recess and go to vote. The chairman or I will return very briefly.

It is good to have you both here.

[A brief recess was taken.]

Senator MCCONNELL [presiding]. The hearing will resume. I apologize for the delay, but these things do happen. We have to vote once in a while.

Let me go back, if I could—not to keep you all much longer—to the possibility of a peacekeeping force. Let me just say, as someone you might expect to be unalterably opposed to any kind of American participation in a peacekeeping force of some size in that area, I am not opposed to that, assuming, as you indicated, Secretary Talbott, that there was a peace agreement worth keeping.

On that assumption, if a small complement of Americans in the multinational force were sufficiently reassuring to the parties, I, for one, would not object to that. This comes from somebody who is, frankly, a little bit jaded at this point about the Bosnia deployment given how expensive it is and the fact that it may seem to last into the next millennium.

I do not envision the size deployment in and around Nagorno-Karabakh that we have had in Bosnia. Therefore, from a cost point of view, presumably this would be a smaller force.

Let me ask you about cost. What would be sufficient, do you think, to reassure both sides in terms of the numbers of personnel involved?

Mr. TALBOTT. In conferring, I am cheating ever so slightly.

Senator MCCONNELL. That's fine. I confer occasionally myself.

Mr. TALBOTT. Ambassador Pascoe says that it is notional at this stage, as you have already made very clear, Senator. It is no more than 1,000 troops, a maximum of 1,500 observers on the ground.

But may I respond a bit to the general proposition you have put forward?

Senator MCCONNELL. Yes.

Mr. TALBOTT. First of all, when I started to answer your question earlier, I didn't mean to seem to be belaboring the obvious. We have had cases where peacekeeping missions, and the environment of the circumstances of the peacekeeping missions have deteriorated so that peacekeepers are in harm's way.

Senator MCCONNELL. Yes.

Mr. TALBOTT. We have had that in Georgia.

Now the situation in Georgia has returned to a condition of normal and calm. But as I indicated earlier, we have an over-arching responsibility to the protection of our own forces, whether it is four officers or considerably more than that. Therefore, one of the points that we are making to the parties in the Nagorno-Karabakh conflict is that they must undertake steps that will insure the international community that they, the parties, are committed to a peaceful environment into which the peacekeeping force will then go.

This sounds self-evident as an abstraction, but in practice it can be one of the toughest issues facing us in the period ahead.

I am very interested, obviously, to hear what you say, Senator, on the subject of your own willingness to consider American participation. We have simply come nowhere near that point.

Senator MCCONNELL. Yes; I understand that. We can stipulate that we are not to that point.

Mr. TALBOTT. But one of the reasons that Secretary Eizenstat and I welcomed your invitation to appear here today is that it is very important for everybody who hears the proceedings here today to understand that the United States does have a very real stake in peace and security in that region. This is a case that we need to make over time, and we do not want to introduce the subject of Nagorno-Karabakh for the first time to the attention of the American people some point down the road. That is one of the reasons we are glad to have a chance to talk about it today.

Senator MCCONNELL. As you know or may recall, because we have had this conversation before though it has been some months, my own personal view is that we have considerably more interest in the Caucasus than we do in Bosnia, for example. Certainly our NATO allies have a consuming interest in Bosnia, and, now we do as a result of the administration's commitment to it.

But, when I think of the Caucasus and the economic impact on the world of that region developing successfully and, hopefully, independently, it seems to me that the United States has a good deal more interest in that, than it does in Bosnia. So, therefore, I wanted to make sure that you knew that there were at least some of us who were open to some kind of American participation, particularly now that we are talking about the size of the force being about what I had anticipated. This is not, I would think, a hugely expensive proposition.

I understand, as you indicated, that any time you use American troops in any deployment anywhere, we are all equally concerned about their wellbeing. But we have a significant number still in Bosnia.

How many do we have in Bosnia now?

Mr. TALBOTT. It's 8,000, I think.

Senator MCCONNELL. Yes, 8,000. And here we would be talking about some percentage of that, roughly 1,500.

Finally, let me say with regard to such a peacekeeping force, am I correct in saying that the United States would not be interested—I asked this earlier but I don't think I asked it the way I want to ask it now—that it is not envisioned that a majority of that force would be Russian? Is that correct?

Mr. TALBOTT. That is correct. Our strong feeling is that it would be to the wishes and in the interests of the parties that it be a genuinely international force and that it not be like any other aspect of policy or events in this region, monopolized by one country.

Senator MCCONNELL. Let me shift in our remaining moments to Iran.

Over the past several months, the administration has been reviewing Total's investment in Iran's oilfields to determine if it should be subject to the Iran/Libya Sanctions Act [ILSA], typically referred to as ILSA.

Given ILSA requirements, why is there any question about whether this investment is sanctionable and when can we expect a decision?

SANCTIONS

Ambassador EIZENSTAT. We have done a very thorough investigation according to both the spirit and the letter of the law, and within the next couple of weeks, Deputy Assistant Secretary of State Ramsey will be going back to Asia to look at the issue of how far the Asian partners in two deals, Mr. Chairman—the Bow Valley-Bakrie deal, which involves an Indonesian company and a Canadian company, and the Malaysian company Petronas, which is involved in the Gazprom/Total deal—the extent to which the Asian financial crisis may have affected the terms of that contract and their capacity to go forward.

We think it is prudent to do that before any decisions are made.

We continue to make progress on this. It is a difficult decision and we would expect that there will be decisions made sometime in the near future.

Senator MCCONNELL. News accounts last week quoted the Deputy National Security Advisor as stating you are rethinking sanctions on Iran, which I gather is what you are saying right now.

I noticed on the maps that you provided there is an Iranian oil pipeline route. Yet your statement, Secretary Eizenstat, appears to oppose such an option.

I understand you are now considering waiving the sanctions on Russia and may leave open the question of sanctions on other partners. There seems to be a lot of confusion with the perverse impact of such a kind of half-sanctions decision being that hard currency would flow to a terrorist State and the only penalty would fall on American companies keeping them out of the region.

Maybe you feel like you have said all you can say on this issue, but I guess I am groping for more.

Ambassador EIZENSTAT. No, sir; I would be glad to address that.

First, I have talked to Mr. Steinberg, the Deputy National Security Adviser. The headline in the paper said that we were rethinking sanctions, not Mr. Steinberg. He made it very clear that we were continuing to hold out sanctions as a very real option.

Under the statute as Congress passed it, if a particular transaction is viewed as covered by the act, the Secretary of State then has three options. She can either sanction immediately, waive immediately, or begin a 90-day consultative period.

Since we have not made a decision about whether these transactions are subject to the act and will go forward, we have obviously not made a decision with respect to which of those options.

But I can tell you, Senator, that sanctions remain as they have from the beginning, a very real option under the statute and as a practical matter, and Mr. Steinberg said nothing to the contrary.

Senator MCCONNELL. And you expect a decision when?

Ambassador EIZENSTAT. Well, we first have to make a decision about whether or not this is covered and that will be made as quickly as we can.

Senator MCCONNELL. A recent Post article, datelined Moscow, indicated Russian intelligence agents have recruited scientists to go

to Iran to teach missile technology. Moscow denies any formal role, suggesting government funded engineers are freelancing.

I frankly share the view expressed by a diplomat in a Post article that, if it was not government policy before, how can they stop it, and if it was a government effort, someone is not telling the truth. So why should we now believe they would really stop this program?

Ambassador EIZENSTAT. First, may I say that the Iran/Libya Sanctions Act is not only an act imposing sanctions. It specifically and directly admonishes the administration to do precisely what we are now doing and have been doing for some many months, and that is to try to build a multilateral regime which will deny Iran the capacity to develop weapons of mass destruction and the missile systems to deliver those weapons of mass destruction. That is built into the statute and that is what we are trying to do both with respect to Russia and the European Union.

With respect to Russia, there have been, obviously, concerns that private scientists or institutes may have been engaged in that kind of activity. That is why Secretary Talbott, the Secretary of State, Vice President Gore in his meetings with former Prime Minister Chernomyrdin, the President in direct contacts with President Yeltsin, the Wisner-Koptev and now the Gallucci-Koptev follow-up meetings—all of these have been directed toward making sure that the Russian Government took additional steps.

Now a very important step forward was made on January 22, and that is when the Prime Minister signed an executive order at the direction of President Yeltsin which will require Russian exporters to seek an export license before exporting any goods or technology which they have reason to believe could be transferred to a ballistic missile program or a program involving weapons of mass destruction.

This decree is similar to catch-all legislation which this country has had in place since 1991 and is precisely what we wanted the Russian Government to do.

Now what is key now, Mr. Chairman, is clearly the implementation of that. We now have a legally binding obligation and, even with the change in government in terms of the prime minister, we have had a reassurance by Foreign Minister Primakov to the Secretary of State and at other very high levels. This was something that was specifically endorsed by the President, who very much remains in office, that this policy will continue.

So what we want to see now is effective implementation. But this catch-all decree is a very significant step forward, a very real breakthrough, and if it is implemented, as we have been assured it will be, we will have been following precisely what ILSA requires, that is, building this multilateral regime and making it much more difficult for Iran to acquire weapons of mass destruction.

Senator MCCONNELL. Has the Russian Government directly or indirectly supported the Iranian nuclear and ballistic missile program?

Ambassador EIZENSTAT. We do not believe that the Russian Government is directly doing so, that these are private interests. There is a question of the enforcement by the Russian Government. We believe now, as a result of the decree, which came from very inten-

sive discussions that our administration had—and, if I may say so, also interventions by the European Union, which was very helpful, at very senior levels in European Governments—they have turned a corner in terms of their willingness to enforce a law that will make it more difficult.

Senator MCCONNELL. How many Russian scientists are involved in this undertaking, do you think?

Ambassador EIZENSTAT. Well, I think that if we wanted to get into those details, perhaps we ought to have a private briefing.

Senator MCCONNELL. In concluding, I want to go back to the pipeline issue for a minute.

When I was in the Caucasus last summer—and Secretary Talbott and I talked about this, I think, after I got back—of course there is the very real danger that Armenia will be left out entirely if there is not some peace agreement sometime in the near future. I think that would be clearly a step back for the Armenian people, to miss out on whatever prosperity might be forthcoming as a result of having a pipeline come through your country.

This raises the question: how many pipelines are there going to be? I gather there is one that will go into Russia through Chechnya—is that correct; one that will go from Azerbaijan through Georgia to the Black Sea; and then there is a third, which is the one I think you were speaking about, Secretary Eizenstat——

Ambassador EIZENSTAT. Yes, sir.

Senator MCCONNELL [continuing]. That I gather would end up at Ceyhan. But as to how it gets there is an open question. That actually would be a shorter route, to go through Armenia, wouldn't it, to come out in the Mediterranean at Ceyhan? And how do you pronounce that?

PIPELINE

Ambassador EIZENSTAT. It's "jay-han."

There are several planned, and ultimately the number of pipelines will depend purely on market driven demand. The more oil and gas that can be produced from the Caspian region which, in turn, will increase the independence and viability of the Caucasus and Central Asian States, the more oil and gas that can be produced, the more pipelines there will be.

Senator MCCONNELL. I understand that. But assuming there is enough demand and the Turks are certainly correct in that they do not want even more tankers going through the Bosporus than they are going to have in any event——

Ambassador EIZENSTAT. That is correct.

Senator MCCONNELL [continuing]. And that it is desirable from an environmental point of view to have one of those come out in the Mediterranean across Turkey, is it not actually closer to go through Armenia?

Ambassador EIZENSTAT. On technical grounds, a pipeline from Azerbaijan to the West that transits Armenia could be a viable option. There are other routes, as well.

You could go, for example, through Azerbaijan and Georgia, and then down, but also going through Armenia to Ceyhan is certainly a very real possibility.

This is one of the reasons why it is so important to resolve this conflict, because, as you say so accurately, this would give Armenia the capacity to get transit fees and it would be a very important part of their own economic viability.

Senator MCCONNELL. That is certainly the message that I tried to carry and that I hope you are carrying as well, that peace brings not only the absence of loss of life——

Ambassador EIZENSTAT. Absolutely.

Senator MCCONNELL [continuing]. But more widely disbursed prosperity for everyone. And, hopefully, the new President in Armenia will have the authority and the legitimacy as a result of the election, which we hope will be certified by international observers as at least as clean as elections in Eastern Kentucky. [Laughter.]

Ambassador EIZENSTAT. But the other thing we are trying to avoid, of course, is not only to be able to help countries like this but to avoid the alternative of a pipeline which transits through Iran and gives Iran greater control.

Senator MCCONNELL. Yes; of course.

Finally, in conclusion, if I could, I will ask Secretary Talbott to just give us a few of his thoughts on the recent shakeup in the Kremlin. We don't expect too high a level of candor here. [Laughter.]

Mr. TALBOTT. Oh, you know what the most candid of all answers would be, I think.

Senator MCCONNELL. That you don't know. [Laughter.]

Mr. TALBOTT. In your opening remarks, you recalled our conversations back in 1995 and how much things change and yet how much they stay the same.

You could have recalled our conversations back in 1993, at the beginning of our association.

The evolution of Russian democracy is full of surprises. Obviously, we have seen one of those recently. I think the key point here, that is, what can be said on the basis of what has already happened, is that the Russian President and the Russian body politic are playing by constitutional rules.

That is quite something given where that country was not that long ago.

As for what happens next, all parties to this, again, seem to be committed to following the construction and the rules of the checks and balances relationship between the executive branch and the legislative branch.

As you know, President Yeltsin has decided to submit Acting Prime Minister Kiriyenko's name to the parliament. There is, as there always is with the Russian Parliament, a lot of vigorous debate and quite open criticism. It is, basically, a three strikes and the Parliament is out ruled.

We have no such mechanism, of course, in our own system.

Senator MCCONNELL. It does have some appeal to you, doesn't it?

Mr. TALBOTT. It is interesting to ponder, though. [Laughter.]

Senator MCCONNELL. From time to time you have thought, no doubt, what a great idea. [Laughter.]

Mr. TALBOTT. Obviously, it is not appropriate for any official of the American Government to get too deep into commenting on per-

sonalities or, indeed, on the dynamics of Russian politics. But I will make an observation.

Mr. Kiriyenko is not totally unknown to us, even though he is, as has been pointed out, a relative newcomer to the power structure in Moscow. He was in Washington not long ago as an important part of the Russian delegation to the most recent Gore-Chernomyrdin Commission meetings—I guess it is the last of the Gore-Chernomyrdin Commission meetings, by definition. But we hope the institution will certainly continue.

He is somebody of very real and proven reformist credentials. I would point out something else.

He is young and that has been much commented on, not always favorably, either in Russia or abroad. But going back to some of the conversations you and I have had, Senator, I have felt for a very long time that a key factor in the continuing transformation of Russia is the changing of generations.

I do think it is of some significance that President Yeltsin would turn for this critical job to somebody who was a very young man, indeed, when the Soviet Union and the Communist Party of the Soviet Union ceased to exist. Yes, he is not, obviously, objectively anywhere near as seasoned as many of the more familiar figures. But in the context of Russia as it tries to put behind it the past and move on to the future, I am not sure that is entirely a bad thing.

SUBCOMMITTEE RECESS

Senator MCCONNELL. Thank you both very much for your time. The subcommittee will stand in recess until 3:30 p.m., on Tuesday, April 21, when we will hear from Hon. Louis Freeh, Director, Federal Bureau of Investigation, and Gen. Ihor Smeshko, director, Center for Strategic Studies and Analysis, Ukrainian National Security and Defense Council.

[Whereupon, at 4:58 p.m., Tuesday, March 31, the subcommittee was recessed, to reconvene at 3:30 p.m., Tuesday, April 21.]

# FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1999

**TUESDAY, APRIL 21, 1998**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 3:38 p.m., in room SD–116, Dirksen Senate Office Building, Hon. Mitch McConnell (chairman) presiding.

Present: Senators McConnell and Leahy.

## DEPARTMENT OF JUSTICE

### FEDERAL BUREAU OF INVESTIGATION

**STATEMENT OF LOUIS J. FREEH, DIRECTOR**

**ACCOMPANIED BY:**

**IHOR SMESHKO, DIRECTOR, CENTER FOR STRATEGIC STUDIES AND ANALYSIS, UKRAINIAN NATIONAL SECURITY AND DEFENSE COUNCIL**
**EVGEN KOSTYUCHENCKO, COUNCIL MEMBER**
**MICHAEL PYSZCZYMUKA, SPECIAL AGENT**

OPENING STATEMENT OF SENATOR MITCH MC CONNELL

Senator MCCONNELL. I want to apologize not only to the witnesses but to the others who may be interested in today's topic. We were originally going to have the hearing this morning, and all of a sudden we had votes at precisely the time we were going to go. And then, this afternoon, we shifted it only to end up with votes scheduled for that time, too. So I apologize, particularly to our out-of-town guests, for the delay.

Judge Freeh, we welcome you and General Smeshko before the subcommittee today to discuss the coordination of efforts to combat international crime. Judge Freeh, you have appeared twice before this subcommittee, and always have been frank in your assessment of the threat our Nation faces as criminal enterprises, largely based in Russia, have expanded their lethal reach. Your testimony has prompted an increase in support for law enforcement initiatives around the world, most notably the International Law Enforcement Academy in Budapest, which I have had the pleasure to visit and found very impressive.

One of the hallmarks of your tenure as Director is a commitment to improve and expand the working relationships between the FBI

and its foreign counterpart agencies. Today Judge Freeh is joined by one of his partners, General Smeshko, Ukraine's director for both the military intelligence agency and for strategic planning and analysis on the National Security Council.

General, we are glad to have you. Your reputation and your portfolio of responsibilities are impressive. I appreciate your participation today and want to note how remarkable it is that you are here to discuss your concerns about international crime and joint law enforcement efforts.

Who could have imagined such a session a mere 10 years ago? It is a tribute to the strength of the relationship between the FBI and your agency, and, for that matter, the United States and Ukraine. Your efforts are vital to Ukraine's future, as well as to U.S. interests.

Judge, over the past 2 years, you have drawn attention to the growing threat of Russian criminal organizations operating here in the United States, which are engaged in fraud and money laundering, murder, extortion, drug trafficking, and related offenses. What we have not focused as much time on is the fact that these enterprises have developed regional partners and networks, which pose a direct threat to the survival of the fragile new democracies.

It is my sense that the explosion of criminal enterprises has given democracy in the New Independent States a bad name. The fear of corruption, harassment and extortion, which characterized life under Communist regimes, has new masters, but the experience for the average citizen unfortunately remains largely the same. Little else that we do matters as much as combating crime and supporting the legal, judicial and law enforcement reform efforts which are the lifeblood of democracy. If these criminal enterprises are allowed to expand and take greater control, every other development initiative we have invested in will have been a waste of resources.

Privatization of State-owned enterprises is pointless if the Mafia is buying up the nation's assets. Agricultural programs, transferring land ownership to individuals makes no sense if corrupt officials are seizing harvests and profits. Tackling these problems now is the only way to give supporters of democratic and free market principles the opportunity to build nations which share our values and our goals.

To address these issues, we must deepen and strengthen ties with law enforcement agencies in the New Independent States. Cooperation and coordination clearly serves our interests and theirs. It is obviously in our interest to have the strongest first line of defense deployed in countries where these criminal organizations are based. If we can work with agencies in the NIS to destroy the root of these enterprises, the branches here hopefully will wither.

The New Independent States have a great deal at stake, as well. Democracy is under siege from ruthless, well financed, well organized criminal organizations. To sustain support for crucial political and economic reforms, individuals and communities must be convinced that their government works well and can protect their property, their assets and their families from crime and from the Mafia.

I hope today's session gives us a better sense of how we are coordinating this important international effort and, more specifically, what we can do to help support key friends and allies, such as Ukraine, in carrying out its law enforcement activities. General Smeshko, your work is vital to Ukraine's security and United States interests, and we are looking forward to what you have to say.

We have been joined by my good friend and colleague, the ranking member of the subcommittee, Senator Leahy. And I would like to call on him now for whatever observations he would like to make, and then, Judge Freeh, we will go to you.

OPENING REMARKS OF SENATOR PATRICK J. LEAHY

Senator LEAHY. I thank you, Mr. Chairman. I will make a brief statement and put my full statement in the record.

You are to be commended, Mr. Chairman, for using the subcommittee to discuss the problem issues of organized crime in the former Soviet Union. Obviously we are not going to see real democratic development in any of these countries if bribery and intimidation are the rule rather than courts and the rule of law. We know what can happen when organized crime corrupts governments. And here we are talking about even lapses of security at civilian nuclear facilities.

Director Freeh and General Smeshko, I am delighted to have you here.

PREPARED STATEMENT

Rather than go on at length, as I said, I will put my statement in the record. I think it is important that we are having this hearing and important to see how we can help, and how the dollars that we have set aside for this are being spent.

Thank you.

Senator MCCONNELL. Thank you, Senator Leahy.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATRICK LEAHY

Mr. Chairman, I want to commend you for consistently using this subcommittee to focus attention and resources on the extremely serious problem of organized crime in the former Soviet republics.

These are issues that go to the heart of the development of democratic government and the rule of law. They also bear enormously on the ability of American companies to do business in these countries, where bribery and intimidation are rampant. Frankly, if this subcommittee had not made these issues a priority I am not sure anyone would have.

We know a lot about international criminal organizations. They have huge amounts of cash, sophisticated weapons, state-of-the art communications technology, and a global workforce. Corruption of government officials, money laundering, counterfeiting, and drug trafficking are all commonplace. The possibility of nuclear material falling into the hands of terrorists strikes me as one of the most frightening threats we face, especially when we hear of the lapses in security at civilian nuclear facilities.

Hundreds of foreign gangs are operating in this country. It is staggering to think of the amount of resources, manpower and ingenuity it will take to counter this threat.

It has been two years since our last hearing on this subject, and I am very pleased to see Director Freeh and General Ihor Smeshko here together. We do not stand a chance of solving problems as serious and complicated as this unless we cooperate closely. I was a prosecutor for eight years and I know how difficult it can be to work

together with law enforcement officers of another state, not to mention another country with different languages, different laws and traditions. The United States has a lot to offer, but we also have a lot to learn from countries like Ukraine. This needs to be a partnership. We both have everything to gain by working together.

In our Fiscal 1998 legislation, we directed that not less than $9 million be made available for law enforcement training, and not less than $20 million be made available for anti-crime programs. We also earmarked $5 million for the Western Hemisphere Law Enforcement Academy. These are small amounts, but we count on you to make the most of it.

Mr. Chairman, I will wait until it is my time to ask questions to get into the specifics about what we have accomplished in the past two years and where we go from here.

SUMMARY STATEMENT OF HON. LOUIS J. FREEH

Senator MCCONNELL. Judge, do you want to lead off?

Judge FREEH. Thank you, Mr. Chairman and Senator Leahy. It is always a pleasure to be back before this committee. Let me also commend you, Mr. Chairman, on your leadership with respect to the work that has been done in this area, but particularly the oversight and the support that we have received from you, Senator Leahy, and many others. I think it is really significant and needs to be highlighted.

I am very honored to be with my friend and colleague, General Smeshko, whom I have known for several years. I would like to talk a little bit, if I might, about some of the progress that has been made with respect to this very important bilateral relationship. I would also like to introduce, on my left, Mike Pyszczymuka, who is the FBI legal attaché in Kiev. He spends much of his time doing the things that I am going to talk about and certainly not take credit for.

The significance of the relationship established by Agent Pyszczymuka, who speaks fluent Ukraine, with not only General Smeshko, but his colleagues, is that it has given us the basic building blocks for a law enforcement structure not just to help General Smeshko, which is important, as you both noted, for the protection of democratic institutions in the Ukraine, but the impact that this has on the United States.

Most of the cases that Agent Pyszczymuka works have a direct impact here in the United States. About 80 percent of his work is in direct support of cases which are in FBI offices around the country. Captain Kostyuchencko is also a critical part of that relationship. After he leaves the hearing today he is on his way to Los Angeles, to participate further in what we have developed as practical case training initiatives. These are actual joint case working assignments by FBI agents here in the United States and their counterparts, such as Captain Kostyuchencko, in the Ukraine, where we work on cases that have significance in both countries, which includes agents working in the Ukraine; it includes our colleagues coming here, interviewing witnesses and testifying in the grand jury.

These are the kinds of relationships that not only help to solve our cases, but build the relationships that will enable our partners to be more successful. We also want to note, as we begin the appreciation we have for our Department of State colleagues. Ambassador Pieffer, for instance, and his staff, in our Embassy in Kiev have been critical, including the regional security officer, the chief

of station, the military attachés, in allowing Agent Pyszczymuka and General Smeshko's colleagues to do the work that needs to be done.

Just to give you a quick example and an overview, we have got about 95 pending investigations relating to the Ukraine at this time in our Kiev office. Many of these cases directly affect U.S. investigations—approximately 65 pending investigations in the United States—encompassing organized crime, white collar crime, violent crime, and one case of a weapons of mass destruction, they are directly supported by the assistance we receive from General Smeshko.

To give you a couple of examples of that relationship, we have been working a case out of our Newark office called the *Red Daisy* case. It involves approximately $500 million of oil and gas reserves and proceeds being diverted illegally from Russia. One of the main defendants in that case, an individual named Broner, was a fugitive in the United States since 1993. Through General Smeshko and Agent Pyszczymuka's efforts, he was not only identified and located in the Ukraine, but he surrendered to Agent Pyszczymuka in the Ukraine and made arrangements to come back here to the United States.

The *Scherban* case is another example. It deals with not only the assassination of a People's Deputy in the Ukraine, but allegations of $50 million of government fraud. Our cooperatioin gives us the ability to investigate in a way which we do not have without that.

We do not want to underestimate the significance of the Russian organized crime groups and, their relationships to, as you pointed out, Mr. Chairman, the regional governments. There are approximately 54 countries around the world that now have active Russian organized crime presences, including of course the United States where approximately 25 of these groups operate. Thirty-four of our field offices are actively conducting cases that involve Russian organized crime groups; about 70 percent of the groups operating in the United States have connections to the Ukraine, which makes this relationship so critically important.

The diversity of these cases is very sophisticated. They are not all doing what some of the earlier, traditional organized crime groups were known to do in the United States. Although 71 percent of them are organized crime-type cases, 20 percent of them are white collar-type cases. Not only the case that I mentioned, but other cases—for instance, $250 million in diamonds taken illegally from Russia to the United States—are part of the portfolio of cases on which our Legal Attaché Office in Moscow regularly works.

Some 55 percent of the violations have to do with fraud cases; 22 percent money laundering cases. And the remainder murder, extortion and drug trafficking-type cases. As I mentioned before, we are directly affected in the United States by these cases, which is why the relationships are so important.

There are approximately 8,000 Russian/Eastern European groups that have been identified by the Russia Minister of the Interior. Many of them involve very powerful and high-ranking organized crime members. As you know, Mr. Chairman, one of them, a man named Ivankov, was arrested, convicted and sentenced here in the United States. But without the support and the cooperation of the

Russian MVD authorities, that case, like many others, might not have been possible.

The FBI, as you well know, has three general tools that we use to not only support these relationships, but work these cases. The first one is our Legal Attaché Program. We have got approximately 32 offices now open around the world, including Kiev and Moscow. We have new offices in Tallinn, Warsaw, and many of the other countries where, as you noted before, we formerly had no relationships whatsoever. Again, 80 percent of the work of these legal attachés is in direct support of FBI field cases back in the United States. The significance of the relationship controls the success of the case.

About 1 month ago, two 20-year-old American Mormon missionaries in Russia were kidnapped. We had to respond very quickly in what was a life-threatening situation to see if we could resolve that matter. Four years ago, we would not have had any capability to effect the successful outcome of that case.

In this particular case, which occurred in a town south of Moscow named Sorotov, an FBI instructor had recently instructed the police on hostage negotiations and kidnapping. He was on a plane within hours, on the ground in Moscow, and our MVD counterparts brought him and his colleagues right down to the command post. There, they gave input into what in this case was a fortunate rescue and apprehension of the subjects by the Russian MVD.

That would have been impossible a short time ago. But those are the relationships upon which we now depend. We have such a relationship in the Ukraine, particularly with General Smeshko, which means not only United States lives, but United States interests, can quickly be protected in a manner that would have been impossible even a very short time ago.

The other methodology which we use is the training programs that have been very successful, including as you mentioned, Mr. Chairman, the International Training Academy in Budapest, which you visited in January 1997. The success is not only the 630 police officers from 20 countries who have trained there, it is the bilateral relationships which that academy is now fostering.

For instance, the Ukraine and Hungary have established a close working relationship on their border as a result of student participation in the Budapest Academy. An other example in the Baltic region is between the Hungarians and the Rumanians. These are relationships which are being fostered because of the importance of that particular academy.

In terms of international training, very briefly I alluded earlier to practical case training. We have done about 40 of these sessions since 1996. These are cases where our colleagues, not just in the Ukraine but other countries, work hand-in-hand with the FBI to investigate and solve cases. We have examples of cases from Russia, from Kazakstan, from Uzbekistan, from the Ukraine, and from the Czech Republic. These are very, very important and, we believe, successful endeavors that not only enhance our relationships, but actually solve cases and, in many cases, save lives.

With respect to the overall international training, during the past 3 years the FBI has been directly involved in training over 18,000 foreign law enforcement officers in 60 different countries.

This is an enormous network, not only for training purposes, but for the liaison that we need to perform our job. Many of the cases which are now regularly worked with our foreign police partners are done only by virtue of the training which your committee has supported through the SEED funding, through the FSA funding, through the antiterrorism training, and certainly the academy in Budapest.

These are the building blocks of relationships that not only help preserve democracy, particularly in the Newly Independent States, but protect Americans and American interests. It is a very well and wise investment of resources for which we are very thankful to you both, and particularly to the committee here.

I think I will just rely on the rest of my statement, Mr. Chairman, which I will submit for the record. Let me make just one final point, if I may. And that is the appreciation that we have here for the leadership and the dedication of our foreign partners and, in particular, since he is with me, today, General Smeshko. The leadership and the courage which he has shown—and he is a very modest man—but the leadership and the courage that he has shown in dealing with a very difficult and life-threatening set of circumstances—not just for him and his colleagues, but his family—is really a noteworthy achievement.

The circumstances under which he operates we would not even contemplate operating under here in the United States. He has shown, through very, very difficult times, and very dangerous times, incredible courage and leadership. We are very proud to be his partner and we look for many, many ways to support him.

PREPARED STATEMENT

He has dedicated himself to the things that we believe in here in the United States. He is practicing those techniques and leadership and protocols in the Ukraine at great sacrifice, and we are very thankful to him for that.

Senator MCCONNELL. Well, thank you, Judge. We will make your full statement a part of the record.

[The statement follows:]

PREPARED STATEMENT OF HON. LOUIS J. FREEH

Good morning, Chairman McConnell and members of the Subcommittee. I am honored to appear before you this morning and to be accompanied by General Ihor Smeshko who leads the Center for Strategic Studies and Analysis of the Ukrainian National Security and Defense Council and Captain Evgen Kostyuchencko, also of the Council. General Smeshko and his agency are one of the several organizations in Ukraine that are direct beneficiaries of the training and institution building programs that are the focus of this hearing and which the FBI is proud to present on behalf of the United States Government. Their presence here today stands as a testimony to the commitment by the Government of Ukraine to develop modern law enforcement agencies that are based upon the rule of law. These two individuals are representative of the partnerships that the FBI is developing through its international crime, international training, and overseas expansion initiatives, partnerships that are of enormous benefit to the FBI and other U.S. law enforcement in our collective effort to enforce U.S. law and protect American citizens.

Mr. Chairman, I would like to thank you and the members of the Subcommittee for the opportunity to discuss the threat posed to the United States by international crime, including that from Russian and Eastern European crime groups, and the international law enforcement initiative and programs developed by the FBI. I would also like to thank you for your long-standing interest and support of law enforcement training world-wide, especially in Eastern Europe and the countries of the

former Soviet Union. I know you have taken a personal interest in Ukraine, and I am pleased to tell you about the continued cooperation we have received from Ukrainian officials through our Legal Attaché office in Kiev.

Through our office in Kiev, the FBI has a number of ongoing money laundering and financial fraud cases. In addition, this joint cooperation led to the extradition of a United States Federal fugitive, despite the absence of an Extradition Treaty. Jeffrey Broner, a fugitive since 1993, was the only remaining defendant originally charged in a New York gasoline bootlegging investigation who had not been convicted in Federal Court. Broner is alleged to have played a part in a significant tax evasion scam from the late 1980s and early 1990s. He fled the United States shortly after a warrant was issued for his arrest and had remained in Ukraine since that time. Thanks to the developing relationships with Ukrainian officials, we were able to bring Broner back to the United States to face this charge.

THE NEED FOR INTERNATIONAL COOPERATION

In recent years, the FBI's domestic law enforcement and national security missions have expanded and changed. In the first half of this century, the FBI earned its reputation as a preeminent law enforcement agency because of our success in response to the advent of interstate crime that swept the United States. As we approach the beginning of the 21st Century, the United States now faces the increasing globalization of crime and criminal organizations. This growth of transnational crimes has been aided by the explosion in computer and telecommunications technology.

In a global economy, the United States is increasingly affected by crime originating in other countries. Criminal activities ranging from telemarketing fraud and financial institution fraud, to the more traditional drug and organized crime, come regularly to our shores. Sadly, terrorism has come as well. The international exporters of crime and terrorism, who seek to capitalize on vulnerabilities in free societies and open markets, include South American drug cartels, terrorists from the Middle East, and an array of organized crime groups from Europe, the former Soviet Republics and Asia. Regardless of origin, these and other international crimes impact directly on our citizens, often violently, and on our economy.

One of the most difficult challenges facing law enforcement is how rapidly criminals and terrorists—both domestic and international—adopt advanced technologies to thwart the ability of law enforcement to investigate those who wish to do harm to our Nation and its citizens. That is why encryption has become the most important technology issue confronting law enforcement.

Widespread use of robust non-recoverable encryption is beginning to devastate our ability to fight crime and terrorism. Uncrackable encryption allows drug lords, terrorists, and even violent gangs to communicate about their criminal intentions without fear of outside intrusion. This type of encryption also allows these same people to maintain electronically stored evidence of their crimes beyond the reach of law enforcement.

For example, convicted spy Aldrich Ames was instructed by his Soviet handlers to encrypt computer file information that was to be passed to them. Ramzi Yousef, convicted with others for plotting to blow up between five and twelve United States owned commercial airliners in the far east, used encryption to protect criminal information on his laptop computer. Major international drug traffickers are increasingly using telephone encryption devices to frustrate court-authorized electronic surveillance. Unfortunately, these types of situations will occur with more frequency as inexpensive encryption becomes more readily available to the public.

Developing a balanced approach to robust encryption is an extremely serious public policy issue. The Administration has launched a focused initiative to work closely with the information technology industry to develop technical and policy solutions that represent balanced approaches to strong encryption. However, we need the cooperation of all affected parties—law enforcement, private industry, government officials, members of Congress, and the American public—to create a solution which can protect individual privacy rights and permit law enforcement to fulfill its duties to protect the people from illegal and unlawful activities.

INTERNATIONAL ORGANIZED CRIME THREAT

International organized crime is an immediate and increasing concern not only for United States law enforcement, but also for the worldwide law enforcement community. International organized crime groups are engaged in a myriad of criminal activities that include: murder; extortion; corruption of public officials; bribery; drug trafficking; money laundering; financial fraud; kidnaping; prostitution; arms smuggling; and alien smuggling.

The widespread political, economic, social and technological changes and advances occurring within the last two decades have allowed these groups to become increasingly active worldwide. These criminal organizations are exploiting the increased ease of international travel, liberalization of emigration policies, expansion of free trade, high technology communications and sophisticated money laundering techniques to further their criminal efforts. The ability of international organized crime groups to adapt to these changes has hindered law enforcement efforts against them.

Russian, Eastern European, and Eurasian criminal groups will pose a significant domestic problem for the U.S. in the future if they are not checked by law enforcement efforts. Russian Federation Ministry of Interior (MVD), Organized Crime Control Department officials report the existence of over 8,000 Russian/Eastern European/Eurasian criminal groups. There are allegedly over 150 ethnic-oriented criminal groups, including the Chechens, Georgians, Armenians and Russian-ethnic Koreans, of which 25 are active in the United States. Russian authorities also report the existence of some 750–800 so-called "Thieves-in-law", the Godfathers of the "Russian Mafia."

To date, Russian/Eastern European/Eurasian criminal groups in the U.S. have shown an ability to work closely with established American criminal elements, including the American La Cosa Nostra (LCN), Italian organized crime groups, and drug trafficking organizations. For instance, ties with the LCN date to at least 1983, when the head of the Organizatsiya in New York forged an agreement with the Colombo, Gambino, Luchese, and Genovese New York LCN families. The business relationship was centered on gasoline excise tax schemes and a payment by these groups of a per-gallon "mob tax" for gasoline sold in LCN-controlled areas. In return, LCN families would settle disputes, provide protection, and provide stability to the "bootleg" fuel market. As law enforcement efforts against established organized crime groups in the U.S. has become increasingly successful, Russian/Eastern European/Eurasian criminal elements are moving to fill the voids left by the other criminal groups.

Unlike some of the other ethnically-oriented organized crime groups in this country, the Russian/Eastern European/Eurasian criminal groups appear to gravitate at an earlier stage toward complex criminal activities, such as gasoline tax frauds, cyber security, bankruptcy fraud, insurance frauds, and health care industry frauds. That level of sophistication, coupled with a documented tendency toward violence, indicates that these criminal groups are becoming a significant criminal elements in the U.S.

Russian/Eastern European/Eurasian criminal groups in the United States are most visibly organized in the major metropolitan areas of Los Angeles, San Francisco, Philadelphia, New York, Newark, Boston and Miami. Factions of these criminal groups have aligned themselves with the New York La Cosa Nostra families in certain criminal activities. While the so-called "Russian Mafia" appears to prefer economic crimes such as credit card, insurance, and gas excise and other tax fraud for larger schemes, they also engage in extortion, robbery, theft, murder, and drug trafficking.

Vyacheslav Kirillovich Ivankov is a high-level Russian organized crime leader known to have taken up residence in the United States. Ivankov arrived in the United States in March 1992, reportedly to establish control of and direct Russian/Eurasian organized crime activities in this country. In 1995, Ivankov and five of his associates were arrested by the FBI in New York on federal charges of conspiracy to commit extortion. Much of the predication for this investigation was provided by the Russian MVD and the Canadian RCMP. In 1996, Ivankov was convicted and sentenced to a 9-year and 7-month term of incarceration. Ivankov was clearly one of the most notorious Russian organized crime figures operating at that time. Although he was based in New York, his criminal enterprise was truly global and posed serious threats to a number of countries.

ELEMENTS OF THE FBI'S RESPONSE TO INTERNATIONAL CRIME

There are three key elements to the FBI's international law enforcement initiative. First, the FBI must have an active overseas presence that fosters the establishment of effective working relationships with foreign law enforcement agencies. There is already a well-documented history of our Legal Attachés who have drawn upon their investigative experiences and backgrounds and enlisted the cooperation of foreign law enforcement on innumerable cases enabling the arrest of many U.S. fugitives and solving serious U.S. crimes.

Second, training foreign law enforcement officers in both basic and advanced investigative techniques and principles is a powerful tool for promoting cooperation.

We use the FBI's National Academy program as our model. For decades it has fostered comity with state and local law enforcement agencies.

Finally, institution building is necessary to help establish and foster the rule of law in newly democratic republics. Establishing rule of law will promote greater confidence and stability in these new governments by their citizens. Fostering the development of democratic principles in these countries will not only protect United States' interests and citizens in those countries, but also bring stability to a region which has been fraught with strife throughout its history.

These three elements draw upon my own experiences with the Italian-American Working Group (IAWG) when I served as an agent and a federal prosecutor. This group continues to show how effective the cooperative effort between United States and Italian law enforcement is. The IAWG mounted a coordinated and sustained attack against the Sicilian mafia. The success of the IAWG framework resulted from developing cop-to-cop partnerships and focusing upon a common and agreed upon strategy.

We are working with our law enforcement partners in Central Europe and elsewhere to replicate this framework. The Central European Working Group, sponsored by the FBI, consists of 13 nations focused on the identification of common law enforcement threats and the establishment of lines of communication among partners. Through the working group, we are strengthening working relationships and leveraging resources against organized crime groups and individuals involved in transnational criminal activities.

I firmly believe the FBI's initiatives in response to the problem of international crime are based upon sound and proven approaches that have been successfully used here and abroad. This approach must now be extended to other partners in the international arena.

LEGAL ATTACHÉ PROGRAM

The first element of the FBI's international law enforcement initiative is our Legal Attaché program. The FBI has long recognized the need for assigning personnel to American embassies abroad, and first began assigning personnel abroad during World War II. Agents who serve as Legal Attachés are among our most experienced investigators. They possess appropriate security clearances, and, with very few exceptions, are fluent in the language of the country to which they are posted.

Legal Attachés are the FBI's first line of defense beyond our borders. They are part of a permanent presence that is alert to the potential perils around the world. Their goals are simple—to keep foreign crime as far from American shores as possible and to help solve as rapidly as possible those international crimes that do occur.

Finally, it is important to emphasize that FBI Agents stationed overseas are not intelligence officers or shadow intelligence officers. They do not engage in espionage. FBI Legal Attachés are in place to facilitate the international battle against crime and terrorism by establishing operational links with foreign law enforcement and security agencies.

At the present time, the FBI operates 32 Legal Attaché offices around the world, staffed by 82 agents and 61 support employees. During 1997, these employees handled over 19,200 investigative matters, ranging from kidnaping to drug trafficking, from terrorism to money laundering, from financial fraud to extortion. These agents and support staff serve as the conduit through which law enforcement information and cooperation flow between the United States and its foreign partners.

All FBI field offices have sought Legal Attaché assistance in covering leads, with the largest portion coming from major metropolitan offices. More than 80 percent of the current case load handled by Legal Attaché offices is in direct support of domestic FBI investigation not only covering leads, but organizing the arrest and extradition to the United States of wanted criminals.

The Legal Attaché office in Moscow—opened in July 1994 as part of our expansion plan—provides an excellent example of the success of our overseas program. When our office in Moscow opened, it started with a caseload of approximately 35 cases; three years later, that caseload has grown to 185, covering some 660 leads from domestic FBI investigations. We opened the Moscow office after we found Russian-related crimes were increasing in certain United States cities. We quickly learned, as a result of increased inquiries from FBI field offices and growing cooperation with Russian authorities, that the problem was more extensive than we had thought.

The cooperative professional relationships which we have worked to develop recently proved their worth. On March 18, two twenty-year old Americans serving as missionaries for the Mormon Church in Saratov, Russia, were assaulted and kidnaped. The victims were lured to an apartment by individuals posing as potential

converts. After being assaulted, the victims were bound, gagged and blindfolded. They were held hostage for five days while their captors demanded $300,000 ransom from the Mormon Church. The Moscow Legal Attaché office, in conjunction with the Regional Security Office of the U.S. Embassy, began coordinating with Russian law enforcement officials immediately. The FBI dispatched a Russian speaking Special Agent who was trained in hostage negotiations and was familiar with the Saratov area and local Russian law enforcement personnel to Moscow. Within hours after his arrival, the victims were released without any ransom being paid. Three days later, the Russian Federal Security Service arrested the kidnappers.

In 1997, an employee of a Jacksonville, Florida, armored car company perpetrated a robbery of almost $19 million in cash. This individual was arrested crossing the Mexican border back into the United States. Investigation conducted by our Legal Attaché in Mexico City identified the hiding place for the stolen money in North Carolina. As a direct result of the Legal Attachés efforts, 99.4 percent of the stolen money was recovered. In this one case alone, an FBI Legal Attaché contributed to a recovery of $19 million, almost two-thirds of the FBI's 1997 operating budget of $28.7 million for its overseas offices.

This past December, FBI Top Ten Fugitive Thang Thanh Nguyen was arrested by the People's Police of Vietnam. After his arrest, Nguyen was transported to Bangkok, Thailand, by the People's Police, where he was turned over to a team of FBI Agents and then escorted back to the United States. Nguyen was being sought on murder charges stemming from a 1992 New York home invasion robbery during which he allegedly shot a victim in the stomach and the head.

This arrest came about as a result of close cooperation between the Government of Vietnam, the United States Ambassador to Vietnam, the United States Ambassador to Thailand, the Diplomatic Security Service of the Department of State, the FBI Legal Attaché in Bangkok, the Monroe County District Attorney's Office and Irondequoit Police Department in New York, and the FBI's Buffalo Field Division.

These case examples, of which there are many more, represent a very sound return on Congress' confidence and investment in our Legal Attaché Expansion Program. Legal Attachés need to be stationed where they can have access to information in a timely fashion, where other foreign law enforcement colleagues can provide this information in an arms-length fashion. Even if we cannot prevent a Khobar Towers bombing, we need the capability to respond without delay. The FBI is currently completing a threat-based assessment for existing and proposed Legal Attaché offices. We hope to submit our findings to the Congress in the next few months.

INTERNATIONAL TRAINING PROGRAMS

The second element of the FBI's international law enforcement initiative is training. Training of foreign law enforcement officers is particularly critical to combating international crime. In addition, citizen confidence in law enforcement agencies depends upon the development of professional law enforcement officers who understand and operate under the rule of law. In return for this investment in training programs, the FBI is able to work cooperatively with foreign law enforcement agencies that share a common perspective and understanding of investigative procedures. During the past three years, the FBI has provided training for over 13,000 foreign law enforcement personnel from over 60 countries.

Through a program of in-country training, the FBI conducts one and two-week schools which are designed to meet a country's particular training needs. The schools concentrate on subjects such as basic and advanced police operations, technical skills, ethics, and internal police controls. Senior FBI agents serve as instructors, bringing their knowledge and expertise to these programs. Their credibility is not only essential for effective instruction, but also very effective for building the cop-to-cop bridges that we so critically need.

Practical Case Training (PCT) is also an important part of the FBI's international training program. Practical Case Training is an on-the-job training program that enables foreign police entities and FBI agents to work together on actual investigations of mutual interest, such as money laundering, bombings, bank fraud, fugitives, drug trafficking, and crime scene investigation. In 1997, the FBI conducted 14 Practical Case Training initiatives.

This program has resulted in a number of successful investigations. For example, under this program, Russian Federation Ministry of the Interior (MVD) officers traveled to the FBI's New York field office to participate in an unprecedented cooperative investigation targeting the aforementioned Russian organized crime figure Yvacheslov Kirillovich Ivankov. Russian MVD officers working side-by-side with FBI Agents were able to recognize and decipher codes used by the Ivankov organized

crime group. This cooperation immeasurably aided the investigation and directly led to the conviction of Ivankov and his associates.

Under the auspices of the Department of State's Antiterrorism Training Assistance program, and working with the Department of Defense, the FBI has also developed three training courses which attempt to counter threats of concern to the United States. These three courses include: Major Case Management, Terrorism Crime Scene Management, and the Criminal Justice Executive Forum. Each two-week course provides senior level law enforcement officials with leadership, management, and organizational concepts and experiences that are critical to the direction of national law enforcement agencies and to the coordination of multi-agency crisis management policy and strategy. In 1997, the FBI taught six courses for six countries under this program. We plan to conduct eight courses for eight countries during 1998.

INTERNATIONAL LAW ENFORCEMENT ACADEMY

The third element of the FBI's international law enforcement initiative is the International Law Enforcement Academy, or ILEA, in Budapest, Hungary, which opened in April 1995. The FBI serves as the lead agency for coordinating activities at the ILEA in Budapest. Operating funds for the Academy are provided by the Department of State.

The ILEA in Budapest serves as a law enforcement training center for officers from Eastern Europe, Russia, Ukraine and the Baltic states. The Academy is currently hosting its fifteenth session. After that class graduates in May 1998, 632 students from 20 countries will have completed the eight-week program at ILEA.

Instructors at the Academy represent a true cross-section of federal law enforcement agencies, including subject experts from the FBI, Drug Enforcement Administration, Bureau of Alcohol, Tobacco, and Firearms, United States Customs Service, and the Federal Law Enforcement Training Center. We have also used law enforcement instructors from other countries and the European Law Enforcement College.

Training at the Academy can also be customized to meet the needs of participating countries. In 1997, 19 specialized courses were conducted by 6 different United States Government Agencies. For example,

—The FBI and the Department of Defense provided counter-proliferation training to law enforcement officers from the nations of Kazakhstan and Kyrgyzstan. This training is of international importance in preventing hostile nations from obtaining nuclear weapons capabilities and in preventing terrorist groups from obtaining nuclear materials that could be used against the United States.

—An FBI course on organized crime was attended by 22 students from Austria, England, Hungary, Israel, Romania, Slovenia, and the United States; and,

—The United States Secret Service taught a counterfeiting course for 53 students from Belarus, Ukraine, Russia, the Czech Republic, Slovakia, and Estonia.

Through the Academy we are building cop-to-cop relationships not only between law enforcement from the United States and participating countries, but also between officers from participating countries themselves. For example,

—Hungarians and Romanians have executed various memorandums of understanding (MOU's) because of their introduction to various officials while attending ILEA. These law enforcement MOU's were the foundation for national treaties between the countries regarding human rights and minority issues;

—Ukraine and Hungary have established a close working relationship on their border as a result of their students attending the Academy. Together, they have apprehended organized crime members that have ties to the United States;

—Baltic countries have sought FBI assistance on organized crime matters that directly affect United States national security. It was former ILEA graduates who spearheaded the contacts with United States law enforcement; and,

—Polish students used techniques learned at the Academy to detect and subsequently dismantle a clandestine drug laboratory. Some of these drugs were destined for the United States.

The immense success of the ILEA in Budapest demonstrates the need for additional training academies. For example, the establishment of an ILEA to serve Asia is being negotiated with the Royal Thai Government. The FBI looks forward to joining the Drug Enforcement Administration in the leadership of ILEA Asia.

SUMMARY

We are confronted on a daily basis with the reality that the safety and security of American citizens is increasingly threatened here and abroad by criminals who know no boundaries. The only way to reduce that threat is to create and develop substantive international links—personal networks of law enforcement professionals

dedicated to bringing these criminals to justice. The FBI is addressing the threat of international organized crime and terrorism through the international law enforcement initiatives that I have just described. The overseas program of the FBI is the most effective tool available in protecting our Nation from the threat of international organized crime and global terrorism. Increasingly, crime in the United States is influenced from outside our borders. It is essential that we have experienced FBI personnel posted in foreign countries to enable us to get the information we need to accomplish our domestic mission.

The funding that Congress provides under the auspices of the Department of State's International Narcotics and Law Enforcement, the Freedom Support Act, the Support for Eastern European Democracies, and the Antiterrorism Training Assistance programs is absolutely critical for the FBI and other federal law enforcement agencies to provide necessary training and institution building support to our colleagues from Eastern Europe and around the world. These programs allow United States law enforcement to build bridges of cooperation and understanding with their foreign counterparts at the investigator level. Such bridges and relationships are among the most positive steps the United States Government can take to keep foreign crime problems from reaching the shores of America.

In just a few, short months from today—in July—the FBI will celebrate its 90th birthday. Since its beginning in 1908, the FBI has built a distinguished record of serving the American people by effectively recognizing and responding to the crime and national security challenges of our times. As I look ahead toward the challenges that will face the FBI as it approaches the 21st Century, I am confident that the FBI's international perspective and the support of this Committee and Congress have given our international efforts will serve as major factors in our Country's ability to address the globalization of crime and terrorism.

SUMMARY STATEMENT OF GEN. IHOR SMESHKO

Senator MCCONNELL. General, do you have some opening observations you would like to share with us?

General SMESHKO. Thank you, Mr. Chairman.

Dear Mr. Chairman, Senator Leahy, ladies and gentlemen, first of all, I would like to express my appreciation to thank you very much for this kind opportunity to be together with one of the most respected professionals in his area in the world, Director Freeh, and to participate in the discussion.

The subject of the discussion has a great deal of importance for my country. My country earned its newly independent position only 6 years ago. And the country, of course, right now is in a very difficult situation of transition to a free market economy and to democracy. This is integration in a civilized world. And all this is in the situation with change in the system of property, converting state property into private property, with an enormous explosion unfortunately of organized crime and corruption activity.

My President described organized crime and corruption as one of the main national security issues. Right now Ukraine does not face any kind of military threat abroad. The main threat is right inside the country. If we will fulfill the task for transition, the country will be a free market. And if we will raise the level of life of our people, we will have our independence, and we will find at last our place with the civilized world.

But to achieve this result without inviting international organized crime and corruption, it is impossible. I remember when I first heard the words mentioned by Director Freeh in 1995 in Washington, that one of the national security priorities of the United States is also to combat international organized crime. I was struck, and right now, being in my position, I would say that Director Freeh was one of the first in the United States, one of the first who really recognized this new situation in the world.

Free democracy, I would say was not prepared for the development in this area after the end of the cold war. All benefits of democracy, the possibility to freely travel around the country, possess a great deal of danger because crooked people with enormous resources of money and the criminal mentality can penetrate free, democratic societies. This is just like a cancer which might really infect, in many cases, the capability to expand democracy and prosperity all around the world.

Unfortunately, by my experience I would say that right now the main organized crime group in the Ukraine and their leaders already have the ability to receive very easily green cards or citizenship in some Western countries. This is my personal opinion, but I think it is not very wise to have laws in which individuals who have made an investment in a country can get a green card.

It only costs $500,000 for some mobsters. This is just like having lunch downtown in Washington, DC.

Senator MCCONNELL. Well, that is true. I have been in some of those restaurants. That is just about what the bill is, too. [Laughter.]

General SMESHKO. And unfortunately they are much faster than us. They have more resources. And they do not have the restriction of the parliaments to change information. Facing this threat is possible only with the international cooperation of the law enforcement and intelligence communities. And I am very proud and glad that the FBI, with Director Freeh, was the first service which basically gave us a hand in this area.

Once again, I would like to thank you very much for this kind opportunity. This is a great honor for me to be with you. And I would like to assure you that my country will do its best to be not only a recipient of the security which is from the West, but a contributor to the security.

Thank you so much, Mr. Chairman.

COUNTERTERRORISM ACTIVITIES

Senator MCCONNELL. Thank you, General Smeshko. Again, we are really pleased that you are here today.

Let me lead off, Judge Freeh, before turning to the working relationship with Ukraine, I wanted to ask your thoughts on news accounts which suggest that the National Security Council will have greater operational and budgetary control over counterterrorism activities. While I see some merit in improving coordination, I am troubled by the notion that White House staffers may become involved in decisions best left to law enforcement professionals.

As we have discussed in this subcommittee before, the White House staff already has a questionable track record on personnel file searches and inappropriate requests for information on current FBI investigations. I for one would strongly oppose expanding the staff's involvement or control over activities such as wiretapping.

So I am just wondering if you have any reaction to these news accounts?

Judge FREEH. Senator, with respect to the issue at large, we have been in discussions, not only myself but the Attorney General, with the NSC, as well as the Department of the Treasury, to improve what would be the appropriate coordinating role that the

NSC should certainly play in matters of national security. I have taken the position that under the existing authorities, particularly PDD–39—in which the FBI is designated as the lead U.S. agency for counterterrorism, in terms of operational control and decision-making—ought to be maintained because of the importance of keeping that kind of responsibility on an operational level as opposed to a policy level.

We have some other matters that need to be resolved. We are, I can assure you, pursuing those matters with the National Security Advisor, as well as the other departments that are affected. And we are hopeful that the end result will be more coordination without diluting the operational responsibilities that I believe should stay where they are under PDD–39.

Senator MCCONNELL. OK, well, thank you for your observations about that. Now, let us turn to the subject at hand.

General Smeshko, what kinds of crime are you seeing emerge today in Ukraine compared with, for example, 5 years ago? Are we seeing more violent crime, for example, compared with fraud? Or, is there growth in every area? Also, have you seen an increase in cases involving illegal smuggling of conventional or nuclear weapons or material?

General SMESHKO. Thank you, Mr. Chairman. As my best knowledge, really, the level of crime in Ukraine is increasing, unfortunately. Mostly this is connected with the money laundering issue. This is just like a vacuum cleaner, which is taking the money from the country. Some people have access to the privatization of the state enterprises, using this possibility to get the energy and other resources for much less than world prices and resell them for much higher prices abroad.

CRIMINAL ACTIVITIES

All this combined together with unfortunately the criminal activities of just average criminals. This mixture together gives quite a lot of problem to the country, in which there is not established proper legislation to combat this crime. And the level of corruption in some government bodies is very high.

Senator MCCONNELL. This includes, I assume, the judiciary? In other words, even if you were able to apprehend these people, what are the chances of your getting a conviction and a sentence of some consequence?

General SMESHKO. In my country, there was not a revolution, which is just great. We are very proud that Ukraine had not a single drop of blood. And we are evolutionary. From 1991, we have developed a democratic society. We peacefully adopted the constitution. We peacefully changed the second president. We have now the third parliament. But still it gives us a great deal of burden on establishing a real democratic tradition.

And the struggle for power in the country between the left and right side, I would say, combined together with the struggle and access to privatization of the hugest enterprises, creates a very difficult situation. We have the problem with the proper training on the personnel side, especially the youngest generation of law enforcement. The judicial system also is not prepared properly for act-

ing in the free market economy, and with the many cases which simply were not even predictable in previous years.

All this together results in a very, very difficult transition and distrust. For example, the National Bureau of Investigation was created in my country by the executive order of the President. Right now, the Parliament thinks that this is not a constitutional body. We have the second chairman, but a National Bureau of Investigation has not been adopted by the Parliament into law. And it is very difficult right now for many even to understand who is right. Because by the Constitution, the President has the right to create the governmental body, fulfilling the national security priority for the President.

The Parliament thinks that this is supposed to be adopted by the Parliament. And in the Parliament you have one-half of the Parliament on the left side, which simply thinks about the new state. It is all very painful and reflects the struggle with organized crime and corruption.

Senator MCCONNELL. Is crime and corruption worse now than it was under the Soviet system, or is it just more apparent now?

General SMESHKO. During the Soviet period, there was corruption also. But it was not in the media. It is very difficult to compare. Who knows? Maybe in those days it was even more huge.

I think right now the level of corruption in the government is really high. But I would not say that this is the red line under which it just might be the crisis for all governmental bodies.

Senator MCCONNELL. It certainly runs the risk of giving democracy a bad name, does it not?

General SMESHKO. Yes; exactly. It is very difficult to maintain a democratic way of development of the country, and at the same time to have the hard hand to fight these things. But right now my President is really very committed to proceeding with the democratic, evolutionary way of developing this. And, by the way, that is why he thinks that the creation of the National Bureau of Investigation, which would be the new organization taking the best professionals from other law enforcement and, on the new base, struggle with this evil, might be very beneficial to the country.

We hope that the next Parliament, which will be elected in March, will adopt the law of the National Bureau of Investigation and will proceed with the jurisdictional reform in the country.

ILLEGAL SMUGGLING

Senator MCCONNELL. Let me just turn to some specific areas of crime. What about illegal smuggling of conventional or nuclear weapons?

General SMESHKO. Sir, with the smuggling of, let us say, fissionable material, I would assure that Ukraine right now has a very good record on this. First of all, right now in the territory of Ukraine, there is not a single nuclear charge. We have fulfilled all our obligations of the START I treaty, and we did get rid of the third nuclear arsenal in the world.

Right now it might deal only with fissionable material in the nuclear reactors. But protection is very good. And we had a single case in the country in which it might be a real threat. We had information, criminal intelligence information, that there was nego-

tiations with some organized crime group just to know the price and possibility of distributing these fissionable materials to some foreign organized crime group.

But our investigation did show that it was not originated with the Ukrainian fissionable materials. And until now I would not say that it would be the biggest problem or the real problem.

Senator MCCONNELL. How about conventional weapons?

General SMESHKO. Conventional weapons, this is really the question of a great deal of concern for all law enforcement and intelligence agencies of my country. Ukraine used to have a huge stockpile of the armaments which was left after the collapse of the former Soviet Union. And a few days ago there was a change of the chairman of the Opraspetz Export, the state enterprise which run the selling of these arms. I would say this is one of my priorities in my job, to check those people who did not have authorization to sell conventional arms to foreign countries.

Right now we have had a single case in which we would prosecute crooked people who did a great deal of business in this area. But we have stopped a lot of attention by some businessmen, by some persons, which had negotiations in this area. But I can assure you, sir, that this is one of the highest priorities for the intelligence community and law enforcement. And right now, the export control system in my country, with the help, by the way, of the United States, I would say has a very good level of protection.

Senator MCCONNELL. At various times in this country, auto theft has been a big problem. What about auto theft in Ukraine, is that a big problem?

General SMESHKO. Yes; unfortunately, yes. You see, Ukraine is in the center of Europe. And we are a transit point for cars which might be stolen in Germany, Poland and other countries.

Our Minister of Interior Affairs made a great deal of efforts right now to track the things. And, by the way, we have good cooperation in this area with the German police, with the Polish police. We recognize this problem and are trying to work hard. I think in the last 5 to 6 months especially, there is improvement in combating this kind of crime.

SOPHISTICATION OF CRIMINALS

Senator MCCONNELL. One final question before turning it over to Senator Leahy. And that is, how would you describe the criminals themselves these days in Ukraine? How sophisticated are they? Are these people talking in phone booths, using passwords, or do they have encryption devices for telecommunications and computers? Just how sophisticated are the criminals you are dealing with in Ukraine these days?

General SMESHKO. I see, sir. I see. You see, right now the criminals are becoming richer, wiser, and especially the first level of the real criminals which are right now, I would say, the mobs of the organized crime groups. They are trying to be more engaged not in the criminal activities just like the murder of other real villains, they try to buy state enterprises. They try to be engaged in investment in profitable enterprises. They are using very sophisticated equipment.

Senator MCCONNELL. Are they connected to organizations in Russia? Is there an interconnectivity between these people?

General SMESHKO. In Ukraine we have an organized crime group which is connected with all our neighbors and even with your country. And I could not right now name a single real organized crime group in my country which did not have a connection with your country or just simply did not travel here and have negotiations with your gangsters.

Senator MCCONNELL. So they are not connected with the United States or they are connected with the United States?

General SMESHKO. They are connected, yes.

Senator MCCONNELL. And with Russia?

General SMESHKO. Yes, sir; of course. There are clear connections between them.

And, last, they are using more and more sophisticated equipment. I am personally a doctor of cybernetics. And I would tell you this is a great deal of danger additionally, because we have a very highly trained population, especially in the technical area. We had some information a few months ago that two students of the highest 5-year term at university were requested to make a quite sophisticated encryption device for the laptop. And they made this encryption program on a CD–ROM, a very sophisticated program, which was requested from one of the chiefs of the organized crime groups.

And that is a real threat. I think in this case your country also was supposed to have the lead to fight this area. Because in the future, if they will start to use the real encryption devices, it would be very difficult to track and to prosecute this activity. They have enormous money. For them $100,000 is nothing to buy equipment from Motorola and Matra, Sejam, satellite communication, good laptop computers, or equipment for encryption or good-brained guys who might just do for them things like an encryption program.

Senator MCCONNELL. Senator Leahy.

NUCLEAR MATERIALS

Senator LEAHY. Thank you, Mr. Chairman. I may want to follow up on that, too, but first I will follow up on another question of Chairman McConnell's on the issue of nuclear material. I understand the situation in your country. And incidentally I have been to Kiev and I have traveled in that area. I worry about the lack of safeguards on nuclear material.

As I understand it, you could make a fairly crude nuclear bomb with only this much plutonium. It would be hundreds of times more powerful than the bomb that destroyed our Federal building in Oklahoma City, which caused tremendous loss of life. And Senator Nunn, a former member of this body, called this the No. 1 national security challenge we face, the fact that terrorists might get nuclear material.

I wonder if I could ask you both, General, both you and Director Freeh, which of the former Soviet Republics, besides Russia, currently possess highly enriched uranium and how much are we talking about?

Judge FREEH. Yes; there are a number of countries, Senator. And I think most of that material, as far as we are privy to it, is confirmed by the Department of Energy as well as other U.S. program identification. I can harken back to your reference to Senator Nunn. The Nunn-Lugar funding, which the Senate and the House have provided, has been directed toward the countries where the material is available and also where security controls are issues to be resolved and hardened.

For instance, that funding has been used to train police officers in Kazakhstan, Uzbekistan and Kyrgyzstan. In fact, Uzbekistan police officials are in the United States this week to receive Nunn-Lugar nonproliferation training. This is law enforcement/security-type training to not only harden and solidify the storage of these materials, but also to develop intelligence networks and protocols for investigating what I am sure General Smeshko could tell you about in great detail, which is the offering for sale of what sometimes purports to be fissionable material and which in most cases thankfully has been bogus material.

The counterproliferation assistance program, which has been funded under the Nunn-Lugar program, has been made available to the countries, as I mentioned, where we think there is some jointly agreed upon need and vulnerability. As to the particular materials in the various countries, I would have to get back to you with the amounts.

Senator LEAHY. Well, in fact, one of the things to be concerned about is some of the lower-grade material in civilian nuclear plants. Some of the reports I have read describe very limited amount of security, perimeter defenses and checking. In fact, somebody suggested that some of the nightclubs in Moscow have stronger security than some of the places where the nuclear material is, some of the civilian nuclear powerplants.

If you have got a bank in Moscow or a nightclub in Moscow that is better protected than a nuclear powerplant, you have to worry. Is it a problem? Maybe a better way of putting it, one of the biggest threats we could face would be nuclear blackmail or nuclear terrorism. And my concern is how vulnerable we are.

Now, you have mentioned, Director Freeh, sometimes there are bogus sales being made, and we have heard of those. But do we have the kind of cooperation necessary that if any one of these countries gets a report that real nuclear material, fissionable material, is missing, can we start tracking it from the highest levels from country to country?

SHARING INTELLIGENCE INFORMATION

Judge FREEH. Well, that is a very poignant question. And those are exactly the relationships that everything we have discussed here are designed to foster. And I met with the head of the Federal Security Service [FSB] in November in Moscow, Director Kovalev. One of the things we discussed over a series of meetings was the cooperation that would be required if somewhere in Russia, for instance, we developed information or they developed information that fissionable was going to be sold or smuggled not only into the United States but into some other country. And we talked about some structures and some cooperative meetings by which we could

react to that jointly and share information, particularly intelligence.

The relationships that have been established here are stronger in some places than others. Part of the Nunn-Lugar training is to reach those countries where we do not have the relationship that we have, for instance, with General Smeshko, and even the MVD in Russia. I think, to answer your question precisely, the relationship is really critical in ensuring any kind of cooperation in those matters.

In some countries we have developed it to a finer point. In other countries it is much more fluid at this point. And that is the whole purpose of this training initiative and the liaison and the extensions of cooperation that we have made here.

Senator LEAHY. General Smeshko, do you fear that some of this material might get stolen, for example, in Russia and then that it might be taken through your country and on to other areas?

General SMESHKO. Mr. Senator, first of all, I would completely agree with you that in the future it might be a real for the world. Because sooner or later—but unfortunately, with all our efforts to protect the proliferation of the knowledge, this is really the threat which we can face only with international exchange, international cooperation between the intelligence services and law enforcement.

First of all, I would like to answer your question. You asked how many countries might have the nuclear materials. Every country of the former Soviet Union which has a nuclear civilian plant basically has materials which might be used in some way as a base for the development of a device.

In my country, the Security Service of Ukraine has the main priority to work to protect any kind of leaking of any possible materials from these plants. That is one of the priorities. Of course, I could not argue with you about the protection of, let us say, the banks and nightclubs. Unfortunately, on payment, we have a severe budget problem. I think many banks are protected better.

Senator LEAHY. They have got more money to pay for the protection.

General SMESHKO. Yes; exactly. Exactly.

But a crucial thing is cooperation and the fast exchange especially with the intelligence information. By my experience, we had twice with our foreign Western intelligence services the cases in which we, in a very fast manner, checked the information in this area. And this is very crucial to fast reaction on the possible threat.

Thank you.

Senator LEAHY. And, General, my last question to you, and if I have questions for Director Freeh, I will submit them. I am told by some companies that want to go into Ukraine that they face so many problems—bribery, corruption, redtape, bureaucracy—that if they want to invest somewhere, they go to a different country to invest their money.

On the other hand, when I talk to some of the leaders from Ukraine, they say they want investment to come to Ukraine, to create jobs, to help. Are we at an impasse here?

Because I know most American companies are not going to go and put significant investment in a country where they face that.

Among other things, our laws are so strict that they are going to get into trouble back here in the United States if they do.

BRIBES

General SMESHKO. Yes, sure, sir, you are right. American businessmen, in some way, are not in an equal position. There are several countries in which you just give a bribe. Even if we would pass this information to the friendly service abroad, he would not be prosecuted. In that country, this is a violation. In my country this is not a violation. For the American businessman, this is another case. And we are very fortunate.

This problem exists. And believe me, right now this administration is trying to do their best to improve the situation. Unfortunately, it is a 6-year-old democracy, which is only trying to establish itself.

I would like to just take a few seconds just to tell some good words I had with Dr. Zbigniew Brzezinski in a conference, American, Polish, German, and Ukrainian in January 1997. My German colleagues talked about a great deal of frustration with the speed of the reform in Ukraine. And Dr. Brzezinski made this remark. He said, "Listen, there is not another person who might be more frustrated if the Ukrainians did less than I would like in advancing the reforms."

But I would like to defend them before you. Just remember after 1945 your country started the transition. But what would it be if you did not have the Marshall plan, the strong American presence, which helped enhance the democratic institutions. But, moreover, what would it be if in all key positions there had been the old hardliners and the center of the capital was the mausoleum of Hitler.

This is not the case with Ukraine. But this is a transition, a transition in which old and new live together. Ukraine is the second largest territory in Europe on state property. And the government and servicemen receive salaries which unfortunately are not enough. All in transition, but in a democratic way.

We are supposed to live through this. And we are trying to do our best. But sometimes, unfortunately, there is also fraud, believe me, and from the American side, businessmen. Not in every case is the fault of the bureaucrats and corruption only from the Ukrainian side. But we are trying our best, believe me. And we are facing this problem. We will do our best to improve the situation.

Thank you.

Judge FREEH. Senator, if I could just answer that very, very briefly, with your permission. I think the notion really to emphasize is the idea of change and transition. A democracy which is not only newly established but where everything is changing. The economy is changing. The notions of property are changing. A civil justice system is not quite in place, which would give not just foreign but Ukrainian business people rights and protections.

One interesting note, again, just to emphasize the change. When I was in Moscow in 1994, which was my first visit, we met a number of American business representatives who were talking about whether they would invest in Russia or South Africa because of the dangers and threats both propertywise and safetywise in Russia. When I was there in November, the last meeting I had was with

50 members of the American Chamber of Commerce. And they said two things.

One, the situation had dramatically improved, because the police, the MVD, was much more responsive to threats, particularly extortion threats. They also felt that the presence of the FBI agents and their liaison had facilitated that. I think the same situation is really developing in the Ukraine.

FOREIGN INVESTMENT

And to go back to my opening statement, which is why your support is so important. In a region such as the Ukraine, not just the 52 million people who live there, but the enormous resources in the Caspian Basin, not just the ones that will transit there but the ones that are deposited there, will bring the foreign investment, particularly American investment. What we have to assure them, and what this committee has supported, is a law enforcement network where the American business interests have General Smeshko and myself to rely upon to deal with some of these threats. And that is the key piece in this that I think we are putting in place.

Senator LEAHY. I may have some more questions for the Director.

Senator MCCONNELL. Those will be submitted.

I do think we have a tendency to be more impatient, and I am sure you are more impatient, than we should be. I have been reading a marvelous history of the United States by Paul Johnson, basically called "A History of the American People." And he points out that, contrary to everything that we think, in many ways the American Revolution did not bring about all that much of a change. We had been evolving in this country for 150 years a system that involved the rule of law and essentially democracy in every one of the Colonies.

So even as we think of the American Revolution, and certainly it was an important event—I do not mean to diminish the importance of it—it was not as big a change for us from the period before the revolution until the period after it. Whereas what you all are trying to achieve is a dramatic change in every way: economically and in terms of the rule of law. So I just make that point, because we all wish things were going faster, and I know you wish things were going faster, but it is not as easy when you are trying to change literally everything.

Judge, you mentioned practical case training in your statement, in which you bring officers or agents over here to work side-by-side on specific cases with U.S. law enforcement officers. Tell us a little bit about how that works. How long are they typically here? What do you do with them?

Judge FREEH. It depends on the case. I will give you one example which was actually the first one that we did with the MVD in Russia. It was the Ivankov case. Ivankov was identified as a top thief-in-law, as the term would be, a Mafia-type godfather, Russian in this case, who came to the United States to not only commit crimes on an organized basis, but to organize some of the disparate organized crime figures, particularly in the New York City region.

He was identified to us by our Russian counterparts. And then, in the course of the investigation, which resulted in his conviction and sentencing, MVD officers from Russia came to the United States. They assisted us in analyzing tape recordings, identifying photographs. They went out into the street with FBI agents because they could recognize some of the associates and confederates from Russia that we did not know—people who were here illegally in some cases.

We have done very well with respect to the practical case initiatives with Russia. We are doing one now with our counterparts in the Ukraine, which is the one that the Captain will work on later this week in Los Angeles.

Senator MCCONNELL. Where does the funding come from for this?

Judge FREEH. That funding has come primarily from the Department of State INL funds. We have expended approximately $352,000 since 1996. That represents about 40 total sessions or events where that initiative has been practiced.

Senator MCCONNELL. So are you all requesting an increase this year in that?

Judge FREEH. We proposed, for 1998, 12 sessions, at a cost of about $120,000. It is not an increase over 1997. And, again, those are funds that we think are put to very good use.

Senator MCCONNELL. Is that about all you can handle, then, the request?

Judge FREEH. We would like to make sure that we have funding left to do some of the other training that I alluded to. The proposed training for the FBI courses, which are all of course approved by the State Department and the Embassy, have been reduced in 1998 because of lack of State funding. Those are issues which we are certainly concerned about, because we want to maintain at least the level of training that we have already exercised.

Senator MCCONNELL. How many investigative leads generated in the United States are pending in Ukraine? Is that a figure you might have?

Judge FREEH. With respect to the actual cases, we have a total of 95—we call them pending investigations; 30 of those are investigations where General Smeshko and his colleagues have asked for our assistance. The other 65 are pending investigations around the United States, and they involve organized crime, violent crime, white collar crime. And those are just the actual cases. I may ask Agent Pyszczymuka if he wants to comment on the leads, because he has got the personal experience.

LAW ENFORCEMENT LIAISON

Senator MCCONNELL. Right. And also how many agents do we have in Ukraine? And are they covering other countries as well as Ukraine?

Mr. PYSZCZYMUKA. There are two agents assigned to the Legal Attaché Office in Kiev, Ukraine. The office is a regional office and, in addition to Ukraine, we also provide coverage and law enforcement liaison with Georgia, Azerbaijan and Armenia.

In regard to the caseload, there are approximately 60 to 65 leads still pending in all the critical violations: organized crime, white

collar crime, violent crimes. For example, I have two pending leads out of the Los Angeles division in Armenia for homicide subjects that local police officers in the Glendale Police Department believe are now secreted in Yetevan, Armenia.

As the Director earlier mentioned in his testimony, we were instrumental—that is, myself and my partner in Kiev—in convincing the surrender of Mr. Jeffrey Broner, who was a fugitive hiding out in the Ukraine for approximately 4 years. We were able to engineer that successful surrender, and he is facing prosecution now in New Jersey.

In regard to organized crime, the Director has been very omniscient in predicting the problems years ago. We presently have, I believe, four Russian organized crime squads in the continental United States: New York, Miami, Los Angeles, San Francisco, I might have missed something, because I have been out of the country for 14 months. But they have been extremely active in developing criminal intelligence.

This criminal intelligence that they develop on the different clans that control Ukraine is passed to me and, in turn, I refer that information to people like General Smeshko, to individuals and contacts in the Security Service of Ukraine, which is the followup agency to the KGB, to the Procuracy Office, border guards, Customs, and other interested entities.

Like I said, the cases cover the entire gamut of violations that are worked out of the States. The investigation that Captain Kostyuchencko will be heading out to is a significant money laundering investigation that was initiated by Los Angeles FBI agents and men and women of the San Francisco division also. It has connections to high-level officials back in the Ukraine. We have been able to track tremendous amounts of money being laundered through countries such as Switzerland and offshore sites, into San Francisco.

Senator MCCONNELL. I understand we have 600 leads pending in Russia. Does that sound like a familiar number?

Judge FREEH. Yes, sir; in terms of leads and the explosion of the caseload there from——

Senator MCCONNELL. So you have a manpower problem there, too, I guess?

Judge FREEH. We have just added third agent, with the approval of the Department of State. But that is just enough to meet what is a growing caseload.

Senator MCCONNELL. Is the State Department generally open to these larger legal attaché offices when the caseload appears to warrant it?

Judge FREEH. We have to go through a justifiable and important authorization process, the NSDD–38 process as we call it. They are generally supportive of it, particularly on the Ambassador level, with rare exception. They understand the need and the importance of having that law enforcement capability and liaison.

We have generally enjoyed very, very good support in terms of expansion. It is a lengthy process. And the process has been further lengthened by congressional requirements for an additional threat assessment—the process which we are going through now, particularly with the House committee.

Senator MCCONNELL. Thinking back to the academy in Budapest, which I visited as you indicated, Judge Freeh, how many Ukrainians have been through that program?

General SMESHKO. About 20, sir.

Senator MCCONNELL. Twenty.

General SMESHKO. Yes.

Senator MCCONNELL. And do we keep in contact with them after they leave?

General SMESHKO. Yes.

Senator MCCONNELL. And when they graduate from there, do we have an ongoing, sort of, alumni relations effort here?

Judge FREEH. Yes, sir; there is.

We have a National Academy Associates Program, but we also have developed, through the academy in Budapest, an alumni networker association. The purpose of that is to maintain the contacts because these young officers will become the commandants and the generals 10, 20 years from now. And that is the benefit that we all get from that.

PROSECUTIONS

Senator MCCONNELL. General Smeshko, my notes indicate that we have a serious issue in your country with regard to prosecutions. I am told there has not been a single major case prosecuted in the last few years involving corruption. Is that the case, not a single one, or is that an exaggeration?

General SMESHKO. Right now we have adopted by the Parliament a law on corruption. But, unfortunately, to the best of my knowledge, there was not a single case when this law was really used.

Senator MCCONNELL. So the law is not adequate or the will to prosecute is not there, or both?

General SMESHKO. The law was adopted by the Parliament, a special law on corruption. But the chapter which defines corruption is very difficult to use for the prosecution. This is left with the law and the real jurisdictional system which might use this law. Unfortunately, to the best of my knowledge, there were about 400 cases when there was open charges on corruption, but I honestly do not remember when there was a successful story in the court.

Judge FREEH. Mr. Chairman, I would mention just—and General Smeshko is aware of this—there is a case that we are working with the Ukrainians—in fact, it is part of the practical case initiative effort. It is called the Kirichenko case. And it does involve an individual who was a high-ranking Ministry of Foreign Affairs official in the Ukraine, who is being investigated. He probably will be prosecuted for corruption charges. And it is a case we have worked through our San Francisco office.

Senator MCCONNELL. Well, good luck. Because in the absence of any prosecutions at all, that sends a discouraging message to foreign investors. Particularly, United States investors I think find that very depressing.

That one bell that went off means that we are having a vote. I think we are about to the end of the session anyway. I am going to see if either of you would like to make kind of a final observation, rather briefly. Either of you have anything you want to add here at the end of our hearing?

CORRUPTION

General SMESHKO. Thank you so much. Thank you, once again, Mr. Chairman, for this kind opportunity, really, to be here for this discussion and to present the point of view of my country. Really, many things are not so encouraging right now. And it is a very difficult area for my country. We are combatting the corruption, especially at the highest level of the government and the organized crime.

But, still, even if there was not a successful story in the court against corruption in the government, there are already a lot of examples where corrupt persons were fired from their position, from the highest level of positions. And every week you might see in the newspapers that regional level, administration minister level, administration, are removed from their positions by executive order of the President.

Unfortunately, the jurisdictional system is not robust enough right now to face this new challenge—even to just enforce the law which was already adopted by the Parliament. Still, believe me, the leadership of my country does recognize this problem.

Senator MCCONNELL. Yes; I was in Ukraine last summer. I met with President Kuchma down in Sevastopol and I went up to Kiev briefly. My view is that we need to continue to try to do the very best that we can. We need to stay engaged. We need to understand what a difficult transition this is going to be.

And I particularly think that what you are doing, Judge Freeh, is making an important contribution not only at the academy in Budapest, which I think is a spectacular example of international cooperation, but I think we all just need to stay the course. I know you would agree, Judge Freeh, to find someone like General Smeshko in an important position, that is encouraging in itself. I think the United States has a longstanding and a long-range interest in the success of Ukraine. And as far as this subcommittee is concerned, we are going to stick with you.

Thank you very much.

Judge FREEH. Thank you very much, Mr. Chairman.

SUBCOMMITTEE RECESS

Senator McConnell. The subcommittee will stand in recess until 10:30 a.m., on Thursday April 23, when we will hear testimony from Dr. James Hughes, of the Centers for Disease Control; Dr. David Heyman, World Health Organization; Dr. Nils Daulaire, Agency for International Development; and Dr. Gail Cassell, Eli Lilly, Inc.

[Whereupon, at 4:53 p.m., Tuesday, April 21, the subcommittee, was recessed, to reconvene at 10:30 p.m., Thursday, April 23.]

# FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1999

**THURSDAY, APRIL 23, 1998**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 11:13 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Mitch McConnell (chairman) presiding.

Present: Senators McConnell, Campbell, and Leahy.

## AGENCY FOR INTERNATIONAL DEVELOPMENT

**STATEMENT OF HON. NILS M.P. DAULAIRE, M.D., M.P.H., SENIOR HEALTH ADVISER**

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CENTERS FOR DISEASE CONTROL AND PREVENTION

**STATEMENT OF HON. JAMES M. HUGHES, M.D., DIRECTOR, NATIONAL CENTER FOR INFECTIOUS DISEASES**

## NONDEPARTMENTAL WITNESSES

**STATEMENTS OF:**

**DAVID L. HEYMANN, M.D., DIRECTOR, EMERGING AND OTHER COMMUNICABLE DISEASES, SURVEILLANCE AND CONTROL, WORLD HEALTH ORGANIZATION**

**GAIL H. CASSELL, Ph.D., VICE PRESIDENT, INFECTIOUS DISEASE DISCOVERY RESEARCH AND CLINICAL INVESTIGATION, ELI LILLY CO.**

### OPENING REMARKS OF SENATOR MITCH MC CONNELL

Senator MCCONNELL. Good morning, everyone. Thank you for being here.

This hearing is being held largely at the request of my senior colleague, Senator Leahy, who has been very active in the field over the years.

Over the past couple of years, outbreaks of mad cow disease, Ebola, Asian avian flu, and human monkeypox have captured headlines and raised the public interest in the global resurgence of life-threatening infectious diseases. While these outbreaks have been serious, they have been effectively contained by the rapid reaction of the international health community.

Unfortunately, these exotic sounding, unusual incidents have eclipsed the public's concern or interest in the real killers; 17 million people die of common diseases, most of which could be prevented or effectively treated. Malaria, TB, cholera, and measles still prematurely rob far too many people of life.

Lest anyone believe this is a threat confined to some remote island in a distant hemisphere, these diseases have come home to kill. Potent new strains of TB have been detected in the Commonwealth of Kentucky; 10 years ago, I doubt five adults knew what E. coli was. Today young parents are ever alert to symptoms, given the toll it has taken on our children and the elderly.

Last year, the subcommittee recognized the time had come to invest in a serious and sustained global commitment to combat the spread of infectious disease. To fulfill this commitment, there are two tracks which are mutually reinforcing, which we must proceed along.

First, we should set up monitoring and detection of disease to contain outbreaks before they become epidemic. This requires developing and putting in place a comprehensive global information system to afford specialists early warning and the opportunity to respond quickly and effectively to problems. Although this has been discussed for the last 2 years, I do not have the sense that a global, or even regional, electronic network is up and operating. I will be interested in hearing current and future plans to address this issue.

Early warning and detection must be complemented by effective treatment. The second track represents real challenges, as microbes have mutated and become resistant to the available drug therapies. Fortunately, the revolution in technology and genetic research have opened new avenues for solving microbial medicine mysteries. However, high-tech solutions must be enhanced by basic education.

The international health community must develop a strategy to educate and address the resistant problems, exacerbated by the over-prescription of antibiotics and their extensive use to produce animal growth. We need to be confident that what seems to be modern medical miracles are not in fact sowing the seeds of our own destruction.

I think everyone here will agree on the scope of the problem and the general outlines of a solution. However, I am concerned that current planning is not keeping pace with the explosive growth in the problem. I think we would all agree on a strategy which improves information sharing, coordination of international response mechanisms, and our understanding of drug-resistant viruses and bacteria.

But I think we must also accelerate the process of testing and introducing effective drugs and vaccines. My staff was recently on a trip to the Thai-Burma border, visiting refugee camps where malaria is a serious problem. Virtually all cases—Thai, Burmese, and American alike—were being treated with a wonder drug from China, which everyone acknowledged was unlikely to see market shelves anywhere outside the region. Clearly we must take public safety into account when considering new products. But it seems

we must increase emphasis on reducing barriers which have impeded the timely availability of successful drug therapies.

We have a number of witnesses and only an hour and a half to cover the ground, so I am going to turn this over to Senator Leahy, who will preside for the balance of the time. And I thank him very much for his interest and commitment to this issue over the years. And I welcome all of you to the committee today.

OPENING REMARKS OF SENATOR PATRICK J. LEAHY

Senator LEAHY [presiding]. I want to thank Senator McConnell for scheduling this hearing. It is the second hearing he has scheduled this week. It has been a very busy week, and I do appreciate it.

In a way, we are picking up where we left off almost 1 year ago when we had a hearing on the same subject. The interest since then on the threat posed by infectious disease has grown dramatically. Two months ago, the Centers for Disease Control and Prevention [CDC] held their first international conference on emerging infectious diseases, and by all accounts it was a resounding success. And yesterday, the judiciary and the intelligence committees held a joint hearing on biological terrorism, which pose many of the same challenges.

Other committees have focused on other aspects of it. I do not think we can take sole credit for the surge in interest. The Hong Kong flu and Iraq's biological warfare program both had something to do with it. But there is no question that this subcommittee had a part in this as have all of you here.

Last year, we wanted to call attention to the fact that despite numerous studies that have identified serious weaknesses in the way we and other countries respond to infectious disease, and despite many recommendations for strengthening and coordinating our response, little had been done. There are too few resources, too little coordination and not nearly enough trained people in the developing countries, where epidemics often originate.

With the exception of childhood diseases and HIV/AIDS, the Agency for International Development was spending a pittance to combat other infectious diseases. The CDC has only a few million dollars to spend on international activities. But all of you, and certainly our witnesses testifying here today, know that infectious diseases know no boundaries. The Hong Kong flu is just an airplane's flight away from Los Angeles or Burlington, VT.

The resurgence of tuberculosis a few years ago is a textbook example of how easily diseases, once thought to be under control, can reemerge if public health systems deteriorate and if drug resistance spreads. And as the latest confrontation with Iraq reminds us, deadly microbes could be intentionally spread. If that were to happen the results could be catastrophic. At least nine other countries are suspected of having biological warfare programs. A handful of anthrax could wipe out a city of millions.

To make a long story short, we recognize the threat to the American public from microbes that are transported here from abroad. We saw the need for stronger U.S. support for a global response. And it was time to stop talking and do something.

That is why we decided to appropriate an additional $50 million as a first installment in a multiyear U.S. strategy to combat infectious disease. Now, that strategy, which was publicly released by AID 6 weeks ago at the CDC conference in Atlanta, is why we are having this hearing. We want to focus on building the human capacity and the public health infrastructure in the developing countries so they are capable of conducting proper surveillance. We want them to be able to respond effectively to infectious disease. The goal is an integrated set of global networks that work.

We recognize this is an immense task. We are not going to do it this month or next month. It will take years. But at least we are letting everybody know it is needed, and we are starting to do it.

So we are going to look at what we have done in the past year. We want to know how the strategy was developed, what it consists of, and then if each of you could tell us what you see as the greatest challenges and opportunities for your agencies.

There is only so much government can do. The private sector is at least as important. That is why we have invited and we are privileged to have as one of our witnesses Dr. Gail Cassell. She is vice president for infectious disease research at Eli Lilly. Dr. Cassell will discuss some of the impediments to the development of new drugs and vaccines for use in the developing countries. There may some ways we can help get rid of those impediments.

We are also fortunate to have my good friend Dr. Nils Daulaire. He is a fellow Vermonter. Nils is one of our Government's most effective advocates for international health programs. And we have Dr. David Heymann, from WHO, sitting beside him. He is responsible for surveillance and control of emerging and other communicable diseases anywhere WHO operates, which is just about everywhere. They have both been enormously helpful in advising the subcommittee.

And Dr. Jim Hughes, of the CDC, who knows as much as anyone in the world about infectious diseases.

What we know is this: 50,000 people die every day of infectious diseases. Let me repeat that. Every day, 50,000 people die of infectious diseases. To put that in context, the largest city in my home State of Vermont is about 40,000 people. That is 17 million people each year. It is 1,500 times the number of people that were killed by landmines last year—an issue that we have had great concern about.

I have spent the past 8 years trying to ban landmines, and I do not plan to stop. They are hideous. They are indiscriminate weapons. They maim and kill innocents. They disrupt whole societies. But this number puts things in perspective. We have another landmine out there, only 1,500 times more lethal.

And the irony is that many of these infectious diseases could be prevented or cured, often for as little as $1 per person. But millions of people die because they cannot afford the cost of the drugs or vaccines, or there is not the public health system to deliver them.

We want to change that. I want to end with a quote by Laurie Garrett, the Pulitzer Prize-winning author of "The Coming Plague." She wrote:

As the world approaches the millennium, it seems, from the microbes' point of view, as if the entire planet, occupied by nearly 6 billion mostly impoverished peo-

ple, is like Rome in 5 BC. Our tolerance of disease in any place in the world is at our peril. While the human race battles itself—the advantage moves to the microbes' court. They are our predators and they will be victorious if we do not learn to live in a rational world that affords the microbes few opportunities. It's either that or we brace ourselves for the coming plague.

That probably says it as well as anyone could.

SUMMARY STATEMENT OF DR. NILS DAULAIRE

So if we might start, Dr. Daulaire, with you. I am delighted to have you here. I would note for the record that you have advised this subcommittee on many occasions, and I have appreciated it.

Dr. DAULAIRE. Thank you very much, Senator.

As you have asked, what I would like to do in a few minutes today is to run through some of the major things that have developed since last year's hearing, put a few things in context, and then move to my colleagues, so that we can get into a useful exchange. My extended testimony is available at the back of the room.

As this committee's chairman is well aware, the United States, four decades ago, led the world community in starting the process to deal with a scourge of terrifying proportions here in the United States and elsewhere, which was polio. And we are now only a few short years away from the final eradication of the polio virus from the face of the Earth. This is a case of real U.S. leadership, carried out over the course of nearly half a century.

Today, thanks to the vision of this committee, particularly your leadership, Senator Leahy, and the commitment of President Clinton's administration, to addressing global problems, we are again helping to lead the world in a struggle of enormous importance to humanity—the war against infectious diseases—which, as Laurie Garrett points out, is in fact the true biological war that we all face.

Now, you made the decision in the appropriations process last year that USAID would be the appropriate vehicle for this appropriation and that we would serve as a coordinating body, with many other institutions, several of them seated here, particularly my colleagues from WHO and CDC, who have been very active in this.

We recognized from the beginning what you made note of. Every 2 seconds a man, woman or child dies of an infectious disease. And for the most part, those who die are the young and the poor, the hungry, the powerless, the people whom this committee has taken as their special charge. But beyond those outside our borders who are at risk, Americans themselves are at enormous risk. And we will be talking about that this morning.

Now, USAID, as you well know, is an agency that has as its foremost task building sustainable development in the poorest countries of this world. And we have taken this initiative within the context of this charge of sustainable development. What we see as our fundamental task is to build the capacity of people and societies to address their own problems. We recognize the problems. We have enormous expertise in this country.

But American physicians cannot treat every case of disease around the world. American public health workers cannot immu-

nize every child, cannot run every health program. And the only way that these issues are going to be resolved for the long term is going to be by building the lasting capacity of the countries that we assist to do this on their own.

You gave us the mandate. You gave us the funding, which was of critical importance, back in the fall of last year. And I would like to tell you what we did. Within a month of this appropriation being signed into law, we had called together a meeting of the world's leading experts on infectious diseases, several of my colleagues here at the table with me, but close to 100 others who came to Washington for a remarkable 2-day conference, which you addressed, Senator Leahy, to look at what has been accomplished and, more importantly, what is still needed to address the problem of infectious diseases.

And I would like to address your attention to the chart over here. We know that there are slightly over 17 million infectious disease deaths in the world, the leading cause of death in the developing world and a growing cause of death in this world. When we reviewed at this meeting what had been done and what needed to be done, I would like to point out that this circle would have been considerably larger before USAID's programs, particularly in child survival, began 15 years ago.

The pink triangle, for diarrhea, would have been between 4 million and 5 million deaths. The green triangle, for pneumonia, would have been around 4.5 million deaths. The red triangle, for immunizable diseases, would have been between 3 million and 4 million deaths. So even with past activities, what we can point to with considerable pride is the fact that there are probably 4 million or more fewer deaths today, each year, from infectious diseases than there would have been without these very effective and important programs.

But, obviously, we are left with some enormous problems. And 4 million lives saved is one thing, the 17 million lives that are still being lost are our major concern.

Now, as you well know, we continue our programs in diarrheal disease and pneumonia, for childhood illness, in immunizable diseases and of course in HIV/AIDS prevention. But as we reviewed, as a group, these major causes of illness and death, some big pieces are obvious: Tuberculosis, which currently kills 3 million people a year and infects one-third of the world's population; malaria, which kills over 2 million people a year and is the single largest cause of death and disability in Africa. Those are enormous issues.

ANTIMICROBIAL RESISTANCE

On top of that, we recognize that even within the programs and activities that we already have underway for pneumonia and for certain kinds of diarrheal diseases, we are facing a major new problem, which is the growth of antimicrobial resistance. The tools that we have had for the last 30 years to deal with these enormous problems are gradually wearing away. And so the focus on antimicrobial resistance, in addition to tuberculosis and malaria, was judged by this expert group to be a very important part of an USAID strategy.

The fourth part which was decided on is one which you have already cited, which is the importance of surveillance, and particularly for USAID, with our work at country level, improving the capacity of countries to obtain and use good information to understand and respond to the spread of disease.

Now, these are important issues. The numbers are huge. But they are not abstract. And I would like to just address some of the pictures that we have here, some of which I have taken myself. This first picture of the young child, that is Lakmi. She is a 3-year-old girl, or she was a 3-year-old girl when I met her in a remote, rural village of Nepal. She had had pneumonia for the past 10 days.

We had an effective program going on to treat these children with antibiotics in the community, but she lived 18 hours' walk from the nearest hospital or clinic. And the antibiotic just was not working. She was a case of antimicrobial resistance. Everything was done right. And when I came and found her, I made sure that she was getting everything that we had on hand in terms of appropriate drugs at that level. Yet 2 hours after I took this picture, she died.

These are real problems, with real people.

TUBERCULOSIS

Next to her are two photographs concerning tuberculosis. Amadou is a young man from Mali. He has what is called scrofula, which is a TB infection in the nodes of his neck, which eventually erode and continue to ooze out into the open. These people are virtually unable to work or carry out productive lives.

To his right is Meena, from the Bihar District of India, a woman who has had TB for a number of years, has infected every single member of her family and is herself unable to work or carry on because of the severity of her illness.

And, finally, at the very end there, the black-and-white picture is a picture of Leah, from Kenya, who suffers from malaria, who has lost two children in pregnancy because of the consequences of malarial infection, and who is again totally devastated in terms of her ability to work.

These are real people and real problems.

Now, we recognize that USAID and our $50 million is a small piece of a very large puzzle and that we cannot do this alone. We do not expect to do it alone. There are key partners. And particularly I would like to highlight, and we will be hearing more from, the World Health Organization and the Centers for Disease Control. And I would like to point out the growing role of the private sector in this area.

We are in a world of a global economy. And we have seen an enormous growth of interest and capacity on the part of the private sector, in part, out of enlightened self-interest, recognizing that a majority of the world's consumers and economies will be in the developing world over the next 20 to 30 years, and also that a large proportion of the world's work force will be there. A healthy work force is a far more productive work force. So we very much welcome them to this effort.

We have, over the past 6 months, since the appropriation, already moved very rapidly. After the consultation we held, we were able—have been able as of today—to program almost $45 million of the $50 million that you appropriated, Senator. And we will have the remaining $5 million wrapped up over the next several weeks. So we feel that we are in very good shape. It is quite unusual for a Government agency to be able to move this quickly, but we have gotten good prodding from the Hill, and we are very interested in this ourselves.

Let me just say what we can expect, with a sustained commitment over the next 10 years. We do not intend to throw money at this problem. We intend to build capacity in a thoughtful way. We intend to have a global strategy for dealing with antimicrobial resistance and an armory of effective interventions in place. We expect to have a set of centers of excellence in TB, and effective programs in a small number of key countries for TB.

We expect to have programs in a number of African countries dealing with malaria, both in prevention and treatment at the household level and at the health facility level. And we expect to have assisted our colleagues here in laying the basis for a global surveillance system, with our focus being on local capacity. I compare this to the phone system. These colleagues are building the fiber optic network to tie the whole thing together. We are working on installing the jacks and the telephones in the individual countries.

Now, I know that there has been concern about our budget request, the administration's budget request, for fiscal year 1999. And it is slightly lower than the 1998 appropriated levels.

Senator LEAHY. Slightly? It has gone from $50 million to $30 million.

Dr. DAULAIRE. Well, I would like to lay that out in a broader context, if I may, Senator.

We also note that the Senate mark for the 150 account, the foreign affairs account, was $800 million less than what the administration has requested. And as you know, we have a difficult task always in balancing the needs of a variety of development activities. As you well know, it is not just our health programs, but a whole series of interventions that are important for infectious diseases. And we had to look for increased funding for the environment, for poverty reduction and for agriculture, which were a key issue in terms of this broad-based approach.

I would also point out, Senator, that we have not used a penny of this special appropriation for work in the former Soviet Union and the New Independent States. But this year we are devoting $9 million beyond the $50 million to that. And next year we are expecting to devote $22 million. So the figure that you see in the budget is not the full story.

PREPARED STATEMENT

Mr. Chairman, this initiative, I believe, represents the best of America. It represents enlightened self-interest, as you have very eloquently laid out over many occasions in the past. It represents an American know-how tradition and a can-do approach. We are taking this from a very practical standpoint and trying to move for-

ward. And it also represents our commitment to helping people to help themselves. This is where we are headed in the long run, and we are very pleased with the assistance, support and encouragement that you have given us.

Thank you.

Senator LEAHY. Thank you.

[The statement follows:]

PREPARED STATEMENT OF NILS M.P. DAULAIRE, M.D., M.P.H.

Thank you Mr. Chairman for giving me an opportunity to present to this committee an update on the progress the U.S. Agency for International Development (USAID) has made in launching a new initiative aimed at reducing the global threat of infectious diseases. This new initiative reflects and furthers the Administration's 1996 policy on Emerging Infectious Diseases. I would like to describe our new strategy, including how our key partners have participated in its development; summarize how we see this vital initiative fitting in with our on-going activities in infectious diseases and the important connections to overall development efforts; and outline our key next steps, including accelerating the engagement of new partners, including the private sector, foundations, and other important actors.

We at USAID would also like to thank you, Mr. Chairman and this subcommittee for your leadership in providing the funding to USAID last year which enabled us to launch this new initiative. This has given us the opportunity to address a huge and growing problem that not only causes millions of deaths each year in the developing world, but threatens the health and safety of Americans as well. By following the strategy I would like to describe to you today, and working closely with our partners in this effort, we will reduce deaths due to infectious disease and strengthen public health systems that have broken down throughout the developing world, giving these countries the capacity to protect their citizens from infectious diseases, and stop the global spread of these diseases.

These are not quick and easy interventions, but over the next ten years, with concerted effort and effective collaboration with our partners, and commitments and resources from new partners, we can make a real difference and have a significant impact on global health.

USAID'S STRATEGY AND PROGRESS TO DATE

Over the past six months, USAID has been heavily engaged in developing a strategy for this new initiative on infectious diseases. We have been very fortunate to have benefitted from extensive consultations with many of USAID's key partners, including Dr. David Heymann and his colleagues at WHO; Dr. Jim Hughes and his colleagues at CDC; the National Institutes of Health; the Department of Defense; UNICEF; a number of universities and research institutions; private sector companies; and a wide range of organizations engaged in implementing programs in the field.

As a result of these consultations, we have developed a consensus on the most appropriate focus for USAID and the new resources with which you have provided us, and a strategy that clearly articulates USAID's role and how it fits with other donors and actors. This strategy identifies specific results for each of the four components which have been agreed on.

As part of USAID's ten year strategic plan, our objective in infectious diseases is designed to reduce the threat of infectious diseases of major public health importance, contributing to a 10 percent decline in the number of deaths due to infectious diseases (excluding AIDS) in the developing world by 2007.

USAID's new initiative has four key components: Develop strategies and interventions to understand, contain and respond to the development and spread of antimicrobial resistance; reduce the spread of tuberculosis and morbidity and mortality associated with the disease among key populations; decrease deaths due to malaria and other infectious diseases of major public health importance in selected countries; and improve the capacity of countries to obtain and use good quality data for surveillance and effective response to infectious diseases.

This strategy focuses on the primary infectious causes of mortality in the developing world: of the 17 million deaths due to infectious causes each year, 75 percent (or about 13 million) are due to just five diseases: acute respiratory infections (most commonly pneumonia), tuberculosis, diarrhea, malaria, and HIV/AIDS. Almost all of these deaths are in the developing world. The high incidence and rapid spread of these diseases is to a large degree due to the breakdown, or lack of, effective pri-

mary health care and limited or poor prevention measures. It is also due to increasing incidence of drug resistant strains of these diseases. These problems are exacerbated by poverty, poor nutrition, high rates of population growth and high population densities, poor water and sanitation systems, and low levels of literacy.

Prior to this new initiative, USAID had over the last several years invested more than $300 million annually in combatting infectious diseases through: our child survival programs, including significant efforts aimed at addressing acute respiratory infections and diarrheal disease control, and some work in malaria; our HIV/AIDS work, where USAID is the single largest bilateral donor for HIV/AIDS programs in the developing world; and through our assistance in building robust health systems in developing countries.

This initiative will be implemented in developing countries in Africa, Asia and the Near East, and Latin America and the Caribbean, and in transition countries of the Newly Independent States (NIS). USAID has been advised to avoid spreading these resources too thinly. Focus countries will be selected based on a combination of factors: impact on worldwide disease patterns, the severity of disease within particular countries, potential for learning lessons which can be widely generalized, complementary programs of other partners and donors, and the capacity and opportunities at specific USAID missions.

Over the next ten years, we expect to put in place a coordinated global strategy and action plan for slowing the spread of antimicrobial resistance and an armory of effective interventions for addressing the problem. We will support several centers of excellence for controlling TB around the world, and effective intervention programs in some of the countries where the TB burden is greatest. We will build and strengthen programs throughout Africa that manage and prevent malaria at the health facility and in the home—where most of the deaths occur—and will help to develop more powerful weapons in the fight against malaria, including, we hope, a vaccine. Finally, we will be well on our way to having a global disease surveillance system by establishing the capacity to collect, use, report and respond to appropriate and accurate data at the country level. Until surveillance capacity is built at the country level, we cannot have a global surveillance system, and we cannot have global security from the threat of infectious diseases.

*Antimicrobial resistance*

Over the past half century, antimicrobial therapies (antibiotics and antiparasitics) have been our most important weapons against infectious microbes. However, the wide-spread, often indiscriminate, use of these drugs has contributed to the emergence of drug resistant strains of infectious organisms.

Inappropriate use of antibiotics selects resistant strains for survival. In developing countries, such inappropriate use is often the result of poor access to appropriate drugs, inadequate national drug policies and information, poorly trained pharmacists and doctors, and poor patient compliance with drug treatment. Changing common practices among both providers and patients to decrease the inappropriate use of antimicrobials is the principal challenge. Also essential is the capacity to monitor antimicrobial resistance and susceptibility of the major human disease organisms. This requires well-trained laboratory personnel and clinicians, essential supplies and equipment, and effective use of data.

USAID, in collaboration with WHO and other partners, has a unique opportunity to help bring about a comprehensive global strategy on antimicrobial resistance. The strategy will be used as a road map and advocacy tool, and serve to target resources. We will give special attention to diseases for which antimicrobial resistance poses a major threat in developing countries because of high mortality and incidence, and for which antimicrobial treatment remains the most effective control strategy, including dysenteric diarrhea, pneumonia and gonorrhea.

In addition to working with our partners to establish a global strategy and action plan for antimicrobial resistance, USAID will invest in improving the understanding of and disseminate information about drug resistance, including the epidemiology, public health impact and contributing risk factors. We will invest in research to develop methods to detect resistance, including, for example, laboratory assays; tools for population based surveys; and clinical methodologies to detect resistance based on treatment failure. We will also support behavioral research to increase the rational use of drugs, and support research on improved treatment regimens to prevent the spread of resistance. We will work with countries to strengthen the capacity to respond to drug use and drug resistance information to close the gap between data collection and decision making. Lastly, USAID will promote the implementation of interventions to slow the spread of antimicrobial resistance, including activities such as improved management of pharmaceuticals, strengthening drug policy analysis and regulatory mechanisms as well as improving the availability and use

of unbiased drug information, and curriculum reform for rational use of antimicrobials.

*Tuberculosis*

After years of declining visibility, tuberculosis is again being recognized as a leading cause of adult deaths and illness. About three million TB-related deaths occurred in 1997, and one-third of the world's people have been infected with the TB bacillus. The debilitation caused by TB is a leading cause of work loss around the world.

In the developing world, increasingly more crowded cities, inadequate health care, and the complicated nature of managing TB have contributed to an ever-worsening problem. Inadequate treatment and poor compliance have led to the emergence and spread of multi-drug resistant strains of TB which are virtually untreatable, given current resources. Furthermore, the decreased immune response resulting from HIV infection has led to a rekindling of TB in its most infectious form among millions in whom the disease had been dormant.

The success of a new strategy, Directly Observed Treatment, Short-Course (DOTS), has created optimism that the disease can be more effectively controlled on a much broader scale. However, DOTS requires multiple contacts between a treatment supervisor and TB patient over a period of six to eight months and can only be carried out in situations where effective program management can be assured. In the context of poorly-managed programs with frequent drug shortages, there is considerable risk that poorly run TB control programs can lead to the emergence of more widespread multi-drug resistance, which must be avoided at all cost.

Existing health service delivery systems in developing countries are generally not well prepared to address TB on the scale which is required. In some transition countries, extensive systems are in place dedicated to TB, but are costly, inefficient and ineffective.

One of USAID's first priorities is to work with our partners, including WHO, CDC, the International Union, and others to develop a comprehensive global TB control plan and strategy to become the basis for coordinated action and for building political consensus and support. USAID also plans to establish 3–5 major field sites to serve as models for innovative wide-scale TB surveillance and control, and support the implementation of TB control programs in several other countries. We will invest in research to investigate technologies for TB prophylaxis, diagnosis and treatment, and support surveillance to monitor TB trends and to identify multi-drug resistant TB strains before they become widespread.

*Malaria and other infectious diseases*

While malaria is a global problem, it poses a particular challenge to public health and economic development in Africa, where 85 percent of the world's total malaria clinical cases and 90 percent of the malaria deaths occur. Infants, young children and pregnant women are especially vulnerable. Each year malaria causes more than two million deaths and half a billion debilitating cases, accounting for the single largest cause of labor loss in Africa.

Latin America and southern and central Asia also have extensive areas with malaria transmission. Outbreaks of malaria of epidemic proportions have also occurred in the southern part of the NIS and are spreading to surrounding countries in the region.

USAID's recent malaria activities have focused on the development of new technologies, including development of a malaria vaccine, and pilot testing options for practical prevention and control of malaria in Africa. With the lessons learned from these programs, we will scale-up from earlier pilot studies in Africa and extend our malaria efforts into selected countries of Latin America, south Asia, and possibly the NIS. A package of health interventions which focus on improved management and prevention of malaria at the health facility and community levels is at the core of our expanded malaria program. USAID will also support an Africa regional insecticide treated bed net program. Research to improve the understanding of the immunology, epidemiology and transmission of malaria and to develop improved approaches and technologies for prevention and control of malaria will also be supported, as well as further investments in developing and field testing malaria vaccines. Finally, USAID will support activities to address the development and spread of parasite resistance to existing antimalarial drugs, including strengthening country-level capacity to conduct routine mapping of antimalarial drug sensitivity; promoting national level adoption and implementation of drug policies consistent with effective treatment and promoting the development of alternative malaria drug therapies.

Other infectious diseases, such as dengue, yellow fever, meningitis, and chagas are also re-emerging as public health threats. These are often epidemic in nature, and many are transmitted by insect vectors. Even though their global burden is less than our priority diseases, investments in their prevention and control in a particular country may sometimes be warranted due to high case fatality, the potential for rapid spread, economic disruption, impact on highly vulnerable populations, and cross-border transmission.

*Surveillance and response*

The ability to detect disease and to access data is essential for establishing timely responses to infectious diseases. However, health systems in many developing countries lack the necessary capacity for routine and sentinel disease monitoring. Surveillance and response capability is impeded by decision-making divorced from accurate information, incompatibility of disease reporting with information systems, lack of commitment, limited expertise, insufficient laboratory capacity, and poor coordination. We cannot have an effective, reliable global disease surveillance system unless there is adequate capacity at the country level.

For countries with difficulties in implementing routine basic surveillance, the challenge of detecting and responding to the appearance of new organisms, disease outbreaks, and antimicrobial resistance often presents an impossible challenge. To be effective, surveillance and response must be an accepted national and local responsibility. International response to all but the most dramatic outbreaks relies on this local capacity.

USAID will focus our resources primarily on building improved national capacity in the countries we assist for surveillance and response. Emphasis will be on using data for action and ensuring that there are feedback loops throughout the data system. As has been done in the Americas for polio and measles, disease-specific surveillance activities can help create a foundation for more sensitive and sustainable systems to track a broad range of infectious diseases of public health importance. USAID's efforts in this area will be targeted at improving the ability of public and private health system staff to obtain and use good quality data for the surveillance of, and response to, infectious diseases. We will support the development of improved technical and laboratory capacity. We will explore innovative technologies such as geographic information systems mapping, and help to improve laboratory management and basic epidemiological training. Success of this effort will be judged not by the collection of data, but by its routine and appropriate use to control disease.

INFECTIOUS DISEASES IN THE DEVELOPMENT CONTEXT

We are also grateful to this subcommittee for helping to stem the downward spiral of development assistance funding. Funding for development assistance has declined significantly in recent years, most dramatically in fiscal year 1996 which saw a $400 million decline over the fiscal year 1995 level of $2.1 billion. This decline was stopped last year with the fiscal year 1998 appropriation, in large part thanks to this Subcommittee. As this subcommittee is well aware, addressing infectious diseases effectively is not only a health issue, but also requires investments in education, poverty reduction, food and nutrition, environment, and family planning.

At USAID, we have become increasingly concerned about scarcity of resources available for important other areas, such as agriculture and food security, and reductions in population funding. As a result, our fiscal year 1999 budget request includes more funding for environment, economic growth and agriculture over the fiscal year 1998 enacted levels. Increases in these areas will help fund two initiatives that have great potential. The $30 million Africa Trade and Investment Policy Initiative is designed to reinforce and give practical assistance to the growing number of countries in Africa interested in reducing barriers to foreign trade investment. The $20 million Latin America Summit Initiative is designed to eradicate poverty and discrimination through trade reforms and increased economic integration as well as improve education in the region.

These unique opportunities have forced us to make some difficult choices. As a result, we have requested fewer resources for infectious diseases and child survival than the Agency received in fiscal year 1998.

I want to underscore that this in no way reflects a reduced priority for infectious diseases or child survival. As Administrator Atwood has stated, we have learned that our efforts to combat infant and child mortality and the spread of infectious diseases are more effective when we are also able to address some of the underlying social and economic conditions that allow these diseases to flourish, including poverty, malnutrition, illiteracy, poor sanitation, overcrowding, and environmental degradation. Addressing these underlying conditions is also critical for making sure

that our investments in building effective health systems are sustainable for the long run.

Another resource constraint is the Agency's operating expense resources, which overall, are decreasing, rather than increasing. USAID is exploring options for restructuring the portfolio of existing staff to effectively implement this new infectious disease initiative, without jeopardizing our ability to adequately manage on-going programs. We are exploring options to bring into the Agency specialized technical expertise in areas such as tuberculosis. We also hope to work with other U.S. government agencies and private partners to bring their technical expertise to bear on the strategy I have outlined today.

The problems of infectious diseases are much greater than what the U.S. government can take on entirely by itself. We will need to work with our public and private sector partners to leverage and increase resources targeted at these issues.

NEW PARTNERSHIPS

USAID has chosen to focus on a relatively few areas in infectious diseases, but even within these areas the task before us is enormous, and far exceeds the resources the U.S. can put forward. We must work together to identify new partners and bring them to the table. I am very pleased to see the private sector represented here today; it is clear that effectively addressing infectious diseases is very much in the interests of all of us, including the private sector.

We have the obvious representatives here—the drug companies and those who deal directly with health issues. But there are many more companies that for philanthropic and other reasons may be willing to participate. For example, Coca Cola helped support a National Immunization Days campaign for polio in Zambia, providing transport for health workers and volunteers. USAID is working closely with the U.S. food industry to expand the intake of vitamin A for children at risk in developing countries, employing this powerful new weapon for child survival. Decreasing vitamin A deficiency through fortified foods and supplements, and increased use of vitamin A rich foods, can reduce child deaths by as much as a quarter, by directly enhancing children's resistance to the infections we are discussing today. While USAID's vitamin A initiative is separate from our infectious disease initiative, it is a critical complementary strategy.

When asked, U.S. private sector companies and international corporations have again and again demonstrated a willingness to engage in programs that do good works. We all need to move much more proactively to engage the private sector in the fight to address infectious diseases. I invite my partners here today to join with USAID in more aggressively bringing the private sector to the table and help bring their tremendous resources to bear on this immense problem.

Foundations are also a significant resource. Some foundations such as Rockefeller, Ford, Thrasher, and Pew have been heavily engaged in international health issues and we have all seen the remarkable and ground-breaking programs they have supported. However, there are other foundations that are not working in international health as yet. We need to join with our foundation colleagues and others to encourage wider participation from others in efforts to improve international health.

Civic organizations are already involved in a variety of international programs. When polio is eradicated in the next several years, Rotary International can rightly take a great deal of credit for making it happen. The Lions Club's support for International Sight and Life has made a tremendous difference in the lives of children all over the world. Here too, we can work together to encourage further participation from other civic organizations. As we have seen with Rotary, civic organizations cannot only help mobilize financial resources, but they often have member networks in countries all over the world that can be tremendously powerful partners in mobilizing local resources, getting work done, and building sustainable systems.

The World Bank is devoting enormous resources to bear on infectious diseases, notably TB and malaria. While coordination often occurs at the country level, we need to be much more systematic about collaborating closely with our World Bank colleagues to get the most out of our investments.

The President has proposed an increase for the NIH budget, including increased support for vaccine research. Investments in research now cannot be oversold, and will be critical for our success in fighting infectious diseases for the long run. Vaccines are tremendously powerful weapons in the fight against infectious diseases, and must be supported. We hope to closely coordinate with NIH, to make the most of our combined resources.

The Centers for Disease Control and Prevention (CDC) continues to be an important partner in international health in areas such as developing methods to monitor antimicrobial resistance, especially pneumonia and malaria, as well as providing ex-

pertise in field epidemiology. We have been in discussions with CDC about the important role they will play in USAID's strategy, and are jointly seeking ways that we can maximize the impact not only of the resources USAID gives CDC for work in developing countries, but look for opportunities for combining our resources for greater impact.

The World Health Organization (WHO) is already one of our major partners; this partnership will be enhanced through our infectious disease initiative as we engage multiple divisions within that organization. We are very enthusiastic about the nomination of Dr. Gro Brundtland as Director General of WHO. Dr. Brundtland's stated priorities of strengthening health systems and health and development will help to maximize the synergy and effectiveness of our combined resources.

UNICEF has also been an important partner for USAID for many years in child survival and health programs. Because so much of the infectious disease work I have described today dovetails with these programs, we will be working with UNICEF to look for more opportunities to collaborate.

USAID's programs have been working successfully to engage local private and public sector resources. Given the scarcity of resources at the local levels, this is often a great challenge, but it has tremendous payoffs by making programs more effective, more acceptable and accountable to local people, and more sustainable for the long term. For example, in India, 10 million volunteers helped make the 1997 and 1998 National Immunization Days for polio a remarkable success. Thanks in no small measure to these volunteers, 130 million children were immunized in one day. This kind of effort will make polio eradication happen.

CONCLUSION

The burden and growing threat of infectious diseases is enormous. Millions of people die every year from these diseases, and most of these deaths are preventable. As we near the end of the century, there is a deepening collaboration and growing consensus among political leaders, international organizations, health agencies and communities that by working together, we can curb the threat of infectious diseases. Building the systems to prevent, control and detect diseases is possible.

Thanks in large part to the vision of this subcommittee, the U.S. has now taken a leadership position. By maintaining our course, encouraging the participation of new actors and bringing new resources to the table from other quarters, we can over the next decade make even greater headway in addressing this problem.

FOREIGN POLICY

Senator LEAHY. I look at the fact that we can spend millions of dollars, for example, as part of our foreign policy, to send an aircraft carrier task force into an area, just to show the flag. And here we are talking about saving lives for the cost of $1 a person, or $2 a person. When you are a nation with 5 percent of the world's population using one-quarter of the world's resources, the humanitarian obligation is there to do more.

But also, if you want to just look at it as a matter of pure self-interest, we have a great interest here. These diseases come to our shores. We are not isolated from them.

My wife is a nurse and she sees more and more patients with TB. And I also understand that is not unusual around the country.

When you only know about faraway countries by reading National Geographic as I did as a child, today people leave here on Monday for a conference on the other side of the world, and they are back at their desk by late in the week.

But I state the obvious here, and I do want to hear from Dr. Heymann.

It is good to have you with us again.

SUMMARY STATEMENT OF DR. DAVID L. HEYMANN

Dr. HEYMANN. Thank you very much, Senator Leahy.

I am very pleased to represent the World Health Organization at this second hearing that you are conducting on infectious diseases. And I would like to call your attention to some charts which we will be showing at my right.

This first chart follows up on what Nils has said previously. If you focus on the purple wedge, that is the 17 million infectious diseases which are occurring in 1995, and a similar number is occurring—slightly more—this year. If you look at this in comparison to the total number of deaths in the world in 1995, you will see that that represents a third of all deaths.

This is unacceptable today, in a world where the tools are there to control infectious diseases. And as is true with infectious diseases, it affects mainly the poor in developing countries.

The next overhead shows the infectious diseases which have been recently imported into the United States. And these diseases are imported in food, such as cyclospora. They are imported in laboratory animals, such as Ebola. And they are imported in people, as is shown with cholera, yellow fever, dengue, malaria, and polio.

Now, I would like you to focus, Senator, if you would, on the three diseases on the right: yellow fever, malaria, and dengue. These diseases are all carried by mosquitoes. And on the next chart you will see the States in the United States which were reporting malaria in 1949. These States had the mosquito vectors which would transport or transmit malaria. These States also had the disease mosquitoes which would transmit yellow fever.

Today those mosquitoes are still present in these States. And it suffices for a letdown in vigilance—which CDC will never do—but if a letdown in vigilance occurs, there will be an increase in transmission of these diseases, yellow fever, dengue, and malaria, in the United States.

Senator LEAHY. What you are saying is if you were to look for where the mosquitoes are, and to change that from 1949 to 1999, for example, it would be basically the same?

Dr. HEYMANN. That is correct. They are the same. But in the summertime, they can spread up to the metropolitan areas of New York and Boston.

The next shows the concerns in globalization and health, which you have alluded to, this rapid transportation of commerce and also of people. In the North, the issue and the concern is one of international public health security, making sure that these organisms do not come in, in food, or that they do not come in, in people, either returning tourists or immigrants.

In the South, the issue is early detection and containment, being sure that these diseases are detected early and stopped, so that they do not cause high mortality, and so that they do not decrease trade and tourism, which is always a result of an infectious disease in developing countries.

But there is hope, because there is a common concern for both the North and the South, a common interest. And that is to strengthen both global detection systems for infectious diseases and also national surveillance and control in countries, including developing countries.

Now, this overhead, this chart, shows a disease called monkeypox. Human monkeypox is a disease which occasionally occurs in

humans, and it comes from animals living in the rain forest in West and Central Africa. This disease, in the past, has not spread further than five people within the same outbreak. And it is a disease which does not kill to the same extent as smallpox, but does kill 10 percent of those infected. Smallpox vaccination protected against human monkeypox. Today, smallpox vaccination is no longer given anywhere in the world, so it is a concern when a disease such as this strikes the human population.

And I would like to just show you how a response is mounted to a disease such as monkeypox, to show you, first of all, the sequence of events, and then some of the problems. Now, the first case of monkeypox in this outbreak, which at that time already numbered 90 cases, came to WHO through its global network of disease detection. This is a system which receives rumors of infectious, unconfirmed infectious diseases, from NGO's, from governments and from technical agencies such as CDC and USAID.

The report came to WHO. WHO mounted an investigation locally, with its local WHO epidemiologist, Medicine sans Frontiere, which is Doctors Without Borders, and the national investigation team, and specimens were obtained and sent to CDC. CDC, in September, diagnosed human monkeypox, confirmed the diagnosis. It took us from September until January to get an investigation started, because we had to stop and raise the funds necessary. We had to raise funds to transport the team into a remote area of the former Zaire. We had to set up the logistics. And it took us 3 months before we could send a team from Geneva, from CDC, from the European Epidemiology Training Program, and nationals into the site.

They got to the site at very heavy expense, but 10 days later, civil war came through, the investigation was interrupted, and we had to start over again in September. But, by September, we had been able to broaden the response to the PHLS, which is the Public Health Laboratory in London. So we broadened the response, so that no one country had to bear all the burden.

And now we are in the process of developing strong surveillance in the area, to make sure that the disease does not occur again, because the outbreak was successfully investigated. Over 300 cases have occurred. Analysis is now being done, and an expert group will be formed, to see what the implications of this are. But we now have a system in place to make sure that if more monkeypox occurs, it will be detected.

But, again, there was a gap from September to January. That gap was again due to the need to go out and raise more resources. We need a fund of money available internationally when these outbreaks occur.

Senator LEAHY. Doctor, could we stop there for a moment.

I understand the delays when there is a war going on. But what you are saying is that everything is in place but you do not have the fare, you do not have the money?

Dr. HEYMANN. That is right. It has been a major effort of ours to broaden the response, to include groups like EPIET, the European Field Epidemiology Training Program, and the Public Health Laboratory in London. Through talks with their governments, their

governments have put more funding into these programs, so that they can respond at no cost to us.

Previously, it was only CDC which could do this. So we have to broaden the response. But no one person can support the logistics, an airplane charter to take the teams in. This must be an international fund of some type.

Now, it is not enough just to strengthen disease surveillance, detection and control, we also must have the products necessary to prevent disease and to cure them. This shows you the vaccines which have been licensed since 1900, a total of 42 of them. And you can see that there were 12 licensed between 1900 and 1950. And since 1951, there have been 30 licensed, which is quite impressive.

The problem remains, however, that the major killers, which Nils has shown on his overhead, many of those still do not have a vaccine: AIDS. Tuberculosis has no effective vaccine. A vaccine for other infectious diseases do not exist. And those that do exist, many times, are too expensive.

Right now there is a safe and effective vaccine for yellow fever, and another safe and effective vaccine for other diseases in Africa, yet the countries cannot afford to put these vaccines into their programs, and international donors do not buy them. So, as a result, populations are remaining unvaccinated, with products which are already available. So that we have made progress in development of vaccines, there remain many diseases elusive to vaccination, and at the same time we are seeing that they are unaffordable in many countries.

The next shows you the discovery of antibiotics. And you can see that from 1940 to 1950, it was the golden age of antibiotic development. There were 10 antibiotics developed or discovered. If you look progressively, you will see that in 1961 to 1970, that had decreased to 10. And if you look from 1971 to 1990, that still remained at five. So a decrease from 10 to 5 to 5. And in 1990, there are only three.

Now, resistance is developing very rapidly to these antibiotics, and it is a risk to develop a new antibiotic because of that. But I would just like to signal some of the problems now, in the next, with developing new vaccines and new drugs for use in developing countries.

Now, this is not only an issue of scientific research and development, it is also an issue of economics and patents. Industry has to recoup the cost that they spend on research and development of new product. It is a justifiable need. They also have to recoup the costs on all the other investments they made on products which never made it to market. So they need to get a profit. And they need to get that profit rapidly because they have a patent limitation of a maximum 20 years.

Now, some of the obstacles along the way to develop products for developing countries are that there is a variation in the industry's distribution. The rich markets which could buy many of the products do not have many of the diseases. So developing countries, which have a soft currency market and a limited affordability of new vaccines and drugs, are not a target of industry, and rightfully so.

There is also a long interval to licensing many times. The patent may be 10 years down the way before a drug is already licensed. And then that 10 years is the only time they have to recoup the money on a guaranteed basis. So there are many obstacles to developing products for developing countries. And what is needed is a better environment in industrialized countries, so that pharmaceutical companies will be willing to invest in development of vaccines and drugs for developing countries to sustain all the efforts that WHO, USAID, CDC, and others are doing in making an infrastructure to support disease detection and control.

So, finally, I would just show you a list of the WHO, or a map of the WHO collaborating laboratories, which are one of our global surveillance systems. These are being hooked up electronically. But as you can see, there are gaps in the South, in Africa, in Latin America and in Asia, there are a decreased number of centers. And these must be strengthen, and Nils alluded to that, in the activities that USAID will be doing bilaterally.

PREPARED STATEMENT

So I would like to just close by saying that the funding has been very crucial to USAID to strengthen global surveillance and monitoring and control of infectious diseases, and it is very important that those products continue to be produced, which will permit successful disease control and prevention. So a new environment for the pharmaceutical industry, to encourage that, and increased or sustained funding to USAID will move us greatly ahead in solving the problem of infectious diseases in the world.

Thank you very much.

Senator LEAHY. Thank you, Doctor.

[The statement follows:]

PREPARED STATEMENT OF DR. DAVID L. HEYMANN

INFECTIOUS DISEASES: THE CONTINUING CHALLENGE

Infectious diseases are dynamic, resilient and remarkably persistent over time. They have caused fear and horror for millennia. The suffering and losses they have inflicted have been described throughout recorded history and have dramatically shaped human destiny. Twentieth-century medicine has reduced their toll, but not their number. The number of such diseases is actually growing, in part because microbes that live in animals increasingly find conditions right to jump the species barrier and infect humans. The list of threatening diseases is longer now than it was 75 or 50 or even 25 years ago. Some infectious diseases, quiet for decades, are nonetheless still with us and roar back with a vengeance wherever public health, sanitation and other control measures fall into decay. And increasingly there is a fear of intentional use and spread of microbes, including genetically-modified versions, as weapons of war or terrorism.

One-third of the 52 million deaths which occurred in the world in 1995 were due to infectious diseases, and this ratio has remained the same in 1996 and 1997. These diseases killed 17 million persons in 1995 and disabled hundreds of millions of others. The majority of these diseases, including tuberculosis, pneumonia, hepatitis, measles and AIDS, are transmitted directly from person to person. Others are spread by food, water or soil and include diarrheal diseases, cholera, neonatal tetanus, and intestinal parasites. Some are insect-borne such as malaria and dengue fever. Others, such as rabies, are spread directly from animals to humans.

Advances in public health and medicine, sanitation and pest control have led to the prevention and control of infectious diseases in many countries but have had minimal impact in others. Worldwide, centuries of progress have been undermined to various degrees by deteriorating public health infrastructure, inadequate resources for health care services, and the rise of new and multi-drug-resistant orga-

nisms. There continue to be enormous disparities in mortality, disability and exposure to infectious diseases among social classes, with the poor still suffering extremes of ill health in all societies. When adequate financial and human resources are not devoted to infectious disease control, whether due to poverty or to competing priorities, the result is a predictable increase in infectious disease.

In spite of huge steps forward in controlling infectious diseases, from the research laboratory to the hospital bedside to the village health center, there have been huge setbacks too. The resurgence of diseases once thought conquered is taking a rising toll in human lives. The assumption that antibiotics would forever cure many infectious diseases has been proved disastrously false by the evolution in the last few decades of drug-resistant bacteria, viruses and parasites. And in the late twentieth century, expanding global travel and trade have made an infectious disease in one country become a concern for all. As we enter the 21st century no country in the world is safe from infectious diseases.

INFECTIOUS DISEASES: RECENT EXPERIENCE

During 1997 the world experienced over 60 internationally-significant infectious disease outbreaks of both "classic" infectious diseases and new, unfamiliar diseases. Other familiar infectious diseases continued to gain ground in new and often disadvantaged populations. Many of these disease have crossed, or threatened to cross, international borders, menacing international public health security. Though none of these outbreaks appear to have been intentionally caused, the fear of intentional use of infectious agents remains. For example, during 1997:

Major cholera epidemics spread throughout eastern Africa, affecting hundreds of thousands of people in more than ten countries over several months. Trade sanctions were unnecessarily placed on fish exports from these countries resulting in severe economic impact on their fragile economies.

Yellow fever fatalities were reported in seven countries in Africa and South America.

Meningitis caused major epidemics in Africa, with over 70,000 cases reported in the 1996–97 season, over half of which are feared to have resulted in permanent brain damage or death.

Over 15,000 cases of typhoid fever with resistance to first-line antibiotics occurred in Tadjikistan.

Epidemic typhus resurged in Burundi with over 30,000 cases and untold deaths.

An avian influenza virus emerged in humans in Hong Kong, killing 6 out of the 18 people who became ill. It is being carefully monitored for its potential to become the next worldwide pandemic influenza threat.

Rift Valley fever afflicted thousands of people, killing hundreds of people and many livestock in Kenya and Somalia.

The prevalence of hepatitis C continued to increase in countries where blood is not screened prior to use and sterilization of medical equipment is faulty.

Lassa fever, with high mortality, re-emerged in Sierra Leone.

An outbreak of dengue fever occurred in Cuba for the first time since the 1981 epidemic.

The investigation of an unexpectedly large human monkeypox outbreak in the former Zaire raised troubling new issues about this disease and about the safety of smallpox vaccination in the era of AIDS.

The number of cases of new variant Creutzfeldt-Jakob Disease reached 24 in the United Kingdom and France, combined with the continuing threat of bovine spongiform encephalopathy (BSE or mad cow disease). The United Kingdom's economic loss from BSE was estimated to have reached $5.7 billion U.S. dollars.

Escherichia coli 0157 continued to surface in industrialized countries including Japan and the United States.

Vancomycin-resistant Staphylococcus aureus was identified in Japan for the first time, and later in the United States.

Sporadic infectious disease outbreaks and epidemics such as these are costly to the economies of countries in which they occur. Epidemics often divert resources from the ongoing control of important endemic infectious diseases such as tuberculosis, AIDS, malaria, pneumonia and diarrheal diseases. As a result endemic diseases continue to increase. For example, the number of new HIV infections in Eastern Europe tripled during 1997, and with it there was an increase in tuberculosis, while funding for control efforts failed to keep pace.

INFECTIOUS DISEASES: BUILDING A GLOBAL FRAMEWORK TO STRENGTHEN SURVEILLANCE AND CONTROL

During the 50 years since the World Health Organization (WHO) was created we have learned that there is a complex network of ecological, social, political and economic factors that must be addressed to solve most public health problems. We must be alert to and fashion our response to infectious diseases to reflect the diversity of experience as well as inequities within and between populations. Despite the existence of vaccines, drugs, and laboratory tests which have helped to decrease infectious diseases to low levels in many countries, success in the control of infectious diseases in other countries remains elusive. Poor progress is partly due to lack of appropriate technologies that can easily be applied to overcome disease in developing countries, and partly to the inability of those parts of the world with the most infectious disease to finance the necessary interventions on a sustainable basis. The experience of WHO during this half a century has shown over and over again that controlling infectious diseases is a global challenge requiring a sustained, committed effort and partnerships among and between governments, non-governmental, and multinational organizations.

The concern of industrialized countries such as the United States, where prevention and control efforts have dramatically decreased infectious disease mortality, is international public health security: ensuring that infectious diseases which are occurring elsewhere do not spread internationally across their borders. The concern of developing countries is to detect and stop infectious diseases early: avoiding high mortality and negative impacts on tourism and trade. Peru estimates that when cholera re-surfaced there in 1991 over 3,000 persons died, and that the national economy lost over $770 million U.S. dollars because of decreased tourism and embargoes on seafood trade. The estimated loss because of mad cow disease in the United Kingdom is $5.7 billion U.S. dollars.

Both industrialized and developing countries can address their concerns by working together to strengthen detection and control of infectious diseases. The WHO framework for the surveillance and control of emerging and other infectious diseases takes this common interest into account. This framework has been developed together with Member States and other partners, including the EU-US Task Force on Emerging Infectious Diseases and the US-Japan Common Agenda, and has been cited as an area of collaboration by the G–8 Member Countries at both the Lyon (1996) and the Denver (1997) Summit meetings.

There are three major components to the WHO global framework for the prevention and control of infectious diseases:

1. Strong global and national epidemiological surveillance and public health laboratories to detect infectious diseases, to provide data for analyzing and prioritizing health services, and to monitor and evaluate the impact of control efforts.
2. Sustainable and well-managed infectious disease control programs which effectively diagnose infectious diseases and administer vaccines and curative drugs where and when they are needed.
3. Continuing research and development of simple-to-use and robust vaccines, antimicrobial drugs, and laboratory tests for surveillance, prevention and control.

Surveillance and control of infectious diseases are being strengthened by WHO and its partners, including USAID and CDC. During the 1998 fiscal year the U.S. Congress provided $50 million to USAID for timely participation in this global effort. This has permitted USAID to add an objective to its strategic framework for population, health and nutrition to reduce the threat of infectious diseases of major public health importance. USAID consulted with many partners, including WHO, in the process of developing this strategy and its four principal areas of programmatic emphasis: anti-microbial resistance, tuberculosis, malaria, and surveillance and response capabilities. WHO believes USAID's activities will make a major contribution to putting in place cost-effective and non-duplicative investments to rebuild and strengthen capacity to detect and control infectious diseases, particularly in developing countries. WHO is collaborating very closely with USAID and other partners in all four of the programmatic areas. Active discussions are underway and field activities will be expanded as fast as final funding decisions are made.

Continued funding to USAID at this level or higher, targeted at strengthening surveillance and control, will permit the U.S. Government through USAID to continue its support to this important global partnership. The long-term result will be that developing countries are able to detect and contain infectious diseases where they are occurring. This will minimize their impact locally and ensure that they do not become threats to international public health security.

During the past twelve months, in part supported by funding and technical support made available through CDC and USAID, WHO has reinforced global labora-

tory-based surveillance by providing training and support to existing WHO Collaborating Centers and laboratories, by giving seed funding for development and distribution of diagnostic reagents, and by designating new centers and laboratories to fill geographical gaps. Fifty-two additional national laboratories, for example, have been strengthened through training and provision of supplies to participate in the WHO antibiotic resistance monitoring networks. Plans are underway, in collaboration with USAID, for intensification of this work and additional initiatives directed specifically at understanding the magnitude and causes of antimicrobial resistance, and developing and applying containment strategies. Other laboratory networks to monitor viral, bacterial and zoonotic (human infections of animal origin) diseases have similarly been strengthened. Sustained or increased funding to USAID would permit the pace of these activities to increase.

WHO has improved global epidemiological surveillance through the revision of the International Health Regulations to facilitate rapid reporting of and response to infectious diseases of international public health importance. Revision has specifically focused on developing a system which is sensitive enough to detect both naturally occurring and intentionally caused infectious disease outbreaks. The revised system emphasizes communication through electronic links between WHO Member States and WHO's network of regional offices, country representatives, and technical partners such as USAID and CDC for verification and response. The response mechanism permits rapid and coordinated international investigation and containment of infectious disease outbreaks of international importance. Examples during 1997 include investigation and containment of outbreaks of human monkeypox in the Democratic Republic of Congo, avian influenza in Hong Kong, and Rift Valley fever in Kenya. In each instance the WHO-coordinated international response, in which CDC played a major role, broadened international cooperation so that no one country was required to shoulder the entire burden. Without such a coordinated international response each of these outbreaks could have resulted in extensive international spread.

At the same time WHO has also expanded its priority routine surveillance systems for diseases such as influenza, HIV/AIDS, hepatitis C, rabies, hemorrhagic fevers, and Creutzfeldt-Jakob Disease. Furthermore, to ensure an international environment which facilitates effective global surveillance and response, WHO has continued to develop standards and strategies for infectious disease surveillance and control, promoted and conducted basic and operational research, and evaluated laboratory diagnostic tests and epidemiological approaches to surveillance. For these activities as well, intensified collaboration with USAID would permit WHO to increase the pace of implementation, enabling WHO to continue to provide clear, reliable and 24-hour-accessible information on infectious diseases to public health professionals and the general public throughout the world.

With continued or increased support for the WHO–USAID partnership, the rate at which CDC, USAID, and WHO are strengthening and reinforcing developing country infrastructure and networks in national surveillance and control activities would be increased, permitting those countries to have a clear picture of the infectious disease situation in the country as a whole and in populations at special risk. Activities include assessment of existing systems with refocusing and replanning as necessary, technical assistance, and training of trainers in infectious disease surveillance and control. Continued and increased effort in these activities will permit developing countries to detect and contain unusual diseases or outbreaks when and where they occur.

### INFECTIOUS DISEASES: NEED FOR NEW VACCINES, DRUGS AND LABORATORY TESTS FOR DEVELOPING COUNTRIES

Strong surveillance and disease control without the necessary tools for diagnosis, treatment and prevention are futile goals. Continued research and development are required to produce simple-to-use and robust vaccines, drugs and laboratory tests. There is a particular need for continued development of vaccines, drugs, and laboratory tests for developing country markets.

At the same time these tools for surveillance and control must be widely available and used. We are regularly reminded that infectious diseases require constant and sustained attention. Two recent examples are the resurgence of diphtheria in the newly independent states of eastern Europe and the Russian Federation when vaccination programs became underfunded, and the continued mortality from influenza in the United States where each year the influenza virus infects and often kills those elderly persons who have not been vaccinated.

On the surface, vaccine development appears to be satisfying the needs. From 1900 to 1950, 12 vaccines were licensed for human use, and 30 new vaccines have

been developed and licensed since 1950. Many of these newer vaccines are more stable under tropical conditions. But vaccines continue to require vigilant and uninterrupted cold storage until use, and development of vaccines for major killer infectious diseases—tuberculosis, AIDS and malaria—has been elusive. Those new vaccines which have been licensed have proven costly and not immediately available in many developing countries. For example, there is an effective vaccine for hepatitis B and another for yellow fever, but inclusion of these vaccines in childhood immunization programs in countries where the diseases are most prevalent has too often not been a national budgetary priority, and donors have not been willing to pay the price necessary to ensure their availability.

At the same time, development of new classes of antibiotics has slowed partly due to the costs and risks associated with their development. In fact, since the early 1960's no new class of antibiotics has been developed, and resistance of microbes to existing drugs continues to increase relentlessly within antibiotic classes. As is true for vaccines, new antimicrobial drugs, which are a necessity since resistance makes older ones ineffective, are not affordable by many developing countries. The cost of treating gonorrhea—a sexually transmitted infection which if left untreated facilitates the transmission of HIV—has increased from approximately 40 U.S. cents 20 years ago (cost-adjusted figures to 1998) when penicillin was 100 percent effective, to over $5 U.S. dollars today when penicillin and other less costly antibiotics are no longer effective. Such costs are prohibitive in most countries where the problem of HIV is greatest.

The development of simple-to-use and robust laboratory tests has also lagged. Tests of a type which can be used and sustained in developing countries do not exist for most infectious diseases, and for all but a minority of diseases many developing countries are required to depend on regional or international laboratories for final diagnosis. The delays thus caused often result in inappropriate and unnecessary treatment and increased cost for patient management.

The issue of continued research and development and widespread availability of vaccines, drugs, and laboratory tests for surveillance and control involves not just research and development, but also economics and patents. New vaccines, antibiotics, and diagnostic tests come from the research-based pharmaceutical and diagnostics industry. Development is costly, and patents are involved. Industry depends on sales to recoup its high investments in research and development, both for successful products and those that never make it to the market. Sometimes it takes 10 years of the product's twenty year patent life before a new drug or vaccine is licensed and on the market. With limited guaranteed time to recover large investments, high-profit, hard-currency markets are sought to maximize cost recovery. Industry points to these economic and patent issues as reasons that they are not able to develop products for high volume, low profit developing country markets where affordability for the general population would require a longer time to recover costs. Furthermore, the profits earned in soft currencies may be small when converted into dollars.

Compounding the risk of investing in development of a new antibiotic is the risk that the product will become ineffective due to antibiotic resistance. For laboratory tests one of the major risks is that of liability. Whereas simpler and more robust tests may be useful in developing countries where other tests are not available, there may be a liability risk associated with use in industrialized countries where other available tests may be more sensitive.

An environment which favors research and development of vaccines, drugs and laboratory tests suitable for developing countries must be created to ensure strong and sustainable surveillance and control. Measures which have been tried in the past include.

1. Two-tiered pricing. This provides a public sector price in parallel to the price on the open market. Problems with this policy have been that it often affords an opportunity for black market sales and parallel export of products which impact negatively on the large, hard-currency industrialized country markets.

2. Donation of drugs and vaccines by industry. This has been especially important for the success of such programs as the control of onchocerciasis (river blindness) in western Africa, and the current efforts to eliminate lymphatic filariasis (elephantiasis). Problems are that sustainability depends on the continued ability of the industry which produces these products to provide them at no cost.

3. Co-development of a drug or vaccine with WHO and guaranteed preferential pricing to WHO once development is complete. Co-development permits more rapid testing of new products in areas where disease is highly prevalent, but it requires a guarantee that studies are conducted with the standards required for licensing by regulatory authorities, which is sometimes difficult to accomplish in the countries with high prevalence.

4. Donation of patents to WHO. This makes it possible for many manufacturers to produce the same product, thus creating competition which will eventually lead to lower pricing. (Albert Sabin chose this measure to develop the oral polio vaccine.) Potential problems include ensuring uniform quality of the final product.

5. Government regulation to enable licensing of products aimed at low volume, or low profit/high volume markets. The United States has pioneered a system through its Orphan Drug Act (1983) aimed at drugs which are scientifically but not economically viable (either because the number of patients who might benefit is too small or because the populations concerned are too poor to afford the drugs). Under this act, industry is entitled to a tax credit for the cost of clinical trials conducted with the "orphan" drug and other substantial benefits.

6. Creative financing mechanisms to provide increased funding to the pharmaceutical and diagnostics industry for research and development of products for developing country markets. The AIDS Vaccine Initiative, supported initially by the Rockefeller Foundation is an example of this type of mechanism which provides grants to the research-based pharmaceutical industry for research and development of AIDS vaccines.

These examples of measures to improve availability of existing products, and research and development of new ones aimed at low profit, high volume developing country markets each results in an increase in the availability of products in developing countries, but they vary in their sustainability. Consideration of how these and other mechanisms might be advantageously used in the United States to promote development and/or availability of vaccines, antimicrobial drugs and laboratory tests for developing countries deserves further investigation and action. Coupled with continued and increased funding to USAID, CDC and WHO for strengthening surveillance and control, a creative environment which permits the research-based pharmaceutical and diagnostics industry to develop new products for developing country markets could provide the synergy needed for long-term and sustainable success.

SUMMARY COMMENTS

The $50 million provided by Congress to USAID in fiscal year 1998 will permit a more rapid pace of strengthening international and developing country infrastructure for surveillance and control of infectious diseases that threaten us all. Sustained funding in fiscal year 1999 and beyond would permit USAID to continue to support valuable partnerships among USAID, CDC, and WHO and lead to more timely detection and containment of infectious diseases when and where they occur. An increase in funding to USAID would permit this to be done more rapidly. At the same time a creative environment which would permit research-based pharmaceutical and diagnostics companies to afford to develop new vaccines, drugs, and diagnostics for developing country markets could dramatically speed up the rate of progress in combating infectious diseases worldwide.

*Deaths due to infectious diseases, 1995 estimates*

| | *Millions* |
|---|---|
| Infectious diseases (33 percent) | 17.3 |
| Other causes (67 percent) | 34.6 |
| Total deaths | 51.9 |

INFECTIOUS DISEASES RECENTLY IMPORTED TO THE UNITED STATES

Cyclospora, Montana.
Ebola, Arkansas, and West Virginia.
Cholera, Florida, and Arkansas.
Yellow fever, Texas.
Polio, West Virginia.
Malaria, Georgia, and Connecticut.
Dengue, Pennsylvania, and Texas.

STATES REPORTING MALARIA, 1949, UNITED STATES OF AMERICA

Texas, Oklahoma, Missouri, Arkansas, Louisiana, Mississippi, Tennessee, Kentucky, Alabama, Georgia, Florida, South Carolina, and North Carolina.

GLOBALIZATION AND HEALTH: THE CONCERNS

North: International public health security.
South: Early detection and containment.

Common interest: Strong global and national surveillance and control.

HUMAN MONKEYPOX: DEMOCRATIC REPUBLIC OF CONGO 1996–98

August 1996—Report to WHO (MSF).
September 1996—WHO/MSF/National Investigation.
January 1997—WHO/National/CDC/EPIET Investigation.
September 1997—WHO/National/CDC/EPIET/PHLS Investigation.
January 1998 to present—WHO/National Intensified training in surveillance and control.

*Vaccines licensed since 1900 (n = 42)—number of new vaccines licensed*

| Years: | |
|---|---|
| 1900–50 | 12 |
| 1951–60 | 4 |
| 1961–70 | 6 |
| 1971–80 | 8 |
| 1981–90 | 7 |
| 1991–98 | 5 |

Source: Mandell, Principals and Practice of Infectious Diseases.

DISCOVERY OF ANTIBIOTICS

| 1940–50 | 1951–60 | 1961–70 | 1971–90 | >1990 |
|---|---|---|---|---|
| Sulphonamide | Erythromycin | Spectinomycin | Trimethoprim | Macrolides |
| Penicillin | Spiramycin | Lincomycin | Clindamycin | Quinolones |
| Streptomycin | Novobiocin | Gentamicin | Aztreonam | Beta-lactams |
| Bacitracin | Cycloserine | Tobramycin | Ciprofloxacin | |
| Chloramphemicol | Vancomycin | Nalidixic acid | Imipenem | |
| Polymyxin | Rifampicin | | | |
| Framycetin | Kanamycin | | | |
| Tetracycline | Fusidic acid | | | |
| Cephalosporin | | | | |
| Neomycin | | | | |

DEVELOPMENT OF VACCINES AND DRUGS FOR USE IN DEVELOPING COUNTRIES—SOME HURDLES ALONG THE ROAD

Research-based pharmaceutical industry.
Variation in disease distribution.
Long interval to licensing.
High costs of research and development.
Limited patent duration.
Soft currency markets.
Market size limited by affordability.

SUMMARY STATEMENT OF HON. JAMES M. HUGHES

Senator LEAHY. Dr. Hughes, before you begin—you may have heard those buzzers in the background—I have got about 6 minutes to get to the floor to cast a vote. I will do that and come back. We will not start without you—or me either, for that matter. [Laughter.]

[A brief recess was taken.]

Senator LEAHY. I apologize for that delay. There was a rollcall vote. Then I thought we were going to have a second one, and so I was staying for that, and it turned out we did not. One of the problems here is that there are always 10 things going on at once.

Dr. Hughes, I am delighted to have you here, and please go ahead, sir.

Dr. HUGHES. Good afternoon, Senator. It is a pleasure to be here to represent the Centers for Disease Control and Prevention, our

Nation's prevention agency. And it is a particular pleasure to be here with Dr. Daulaire, Dr. Heymann, and Dr. Cassell.

I would like to briefly discuss CDC capabilities as they relate to surveillance, applied research and diagnostics, and illustrate some ways that we can assist USAID and WHO in addressing these urgent threats to health in our global village. I would like to share with you one brief quotation from a recent Institute of Medicine report, "America's Vital Interest in Global Health."

"Distinctions between domestic and international health problems are losing their usefulness and often are misleading."

Another point to emphasize is how critically important partnerships are in addressing these issues. I think that has already been a recurring theme.

By way of background, CDC issued an emerging infections plan in 1994. This plan has primarily a domestic focus. It contains four goals that are relevant: surveillance and response, meeting applied research needs, strengthening prevention and control programs, and meeting infrastructure development and training needs.

CDC and USAID participated with nearly 20 other Federal agencies in the development of the CISET report on emerging infections that was published in 1995. This report found that the national and global capacity were inadequate to address these threats. It identified ways in which Federal agencies could collaborate more effectively and work together. This report, as you know, served as the basis of the Presidential decision directive on emerging infections.

Historically, we have a long history of collaboration with USAID, particularly in malaria and AIDS and in tuberculosis.

Senator LEAHY. Is that collaboration from Atlanta or do you also go out into the field?

Dr. HUGHES. Well, as one specific example, we have a field station in Kenya that is focused on malaria. USAID has provided some of the funding support for that over the years. So we actually have had a very close collaboration.

Senator LEAHY. And you would be in contact with people from Dr. Heymann's organization, too?

Dr. HUGHES. Frequent contact, yes.

And recently, we have experienced an increase in requests to assist ministries of health and WHO in investigating outbreaks in many settings, particularly outbreaks with high mortality rates and those that have the potential to spread across national boundaries, and even globally.

Now, in addition, we are often asked to assist in dealing with problems in countries in which USAID does not have missions. China is an example of that. We have worked with WHO to increase the number of influenza surveillance sites in China that have been key in monitoring influenza strains circulating, and came into play in assessing the extent of the avian influenza outbreak that occurred in Hong Kong. We deployed a large team of CDC staff to work with WHO and others to investigate and control that problem.

In terms of the USAID strategy, I would like to congratulate the agency for developing this global strategy. CDC has consulted extensively with USAID in development of this strategy. CDC has

unique expertise in surveillance epidemiology, diagnostics, strain fingerprinting, and training that we can apply to its implementation.

In terms of challenges, we have recently received a number of very prominent wakeup calls. Several have been mentioned. One is the problem with drug resistance in staphylococcus aureus, this strain that was reported from Japan last year, with partial resistance to a drug called vancomycin, which is often the last available drug to treat staphylococcal infections. Within a few weeks of that case being reported, we identified two cases in the United States, one in Michigan and one in New Jersey, caused by similar strains. It shows how problems far away are directly relevant to problems here.

Other examples, in terms of the critical importance of surveillance and rapid epidemiologic investigation, are of the outbreaks of viral hemorrhagic fevers in central Africa, and the national and international food-borne disease outbreaks that we seem to be encountering with increasing frequency. One recent example is salmonella agona outbreak related to a product produced in Israel that caused infections in Israel, in England, and in the United States. Additionally, an organism that is a problem even closer to home, of course, is the E. coli. 0157, which caused the enormous outbreak in Japan, and more recently, last year, the outbreak in Colorado that led to a nationwide recall.

That particular outbreak illustrates the critical importance of public health laboratory capacity. Other recent episodes that emphasize that are the outbreak of plague in India and the Rift Valley fever outbreak in Kenya and Somalia.

In terms of opportunities and how we can help increase capacity, the CDC plan that I mentioned called for the establishment of emerging infections programs. And I think there are some principles on which these programs are based that can be applied to help USAID build national and regional center networks. These programs exist now in seven States.

They stimulate partnerships between the public health system, academic institutions, and other local organizations and agencies. They focus on some core projects that deal with high-priority emerging infections, including drug resistance, the causes of severe unexplained illnesses and deaths, and then, finally and importantly, food-borne diseases. They also give the State health departments the flexibility to deal with problems of local priority, which vary considerably across the country, and they provide the flexibility to assess new problems.

For example, when questions were raised about, are we seeing cases of new variant Creutzfeldt-Jakob disease in the United States, this mad cow disease that has been such a problem in England, the emerging infections programs conducted surveillance activities.

But other opportunities relate to some of the networks that we have been talking about. For example, we have been working with PAHO and with WHO, involving countries in the Amazon basin, another in the southern cone, and another in Africa, in the meningitis belt. There are opportunities to strengthen partnerships with the field epidemiology training programs located in 17 coun-

tries around the world that are modeled to some extent on the CDC Epidemic Intelligence Service Program. Those programs need to be more closely linked, I think, to local laboratory capacity, which would make them even more effective.

We are committed to assisting WHO in strengthening existing collaborating centers that Dr. Heymann mentioned, and also helping them to develop new ones. And then, finally, this issue of training. We have developed an Emerging Infectious Diseases Laboratory Fellowship Program, which we instituted 2 years ago in the United States. Recently, we have been able to expand that, with some financial support from Eli Lilly, to develop an international track, so that we will be able to bring people from other countries in for training in public health laboratory science.

Communications, we cannot underestimate the importance of that. CDC has a journal, Emerging Infectious Diseases, that can be used to help to get the word out to the scientific community around the world.

And, finally, the importance of public education is absolutely critical, particularly in the area of antimicrobial resistance and how drugs can be more appropriately used.

Senator LEAHY. To go back to something that was said earlier, let me make sure I understand it so we will have it for the record. What is your budget for international activities as opposed to domestic programs? And is there a portion of it that comes from USAID?

Dr. HUGHES. Yes; any money that we would get from USAID would be used internationally.

For implementation of the CDC emerging infections plan, we have received appropriations totaling $59 million; $3.5 million of that, or about 6 percent, goes for international projects and in part to support one of our people who is assigned to Dr. Heymann's group in Geneva, and another person assigned with PAHO in Washington. In addition, we put $2.5 million into strengthening our own WHO collaborative centers. So that total is $6 million. It is roughly 10 percent of the emerging infections budget.

I was asked to speak for just a moment about what does the future hold. This is hard to predict, but we can be pretty sure we are going to see more problems with drug resistance. We are overdue for the next influenza pandemic. We may have escaped the Hong Kong threat, although the jury is still a bit out on that.

The thing that I worry most about is when the next pandemic occurs, not only will we be dealing with influenza, but we will be dealing with bacterial pneumonias and other complications that will be caused by multiple drug resistant bacteria. So, in some ways, we will not be too far from where we were in 1918 and 1919.

Senator LEAHY. Yes; and that $6 million or so you have for the world out there is not an awful lot of money. I can say that. You might not be able to say it. I can say it. [Laughter.]

Go ahead.

Dr. HUGHES. I will not argue. [Laughter.]

Senator LEAHY. I did not think you would.

Dr. HUGHES. We are going to see more of these international food-borne disease outbreaks. We are going to continue to be surprised at the role that microbes play in causing chronic diseases,

peptic ulcer disease being an excellent recent example. And we know we are going to continue to have to confront the unexpected. These microbes are going to continue to evolve in response to selective pressures. And then we are all concerned about the threats posed by bioterrorism.

PREPARED STATEMENT

So, in conclusion, I am confident that the funds that USAID has received will be used to strengthen this global capacity. I think it is urgent that we all work together to do that. We need full partnerships and long-term collaboration and commitment.

Thank you very much for your attention.

Senator LEAHY. Thank you very much, Doctor. And I am delighted you are here.

[The statement follows:]

PREPARED STATEMENT OF JAMES M. HUGHES, M.D.

Good morning. I am Dr. James Hughes, Director, National Center for Infectious Diseases, Centers for Disease Control and Prevention. I am pleased to be here with my colleagues from the U.S. Agency for International Development (USAID), the World Health Organization (WHO), and Eli Lilly and Company to discuss an important issue: the need to strengthen U.S. support for global infectious disease surveillance and response capacity. I will review the current situation and consider how CDC can use its unique capabilities in epidemiology, outbreak investigations, and diagnostics to assist USAID in making the best possible use of foreign assistance funds appropriated for this purpose.

*The Global Implications of Emerging Infectious Diseases*

For fiscal year 1998, USAID has received $50 million to strengthen global surveillance and control of infectious diseases. This appropriation reflects a recognition on the part of Congress and the public of the urgency and global implications of the emerging infectious disease issue.

The urgency of the situation is illustrated by the long list of unforeseen infectious disease problems that have emerged in recent years. To give a few examples: in 1997, an avian strain of influenza that had never before attacked humans began to kill previously healthy people in Hong Kong. This crisis raised the specter of an influenza pandemic similar to the one that killed more than 20 million people worldwide in 1918–1919. In 1997, we learned that vancomycin an antibiotic of last resort—has begun to lose its power to cure infections caused by Staphylococcus aureus, a common bacterium that can cause life-threatening illness. This is a frightening example of how the emergence of drug resistance is reversing the miracles of the last fifty years. In addition, there is increasing concern that an infectious agent may be released deliberately in a U.S. city by a terrorist group or as a weapon of war.

There can also be disastrous consequences when two infectious disease epidemics afflict the same population. For example, the resurgence of tuberculosis in U.S. cities during the late 1980's and early 1990's was exacerbated by the presence of a large population of people whose immune systems had been impaired by infection with HIV/AIDS. Another example concerns influenza patients, who are especially vulnerable to bacterial pneumonia, a disease that in the past has been treatable by certain antibiotics. By the time the next flu pandemic hits, those antibiotics may no longer be effective, and pneumonia may again become a serious health complication.

The global dimensions of infectious disease problems are evident. Infectious microbes can quickly travel from country to country within hours, and new diseases like HIV/AIDS and new forms of old diseases—like multi-drug-resistant tuberculosis—can emerge in one region and spread throughout the world. Today, when an outbreak of plague occurs in India, or an outbreak of Ebola hemorrhagic fever is reported in central Africa, the whole world takes notice. An outbreak is no longer viewed as a local tragedy that cannot affect us here in the United States, because the world has truly become a global village.

The challenge to the United States, and specifically to CDC as the nation's prevention agency, is to contain these outbreaks before they become international cri-

ses. When HIV/AIDS first emerged, there was no international disease surveillance and response system to detect it. Similarly, when a cluster of cases of Ebola hemorrhagic fever occurred in the city of Kikwit, in the Democratic Republic of the Congo (then Zaire) in 1995, it was months before the disease was identified and control measures were put in place. By that time, the already fragile health care infrastructure in Kikwit had deteriorated even further, numerous health care workers had died, and hospitals had become places of contagion.

*Foreign Assistance to Address Emerging Infectious Diseases*

It is imperative that emerging infectious disease issues be considered when making decisions about providing foreign aid to underdeveloped countries. It is in the best interest of the United States to help developing countries participate in national and international surveillance and response efforts. While the primary gains will be in health, secondary benefits will include improved economic productivity and increased political stability. A recent report from the Institute of Medicine, America's Vital Interests in Public Health: Protecting Our People, Enhancing our Economy, and Advancing our International Interests, stated that "the direct interests of the American people are best served when the U.S. acts decisively to promote health around the world." In the area of emerging infectious diseases, the United States can lead from its strengths in science and technology to protect American and global health while projecting U.S. influence internationally.

*Collaboration and Partnerships*

The challenge ahead outstrips the means available to any one agency, organization, or country. U.S. agencies like CDC and USAID are making every effort to maximize their resources by pooling their ideas and talents and by linking and strengthening existing programs and institutions. The principles of interagency coordination and collaboration are being applied both at home, where U.S. agencies are addressing emerging infectious diseases at state and local levels, and overseas, where U.S. agencies are working with the WHO and other international partners to improve global health communications, set standards for global surveillance of antimicrobial resistance, and share experience and training on disease prevention and control on a regional basis. An excellent example of a successful global partnership is the collaboration among CDC, USAID, Rotary International, WHO, UNICEF, and other international groups to eradicate polio worldwide.

The importance of partnerships cannot be over-emphasized. This idea was stressed in CDC's 1994 plan, Addressing Emerging Infectious Disease Threats: a Prevention Strategy for the United States, which launched a major domestic effort to rebuild the component of the U.S. public health infrastructure that protects U.S. citizens against infectious diseases. Copies of the plan have been provided to the Subcommittee. CDC is preparing an updated version which has been reviewed by many partners, including colleagues from USAID, WHO, and the U.S. pharmaceutical industry. We anticipate that the plan will be finalized in a few months and will include a strong global emphasis.

The theme of partnerships was also stressed at last month's International Conference on Emerging Diseases in Atlanta, which was sponsored by CDC. Approximately 2,650 representatives from various scientific and public health disciplines—from government, academia, non-profit agencies, and the private sector and from all 50 states and 96 countries—participated in sessions that covered such topics as antimicrobial resistance; tuberculosis; international cooperation; perinatal transmission of HIV/AIDS; the detection of novel disease agents; traveler's health; bioterrorism; and the formal release of USAID's strategy on infectious diseases.

CDC and USAID are longstanding partners in the effort to combat emerging diseases overseas. CDC is the lead domestic agency for disease surveillance and prevention and has a strong scientific focus in areas that have useful applications overseas as well as at home. In many cases, CDC serves as a technical consultant to USAID, WHO, and ministries of health on overseas projects that involve epidemiological or diagnostic research or the investigation and control of infectious disease problems related to wars, famines, or other disasters.

Twenty years ago, CDC and USAID collaborated with WHO and other partners to eradicate smallpox. They are now working together to achieve the goals of polio and Guinea worm eradication. In recent years, CDC has extended U.S. assistance overseas by pursuing U.S. interests in countries that do not host USAID missions, such as China, where CDC supports twelve influenza surveillance sites; Hong Kong, where CDC assisted the Ministry of Health and WHO to contain the recent outbreak of avian influenza; the Sudan, where CDC has helped document epidemic levels of African trypanosomiasis (African sleeping sickness) and design control pro-

grams, as well as eliminate Guinea worm disease; and Vietnam, where CDC is initiating a variety of joint programs.

USAID and CDC have worked as partners to develop U.S. policy on emerging infectious diseases. In 1995, the two agencies participated in a government-wide review of our nation's ability to protect our citizens from emerging infectious diseases. The review concluded that existing mechanisms for surveillance, response, and prevention of outbreaks of emerging infectious diseases were inadequate, both at home and abroad. Copies of the report (Infectious Disease A Global Health Threat, Working Group on Emerging and Re-emerging Infectious Diseases, Committee on International Science, Engineering, and Technology (CISET), National Science and Technology Council (NSTC)) have been provided to the Subcommittee.

The recommendations derived from this report became the basis of a 1996 Presidential Decision Directive that established a new national policy to address the growing health and national security threat posed by infectious diseases, including the potential threat posed by bioterrorism. This directive calls for action in four key areas: strengthening the global surveillance and response system; supporting research and training as the key to the prevention and control of outbreaks; creating partnerships with the private sector to ensure the availability of drugs, vaccines, and emergency medical supplies; and encouraging other nations to make infectious disease control a national priority. NSTC has created an interagency task force to implement this policy. CDC and USAID are among the lead agency members.

*CDC's Role in International Infectious Disease Issues*

CDC's role in international health has become more prominent in recent years, as CDC has received an increasing number of requests for assistance from foreign governments and WHO. CDC is often asked for help when local health authorities respond to outbreaks that have high fatality rates or the potential to spread internationally. CDC's assistance may also be requested when the cause of an outbreak is unknown, or when it involves a highly dangerous microbe that must be handled under the most stringent laboratory biocontainment conditions. In 1997, CDC sent personnel to 145 countries for scientific exchange and technical assistance and provided diagnostic support for hundreds of local investigations around the globe.

Over the past few years, CDC has responded to several extraordinarily serious situations that required large numbers of personnel over extended periods of time. These included the 1995 outbreak of Ebola hemorrhagic fever in the Democratic Republic of the Congo; the 1997 outbreak of avian influenza in Hong Kong; and the 1998 outbreak of Rift Valley Fever in Kenya.

After an outbreak has been contained, part of CDC's overseas job is to provide the affected population with tools to prevent or control recurrences of the disease. For example, since the 1995 Ebola fever outbreak, CDC staff have helped the local community maintain improvements in hospital infrastructure and hospital nursing practices. In coordination with WHO, CDC has also remained involved in on-going efforts to develop long-term surveillance of hemorrhagic fever outbreaks in the region.

CDC's increasing presence in overseas investigations and research and training activities is due in part to the re-emergence of infectious diseases as a major health threat in developed as well as developing countries. It is also partly due to changing expectations at home and abroad.

*Factors that Favor the Emergence and Spread of Emerging Infectious Diseases*

Although we usually think of modern advances as helping to reduce the incidence of infectious illnesses, some modern demographic and environmental trends actually favor the emergence and spread of certain diseases. These factors include the ease and frequency of modern travel, the globalization of the food supply, and dramatic population growth causing sanitation problems and overcrowding in cities all over the world. Other concerns are population movements due to economic factors, and migrations caused by civil wars, famines, and other man-made or natural disasters. There has also been an increase in development projects involving irrigation, deforestation, and reforestation, which can alter the habitats of disease-carrying insects and animals. Finally, our increased use of antibiotics and other antimicrobial drugs has hastened the evolution of drug-resistant microbes.

*New Expectations*

At the same time, there are new expectations, both domestic and international, that favor increased CDC participation in international outbreak investigations. During the last few years, the issue of emerging infectious diseases has moved beyond the public health community to engage the community at large. The American public has become better informed on the dangers of microbial epidemics, and there is widespread understanding that a disease which originates in one continent can

easily spread to another. The national and international press has educated the public by focusing on some of the more dramatic outbreaks. Furthermore, because of modern communications and international public health reporting, diseases that emerge in remote areas are less commonly overlooked.

Internationally, there has been an outpouring of interest in emerging infectious disease issues both in the developed and the developing world. In 1997, at the Denver Summit, the Group of Eight industrialized nations, including the United States, pledged to protect the health of the international community by developing a global disease surveillance network; coordinating international response to outbreaks of infectious disease; and helping to build worldwide capacity to prevent, detect, and control emerging infectious diseases. International projects to improve global surveillance and response to infectious diseases have been initiated through several major bilateral meetings, including the Common Agenda with Japan, the Transatlantic Agenda with the European Union, the U.S.-South Africa Binational Commission, and the U.S.-Russia Commission on Economic and Technological Cooperation. Emerging infections are also on the agenda of the Asian-Pacific Economic Cooperation (APEC), which includes eighteen developed and developing countries.

WHO has made a major effort to provide international leadership in this area, especially among developing countries. In association with its Division of Emergency and Humanitarian Action, WHO's new Division of Emerging and Other Communicable Diseases Surveillance and Control is focusing on the containment of epidemics all over the world. CDC is prepared to assist WHO in accomplishing this goal.

*USAID's Strategic Plan*

The increased interest in emerging infectious diseases among other nations presents us with an important opportunity for building a global network for disease surveillance and response and bodes well for the success of USAID's new initiative on emerging infectious diseases.

CDC applauds USAID's effort to develop a global strategy for strengthening national and regional capacities for addressing emerging diseases, and we concur with their key priority areas: antimicrobial resistance, tuberculosis, malaria, and surveillance and response. These are critical areas that developing countries must address in their efforts to monitor and contain emerging diseases. The spread of antimicrobial resistance presents a particularly difficult challenge. Tuberculosis is the leading cause of infectious disease deaths in the world and is the most common opportunistic infection among HIV-infected persons. Malaria kills more than one million African children every year, and there is still no vaccine to prevent it. Surveillance systems and response capabilities need to be strengthened throughout the world so that known diseases can be identified and treated and new diseases can be recognized and contained. Success in each of these areas over the next 5 to 10 years will be crucial to improving global health.

*Implementation*

In response to language in the fiscal year 1998 Senate Foreign Operations Subcommittee report, CDC has been pleased to consult with USAID on the development of the strategy and has outlined approaches for working with USAID and other partners to help ensure its implementation. CDC is eager to make contributions in each of the priority areas, particularly in the fourth—enhancing surveillance and response capacity—an area in which CDC has unique expertise.

CDC can help build surveillance and response capacity in two related areas: epidemiology and laboratory diagnostics, the two basic and interdependent components of an effective surveillance and response system. Epidemiologic capacity includes the ability to monitor the occurrence of infectious diseases and to conduct outbreak investigations, using modern analytic tools. Laboratory capacity involves the ability to diagnose diseases and track the source of epidemics, using a variety of approaches, including molecular "fingerprinting." Research on emerging pathogens is also critical for the invention of better tools to diagnose, monitor, and prevent emerging infectious diseases.

*Building Regional Capacity in Epidemiology*

First, I will use a successful domestic program as a model to illustrate the principles on which CDC might help USAID build regional centers for epidemiological research and outbreak investigations. I refer to CDC's Emerging Infections Programs, or EIP's, which provide a regional resource on infectious diseases within the United States.

The seven current EIP sites conduct population-based surveillance and research that go beyond the routine functions of state and local health departments to address important issues in infectious diseases and public health. They invest in cut-

ting edge research, assist state and local health departments in emergency outbreak responses, and provide a flexible infrastructure for responding to new problems whenever they arise. (For example, the EIP's established population-based surveillance for new variant Creutzfeldt-Jakob Disease, an invariably fatal neurological disease, immediately after this disease was reported in the United Kingdom as a possible consequence of eating beef from animals afflicted with "mad-cow disease.") Moreover, the EIP sites are the backbone of the Active Surveillance Network for Foodborne Diseases, or FoodNet, which is a collaborative effort involving the Food and Drug Administration, the Department of Agriculture, and CDC.

The EIP's, which are based in state health departments, demonstrate the importance of institutionalized, on-going epidemiological research that fills both regional and national needs. They also illustrate the benefits of maintaining a regional resource for providing technical and financial assistance during infectious disease emergencies. Finally, they demonstrate the importance of partnerships between public health authorities and other agencies. Each EIP involves collaborations among state and local health departments, academic medical centers, and other local organizations and institutions.

These general principles can be applied by CDC and USAID in building an international network of regional centers that integrate surveillance, applied research, and prevention activities. Like the domestic EIP Program, such a network could incorporate pre-existing sites (e.g., public health agencies, research institutions, private companies, and non-governmental organizations); use the sites in an integrated fashion; and establish an international steering committee to provide assistance for specific projects conducted at one or more sites. Some sites could partner with, or build upon, existing Field Epidemiology Training Programs, which CDC has helped established in 14 foreign countries. Areas in which these sites might play an especially important role are in surveillance for drug-resistant forms of malaria, tuberculosis, pneumonia, and dysentery. All of the sites would be linked by electronic communications to keep health experts around the world in close contact with one another.

*Building Regional Capacity for Laboratory Diagnostics*

CDC and USAID could also help develop a complementary network of regional diagnostic laboratories. This might be accomplished most readily by building on WHO's existing network of more than 200 Collaborating Centres and Reference Laboratories worldwide. The laboratories specialize in particular areas of diagnostics and laboratory research, including foodborne diseases, respiratory diseases, diarrheal diseases, drug-resistant diseases, and many others. They are an important source of high quality diagnostic reagents, and they can provide international training opportunities in their specialty areas. For example, after the 1994 plague outbreak in India, the CDC-based WHO Collaborating Centre for Reference and Research on Plague Control provided diagnostic reagents and educational materials to Indian health authorities.

Wherever there are gaps in global capacity to recognize certain diseases, CDC could help USAID improve the diagnostic capacity of appropriate WHO Collaborating Centres. In some cases, CDC would work with WHO to evaluate and strengthen local laboratories for eventual designation as new Collaborating Centres. This project would be in good accord with WHO's plan to expand the number of Collaborating Centres in developing countries, and it would further USAID's strategy for developing in-country expertise in specific disease areas.

A recent example illustrates the potential benefits of expanding the Collaborating Centre network to fill gaps in regional capacity. During the winter of 1996–97, WHO and CDC spearheaded a successful international effort to help prevent a seasonal recurrence of meningitis in sub-Saharan Africa. The winter before, the disease burden had been unusually high, with over 200,000 cases and 20,000 deaths. Three WHO Collaborating Centres—one in Marseilles, one in Oslo, and one at CDC in Atlanta—supplied diagnostic reagents, laboratory assessments, and diagnostic training in the affected countries. After the outbreak was over, the three Centres worked together to continue training activities in the affected countries and to strengthen regional facilities that might become permanent reference laboratories for meningitis. At the present time, laboratories in Ghana and in Mali have been recommended for possible designation as new WHO Collaborating Centre reference laboratories.

*Training in Disease Surveillance, Outbreak Response, and Laboratory Diagnostics*

The success of the regional networks I have described ultimately depends on the efforts and abilities of the people who operate them. A major component of the effort to implement USAID's strategy will be to train an international cadre of epidemiolo-

gists and laboratorians who are prepared to respond to emerging infectious disease threats, whenever and wherever they arise.

This year, CDC is expanding its Laboratory Fellowship Program in Emerging Infectious Diseases to include a track for foreign students. The Laboratory Fellowship Program trains medical microbiologists in public health approaches to diagnosis and molecular epidemiology. Its graduates are qualified to operate and lead public health laboratories. CDC also trains foreign students to become epidemiologists ("disease detectives") through its Epidemic Intelligence Service, which has served as the model for Field Epidemiology Training Programs in many countries throughout the world. It is interesting to remember that EIS was founded with global problems in mind; in fact, it was established during the cold war in response to the threat of biological warfare.

*Conclusions*

CDC is proud of its accomplishments in the area of global health. We are confident that the funds provided by Congress will be used effectively to strengthen global capacity to combat emerging diseases. We appreciate the efforts USAID has made to involve CDC scientists in discussions and decision-making related to developing its strategy for addressing emerging infections. CDC strongly supports USAID's expanded activities on emerging infectious diseases, and we look forward to working in full partnership on this important endeavor.

Thank you very much for your time and attention. I will be happy to answer any questions you may have.

SUMMARY STATEMENT OF GAIL H. CASSELL

Senator LEAHY. Dr. Cassell, I am very happy that you are here, because I know, among other things, you are going to talk about the impediments to the research and development of drugs for use in high volume, low profit developing countries that Dr. Daulaire and Dr. Heymann and Dr. Hughes have mentioned at one point or another. So I am delighted to have you here.

Dr. CASSELL. Well, thank you. I really appreciate the opportunity to be here.

I have to tell you that I am here today not only on behalf of Eli Lilly, but also as a past president and the current chairman of the Board of Public and Scientific Affairs of the American Society for Microbiology. This is an organization of over 42,000 members, 20 percent of whom are international. Our organization, I think, has a strong history in being very concerned about issues related to emerging infections and trying to bring this to the attention of policymakers like yourself.

And I would just like to thank you on behalf of ASM, and all of us actually, for your having taken the initiative to provide for this $50 million appropriation last year, through USAID, for WHO, and CDC.

I would also like to say that we very much were encouraged by your language, which also stated that USAID should work closely in collaboration with NIH with respect to these initiatives, not necessarily because NIH is directly funded by your committee, but rather because NIH, as you know, is the Nation's leading institute with regard to biomedical research. And because of legislation in the sixties, they do provide funding for international research. And we think research plays a critical role in these issues that we are trying to address related to emerging infections.

Now, I would like to turn your attention to the issue that I was asked to address. And that is the issue of antimicrobial resistance. You obviously have a good appreciation for the magnitude of the problem.

Senator LEAHY. I am getting a better one. I have a long way to go, but I am getting a better one.

Dr. CASSELL. Well, I am sure your wife has helped educate you a lot in that regard. She probably is confronted by it.

I would just like to point out something that I am not sure that we have made clear, and the real problem with respect to antimicrobial resistance is that the problem is the greatest in the four biggest categories, or killers, with respect to infectious diseases. One of the chief organisms causing pneumonia, for example, the pneumococcus resistance, multidrug resistant malaria, multidrug resistant TB, and also with respect to the diarrheal diseases, many of these organisms that cause the food-borne diseases that you have mentioned are resistant to multiple antibiotics.

And then last, of course, the hospital environment, both in this country and other countries is a major source of antibiotic resistant organisms.

We believe, as I think others do, that we need new classes of antibiotics, as you have heard Dr. Heymann discuss this morning. We believe the only way to accomplish that is through true innovative research. And I think that it is very exciting that because of the new technologies that you mentioned this morning, particularly our ability to sequence the entire genome of these disease-producing organisms, there is a lot of hope and optimism that new drug targets can be developed.

But, unfortunately, as is often the case, the new technology is expensive. Due to this expense, the cost of registering new drugs, plus the lack of what we believe to be adequate protection of intellectual property in many countries, U.S. pharmaceutical companies and other pharmaceutical companies have reduced their investment in the area of infectious diseases overall, at a time when, in fact, we should be increasing that investment.

I think few people realize that it is estimated that to develop a new anti-infective today would cost over approximately $500 million. And what really is behind the scenes is that you do not appreciate that, in fact, millions may have been spent on compounds, investigating compounds that never make it into humans. In fact, it is estimated that only 1 out of 5,000 to 10,000 drugs actually are a commercial success.

This past summer, I was fortunate to participate in an Institute of Medicine forum. Dr. Hughes has referred to other important IOM forums related to emerging infections. But this particular forum, actually composed of representatives from academic institutions, scientific societies, including ASM and the pharmaceutical companies and the Federal agencies, was asked to specifically address what are the barriers to development of products, vaccines, and antibiotics, to address the problem of emerging infections.

Now, I will not take time to summarize each of those that were outlined by that forum, although there was a high degree of consensus, I have provided you with a copy of the IOM forum report, and also provided copies for each of the members of your subcommittee.

I would just like to highlight three areas, in fact, in which we felt there was agreement as far as needs. One was the need for better information to identify and characterize potential markets. This

information actually will come from the epidemiological and surveillance data gathered by the infrastructure that USAID, WHO, and CDC are putting in place, this global surveillance network. So this is an extremely important component of being able to more predictably define the market for a new product in some of these countries.

We believe that harmonization of international regulatory issues would be a big step in the right direction, in terms of more predictability, greater predictability, with regard to development of drugs to be used worldwide.

And last and perhaps most importantly is the area of the need for more sharing of costs and risks, or greater partnerships. One of these would be illustrated by bulk procurement, or guaranteed procurement, that often comes with either governments and/or agencies. And I will not take time to detail those, but we can discuss them in questions if you like.

Other initiatives would be related to the ability to perform clinical trials much more efficiently in these developing countries by having the adequate infrastructure in place, much of which will be accomplished by putting the infrastructure in place that Dr. Hughes and Dr. Heymann have alluded to this morning, plus by increased training.

I would like to just very quickly mention one other area that has been highlighted to some extent this morning, but I think needs maybe greater attention, especially from the drug and vaccine development standpoint. And that is that within these countries, it is critical that you have the appropriate infrastructure in place so that new drugs can be appropriately used. It is not often a matter of not having drugs available in these countries, but even in countries where they are available, they are misused or abused, often, in fact, being taken or being available over the counter, not being subscribed, and, therefore, not under medical supervision in terms of insuring that the appropriate dosage as well as completion of therapy.

We know that these conditions actually can rapidly lead to antibiotic resistance. Therefore, one is hesitant to put a new product in that kind of environment, where you get rapid development of resistance, because, therefore, it would have a much shorter half-life and the reduced ability then to recuperate the investment in the development of that new product.

Mr. Chairman, I think that if you will look, and certainly I am sure others would agree, that the pharmaceutical sciences and scientists have a long history of being innovative in addressing the challenges that we face in medicine, both today and in the past. And one such example is the new drug that has been recently discussed with respect to the potential ability to protect, actually protect against, breast cancer, which may actually revolutionize our management of the devastating diseases of cancer.

But I have to tell you that in order to put that kind of innovative effort toward development of new compounds for treatment of infectious diseases and prevention of new infectious diseases, we must protect intellectual property worldwide. And, in fact, I can promise you that without adequate protection of intellectual property, there will probably be no innovation.

Completion of TRIPS, or the trade-related intellectual property issues associated with GATT, certainly was a step in the right direction. But as you well know, implementation of these has been rather slow. You probably are also aware that in developing countries and least developed countries, in fact, they have an extension of 5 to 10 years to put these TRIPS in place. We believe the United States should be very vigilant in terms of trying to provide technical cooperation and advice, so that, in fact, we can accelerate that implementation of TRIPS in those countries.

In the end, if this is not accomplished, it will be the patients who suffer, because the new drugs will not get to those patients the innovation that is needed. Microorganisms, as you have said and as others have said this morning, are a lot more innovative than humans. And they very rapidly develop resistance. We do not have time to waste. It is urgent that we try to get this protection of intellectual property in place so that we can begin to get the new drugs to these areas where they are desperately needed, including the United States.

In closing, again, I would just like to thank you for your personal efforts on behalf of infectious diseases, and to say that we certainly believe in partnerships. And I would just say that the pharmaceutical industry has contributed and will continue to contribute financially to the antibiotic resistance monitoring and surveillance, because this is an area of great need and concern to us. I would also say that we believe that industry should be a partner, as far as training, and helping to provide the infrastructure that I have alluded to this morning.

PREPARED STATEMENT

And as Dr. Hughes has mentioned, I am pleased to say that Eli Lilly has funded the newly established International Training Program for Laboratories in the area of emerging infections.

Again, thank you.

Senator LEAHY. Thank you.

[The statement follows:]

PREPARED STATEMENT OF GAIL H. CASSELL, PH.D.

Mr. Chairman, members of the Subcommittee, I am grateful for the opportunity to appear before you today to present my views regarding a U.S. strategy for combating infectious diseases and the impediments to the development, marketing and distribution of drugs for the treatment of infectious diseases in developing countries. I appear before you today wearing at least three hats. As of November 1, 1997 I am the Vice President for Infectious Disease Drug Discovery and Clinical Investigation for Eli Lilly and Company, a world wide pharmaceutical company with a very rich and important history in the development of products related to the treatment and prevention of infectious disease. Prior to joining this company I had spent 30 years in basic and clinical research in infectious diseases at the University of Alabama of Birmingham where I continue to maintain my faculty appointment. I am also appearing before you today as a past president and as a current chair of the Board of Public and Scientific Affairs of the American Society for Microbiology (ASM). The ASM is the largest single life sciences organization composed of over 42,000 academic and industrial scientists, physicians, and health professionals. Our membership is greatly concerned about the increased threat from emerging infections.

This morning I would like to begin by making some general statements concerning the U.S. Strategy for addressing emerging infections. First and foremost, a strong public health infrastructure provided by the Centers for Disease Control and Prevention with regards to both its domestic and international programs is abso-

lutely essential to address the threat of infectious diseases. Because infectious diseases respect no borders, international collaboration and coordination of efforts are essential. The World Health Organization can play an important role in this regard.

We applaud this Subcommittee's support for the Communicable Disease Initiative last year and the provision of $50 million additional funds to strengthen global surveillance and control of infectious diseases. We also strongly supported your recommendation that the U.S. Agency for International Development (USAID) work closely with, the World Health Organization (WHO), the Centers for Disease Control and Prevention (CDC), the National Institutes of Health (NIH), and the National Institute of Allergy and Infectious Disease (NIAID). As emphasized and delineated in the recent report of the Committee on International Science, Engineering, and Technology (CISET) of the President's National Science and Technology Council, each of these has a unique and vital role to play in surveillance and response to infectious diseases. Therefore, we would urge you to continue your support of the CDC's Field Epidemiology Training Program and the WHO/Division of Emerging and other Communicable Diseases Surveillance and Control. While direct funding for NIH comes from another Subcommittee, close consultations with NIAID and NIH should remain a high priority for international programs for control of infectious diseases. NIAID is the Federal government's lead agency for funding for scientific research on infectious diseases. In 1960, passage of the International Health Act gave the NIAID the authority to conduct research outside the United States. NIAID provides major support for scientists conducting research to control emerging infectious diseases worldwide. The role of research cannot be overemphasized. In view of both the critical role of research and infectious disease surveillance and the unique expertise of the NIH and the CDC, respectively, in these areas, we recommend that these agencies be considered as full partners with USAID in the U.S. strategy to address emerging infections.

Now I would like to turn your attention to the greatest challenge related to emerging infections—that is the rapid increase in drug resistant pathogens. Unfortunately, increases in resistance is greatest in those organisms responsible for the four leading causes of death worldwide including: acute respiratory infections, tuberculosis, diarrheal diseases, and malaria. New products are desperately needed. Innovative drug discovery is the only solution which will lead to completely new classes of antibiotics. The explosion of new technology and the ability to determine the entire genetic code of infectious agents offer great promise. Unfortunately, because of the new technology drug discovery is more costly than ever before in history. For example, it is now estimated that development of a single anti-infective will cost in excess of a half billion dollars. What is not apparent is that prior to achieving one success millions are invested in discovery of compounds that never make it into humans. Only one in 5,000 to 10,000 compounds are a commercial success. The increased costs of developing and registering pharmaceutical products, coupled with the lack of adequate intellectual property protection in many countries, has resulted in substantial dimunition of R and D investment in this area. In the summer of 1997 I was a member of the National Academy of Sciences, Institute of Medicine (IOM) Forum which thoughtfully considered these issues.

The deliberations and recommendations of the IOM forum have been published in a report titled "Orphans and Incentives: Developing Technologies to Address Emerging Infections." I have elected to spend most of my allocated time this morning summarizing the highlights of this report. In so doing it is important for you to note that this body was composed of representatives from the federal government (including the FDA, NIH, and CDC), relevant scientific societies, academic institutions, and the pharmaceutical industry, including representation from PhRMA.

The purpose of the forum was to learn from experience what has been done and what is needed for the public and private sectors to collaborate effectively and productively for the health of the public. The emphasis was on cooperation in those product areas where returns from the market might be perceived as too complicated by other factors to compete in industrial portfolios with other demands for investment. If the requirements for products for emerging infectious diseases are to be satisfied, there was agreement with regards to the need for: (1) more information; (2) more predictability; and (3) more sharing of costs and risks. Actions which were viewed as critical for advancing the infectious disease enterprise as a whole are summarized in the attached Table which is taken directly from the IOM Report. Exact reproduction was felt to be important because of the wide input sought in its development and because of the widespread consensus of the barriers and incentives related to product development. With permission from the IOM I have provided each of the members of the Subcommittee with a full copy of the IOM report. To my knowledge this provides one of the most comprehensive and up-to-date analyses. A synopsis of the recommendations follows.

More information is needed on market identification based upon comprehensive and accessible surveillance data and well-articulated, consensus-based public health agendas. There should be clear portrayals of specific disease priorities. More predictability is needed in market assessment (early forecasting of demand based on epidemiologic criteria; segmentation by size, ability to pay, disease profile). There is need for more predictability which can be brought about by international regulatory harmonization.

There is need for more cost-risk-sharing which can be brought about by market creation (i.e. procurement guarantees via: high-volume bulk orders, extended contracts, product "bundling" subsidies for poorest countries; revolving funds for national and/or regional purchasing and official development assistance for health infrastructure and education and drug logistics). Accelerated regulatory approval could be achieved by accelerated enrollment in trials with aggregation of efficacy data from multiple sources. Clinical trials of new drugs could also be greatly facilitated by building of contract research organization capability in developing countries to reduce costs and enhance infrastructure for clinical trials. The international clinical research centers of NIAID could serve as a model. An incentive could be provided by provision of a financial subsidy for phase II/III clinical trials with a potential payback on success, if and when it is appropriate.

There are several other considerations related to antimicrobial resistance and drug development that I would like to bring to the attention of this Subcommittee. As we all know, the availability of necessary antibiotics is limited in many developing countries. An important issue not often addressed is that where they are available, their use is often inappropriate and poorly controlled, which only contributes to development of antimicrobial resistance. We know many of the causes of early resistance-use in trivial conditions with or without medical supervision, inadequate treatment, especially failure to take the full therapeutic or preventive course, substandard products sold without adequate controls by unqualified vendors, and so on. Thus, irresponsible use of every new antibiotic which comes along may also lead rapidly to resistance with little possibility of developing further new products as quickly as they are needed.

Part of the problem is the lack of skilled professionals—physicians, pharmacists, laboratorians who determine antibiotic susceptibility of the disease causing organisms—in developing world, along with a poor distribution system. This results in failure to take maximum advantage of effective therapies, which in turn promotes growth of antibiotic resistance in a shorter period of time.

The necessary drugs should be made available but, in addition, a system should be put in place for getting the best therapies in the hands of professionals who will be able to utilize them appropriately. A percentage of money spent in this way can help ensure that the overall investment is effective, and that it does not simply exacerbate the problem of resistance. This is precisely why the international training programs of the CDC, WHO, and NIH are so critical. Industry should be an active partner in training. Informed consumers would help prolong the life newly developed antibiotics.

Pharmaceutical science and innovation has a tremendous track record of coming up with solutions for today's disease challenges. For example, we have all seen recently news on compounds that may prevent breast cancer. This same innovation can be applied to the challenges of infectious diseases that have been highlighted in this hearing. Of all the barriers to U.S. pharmaceutical companies related to drug development and marketing in other nations, inadequate intellectual property protection may be the greatest. Without protection of intellectual property there will be no innovation.

Completion of the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) as part of the General Agreement on Tariffs and Trade (GATT) marked a positive step forward in reinforcing the importance of intellectual property rights. For some countries, however, implementation progress has been slow. While developing and least developed countries have the option to extend five or ten years their full TRIPS compliance deadline, the U.S. government must remain vigilant in providing technical assistance and cooperation to move these countries toward this goal and in encouraging them to accelerate their implementation whenever possible. The United States should take action against those countries that do not implement their immediate obligations to protect patents, confidential data and trade secrets. Ultimately, it would be the patients that suffer as the innovations that are so sorely needed to fight infectious disease would not be turned into useful products that are developed and marketed. Infectious agents are far more innovative than humans. They have the capacity to develop resistance at alarming rates. New drugs are urgently needed in all countries.

In closing, I would like to emphasize that the ASM has played an active role in communicating the need for a rapid and appropriate response to emerging infections to policy makers and the public. The pharmaceutical industry has also played an active role in responding to the threat by financial support of the antibiotic resistance surveillance network of the WHO. With the strong belief that we need to provide more resources to train the leadership in health in developing countries to enable the development of public health infrastructure, I am pleased to say that through an educational grant to the Centers for Disease Control Foundation Eli Lilly has provided sponsorship for the newly established laboratory fellowship training program in emerging infections. We would pleased to continue to work with you Mr. Chairman and this Subcommittee in your efforts to address the threats from emerging infections.

ORPHAN DRUG ACT

Senator LEAHY. Doctor, when you talk about intellectual property you preach to the converted. I wear another hat as ranking member of the Judiciary Committee. I have handled a lot of the intellectual property issues over the years. In fact, we are dealing—I was dividing my time earlier today with WIPO there. I agree with you. It is important.

It made me think of another issue. We have the Orphan Drug Act, as you know, with the tax incentives to spur development of drugs. It might be for a very rare disease when obviously you are never going to recoup your costs by selling the drug, but I think the law may have helped.

What about an orphan drug designation that might deal with emerging infections in developing countries?

Dr. CASSELL. I think that would be fantastic. And as a matter of fact, as you probably know, a step in the right direction was taken recently, I think in association with FDA reform, where, in fact, the tax credits associated with that Orphan Drug Act were put in place so that they would be permanent rather than being approved only at short intervals or for short intervals. So I think that this was also a step in the right direction.

And if, in fact, reagents, drugs, vaccines, perhaps diagnostic reagents, could be incorporated into something like an Orphan Drug Act, I think that this would actually provide a great incentive.

Senator LEAHY. You have talked about clinical trials and what could be done there. What about extended patent protection for drugs aimed at not here but aimed at particular areas? It may be an infectious disease that is mostly found in another part of the world, but a part of the world that may have a per capita income of only $300 a year.

Dr. CASSELL. Yes; I think that that certainly would help to provide an incentive. I think there is somewhat of a delicate balance that one would have to play there. Because what you would hope would not happen is that people would become complacent, because you have this extended patent, so that you prevent innovation, competition, and discovery of new and better products.

Senator LEAHY. And we also have the Institute of Medicine report that discusses multitiered pricing. We hear that the problem with multitiered pricing is that some of these drugs come back into the United States via the black market. I do not know the answer to that one.

Dr. CASSELL. I think that is very unfortunate. Because I believe, in fact, the IOM report pointed out that—and I do not know, David,

you probably know a lot more about this than I—but that actually, in many cases, it has been an incentive and has been beneficial, particularly in the area of vaccines, I believe. But clearly these latest incidents provided a disincentive for companies to participate in that multitier pricing.

Senator LEAHY. You know, I look at some of the things coming here and I—and anybody who wants to can jump in here—but when I was a kid, growing up in Vermont—and for the record, I just turned 58 last month, so that will put it in the proper time period—but when I was a youngster, the municipal swimming pool would close at certain times in the summer because of polio scares.

My wife and I had our first grandchild a couple of months ago. He will never have to worry about polio. Our kids never faced it. They just got a polio vaccine and that is the way it goes. Although we see that it is not yet eradicated. I visited a place where we use the Leahy war victims fund, in an African country where one of the people in the clinic was a badly crippled little boy. My wife was there, and she was helping somebody bathe and dress this child, and she asked what kind of an injury, because she saw no scars or marks or anything on him. They said polio.

And in that particular case the polio vaccine could not get to the village because of the threat of landmines. And I know you all agree with me on the issue of landmines. I am not trying to make converts here. But when you think of something like polio, it should be relatively easy to eradicate. We did it with smallpox. Is this what we should be doing? Look at guinea worm. Should we target these diseases, one by one, and eradicate them if they can be?

Dr. DAULAIRE. Let me start with that, Senator.

There are some diseases—and you have touched on a number of the key diseases—that are actually potentially eradicable.

Senator LEAHY. Measles is another one.

Dr. DAULAIRE. Yes, measles, that is right. But one of the things we have learned in the smallpox eradication effort and in the guinea worm eradication effort, which is still going on, is that there is a curve. And controlling the disease and bringing it down to fairly low levels can be done generally fairly cost effectively. But when you are searching out those last cases, when you are trying to wipe out the disease from the face of the Earth, at that point you are in a very steep part of the curve.

And we are at that stage right now in polio and in guinea worm eradication. So our problem in the world of global health is—it is like when I used to be an emergency room physician, we were trained in triage.

Senator LEAHY. Triage, yes.

Dr. DAULAIRE. And you have to figure out, with very limited resources and limited time, how you are going to get your best overall effect in health. In some cases it is going to be eradication. In some cases it is going to be just bringing the level of an important disease down to manageable levels. Because then your next dollar is probably better spent on turning to another disease rather than trying to wipe out that very last vestige.

Senator LEAHY. And it is not a case where you are being inhumane by saying that. I mean you are being more humane actually

by saying OK, we can only go so far in here, but are we going to take money away from river blindness?

Dr. DAULAIRE. That is right.

If you can save 10 lives for the cost of one more disease prevented, then maybe that is not a good tradeoff.

Senator LEAHY. Dr. Heymann, did you want to comment?

Dr. HEYMANN. Yes; I think elimination and eradication programs are very important, because they develop an international solidarity and they develop an infrastructure to make sure that those diseases are eradicated.

But if you look at the graph over on the side there, with 17.3 million deaths due to infectious diseases, if you eradicate or eliminate the seven diseases that are targeted now, infectious diseases will only decrease from 33 percent of all deaths to 31 percent of all deaths.

Senator LEAHY. I see.

Dr. HEYMANN. So the major diseases remain: tuberculosis, AIDS, and other diseases.

But what is important about elimination and eradication is that this solidarity can be used to build the infrastructure for all infectious disease detection and control. Detection is very important in elimination and eradication. We must find that last case.

So those systems in place can then be used for other diseases, and will strengthen overall infectious disease control.

Senator LEAHY. This solidarity—for example, take an area like Africa, where you have countries that may be contiguous but greatly different in their social, political or economic circumstances—if you can develop a regional program in an area like that you have accomplished something.

Dr. HEYMANN. Yes. Rotary International, for example, in all countries, including African countries, has been a very active supporter, financially and advocacywise, for polio eradication.

Those countries are now developing laboratory networks among themselves for polio virus, which can be expanded to many other viral diseases. So, yes, what is being done with polio, as an example in Africa, will strengthen the infrastructure for all viral diseases, detection, and control.

Dr. DAULAIRE. Let me stress that also, Senator. When we started to engage in this last phase of the polio eradication effort, we took as a prime cause making sure that on the day that polio was finally eradicated that the countries that we had helped would have workable health systems left behind so that we would not have to start from scratch again on day two.

There are different ways of going about eradication. And doing it through a developmentally oriented approach may sometimes take a bit longer, but ultimately it leaves far more behind.

Senator LEAHY. Dr. Hughes, did you want to comment?

Dr. HUGHES. Yes, just briefly. I think the polio experience does show what is possible for some infectious diseases, when you have the tools, the resources, the commitment, and the public/private sector partnership, which have been really important. As Dr. Heymann also said, the public health laboratory has played a critically important role, particularly as we move closer and closer to true eradication. The molecular techniques that are really needed

to characterize polio virus isolates are absolutely critical, and will be able to be applied to measles, which looks to be one of the next best candidates.

Senator LEAHY. Yes; measles I find amazing. I mean, the same with our kids. One would just get over measles and the next one would start. And then as soon as that one is over the next one. And you knew, with three children, you are in for a long, long siege of measles.

Now, when my grandson gets inoculated for measles it is kind of impressive. But we also have—it is interesting, Dr. D.A. Henderson, who led the campaign on smallpox, he said recently that we ought to start making the smallpox vaccine again because of the threat of biological warfare or terrorism. And yesterday the Judiciary Committee and the Intelligence Committee had a hearing with Director Freeh and Attorney General Reno there, about what happens if terrorists do that.

You know, if smallpox were spread through the U.S. population, it could be sometime before you detected it, if I am understanding this correctly. And by the time it was detected, we would not necessarily have the ability to get the vaccinations out.

Dr. Hughes, you must look at threats like that.

Dr. HUGHES. Well, this is certainly one of the issues that we worry considerably about. We feel that it is part of the rationale for strengthening infectious disease surveillance and response capacity nationally and internationally.

And an episode, were it to occur, that was not associated with a threat could be very insidious, could be very difficult to recognize. Exposed people could be widely dispersed nationally or even internationally before they become ill because of the concept of the incubation period, which, as you know, is the time from exposure to the microbe until the disease develops. And that is why you can, as you mention, get on a plane in Hong Kong and arrive in the United States perfectly well, and a day later perhaps develop an illness acquired in a faraway place.

So we have concerns about it. There is a broad range of diseases that are candidates for use by terrorists. As you know, many of them are not important clinical or public health problems in this country, so there is often very limited epidemiological, clinical, and laboratory capacity available to deal with them. In addition, some of the tools you need to either treat or prevent these diseases are not widely available. So this is a legitimate concern.

Senator LEAHY. Well, smallpox is not available, is it?

Dr. HUGHES. Well, there is smallpox vaccine in storage. It is a vaccinia virus. It is available.

Senator LEAHY. Yes, but very much?

Dr. HUGHES. Well, there are roughly 15 million doses in the United States that are available. But that is obviously not enough to reach the whole population.

Senator LEAHY. I love having these hearings, so everybody can go home and be terrified. [Laughter.]

But maybe that is what is needed.

Nils, did you want to comment?

Dr. DAULAIRE. I think one of the issues that we have talked about in this is the importance not only of dealing with the well-

recognized threats—the anthrax, the smallpox—but also the recognition that with the evolution of biotechnology we cannot stockpile everything against everything. Part of this has got to be an ability to identify and react quickly, because chances are, if there is an attack, chances are it is going to be something we are not expecting.

Senator LEAHY. Yes; you know, I do not envy you, any of the four of you or those you work with, trying to look at this on an international scale. Look what happens in our own hospitals. We pride ourselves on having the best medical care in the world, but 2 million Americans pick up infections in hospitals; 70 percent of them I am told are from drug-resistant microbes.

Now, the cost is anywhere from $4 to $5 billion just from that alone. Better hygiene by hospital personnel would help with a lot of that. And yet it happens.

What do you do when you are dealing in impoverished Third World countries? You have got one heck of a job ahead of you.

I mention that only to suggest that I will probably be in favor of increasing the budget over what the administration has asked for.

I have to go back to another hearing. We have kept you here longer than we said we would.

Would any of you like to add anything else?

Dr. Cassell.

Dr. CASSELL. Yes; I would just like to close again by thanking you and your staff, who I think did an excellent job in putting together a very thoughtful hearing, and certainly for you for taking time to take the interest.

Senator LEAHY. Well, it is a real interest. I mean this is not the sort of thing that makes headlines, but it could saves lives.

Dr. Hughes.

Dr. HUGHES. Yes; in our experience, actually press interest in a lot of these issues is often inversely proportional to the true magnitude of the problem.

Senator LEAHY. Yes.

Dr. HUGHES. I think it is important to keep that in mind.

I would just leave you with the thoughts that surveillance capacity, epidemiologic capacity, laboratory capacity, communications systems, and partnerships are critical elements that we worry about. And Dr. Cassell was whispering very importantly training. Training to maintain that epidemiologic capacity, the laboratory capacity and to educate people, frankly, about some of these uncommon illnesses that might be threats associated with bioterrorism.

Senator LEAHY. NIH has the Fogarty International Center. How does that vary from—you have your own training, of course, your own training programs—are these complementary?

Dr. HUGHES. Yes; I would say that they are complementary. And Dr. Cassell may want to elaborate on this. But the Fogarty is interested in increasing research capacity, which is the other thing that is absolutely critical to addressing these issues.

Senator LEAHY. Yes.

Dr. HUGHES. They are working to expand training internationally in research related to emerging infectious diseases.

Senator LEAHY. But they are also small.

Dr. HUGHES. Quite small.

Senator LEAHY. Yes.

And, Dr. Heymann, I would think that—I mean you have to go across borders and you have to deal with so many different countries and political systems and all that, would it be naive to think that the more we get these kinds of systems in place the more we get the research capacity, the treatment capacity and all, the more that may at least help to break down, in that area, break down some of the political barriers?

Dr. HEYMANN. I think it already is doing that, Senator. I think, in one country recently, on the national immunization day for polio, which is when every child was to be vaccinated, there was actually a temporary cease fire in a civil fire in order that that could be done. And I think that what you have done in providing funding to USAID has helped our groups—CDC and USAID—form a very strong partnership, which will continue to work above politics, to try to straighten the infectious disease situation in the world.

And what is even more important is that this has been an example to other donor countries. The United Kingdom and Japan have both increased dramatically their funding for infectious disease activities in support of international response and detection of epidemics. So I think what you have done has not only been good for the United States, but good for the world. And I thank you very much.

Senator LEAHY. Well, thank you. No; you are the ones who are out doing the work. We can try to get you money, but you are the ones doing the work.

Dr. Daulaire, you get the last word.

Dr. DAULAIRE. Well, Senator, as we know in Vermont, there are a lot of clouds that pass by, but not all of them produce rain. [Laughter.]

And we also know that it takes a certain nucleus to pull that supersaturated water together to produce droplets. What you did last year, in holding your hearing and in working through the appropriation with your colleague, Senator McConnell and the rest of the committee, has really produced that nucleus.

As we heard from Dr. Heymann and Dr. Hughes, we have had a collaboration over the past 7 months that we have never seen before. And having the money and the mandate was key to doing that. I see a very important business going on, and it would not have happened without your leadership. And we are very grateful.

Senator LEAHY. Well, I have often said that the Senators are merely constitutional pediments of their staff. And with Tim Rieser and Robin Cleveland sitting here, I am delighted that they are here and keep moving us forward, too. Some of the reports that Tim has brought me back from some of the places he has visited keeps me going.

I thank you all for being here, and we will keep in touch. And you should feel free to pass on ideas. I will also raise the intellectual property question in the Judiciary Committee, Dr. Cassell.

Thank you very much.

SUBCOMMITTEE RECESS

The subcommittee will stand in recess until 2:30 p.m., Tuesday, June 9 when we will receive testimony from Brian Atwood, Administrator, U.S. Agency for International Development.

[Whereupon, at 1 p.m., Thursday, April 23, the subcommittee was recessed, to reconvene at 2:30 p.m., Tuesday, June 9.]

# FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1999

**TUESDAY, JUNE 9, 1998**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 2:45 p.m., in room SD–192, Dirksen Senate Office Building, Hon. Mitch McConnell (chairman) presiding.

Present: Senators McConnell, Bennett, Campbell, Stevens, Leahy, and Lautenberg.

## AGENCY FOR INTERNATIONAL DEVELOPMENT

**STATEMENT OF J. BRIAN ATWOOD, ADMINISTRATOR**

OPENING REMARKS OF SENATOR MC CONNELL

Senator MCCONNELL. The hearing will come to order. I want to welcome, Mr. Atwood. I appreciate your being here, Brian.

In fiscal year 1998, the 150 account enjoyed a unique increase of nearly $1 billion. This year, unfortunately, we face exactly the opposite situation. For 1999, the subcommittee will need to meet our global commitments in the context of an allocation that is nearly $1 billion below the request. I am confident that Senator Stevens has been fair and done the best he could with all the subcommittee allocations including ours. He had a very difficult set of choices to make, and now we have to function within that allocation.

Before we suffer a great deal of hand wringing about this allocation, I want to make two points. First, we met our international obligations in fiscal year 1996 with a similar allocation. Second, this task should be considered an opportunity to cut programs which do not meet standards for performance or relevance to our national interests. We do not have the option to finance failures or finance interminable, ambiguous programs which have a marginal impact on a minority of people.

During my tenure as chairman, I have seen little improvement in the definition of concrete goals nor have I observed reforms, revisions, or progress in measuring success. Over the past 6 months, either my subcommittee staff or I have visited six countries reviewing your administration of programs. With the exception of projects or activities which we earmarked or pushed the Agency to fund, the representatives of nongovernment organizations and grant recipients were uniformly critical of the AID's management of foreign

assistance resources. At best, they would give AID a C minus, and I must admit that is a somewhat generous observation.

Let me relate some of what I learned. In Asia, one of the largest most effective global refugee support organizations understood I was considering shifting administration of a program from the State Department to AID. A seasoned professional warned that as slow as State was, AID was worse—he characterized your agency as overwhelmed by bureaucratic, incompetent managers who were so slow that by the time funds were available, the problems had either been solved or changed so dramatically that new proposals needed to be drafted.

In Latin America, I met with representatives of an environmental group who had been approached by AID to support an important conservation program. AID told them they would be provided $300,000, but first they had to hire an Agency-designated participatory management consultant. They reluctantly hired the consultant then spent months negotiating over the terms of the $300,000 contract. After more than 1 year, they were told only $170,000 would be made available, but even those resources had been suspended because they had improperly retained a participatory management consultant.

In central Europe, one of our Ambassadors asked for NGO help and training for parliamentary elections. AID asked the organization to use internal funds for 1 month until a funding stream could be worked out. The group agreed with the understanding they could only carry the burden for 1 month. Needless to say, 1 month passed, then 2 months and the NGO had to suspend the program for lack of resources. AID had offered no reimbursement, no plan, and no explanation.

Finally, and perhaps most disappointing is the Agency's failure in Indonesia. Just before the Government removed key subsidies in April, AID deployed a team to conduct a national needs assessment. I had hoped that this would be a forward-leaning, comprehensive exercise designed to deal with the unraveling crisis of a country of tremendous importance to the United States.

In early May, the AID team briefed the committee. Their report was shortsighted, uninformed, and off target. They were able to speak only in vague terms about food implications of drought-afflicted areas in the eastern islands. They did not anticipate and had no strategy prepared to assist with acute nationwide requirements resulting from the ongoing economic implosion and the IMF-mandated price hikes. They could not forecast the number of communities, let alone individuals, crushed by this emerging humanitarian crisis. They had no thoughts on how to expand the means to deliver assistance. They had not met with nor taken advantage of the offer by the two largest Moslem organizations to deliver food and medical relief. In a country of 200 million Moslems, they indicated they would use a Catholic organization with very limited access to communities in need of aid.

Riots and demonstrations and even Suharto's departure has produced no change in AID's approach or thinking. In the May briefing, the mission director and the deputy director for the Asian bureau echoed a briefing paper sent to the subcommittee yesterday—other than drought victims, there is no plan to increase assistance

for Indonesia. The only new requirement will be with existing resources and will fund support for technical consultants to work with the IMF on economic, financial, and banking reform.

In sum, at a time when the United States could have, indeed, should have sent a strong signal of support to Indonesia, AID was unprepared, unwilling, or unable to develop a relevant rapid response and deliver crucial relief.

This crisis did not erupt overnight. It was as predictable as the IMF's public schedule for the implementation of key reforms. Failure to prepare for the consequences of a 70-percent rise in the price of commodities is incomprehensible, a problem only compounded by the fact that we still have no strategy to help Indonesians address the immediate and future impact of reforms.

Mr. Atwood, these examples illustrate that the problems AID suffers are not just incidental or anecdotal, but they are systemic and widespread, afflicting virtually every sector and every geographic corner of AID's world. In 6 months, in six countries, I have heard appalling accounts of mismanagement and ineptitude in the administration of the Agency's humanitarian, democracy, economic, and environmental programs.

You have had 5 years to fix these problems and I see little progress. Your computers do not work, your contracting system is a mess, your goals continue to be vague, so your results are fuzzy. The problems are grave and demand your immediate personal attention. There are many hard working, dedicated professionals who work at AID who are as discouraged as I am about the weak leadership they are being offered. They deserve your full attention and commitment. I urge you to take this criticism of one of your supporters seriously, because with or without the State Department reorganization bill, I want you to know we cannot continue with business as usual.

I now turn to my friend and colleague Senator Leahy.

OPENING REMARKS OF SENATOR PATRICK J. LEAHY

Senator LEAHY. Thank you, Mr. Chairman.

Mr. Atwood, I know you are delighted to be here. We are glad to have you here. I have been a member of this subcommittee for close to 20 years now, and I have never been as concerned about our budget situation as I am today. Last month, we received a budget authority allocation of $12.6 billion for fiscal year 1999. That is $200 million below the current level and would require cuts in many programs that have bipartisan support in the Congress. But that is only part of the problem.

Our outlay allocation is $12.4 billion. The effect of that I am told is that we will be able to use at most $11.8 billion in budget authority. Since some programs cannot be cut under any circumstances, our budget authority could probably be closer to $11.4 billion with AID absorbing some of the deepest cuts. That would mean cutting a lot of programs Congress supports. Any cut below the current level, which is already far below what our budget was just a few years ago, makes no sense. I have not even mentioned the President's request. He asked for a $1 billion increase for foreign operations, and we are talking about as much as a $2 billion cut from the request.

Now, Mr. Chairman, you have been one of the strongest voices for support for foreign operations and for what we do abroad. You have expressed a true internationalist attitude in this. But I look at where we are. The situation today is a lot different than when we reached the budget agreement. We have a surplus, not a deficit. The United States today is by far the world's strongest, largest economy, the stock market is booming and unemployment is the lowest in years. Yet, while one-quarter of the population of the world lives in squalor, we are cutting foreign aid even though it accounts for only 1 percent of our budget or one-tenth of 1 percent of GNP. We spend a lot less per capita than most other countries do, even though with about 5 percent of the world's population we are consuming as much as 25 percent of the world's resources.

I know of no explanation for this. Maybe it is that people do not think our foreign aid programs matter. The irony is that the American people support foreign aid and key members on this committee on both sides of the aisle understand the real need for foreign aid. They understand that the United States needs to play a major role in protecting the environment and public health, combating poverty, helping refugees, supporting democracy and free markets if for no other reason than a selfish one. It helps us in the long run.

The problem is the American people have been led to believe that foreign aid accounts for about 20 percent of the Federal budget when it actually accounts for only 1 percent and too many Members go back home and say, "If we just do away with foreign aid, why we would have plenty of money for," and then just fill in the blank.

When Members think they are doing voters a favor by cutting foreign aid, we are hurting ourselves and our future. It is self-defeating. I too have concerns about the way AID is doing its job. I know how difficult it is to get results in many of the places around the world where you work. But sometimes AID can be its own worst enemy. There are some very talented and dedicated people at AID, but the Agency itself remains a cautious bureaucracy.

Too many times here in Congress we feel it is more concerned about appearances than results. And then when things go wrong, instead of just saying, "Look, they went wrong, it didn't work," AID often says things are better than they are. You have lost some of your best people because they have been passed over by political appointees, although I know that is outside of your control. Having said that, I cannot think of anything that is going to hurt more than to cut AID's budget, which translates into real lives and opportunities lost.

The chairman and I have tried hard to protect this budget in the past. We have not always agreed with the administration on how to spend it, but I think we both recognize, as does Chairman Stevens, that the United States has a wide range of interests around the world. It is a global economy.

PREPARED STATEMENT

With all the instability from Nigeria to Indonesia to Colombia, these interests are growing, not shrinking. We can afford to do more. It would be money well spent. If it means adjusting our budget agreement, then we should do that. The United States is

the only superpower left in the world. We are the leader of the democratic world, and we ought to act like we are the leader of the democratic world and not act like we are an isolationist, uncaring Nation.

Mr. Chairman, I appreciate what you have done on this and I look forward to working with you on this budget.

Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATRICK J. LEAHY

Brian, it is good to have you here.

I have been a member of this subcommittee for a long time. Never have I been as concerned about our budget situation as I am today.

Last month, we received a budget authority allocation of $12.6 billion for fiscal year 1999. That is $200 million below the current level. It would require cuts in many programs that have strong, bipartisan support in the Congress. But that is only part of the problem.

Our outlay allocation is $12.4 billion. The effect of that, I am told, is that we will be able to use at most $11.8 billion in budget authority. Since some programs would not be cut under any circumstances, our budget authority would probably be closer to $11.4 billion, with AID absorbing some of the deepest cuts.

That would be devastating for many programs the Congress supports. Any cut below the current level, which is already far below what our budget was just a few years ago, makes absolutely no sense.

I have not even mentioned the President's request. He asked for a billion dollar increase for Foreign Operations. So we are talking about as much as a two and a half billion cut from the request.

Mr. Chairman, I am not blaming anyone for this, but the situation today is different from when we reached the budget agreement. We have a surplus, not a deficit. The United States today has by far the world's strongest, biggest economy. The stock market is booming. Unemployment is the lowest in years. Yet while a quarter of the population of the world lives in squalor, we are cutting foreign aid even though it only accounts for 1 percent of our budget, or one-tenth of one percent of GNP.

Can someone explain this to me? Is it that people don't think our foreign aid programs matter?

The irony is that the American people support foreign aid. They understand that the United States needs to play a major role in protecting the environment and public health, combating poverty, helping refugees, supporting democracy and free markets, because it helps us.

The problem is the American people have been led to believe that foreign aid accounts for about 20 percent of the federal budget, when it actually accounts for only 1 percent. So Members of Congress think they are doing the voters a favor by cutting foreign aid.

It is self-defeating. We are hurting ourselves, and our future.

Frankly, I am not satisfied with the way AID is doing its job. I know how difficult it is to get results in the places you work. But like Chairman McConnell I sometimes see AID as its own worst enemy.

You have some very talented, dedicated people, but AID remains a cautious bureaucracy, often more concerned about appearances than results. Then when things go wrong, AID says things are better than they are.

You have also lost some of your best people, because they have been passed over by political appointees.

Having said that, I can think of nothing worse than to cut AID's budget. That translates into real lives and opportunities lost.

Mr. Chairman, you and I have tried hard to protect this budget in the past. We have not always agreed with the Administration on how to spend it, but I think we both recognize—as does Chairman Stevens—that the United States has a wide range of interests around the world. In a global economy, and with so much instability from Nigeria to Indonesia to Colombia, those interests are growing, not shrinking.

We can afford to do more and it would be money well spent. If it means adjusting the budget agreement, then that is what we should do.

SUMMARY STATEMENT OF HON. BRIAN ATWOOD

Senator MCCONNELL. Mr. Atwood, it is time for you to have your say. Go right ahead.

Mr. ATWOOD. Thank you, Mr. Chairman. I detect that the honeymoon may be over based on your statement.

Let me say in response to the chairman's opening statement, I really do believe it was an overly harsh statement. I believe it was unfair. As a matter of fact, I can even agree with some aspects of what you say. I am just as frustrated when I run across some of the situations that you point out, and we try to deal with them, of course, but you know it is difficult in any country to run a development agency. I have certainly detected that.

I do not know that anyone could do the job and be void of enemies. Just think about every time you put out a competitive contract bid you are probably going to make one contractor happy and two or three very unhappy. Many of them choose to go through the process of challenging the choice itself, and we end up either in court or at the GAO. Certainly, the same thing is true in terms of our grant process itself. People are not happy.

I would imagine, Mr. Chairman, that given where you sit you probably hear a lot of those complaints because there is the perception and the reality that you can have a lot of influence over the Agency. I am not trying to make excuses, but I think that if there are negative things that are heard about USAID you probably hear more of them than anyone other than myself.

What I think is ironic is that we just have been through our peer review by the other donor agencies, all 21 of the other donors that sit on the Development Assistance Committee of the OECD. I sat for a full day in a hearing in Paris, where the OECD is, and heard people ask questions about our program and basically the peer review came out saying that the United States continues to have the best development program in the world. The most efficient, the one that is struggling more with the cutting edge in terms of reforms and the like, I might add. With respect to some of the complaints that you hear and that I hear as well, they relate to the reform process that you have underway now.

We never did measure results very well. We are trying to do that now, and we have a lot of people who think that we are trying to put them in a little box or that we are trying to somehow force them to give us results that they were not asked to report on previously. It seems to me that we have an obligation under the Government Performance Results Act but also a general obligation to the American taxpayers to report those results and to develop indicators that would indicate whether or not we are successful in what we are doing.

I think there are a lot of legitimate complaints. There are a lot of frustrations in working with the Government bureaucracy that has to operate under rules, but I honestly believe that no one does it better, no other organization in the world does it better. I think that has been indicated as we have responded in particular to contingencies that have arisen such as Bosnia. Every development agency in the world, whether it is the World Bank or the European Union, knows that USAID has been out ahead of everyone. The

same is true in the West Bank and Gaza and the same is true in a lot of other transitional situations.

I do not want to be overly defensive. There is no way that I am going to reach nirvana or perfection in this job, but I do believe, Mr. Chairman, that given your general support over the years—and it has been very strong and I have appreciated it very much—that your statement today was a bit harsh. But we can debate that.

You and Senator Leahy have been leaders in the Senate in calling for a higher level of funding for the 150 account, and I have very much appreciated that as well. You have understood the connection between the programs that are funded in that account and our U.S. national interests. You have understood, for example, that U.S. exports, which have been on the rise in recent years, have been partially the result of past investments in economic development. You have understood that American farmers benefit directly from agricultural research in the development of the farm sectors of developing countries. You have understood that our efforts to preserve the world's biodiversity helps Americans find cures for diseases and the importance of family planning programs in terms of improving the lives of children and saving mothers' lives and in reducing abortions. You have understood that infectious diseases must be countered at the source if we are going to protect Americans.

Most importantly, Mr. Chairman, you and Senator Leahy understand the connection between this budget and American foreign policy. This budget funds the mitigation of the world's crises, the transition from postconflict situations and the prevention of future crises. You know that; that is why you fought for more resources in the 150 account.

In that regard, Mr. Chairman, with respect to your comments about Indonesia, I have been very proud of the way we have responded in a very difficult situation. Obviously, when you get into an immediate crisis that has occurred in a place like Indonesia, it is not simply USAID making decisions about what to do; it is the entire Government. We have what we call principals meetings where everyone sits around and attempts to develop a strategy.

But we have responded well in three different ways. We have responded through our humanitarian efforts. We have at the first part of the crisis increased our title II food for peace resources by $25 million. The assessment team, to which you referred, was there to look out into the future to project what the needs would be if this situation got worse, the economic situation. They did that limited job well. They were not going to do a survey of the fourth largest country in the world in just 1 week, but we needed the information that they gathered, and they gathered it well.

We have also tried to help the Indonesians set up a social safety net. We negotiated immediately within 1 week after the IMF imposed its own criteria. We negotiated a framework agreement wherein we could provide technical assistance to the Indonesian Government, a $23 million program which was basically a reorientation of our original program, and now we are in a new situation, where there seems to be a legitimate transition to a democracy, of trying once again to take our program and reorient it to the needs that apply there, which, of course, adds a third leg to this humani-

tarian economic reform. Now we have a democracy governance challenge that we have to meet. I think our people, in light of the fact that all of them but one were evacuated from Indonesia, did a good job in responding and I think they will continue to respond now that we are putting our people back into Indonesia.

I have come here to defend the President's fiscal 1999 request for $14.1 billion in the foreign operations budget. This is a modest increase of about $856 million over last year's enacted level. Yet, because of the budget resolution passed in the House and proposed in the Senate and because of the allocation your subcommittee has received under the 302(b) procedure, we are looking at the possibility of a $960 million cut below the President's request and a $200 million cut below last year's spending level. This is, however, a budget authority ceiling. The cap on outlays reduces this budget by as much as an additional $1 billion. Frankly, Mr. Chairman, with these caps the President's request is dead on arrival.

I have now been in this job, as you have indicated, for 5 very long years. For most of that time, I have been fighting for survival here in Washington while trying to maintain American leadership abroad in the development field. That leadership in a broad range of technical areas has helped us to leverage funding from other donors and it has reduced the burden for the American taxpayer.

I have explained our reductions in these overseas meetings in official development assistance as necessary as we have sought to balance our budget. I have argued that our defense expenditures far surpass those of other countries. I have expressed optimism that as soon as our budget was balanced we would begin to build back our program. Last year, we took the first small step along that path.

Mr. Chairman, I simply cannot explain the numbers you have been given this year for foreign operations to a foreign audience. This is nothing short of devastating. If this budget passes, we might as well shut our doors—and we will in most of our overseas missions. Our struggle to maintain American leadership and development will be over and our ability to preserve our national security through diplomacy and development will be severely damaged.

I know that you and Senator Leahy and Senator Stevens are familiar with the impact of past years' budget cuts on our program, but I have brought some charts here today to try to underscore our problem. Now this first chart illustrates the staff reductions we have taken since fiscal 1993. The total reduction is 30 percent. Our staff is what made USAID the best development agency in the world.

Now let me illustrate that point by quoting from this peer review I mentioned before of the American aid program. This review is done every 4 or 5 years by other donors, and we respect what they say. This is what those donors said about our cutbacks overseas: "The extent of cutbacks of USAID's overseas presence diminished two of its most prized assets, an experienced strong field staff close to the action and the unique scope of the U.S. program in line with America's global capabilities."

These reductions included a very painful reduction in force of more than 160 employees in 1996. Fortunately, Senator Stevens helped us by providing buyout authorities or these numbers would

have been even higher. As these staffing levels have declined, we, in turn, have been asked to take on new programs in the former Soviet Union, Bosnia, and the West Bank and Gaza.

Now the second chart shows the reduction in our overseas missions since 1993. We have left 28 countries in the past 5 years and we have 5 more we are planning to close by the end of this fiscal year. Now what worries me is the extent to which we have had to cut back in Africa, Asia, and Latin America. We have, in fact, opened nine offices in Bosnia, the West Bank, in Gaza, and the former Soviet Union. But we are in 19 fewer places than we were in 1993, and most of these places are in the developing world.

Mr. Chairman, I don't regret some of these closures. We should not be working in countries where the government is not a good partner. But overall these closures have hurt us. As our DAC, as our Development Assistance Committee, peers have told us, they have diminished our influence. And they have been driven mostly by budget considerations.

A third chart shows the President's budget request. This request provided a modest increase in USAID managed funds of some $300 million. The request I would add fell within the parameters of the balanced budget agreement as scored by the administration. However, as you see, the Senate 302(b) allocation was almost $1 billion below the administration's request and I am told that the outlay makes the budget authority allocation also a dead letter. That outlay cap, depending on how it is calculated, would drive this appropriation down an additional $1 billion. These numbers mean a 9.4-percent overall cut in our budget from fiscal 1998 levels, and that is very severe.

The cuts in unprotected development assistance would be even greater, assuming, for example, that Congress continues to protect the "Child survival and diseases" account as would appear likely. If that happens, we could be talking about a 20- to 30-percent cut in our other development programs. Let me give you some indication of what that would mean.

These cuts would require shutting down any number of current programs. We would be forced, for example, to take deep cuts in agricultural research programs conducted by U.S. universities. We would have to cut back sharply on microenterprise programs that have a proven track record in giving poor people their first opportunity at starting their own business.

A cut of this size would mean the elimination of all new initiatives including those recently announced at the summit of the Americas as well as the African trade and investment policy initiative, both programs aimed directly at improving the lives of the poor. We would have to further reduce our family planning programs, our democracy efforts, and our environmental programs. In effect, a 20- to 30-percent cut in the unprotected portions of our "Development assistance" account would be the equivalent of this year's DA budget for all of Latin America or all of Asia and the Near East. It would mean eliminating an amount equal to all of our global bureau—all that our global bureau spends out of Washington on agriculture, population, environment, and microenterprise.

PREPARED STATEMENT

Finally, Mr. Chairman, it is obvious that fast spending accounts would be the hardest hit under the outlay cap. This chart shows how we have reduced our operating expense budget over the years. As you know, our operating expense budget is a fast spending account that would be very hard hit by the outlay cap. One calculation I saw indicated that under the cap our OE could be cut by almost $100 million. This is why I said we would have to shut down our operations. Ironically, however, we would not even be able to afford to shut down some of our overseas missions because it costs money to buy out contracts and the like, and yet we would have to. That is our dilemma, Mr. Chairman. I hope we can work together to fix this predicament. Somehow, I do not believe that Congress really intended these dire consequences.

Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF J. BRIAN ATWOOD

Chairman McConnell, Senator Leahy, and other members of the subcommittee, I am pleased to be here today to present President Clinton's budget request for foreign assistance programs for fiscal year 1999. Certainly, the last several weeks have offered Americans a stark reminder of the importance of international affairs to this nation.

From the testing of nuclear weapons on the sub-continent, to the still precarious situation in Indonesia, to flaring ethnic violence in Kosovo, to the volatile situation in the Middle East, we have seen powerful reminders that the United States has a real stake in our ability to promote peace and stability. America's continuing security, economic prosperity and public health clearly demand we exercise our international leadership on distant shores. The members of this committee have long understood the indispensable nature of America's international engagement, and I applaud your efforts to support U.S. assistance programs.

However, as I appear before this committee today, I must say that I am gravely concerned. The current allocations of budget authority and outlays to this subcommittee, and the low levels given to your counterparts in the House of Representatives, would have a devastating impact on our ability to keep the United States engaged internationally during this perilous period.

As you are aware Mr. Chairman, unless budget allocations for Foreign Operations are raised, the line items in the foreign operations bill will have to be cut significantly below this year's funding levels. Moreover, if the programs protected under last year's legislation continue to be protected, the cuts in the rest of the bill will be even more drastic.

These cuts would come at a time when our international affairs programs are operating at historically lean levels. If we continue to allow this downward slide in our capacity to conduct diplomacy and development, we will be sacrificing our long-term national interests.

Few areas of government have already done more to downsize and more efficiently conduct their operations. We have cut all the fat, now we are looking at bone. Between 1993 and 1998, the U.S. Agency for International Development (USAID) reduced its total staff by more than 3,300. This cut of more than 30 percent included a painful 1996 reduction in force of more than 160 employees.

USAID's number of field missions and offices has also shrunk, going down from 97 in 1993, to 78 currently. This overall reduction is even more pronounced when one considers that it has occurred during a time when we opened a number of new missions in Eastern Europe and the New Independent States at the end of the Cold War. Mission closings would have to accelerate dramatically under the budget scenarios that we currently face. It has been field presence that has made USAID a global leader in development. There is no substitute for on-the-ground presence in designing and implementing effective assistance programs.

Ironically, the agency has been called on to do more and more, with less and less, in a series of very high-profile foreign policy settings. We were the first on the ground to get reconstruction programs up and running in Bosnia. In Guatemala, we moved quickly to help secure that nation's historic peace accords. In the New Inde-

pendent States, we have been on the cutting edge of helping secure a truly historic transformation toward democracy and free markets. In Latin America we are translating the vision of the Summit of the Americas into a reality. In Africa we are helping that continent seize the opportunity of a new generation of leadership.

I am extremely proud that USAID and its excellent employees have risen to every challenge that they have encountered. In the face of tremendous adversity and continual duress over the last several years, they have responded with professionalism and an unflinching ability to get the job done. But now, we are again faced with the prospect of a budget that will mean fewer vital programs, fewer overseas missions, fewer employees and a squandered opportunity for America to invest in her own future.

The President requested $20.1 billion for programs in international affairs, of which the U.S. Agency for International Development (USAID) would manage $7.3 billion. That figure represents 36 percent of the international affairs account and includes both USAID programs and programs which our agency administers in cooperation with other agencies. This request is within the parameters of the balanced budget plan as agreed to by Congress and the Administration last year.

President Clinton's request for fiscal year 1999 programs managed by USAID provides a very modest $300 million increase over fiscal year 1998 funding. The funding requested, however, is critical to our future. It is crucial to promoting American interests in developing countries, and in nations making the transition to democracy and free markets around the globe. Highlights of this request include:

—Three new initiatives, the Africa Trade Reform and Growth Initiative and the Americas Summit Initiative, for which the Administration is requesting $30 million and $20 million respectively under the Development Assistance and Child Survival accounts, and the African Great Lakes Justice Initiative, for which the Administration is requesting $30 million under the Economic Support Fund. In addition, we are asking for an additional $1 million to our food security initiative for Africa, bringing those funds to $31 million for fiscal year 1999.
—An additional $155 million for programs in the New Independent States of the former Soviet Union;
—$94 million more for the Economic Support Fund, which includes the aforementioned Great Lakes Initiative;
—A separate request of $503 million for the Child Survival and Disease Program;
—A $15 million increase in International Disaster Assistance for transition initiatives for countries coming out of crisis; and,
—Economic growth activities aimed at improving food security in Africa to help feed the hungry and support for agricultural research through the agency's central Global Bureau.

On balance, the USAID budget represents less than one-half of one percent of the federal budget. This is a bare-boned and balanced approach to development and humanitarian programs that will significantly contribute to achieving the administration's foreign policy objectives.

However, the initial budget numbers we have seen in the Senate would not allow us to effectively carry out our development and humanitarian assistance programs. The total budget allocation for Foreign Operations, as it currently stands for budget authority, is nearly one billion dollars below the President's request. Even worse, because of subcommittee's outlay cap, our preliminary estimates are that actual budget authority permitted by the outlay ceiling could be on the order of $2 billion below the President's request in Foreign Operations alone. This is a nearly 15 percent cut across the board in Foreign Operations.

The impact of cuts of this magnitude would devastate any number of programs. Because we expect that those accounts that enjoy wide Congressional support would likely be held largely protected from cuts, the impact on non-protected accounts would be even more severe, and I would find myself faced with the devil's dilemma of having to choose which vital programs to deeply cut.

To illustrate the severity of this dilemma, we need to appreciate the magnitude of these cuts. A $2 billion cut is larger than our entire Development Assistance request for 1999. This figure is about 40 percent of all the activities managed by USAID. This cut represents about a ten percent cut from the President's entire request for all of international affairs. Such a cut alone could fund the entire Peace Corps for more than seven years at current levels.

These deep cuts would devastate our international operations at the program level. These cuts would also require shutting down current programs which address poverty and hunger. We would be forced to make see deep cuts in agricultural research programs conducted by U.S. universities that are helping develop better crop varieties to combat hunger abroad. Over the long term, this would mean losing ground in the fight to battle malnutrition, and increased global tension over food

insecurity and increased needs for emergency assistance. This would also mean American universities would lose much of their capacity to conduct this vital agricultural research.

We would have to cut back sharply on microenterprise programs that have a proven track record in giving poor people their first opportunity at starting their own businesses and working their way out of poverty. More than a 100,000 people would lose access to small loans because of these cuts.

Cuts in family planning would result in increasing numbers of unwanted pregnancies and fuel a dangerous spiral of additional deaths of both mothers and children. Cuts in disaster assistance would deny assistance to the most vulnerable victims of war, famine and other disasters. Efforts to prevent regional and civil conflicts through democracy programs would be delayed or terminated. Cuts in environmental programs would limit our ability to deal with the underlying causes of ecological crises such as the vast fires we have seen in Mexico in recent months.

Economic growth programs in Latin America and Asia, already severely limited, would be cut further. Efforts to integrate Africa into the world economy would also suffer funding cuts. America's economy, American exporters and American consumers would ultimately pay the price for our collective failure to open new markets and promote international trade.

Cuts in Economic Support Funds, an account already $1 billion less than 10 years ago, would probably mean no funding for economic stabilization programs in Latin America. Lower levels of funding for our programs in the New Independent States and SEED countries would put at risk vital progress in strengthening democracy and free markets in key strategic areas like Bosnia-Herzegovinia and Russia.

Such a large cut would mean the elimination of all new initiatives, including those recently announced at the Summit of the Americas as well as the African Trade and Investment Policy Initiative—both programs aimed directly at improving the lives of the poor.

USAID operations worldwide would have to be scaled back, terminating the successful efforts of the United States to encourage other donor nations to share the burden of development.

If the Operating Expense account is reduced below the President's request, the impact on overall agency operations and ability to provide oversight of foreign assistance programs would be severe, as that budget has already been cut severely in past years. From fiscal year 1993 to fiscal year 1997, operating expense-funded staff levels were cut by 34 percent, which included a very difficult reduction-in-force of 164 U.S. direct hire staff, early-outs, and buy-outs. We were able to plan an orderly process to achieve much of these reductions, including orderly closing of missions. Such orderly processes would be impossible with sharp fiscal year 1999 operating expense reductions. In order to absorb the high costs of shutting down missions—including severance pay for foreign service nationals, contract termination costs, relocation costs and other factors—the cuts would have to be completed very early in fiscal year 1999. We are to far into the calendar year to make such reductions in an orderly way. Leading up to fiscal year 1997, the GAO confirmed that the agency could not operate at a level of $465 million without immediate large-scale cost-cutting early in the calendar year, including increasing the size of the Reduction in Force that had been planned at that time.

These cuts in operating expenses would come at a time when the costs of doing business abroad are going up, not coming down. The agency is facing continuing cost increases due to the impact of inflation on foreign national pay, office and residential rents, utilities, and other overseas costs as well as federal pay raises and the impact of general inflation in the United States on Washington costs. Given that the operating expense account is driven by workforce levels, sharp workforce reductions would become necessary. Fewer people would make it impossible to manage existing programs, and would force the early termination of some activities. Operating expense cuts would also make it more difficult to keep the agency's information technology up and running, and would force us to sharply reduce many critical activities, such as training.

We need to remember that these are not abstract cuts we are talking about. Our programs have a demonstrated track record in making a real difference around the world—from saving lives to building more prosperous societies to creating jobs for the American people. USAID emergency relief programs provided food and other assistance to more than 28 million disaster victims in 1996. Our health and child survival programs, which you have so strongly championed, helped to save more than five million lives last year alone. Severe food shortages were averted in seven African countries, thanks to USAID efforts to establish regional capacities to anticipate and prevent famine.

Our programs in Eastern Europe and the New Independent States helped privatize more than 26,000 state-owned enterprises in 1996 alone. In addition, we supported free and fair elections in 14 countries around the globe and assisted in the drafting and adoption of new constitutions in three countries. More than a million people received USAID microenterprise loans last year, and more than half of those clients were women. We helped farmers in Latin America choose alternatives to growing drugs, and cut the acreage in Peru devoted to coca production by 27 percent. USAID also contributed significantly to improving conservation on over 21,000 square miles of land in 14 different countries.

We took a major step toward the worldwide eradication of polio with our support for national immunization days in Africa and Asia. The agency continued to help finance innovative public-private partnerships, such as the one that helped create vaccine vial monitors—simple heat-sensitive tags that indicate when vaccines have become unusable, resulting in health savings in excess of $10 million a year.

The Congress and the American taxpayer have every right to demand results for the dollars they put into foreign assistance, and I feel USAID is doing a better job than ever before in producing results that make a difference in today's world. The Administration is eager to work with you to improve this situation, and I hope that we can do so in the weeks and months ahead. I would also like to point out some particular issues from this year's budget request that I know are of particular interest.

*Account Structure*

The fiscal year 1999 budget request brings with it a slightly different account structure. USAID is requesting 1999 funding for a separate Child Survival and Diseases account at a level of $502.8 million, which reflects strong support both within the Administration and this Subcommittee. The account includes $226 million for child survival activities, $121 million to combat AIDS, $30 million for other infectious diseases and $27 million for related health activities that complement our activities in child survival and infectious disease. Also included is $98.2 million in basic education programs. Education programs are one of the most powerful means we possess to promote lasting social and economic progress in the developing world.

While this request of $502.8 million compares to a 1998 appropriated level of $550 million, I want to make one thing absolutely clear: this is not meant to signal a reduction in the importance USAID places on child survival programs. It has been our experience that to effectively combat both infant mortality and the spread of disease, we also need to address the underlying social and economic conditions that allow child mortality and infectious diseases to flourish, such as poverty, malnutrition, illiteracy, poor sanitation, overcrowding and environmental degradation. We use other portions of our budget to attack these problems.

Just to cite one example, our urban programs that work in some of the worlds' largest and increasingly crowded mega-cities are not considered part of the child survival account. Yet these programs are helping to provide clean water and waste treatment facilities to millions of poor families, an effort that clearly improves the lives of children and reduces the spread of disease. Or consider education programs that appear in this account but do not fall under a strict definition of child survival programs: research shows that the child of a mother who has even a single year of education, has a 9 percent better chance to live to the age of five. Gains increase substantially with each additional year of schooling. So when you look at our programs in terms of child survival, I think we need to focus on their broad impact.

*The Development Assistance Account: The Africa Trade and Investment Initiative and the Summit of the Americas*

President Clinton's trip to Africa, in which I participated, was an excellent opportunity for the world to focus on the immense potential and considerable challenges on the continent. I believe the trip will go a long way toward invigorating trade and development in Africa. I know that USAID will have its work cut out in responding and following up on the tremendous excitement generated by the trip. This trip offered ample evidence of what I have long argued—that Africa is the world's last great developing market. As part of the Partnership for Economic Growth and Opportunity in Africa, announced in June 1997, USAID will help Africa integrate into the world markets through increased openness to international trade and investment. This type of reform and assistance program has already been proven to be a major ingredient in the recipe for economic progress and growth in other parts of the developing world. We hope the bill will pass the Senate and be enacted into law as soon as possible.

The Partnership includes the following USAID components:

—Technical assistance to help African governments liberalize trade and improve the investment environment for the private sector;
—Assistance to catalyze relationships between U.S. and African firms through a variety of business associations and networks; and,
—Funding of non-project assistance in conjunction with other bilateral and multilateral donors to help encourage aggressive economic reforms.

The second regional initiative included in the Development Assistance account focuses on Latin America. As part of our effort to capitalize on regional cooperation, the budget proposal includes funds to support the initiatives and was endorsed at the second Summit of the Americas. USAID helped to define the agenda for the Summit, where the region's 35 presidents focussed on regional challenges, including economic integration, education, democratic institution building and poverty alleviation through microenterprise activities. USAID is requesting $20 million to support initiatives aimed at achieving these goals which will help remove the barriers to the participation of the poor in the national life of the 34 democracies represented at the second Summit of the Americas.

*An Increased Emphasis on Agriculture and Education*

The Agency has intensified our strategic focus during the last year on two important areas of development: agriculture and education. Agriculture is now being pursued as a part of USAID's economic growth goal by refocusing on the links between agriculture, economic growth and food security. As part of this effort, USAID, at the World Food Summit in November 1996, highlighted the continuing food security issues of the over 800 million chronically undernourished people in the developing world. The proposed budget allocations for food aid are part of this Administration focus. Education has been promoted to the level of one of the agency's primary goals. USAID is working to improve basic education for both girls and boys, particularly in the poorer countries of sub-Saharan Africa. An important part of this effort is our continued focus on advocating that no children should be denied access to an education because of their gender, ethnicity or social status.

*Increased Transition Activities*

Within USAID's 1999 budget is a $15 million increase to the International Disaster Assistance Account for Office of Transition Initiatives (OTI) efforts. This will increase the U.S. government's capacity to bring fast, direct, flexible assistance to priority countries in their transition from conflict, by addressing urgent needs. The United States continues to face the challenge of responding to increasing numbers of countries with complex emergencies. Many of these complex emergencies have come to be high priority foreign policy concerns of this Administration, such as those in Haiti, Bosnia, Congo, Liberia and Angola. Although relatively new and with limited resources to date, OTI has demonstrated a successful track record in assisting transitional countries: disbanding 200,000 paramilitary troops in Guatemala and demobilizing and resettling nearly 3,000 guerrillas; reaching 1.9 million people with mine awareness and helping create 590 projects in 270 villages in Angola; and implementing 650 grants in Bosnia to promote independent media and democratic reconciliation.

We have learned from experience how valuable it is to have the resources and the flexibility of the International Disaster Assistance account in place to deal with these crises. It is an invaluable, innovative and cost-effective means to advance U.S. interests in these very dynamic settings. I also want to assure the Subcommittee that by increasing the funding for OTI, we in no way, shape or form are lessening the ability of our agency to provide immediate life-saving humanitarian relief through our Office of Foreign Disaster Assistance—still one of the world's premier organizations for providing such assistance on the ground.

*Infectious Diseases*

For fiscal year 1998, Congress, under this subcommittee's leadership, provided funding for USAID to take part in a global initiative to combat infectious diseases, joining with other U.S. Government agencies in this effort. USAID has developed a strategy for the initiative as an important complement to the other four objectives leading to USAID's goal to stabilize world population and protect human health, particularly efforts in child survival, maternal health and AIDS prevention. USAID's strategy has been developed in consultation with a wide cross section of global health experts, including staff from other U.S. government agencies, UNICEF, the World Health Organization, non-governmental organizations, academia and the private sector. In the spirit of true collaboration, these discussions created a strong consensus as to the strategy we would adopt, and clarification about USAID's role.

USAID's strategy has four technical elements:

—Slowing the emergence and spread of antimicrobial resistance, targeted at the principal microbial threats in the developing world: pneumonia, diarrhea, sexually transmitted diseases, tuberculosis and malaria.
—Testing, improving and implementing options for tuberculosis control.
—Implementing new and effective disease prevention and treatment strategies focused on malaria and other infectious diseases of major public health importance.
—Strengthening health surveillance systems by building capacity at the country level to help create a global early warning system for disease.

Programming of the funds into specific activities will follow shortly. The Centers for Disease Control and Prevention, the World Health Organization and UNICEF, among others, will certainly play key roles in our program, and a new Infectious Diseases objective has been included in the health portion of our request.

*A Historic Transformation Continues*

The historic transformations occurring in Central and Eastern Europe and the former Soviet Union remain critical to U.S. national interests, and our requests for the Support for East European Democracy (SEED) and FREEDOM Support Act accounts reflect this high priority. These nations with whom we were once in a dangerous, expensive and ever-escalating arms race, are now emerging partners in the global economy. In Central Europe, we are seeing some of our allies successfully make the transition toward membership in NATO and the European Union. Across the region we are helping these nations create democratic societies and market economies which are increasingly based on Western values, and linked to us through trade and investment and through people-to-people, grassroots relationships.

I know the situation in Ukraine is of particular interest to you, Mr. Chairman. As you know, Secretary Albright certified that Ukraine has made significant progress toward resolving longstanding U.S. investor disputes, having determined that seven of the twelve disputes in question had either been resolved or significant progress had been made toward resolving them. The Secretary made that determination after close scrutiny of these cases, as well as numerous consultations with the U.S. business community in Ukraine and with top Ukrainian Government officials.

Having made this certification, the Secretary remains seriously concerned about the lack of improvement in Ukraine's investment climate and limited progress toward economic reform. Therefore, she has decided to temporarily withhold funds amounting to about $25 million for assistance in areas where lack of reform would make U.S. assistance ineffective. These funds will be reprogrammed to more productive uses within Ukraine if after several months' time the government does not implement the necessary reforms and take additional steps to resolve outstanding U.S. business cases in Ukraine.

A great deal depends on the willingness of the Ukrainian government to move forward with reform. Our assistance can only be effective if there is real commitment in a host country to embrace change. To date, we have seen a number of promising steps toward comprehensive reform, including good progress in areas such as privatization, land titling and the means-testing of housing subsidies. The challenge now is for Ukraine's leadership to ensure that the momentum generated by these incremental reforms can be translated into widespread improvements in the lives of the Ukrainian people.

In Central and Eastern Europe, the SEED request is focused on continuing our commitment to support the Dayton Peace Accords in Bosnia and Croatia. We are promoting reconciliation on the ground through economic revitalization efforts, job creation and democracy building efforts. It will take time to deepen and solidify this process. We are also supporting police monitors and police reform in Bosnia, a program critical to our ability to facilitate the return and reintegration of refugees and displaced persons into their communities. The U.S. military presence and economic assistance programs have been highly complementary, with peacekeeping troops assuring a sufficiently stable environment for recovery to take root. In turn, economic recovery is helping to bring about conditions that will make it possible for American troops to come home.

In partnership with a number of pre-eminent American foundations, we are proposing to begin in the next fiscal year a $100 million trust—with half, or $50 million, to be funded over four years by the U.S. government—to promote deeper and more enduring civil societies in Eastern and Central Europe. We are joining with Rockefeller Brothers, Ford, Soros, Mott and others to create an evenly matched public-private endowment to encourage a range of economic think tanks, professional societies, chambers of commerce, interest groups and the like to be focussed and

self-sustaining. Our goal ultimately is to stimulate an educated, activist citizenry that demands accountability and value from its government. Also, by breathing life and vibrancy into these new democracies, we can more readily count on their durability. With Congressional concurrence, our initial contribution would be $12.5 million from SEED funds, and we will be consulting with you on the best mechanisms for Congressional oversight of this process.

In the New Independent States, we are requesting an increase in FREEDOM Support Act funds of $155 million above the 1998 level to expand the Partnership for Freedom initiative in Russia and across the New Independent States. In the 1998 budget, Congress endorsed the Partnership for Freedom's new focus on economic growth, civil society, and partnerships which create bonds between non-governmental organizations, businesses, universities, hospitals, professional associations and a myriad of grassroots organizations in the United States and in the region.

FREEDOM Support Act funds will also help us redouble our efforts in Central Asia to further develop the business, legal and regulatory environment necessary to underpin the massive oil and gas investment which is likely over the next decade. As this Subcommittee saw during its trip to the Caucasus last summer, Central Asia and the Caucasus are critical to U.S. strategic interests and world energy supplies. We will continue supporting the Administration's TransCaspian initiative to facilitate East-West transport routes and environmentally sustainable approaches to energy development through bilateral and regional technical assistance.

An important part of our work throughout Central and Eastern Europe and the New Independent States will be our anti-corruption efforts. USAID's assistance in the area of crime and corruption addresses the underlying causes of corruption, and complements the efforts of U.S. law enforcement agencies—the Federal Bureau of Investigation and the Departments of State, Treasury and Justice—to address specific crime and law enforcement needs. USAID helps set the rules of the road for business, and opens up to public scrutiny government's regulatory processes and businesses' decision-making. This means reducing inappropriate discretion exercised by government, so that opportunities for arbitrary, capricious or corrupt government actions are reduced. This also means improving the transparency of commercial transactions so corporate decisions are open to stockholder and public oversight and helping to foster an independent media to inform public decision-making.

*USAID Management*

The Government Performance and Results Act directed that the foreign assistance program be driven by strategic focus and by results. At USAID, we have embraced this emphasis on results. USAID continues to introduce management reforms designed to deliver assistance faster and achieve results more cost-effectively. I want to underscore the importance that USAID has been placing on managing for results and improving program effectiveness. We were committed to this performance-based budgeting long before Congress passed the Government Performance and Results Act (GPRA) in 1993, reflecting our belief that Congress and the American people must see the specific results of our programs if these activities are to continue to receive your support. Some of USAID's activities—such as reducing the spread of infectious diseases in developing countries—are easier to quantify. Other equally important interventions—such as assisting host governments to take steps to move toward a stable, market-based economy—take more time to achieve. We are committed, however, to measuring, assessing, and reporting to Congress on the results of all of our program activities.

During this last year, we have also continued to improve our working relationships with the Department of State. Foreign policy and development strategy are better coordinated at the policy level than ever before. USAID's Strategic Plan supports specific U.S. national interests as defined in the International Affairs Strategic Plan—a document which the Department of State and USAID worked in close cooperation to prepare. USAID and the Department of State have also agreed upon ways to streamline and better align operations ranging from how we manage facilities to how we coalesce around specific country objectives.

The cooperation between USAID and the Department of State is particularly close in the area of democracy and governance assistance. The Department of State's regional bureaus and its Bureau of Democracy, Human Rights and Labor (DRL) consult with USAID in programming the ESF regional democracy funds. USAID plays a prominent role in the DRL-chaired Democracy Core Group, an inter-agency council that ensures the tight coordination of policy and programs in key transition countries. And our two agencies work together in the annual reviews of USAID's country programs to further strengthen the coherence of our diplomacy and assistance.

We recently submitted to Congress the initial version of USAID's fiscal year 1999 Annual Performance Plan. This plan provides specific benchmarks against which

our performance can be assessed at the end of fiscal year 1999. We will also submit our self-assessment of performance through fiscal year 1999 at the end of March 2000 through our Annual Performance Report. Our Performance Report will comment on why we think our approaches did or did not work and what we will do to improve our performance. These plans and reports are important tools for helping our agency, and you, to determine the degree to which we have achieved the results that we had set out for ourselves. We look forward to consulting with you on our performance measuring and planning efforts.

In conjunction with the Department of State and other agencies having an overseas presence, USAID implemented the International Cooperative Support Services, or ICASS, system effective October 1, 1997. Under this system, administrative support services at overseas posts will be provided by the agency best able to provide effective service at a reasonable cost. While any major change such as this is likely to face problems in the first year of implementation, the changeover from the old Foreign Affairs Administrative Support system to ICASS appears to be going very smoothly. All agencies, including USAID, are working to ensure that this new system is a success and that it will result in the end in better administrative support for all agencies at a lower cost.

In other areas of management, two USAID task forces identified ways to streamline procurement processes and to better align our workforce to projected needs in developing countries. Our workforce planning task force recommended reducing the Washington staff over the next three years to meet tight Operating Expense levels while protecting the USAID field presence and permitting expanded staff training. These moves would not entail a reduction in force, but it is clear that managing Washington with a reduced staff will require streamlined processes and greater efficiency. The task force recommended that USAID field staff not be cut any further, and that staffing remain at approximately 700 U.S. direct hires in the field. However, we will be looking at how to more effectively manage our field presence.

The initial action plan on procurement addresses three areas: strengthened teamwork, operational goals and administrative streamlining. We are reestablishing the Procurement Policy Advisory Panel which will provide for a wider vetting and understanding of procurement and assistance policies. Our operational goals are intended to establish benchmark time periods for effecting actions, such as procurement planning and operational year budget allocation and distribution which will hopefully stimulate earlier action on procurement and assistance actions, and even out the workload over the fiscal year.

Completing the move of USAID headquarters to the Ronald Reagan International Trade Center last year was a sizable logistical challenge, but having all our agency's Washington staff together in one building—for the first time in our history—has greatly improved teamwork and collaboration among employees.

Over the coming year, we will seek to further improve USAID's unique comparative advantage to rapidly and innovatively respond to diverse development and humanitarian needs. A further streamlining of USAID work processes could increase the amount of time available to build and nurture partnerships and coalitions with those willing to collaborate on development problems. It will also ensure that USAID maintains the technical breadth and on-the-ground developing country expertise in preparing responses closely attuned to local conditions.

USAID's recognized excellence as a pre-eminent bilateral development organization will serve the United States well as we continue to lead other development organizations. U.S. leadership helps create a shared vision on development goals and approaches across the U.S. government, among donors, within the nongovernmental and business communities and with the countries in which we work. As hosts of the upcoming 30th anniversary Tidewater meeting of development ministers, we now turn our energies to jointly implementing the Development Assistance Committee 21st Century Strategy. Similarly, as part of the New Transatlantic Agenda of the European Union and the United States, USAID is now working closely with the European Commission on more than 60 joint development activities.

*The New Management System*

I also must address an issue that has been of particular concern, the agency's New Management System (NMS). Last April, I made the difficult decision to suspend overseas operations of two modules of the New Management System. Communications problems, difficulties in transferring data and system problems, particularly with the USAID Worldwide Accounting and Control System (AWACS) financial management module, were forcing the agency to expend an inordinate amount of time responding to problems, particularly at our overseas missions.

USAID contracted in the fall with a top-notch consulting team recommended by the General Services Administration, and led by IBM, to conduct a thorough assess-

ment of the NMS. This independent assessment by the consulting team was completed in January and has been shared with Committee staff. This analysis identified the software flaws that have plagued NMS, particularly the AWACS module, and also identified areas where we could strengthen the management of our information systems.

The report also carefully assessed the options for delivering the necessary business functionality in NMS for the agency to comply with the Government Performance and Results Act and other government-wide standards. The report recommended options for modifications of the operations, budget and assistance and acquisition modules, and replacement of the financial management module with one of the now-available commercial off-the-shelf financial packages that would be integrated with the other modules.

Our agency staff has put a lot of work into making the NMS system function and I deeply appreciate their labors. This was not a wasted effort. The business area analysis process established a solid base for the development of each of the NMS modules. The vision of an integrated financial and information management system that would meet our needs into the 21st Century was, and remains, the correct vision. It is now clear, however, with the advantage of hindsight, that we were too ambitious. We knew that our old systems were inadequate so we rushed the effort to reach full compliance with government standards and with the business needs identified in the business area analysis. Basically, we were too ambitious; we felt we could not achieve the changes we wanted without activating the system prior to testing it on a smaller-scale basis.

I must also point out that, when we began this process in 1993 at the start of the Administration, everyone from the Office of Management and Budget to Congress agreed that the agency's financial information systems were badly flawed and that immediate action needed to be taken. At that time, no commercial off-the-shelf packages existed that would meet our financial information systems needs. Our intentions were good in overhauling the agency's financial information systems, but with the benefit of hindsight, our method was flawed. For that I accept responsibility.

What are our next steps? We have completed our assessment of the consultant's report and are defining a comprehensive plan that will assure us that the mission critical systems will meet the year 2000 compliance standards. The second priority is to have in place a financial management system that complies with federal standards that can produce an auditable consolidated financial statement. Third, we must deliver the basic business functionality and data integration planned for NMS.

Our Management Bureau, in collaboration with the Capital Investment Review Board, has laid out internal management and external contracting strategy to achieve these goals. We are in the process of sharing that approach with this Committee and our other oversight Committees. We have invested significant resources in NMS development, and it is disappointing that we are not where we had hoped to be. The independent assessment, however, provides an invaluable analysis of our current situation and a clear description of the steps that we must take to achieve the original vision of the NMS. We now find ourselves with the opportunity to resolve our difficulties with the NMS and create a system that will allow you the transparency and accountability that should be the standard for government operations.

*In Conclusion*

We know that the United States cannot fulfill its leadership responsibilities or pursue our values as a nation without an effective international cooperation program. Ultimately, development assistance administered by USAID improves the lives of people in developing countries and helps to strengthen their capacity to mobilize local resources and take ever greater responsibility for their own destinies. Foreign assistance is one of America's best and most cost-effective tools for building relationships among peoples and institutions that can endure and advance our interests.

The lines between domestic and foreign affairs are increasingly blurred. USAID bolsters America's domestic and foreign policy interests by capitalizing on the challenges and opportunities that are inherent in increased globalization and interdependence. When we look at the causes of the Asian financial crisis, we see how important USAID's development work is. A number of Asian countries embraced aggressive economic reforms, but were slower to embrace the open and transparent governance which is also essential for long-term economic growth and foreign investment. USAID is investing in the institutional structures, market reforms and grassroots development programs that lead to long-term stability and growth. These programs are even more critical to America's future now than during the Cold War.

Referring to USAID's programs as foreign aid is increasingly anachronistic in this kind of environment. Neither the world's problems nor America's economic opportunities stop at our borders. Exports accounted for over one-third of America's growth during the past four years. Developing and emerging market countries accounted for more than half of that growth in exports. All spheres of activity in the United States demand an international reach, whether it be health, crime-prevention, environmental protection or job creation. The benefits of international cooperation are obvious—the dangers of not cooperating to help other nations meet these challenges are too great to risk.

I am eager to work with this committee to restore a budget that will accurately reflect our national interest in promoting development overseas. The stakes are simply too high for us to accept any other alternative. Again, I appreciate the opportunity to appear here today, and I look forward to working with you to help preserve America's international leadership.

Thank you.

REMARKS OF SENATOR TED STEVENS

Senator MCCONNELL. Mr. Atwood, I see the chairman of our full committee is here. I do not know whether he would want to make an observation or whether he is just joining us.

Senator STEVENS. Well, I came because, Mr. Chairman, I was told that Mr. Atwood would raise the question of the reallocations that we have made. We were forced to make severe reductions in many of the accounts under the 602(b) allocations because the administration had submitted a budget that is based to a great extent upon approval of new taxes, new user charges, additional revenue streams that are just not there.

We are not allowed to allocate money based upon a prospective action by Congress and the President in agreeing to additional revenue streams. We can only allocate the money that is there now. As a consequence, we had the difficulty of really severe difficulty meeting the Health and Human Services' budget that is still almost $1 billion less than the current year.

On defense, the President asked for $1.9 billion additional money for the Bosnia operation starting in 1999 on an emergency basis, which we had already told the President that we would not grant an emergency for the fifth of Bosnia operations. It is no longer an emergency, and understand the circumstances there just was no more money. I have done the best that I can under the circumstances of allocating the money that is available. If there are additional revenue streams that come along, of course, this subcommittee along with others would get consideration again.

At the present time, Mr. Atwood, there is just no possibility that we can change the allocations to this subcommittee. I think anyone that reviews the money we have got right now I hope will agree we have done the best we can under the circumstances. I understand your appeal, but it just cannot be met.

Beyond that, I want to say I was chairman of the Government Affairs Committee at the time we went into the problem of the Internal Revenue Service modernization of its computer systems and found to our regret that after spending $4 billion they still didn't have a system that they could install and we had to abandon that, despite the estimate that it was going to cost us $20 billion totally.

Now I am very worried about the report that we have gotten with regard to your computer system, and I do think that that ought to be one of the areas that is really an exception to this problem. We ought to get you the money you need to modernize that

system. And I hope that you will take the direction of the outside organization that has been contracted for by GSA to redesign your systems.

Thank you, Mr. Chairman.

Senator Lautenberg has promised that he will only take 30 seconds, so we are going to let him take his 30 seconds.

REMARKS OF SENATOR FRANK R. LAUTENBERG

Senator LAUTENBERG. I thank you, Mr. Chairman. I have used up 7 of those seconds already, and I will do the rest in 23, and that is: I just want to raise questions, Mr. Chairman, the questions for Mr. Atwood related to harboring, communities harboring, war criminals, and the assistance coming from this country. Mr. Atwood is aware of my concerns. I will submit my questions in writing. But I would hope that our Government is not going to permit opportunities for investment to be made in these communities while they flout the law.

Senator MCCONNELL. Thank you, Senator Lautenberg.

Senator LAUTENBERG. Thank you.

PEACE PROCESS IN BOSNIA

Mr. ATWOOD. We know of your concern in the amendment that was passed with your name on it. We have been, I think, very meticulous in trying to use all sources of information—human rights groups, our own intelligence community and the like—to try to assure that we do not get into that kind of a problem. I think we have taken risks, I think we have advanced the peace process in Bosnia, but we do not want to get caught working with war criminals or people who have been indicted.

Thank you, Senator Lautenberg.

INDONESIA

Senator MCCONNELL. Mr. Atwood, Indonesia would be a good place to start. You said that AID had increased food aid by $25 million. It is my understanding from the staff it was only one-half that, because one-half went to shipping costs. These were funds for El Niño drought victims in the East, not a response to the 1998 economic meltdown. Apparently AID now has reoriented, whatever that means, $23 million in crisis response, but this is for the IMF technical consultants, not an initiative to ease through the economic transition—just some of my random observations about some of your comments about Indonesia.

Mr. ATWOOD. Well, first, let me say that obviously the crisis is both political and economic. We renegotiated with the Indonesia Government, the Suharto government, to provide resources that we had allocated for different purposes originally to a new sort of economic reform program, provide technical advice and individual economists to the Indonesia Government.

The economic team over there everyone would concede is on the right reform wicket. They are people for the most part educated in the United States and they are reformers, and so we wanted to provide them with the assistance they needed so they could implement the IMF agreement. We had to take money from other resources

that we had allocated during calmer times and reorient it. I think that was quite a feat in a very short period of time. We were able within a 2-week period to sign contracts to get about six experts, professors, in there to help them with their own reform efforts.

The $25 million was made available. You are not, I am sure, complaining about the procedures we have to use American shipping and American grain for these things, because we could talk about that. We are required to do that.

Under title II we also have to respond to proposals. That is the way that law is written. That does not have anything to do with this subcommittee; this is handled by the Agriculture Committee. Still, we operate within United States law with respect to the title II program, and we are preparing to provide more title II resources to Indonesia, given the problem as it evolves.

We are now having to look at our entire program again and reorient it once again because we have a political transition in place. These things don't happen overnight, especially when your entire staff is evacuated out of Indonesia. I think we have under the circumstances done a good job in this situation.

Senator MCCONNELL. It seems to me, staying with Indonesia, that it is going to be difficult for that country to return to the road of economic reform and remove subsidies for key commodities, unless there is some kind of transitional support program in place. This might include job training, food for work initiatives in urban areas, and expanded maternal and child support initiatives. Can you give me any detail on USAID plans to address national transition needs, particularly in the hardest hit urban areas.

Mr. ATWOOD. We have been able thus far to locate about $134 million that will be applied to this. We, of course, are awaiting now the new IMF plan that has recently been presented to the Indonesia Government, which may mean that we will have to readjust our own technical assistance package. We have programmed the $25 million for food for work, which would create jobs and for emergency feeding programs for very vulnerable groups, children under five and pregnant and lactating women. We have also supplied emergency relief such as water sanitation, seed distribution and medical supplies.

Our population health and nutrition resources are directed to maintain the availability of basic health and family planning commodities and services and make sectoral reforms of both health and family planning to improve the efficiency and cost effectiveness of the Indonesia Government's health programs.

We have also looked at programming money for elections assistance and democratization as they move through this transition period. I think that it is not inconsiderable. However, we obviously will join with other donors including the World Bank. Our program of $134 million is probably more than any government other than Japan is doing in this situation, but we do not match on a bilateral basis the resources that the World Bank can bring to bear on this problem.

Senator MCCONNELL. Is your assistance mostly targeted at Jakarta; and if not, what part of it is heading in that direction?

Mr. ATWOOD. A lot of it is because that seems, was at least during the student uprisings, the center of all of the problems but also

the center where the opportunities can be found. But our program has been very active around the country. I mean, a lot of our family planning programs were in parts of the country that were far from Jakarta, Bali, and other parts of Java, and some programming in East Timor as well.

MOSLEM ORGANIZATIONS

Senator MCCONNELL. I mentioned in the opening statement the Jakarta mission's apparent reluctance to work with Moslem organizations. Could you give me an explanation of that?

Mr. ATWOOD. Well, we would be more than happy to work with those organizations. At the time, you see the urgency is to let the United States show that we care. We wanted to announce a $25 million program, but we did not even have a proposal at the outset of this. We received a proposal from the Christian group you mentioned, the Catholic Relief Service, and so we were then able to announce something that had a political impact. We did not have a proposal from the Moslem groups. We are working with those groups and hope that we will be able to do that. We also have to assure that they can carry out the program.

I think that in light of the urgency of responding, at least letting the Indonesian people know that the American people cared about the situation, we responded very quickly and used the organization that we could under the circumstances.

Senator MCCONNELL. A recent Washington Post article commended your Agency for spending $26 million supporting opposition groups. The article was clearly written in Washington because many of the organizations mentioned have been deeply critical of AID's limited role and support which leads me to ask you, how would you describe AID's current planning regarding these opposition groups? And, what lies ahead?

Mr. ATWOOD. Well, I think that it is probably fair to say that the groups have been critical generally, but I am not sure they have been critical of USAID. These are groups that have been basically a part of a new civil society in Indonesia. They have been environmental groups, they have been health-oriented groups, they have been other groups that have taken on an advocacy role. This is the first part of a democracy.

They were not allowed under the Suharto regime to play more of a role than that. As you know, political parties were not allowed to play any active role as well at the time, so these groups have received support over the years from USAID. Again, I do not know whether some of them were disappointed that they did not get more support from the United States during this troubled time or not. The fact of the matter is I think that they formed, these groups that we have been supporting, a basis for a smooth transition to a different, more democratic era in Indonesia. I am very proud of what we have done to help those groups in that country.

Senator MCCONNELL. As the students were demonstrating and being gunned down by the military and police, it is my understanding the administration requested $2 million to train the military to fight fires. In terms of the priority, is that a decision you were involved in? And, did you think it was more important to fight fires at that particular moment than to deal with the other problems?

Mr. ATWOOD. This request was made well before the students were in the streets, but the request came up here at the time that they were in the streets. The administration, after hearing from your very efficient staff people, realized that this was not the time to continue to pursue the notion that it would be better to have military people fighting fires than fighting students in the street. Perhaps that was a motivation behind the original request, that if we can get the military focusing on issues that would help the general welfare of the country, then it might be better to divert them into the forest fire fighting area.

Senator MCCONNELL. During the first week of May, your Indonesia mission director and the deputy in your Asia bureau briefed the subcommittee staff and indicated that the only new initiative under consideration at that point was funding for consultants implementing the IMF package. They were asked to provide details on the consultants, which we have not seen. What is the status of implementation of the IMF reforms and hiring more consultants? Is that in a state of suspension, or just what?

Mr. ATWOOD. Yes, sir; it has been. This is the $23 million package that I mentioned before. We did send one-half dozen people over right away, after that package was negotiated, within 2 weeks. Then, however, Suharto fell and the whole IMF program was put under suspension, and it has been redrafted and represented now. We will see whether or not the original consultants are appropriate for the new program. Certainly, the reason we have not provided you with that is because everything has been in suspension. We would certainly be happy to provide you with all of that information.

[The information follows:]

IMF REFORM PACKAGE

The IMF reform package can be divided into a series of major topics for action, which include: (1) resolution of the banking and finance crisis; (2) restoration of macroeconomic stability through reforms in fiscal and monetary policy: (3) structural reforms designed to strengthen the efficiency of the domestic economy by: increasing transparency, removing barriers to competition and, removing opportunities for corruption; and (4) improvements in the legal/regulatory structure designed to support the entire reform program.

USAID/Indonesia is providing technical assistance in support of all of these areas, and will continue to expand its work, as shown below. These efforts are being undertaken in close coordination with other donors, particularly the major international financial organizations who are playing a leading policy and financing role in the reform efforts now underway, namely the IMF, the World Bank, and the Asian Development Bank.

*Banking and Finance.*—To date USAID has provided short-term experts to support bank restructuring, including the closure of some of the most troubled banks in the system, and the development of pricing models for use by the private debt repayment facility known as INDRA. Long-term technical services are being arranged to support the work of the Indonesian Bank Restructuring Agency (IBRA) and its Asset Management Unit, and Bank Indonesia's bank supervision unit.

*Macroeconomic Policy Reform.*—USAID is providing long-term technical support to the Government of Indonesia to improve its understanding of the impact of the crisis on the public budget and in adjusting its fiscal policy to meet prevailing crisis conditions. USAID has financed short-term services to strengthen monetary policy at the central bank, launch the first direct open market sale of bonds by Bank Indonesia, and to strengthen Bank Indonesia's understanding of inflation and demand for money. We are arranging to supplement this work by provision of a long-term advisor to Bank Indonesia who will focus on monetary and exchange rate policy issues.

*Structural Policy Reform.*—USAID is providing long-term technical support to the Government of Indonesia to assist in the elimination of barriers to domestic economic competition as specified in the IMF agreement such as inter-regional taxes, fees, and other restrictions on the free movement of raw materials and finished products. This includes work on vital items in the forestry sector such as logs and rattan. Long-term support is also being provided to assist Indonesia in meeting its obligations to the IMF to reduce tariff barriers, non-tariff barriers and export restrictions. Through a grant to the Asia Foundation, barriers to fair competition for small businesses are being investigated and proposals for policy reform are being made to the Government of Indonesia. Not only do these actions improve economic efficiency and performance; they also will eliminate many of the most significant opportunities for corrupt practices. USAID is moving to further support fair competition for small and micro-businesses by providing a long-term expert on small business finance policy to Bank Indonesia, and a long-term specialist who will work with the GOI on small business development policy. The work on strengthening the general domestic competitive environment will be supported by additional long-term advisors in the Planning Agency (BAPPENAS) and at the Ministry of Industry and Trade.

*Economic Law.*—USAID is providing short-term support to Indonesia to revise or replace many of its laws which are critical to the success of the IMF reform package and the efficient operation of the Indonesian economy. These laws include: bankruptcy, secured transactions (a system of registration of loan collateral), competition law, and arbitration. Arrangements are being made to continue this short-term support and to provide an additional long-term advisor to the Ministry of Justice to support this work.

*Other Actions.*—Indonesia is now taking steps to move toward a more democratic form of governance. Not only is there need for greater fairness and transparency on the part of government, as embodied in the IMF-sponsored reforms; there is also greater need for involvement of non-governmental actors in the development of public policy. USAID is therefore organizing a series of partnerships between U.S. and Indonesian universities, think tanks and research organizations designed to strengthen the ability of Indonesian non-governmental institutions to participate in an informed manner in economic policy debates and in shaping the future structure of the Indonesian economy. Greater public participation in such debates will not only strengthen the economic policy framework of the country, it will also contribute to improved governance. The first four grants under this partnership arrangement are expected to be made by the end of September if not earlier.

MISSION

Senator MCCONNELL. You have not decided what the consultants will be doing and how much it will cost?

Mr. ATWOOD. I think most of it, yes, we have identified the government ministries where they would be working and the banks, the central bank, and the like. For the most part, I think it is not going to change the location, but their mission will undoubtedly change, which means that we will have to redraft their terms of reference.

Senator MCCONNELL. Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman.

We have talked about the budget allocation, the fact that it is significantly below the 1998 level. You discuss it, of course, in your written testimony. Is there some kind of a strategy the administration has in working with Congress on this?

Mr. ATWOOD. Yes; I am sure there is, Senator, but it has not been successful to date. I think it is very, very important that we call attention to the 150 account. I have a great deal of respect for Senator Stevens, since I worked here in the Senate. He was a good friend of my boss, Senator Eagleton, at the time. I know he is a fair man. But I know it is necessary to cut budgets in the 302(b) allocation process, but to cut the 150 account, which is really our national security and our foreign policy, is a very serious matter.

I think even if the outlay issue that has come up which I think was not fully understood initially, what the impact would be on the budget, to reduce below 1998 levels the budget authority for this particular foreign operations budget is very, very serious business in terms of our ability to influence all of these crises that are going on around the world.

Senator LEAHY. That is why I asked about the strategy and why I would hope that the administration will take time to share it with some of us up here prior to the final appropriations bill being signed into law. I would suggest to the people at the White House, the State Department, and elsewhere, that it would be a nice change in procedure and might actually help them in getting their budget through. Because if we have the best circumstances, that is probably a freeze at the current level of $12.8 billion. If you have a 3.6-percent cut from fiscal year 1998, that is a budget of $12.6 billion. If you get no relief, then you have to cut AID operating budgets by as much as 20 percent. Let's take the 20 percent, what does that mean? What would get cut?

CLOSING MISSIONS

Mr. ATWOOD. Well, back to give you some idea, I mean, we would obviously have to close more missions, but it takes about 3 years before you an recoup the benefits of closing missions. Initially, it costs money to close missions overseas. You have to buy out the contracts of your FSN's, pay severance pay, buy out rental agreements and everything else. It costs a good deal of money, and it takes about 3 years before you realize the benefits. The reason that our OE budget has been going down steadily is because we have closed 28 missions overseas. That is the only way we could do it.

To be hit with a 20-percent cut in 1 year would mean—I do not know how we would handle it. We have a dilemma there. When this was proposed in fiscal 1996, when we had such a severe cut, GAO did a study and indicated that we simply would have to close our doors if we were cut below a certain level. I believe it was $465 million at that point. That was before we had the reduction in force. It is that kind of severity that would really mean tripling——

Senator LEAHY. The reduction in force was about 160 employees, was it not?

Mr. ATWOOD. It was 164 to be exact, yes, Senator.

Senator LEAHY. Well, on top of the new management system and going into a new building which cost more.

Mr. ATWOOD. Yes; that is right.

Senator LEAHY. What is the level of morale now as compared to what it was before you had the RIF, the new building, the new management system, and so on?

Mr. ATWOOD. Well, I think——

Senator LEAHY. Everybody is sitting behind you listening.

MORALE

Mr. ATWOOD. I realize that. I think actually, Senator, the morale has come back very well after the reduction in force, which has got to be a low point in the history of USAID. It was the first time that that had been done in over 20 years. If we had not done it, frankly, we would be in a lot worse shape today. We would have had to

have had a much deeper RIF. We had to do it, and we had to do it quickly. Because if you do not get people off the rolls, then you have more expenses later and it would have been worse. The new management system was simply something we had to do to be compliant with the law. Our financial management systems need to be straightened out, but we think we are on the right track there.

Moving into the new building is simply something, again, we had to do because the State Department was going to renovate the portion of the building that we were in and we were in 11 different buildings with commercial rates going up, up, up. We are now at least in a much more predictable situation being in the Ronald Reagan Building, which is a Government building, and where the rental rates are predictable at least.

Senator LEAHY. Well, let us talk about the NMS, the new management system. It cost money to get it going. You are saying it is not working yet?

Mr. ATWOOD. No; it is working. We are actually using it. It has a software coding error rate in the financial portion of the system that is too high, and we are going to have to make fixes there.

Senator LEAHY. How much has it cost so far to get where it is?

YEAR 2000 PROBLEM

Mr. ATWOOD. We have spent $84 million on it to date and we have four modules, three of which are working reasonably well and two of which are working overseas. The financial module has got a software coding error rate of about 25 percent, which is unacceptable. We are going to have to correct that, and, of course, modify all of our systems for the year 2000 problem.

Senator LEAHY. When do you expect the system to be fully operational?

Mr. ATWOOD. Fully operational? It depends on how you define that. We think it is operational now. We want to correct the problems that exist. Whether we can provide timely, accurate, and complete reports so that we can have better information about our pipeline, we believe we can do that by the year fiscal 2000.

Senator LEAHY. If it is a new system, why does it have a year 2000 problem?

Mr. ATWOOD. It has made all of the provisions for the year 2000 issue. All of the references to years in that system are on the four digit basis, and simply that is not the problem that we have with the year 2000. We have six critical corporate systems that need the year 2000 repair. We have indicated to OMB our schedule for making those repairs; they are satisfied with that. We have just announced a new contract with Computer Sciences Corp. that will be working with us on a 5-year basis to fix all of these problems.

Senator LEAHY. Yes; on top of the $84 million already spent.

Mr. ATWOOD. Well, the $84 million has produced a better system than we had when we started, Senator. That is not the problem.

Senator LEAHY. It does not sound it. I mean, you have got 25—well, what was your error rate before? You have got a 25-percent error rate now. What was it before?

Mr. ATWOOD. Well, we did not even have a system before. I mean, we had a multitude of systems and we were spending as much money as we are spending on this new system every year for

about 50-plus systems. It simply was unacceptable for a modern agency to operate that way, so we had to make the effort to do this. We, clearly, tried to push this much too fast to get it into operation, which is why we have the software coding error rate problem that we have.

I certainly concede that that was a problem, but we do have a better system now than we had in 1993 when we started. It is not acceptable. We need to improve it, and we will. We did not have—in those days, there were no commercial, off-the-shelf alternatives. We had to try to build this in house. We are not a software company. We are not obviously talented in that direction. I think we have learned more about our weaknesses in the last 5 years.

Senator LEAHY. Do not feel bad about that. The U.S. Senate touts what they have done. They are up to about 1980 and closing fast on 1983. You know, it is a place where they finally get around to putting a computer in your office and they charge you full price for what it, but it has been obsolete for 6 years. You could spend millions and millions of dollars to put fiberoptics through the walls and then end up feeding it all into something that is so antiquated everything comes to a stop. Maybe we never should have let the Government get involved with this.

Mr. ATWOOD. I would be happy to consult with you.

Senator LEAHY. The Senate has probably done as bad a job as anybody in the country in getting a working computer system in place. I have often suggested they fire everybody and hire a couple of smart 12 year olds and we would save a lot of money.

INFECTIOUS DISEASES

One area, infectious disease, and I know you have worked very hard on this as have Nils Daulaire, Dennis Carroll, and others, trying to put together a U.S. strategy on infectious diseases. It is something that has been a great interest of mine. I think we have made some good progress since last year, but it is a multiyear effort. This year the President has requested a $48 million cut in the "Child survival and diseases" account, which includes the funding for the infectious disease strategy.

Let us assume we gave you at least the same amount of funding for these programs as last year. Can you use that effectively?

Mr. ATWOOD. You gave us a good head start last year, and I think we have developed a good strategy. We believe we can maintain the same level of impact with the budget request that we have made. Obviously, we can use it. Then the question becomes, Where does it come from? I mean, in light of the kind of budget cuts that we are seeing here, it is a problem.

Senator LEAHY. Well, my question is if you get it, could you use it effectively?

Mr. ATWOOD. I think we have demonstrated that, Senator, in terms of the way we put the strategy together.

Senator LEAHY. I realize it is a zero sum game. If you give something to one, you take it from someone else. Let us go to microcredit. AID and the Congress have supported microcredit programs. In 1994, AID set the goal that by 1996 one-half of all AID microcredit funding would be directed to the poorest people for loans of under $300. AID did not meet that target. In 1996, a percentage

of the funds going to the poorest people was 38 percent. We want at least 50 percent of the funds spent on the poorest people. Can AID reach that point?

Mr. ATWOOD. Yes; I believe we can. To the extent that that is relevant, to the extent that the $300 goal is relevant. We are spending money on our microenterprise programs also to support the institutionalization of microcredit programs in other places, helping governments to set the right policy environment so that they can create the kind of banks that would do this kind of lending.

Every year because of the interest that is collected on the loans that we provide we are adding to the amount of capital that is available for poor people. We cannot under the rules count that as aid to poor people, but it is, in fact, aid to poor people. I really believe that our program has been very successful, and that if you take away the support that we have to provide to run the program and these policy aspects of the program, that over 50 percent of what we actually loan does go to poor people and over 50 percent is under $300.

Senator LEAHY. I am going to have further questions for the record. I see Senator Bennett here, and I do not want to take up his time. I am going to have one on IFAD that I would like you to take a very close look at and I will put the rest in the record.

Senator MCCONNELL. Thank you, Senator Leahy. I appreciate that. If we have anybody in the Senate who understands the year 2000 problem, it is the distinguished Senator from Utah who is with us today. Now I yield to him.

Senator BENNETT. Thank you, Mr. Chairman. I will surprise you by not asking about year 2000 in this instance.

I will just comment, Mr. Atwood, your description of your problems—changing your systems, moving to a new system and then running into the year 2000 problem on top of it—is very, very typical. I can list a whole series of organizations who have had the same kinds of problems. Do not beat yourself up too badly for saying, "Gee, we did not do it right." I know very, very few people who have been able to do it right. It just seems to be the nature of the beast to create the kinds of difficulties you have run into.

I want to switch to another area which I understand has not been talked about. I think perhaps I can also qualify as one of the strongest Members of the Senate in support of microcredit. I would like to find out what the impact of the Glenn sanctions have with respect to India and Pakistan on microcredit in those two countries.

HUMANITARIAN EXCEPTIONS

Mr. ATWOOD. As yet to be determined, Senator. As you know, there are humanitarian exceptions to the program. We have submitted some suggestions as to what would qualify as humanitarian to the administration, to the President, to make decisions on this matter. He has not made those decisions yet. Once a program under the Glenn amendment is determined to be ineligible for the exceptions that are listed, the humanitarian exception in this case, and you basically cut it, it is cut forever unless the law is changed. It is a pretty rigid standard, so we are struggling with this issue of defining what would qualify as humanitarian.

Senator BENNETT. Let us talk about both India and Pakistan under the Glenn sanctions and go beyond microcredit. What programs do you have going in those countries which under the sanctions you are going to have to cut? What is the total dollar amount? And, will that money in anyway be available to alleviate some of your budget pressures in other areas?

Mr. ATWOOD. Yes; we have programs, first, in India that are in the family planning area in the state of Uttar Praddesh, a very large program there. Obviously, there is a question as to whether that qualifies as a humanitarian program. My own belief is that it does because it is helping women and families and children. We have a title II food aid program of about $91 million in India. Obviously, I think that is a humanitarian program. It feeds 6 or 7 million of the poorest women and children in the world. The program to counter the AIDS epidemic in one of the southern states of India is a humanitarian program in my opinion.

Again, it is not only lawyers, but it is policymakers that have to look at these questions to make these determinations. I think clearly there are programs that would not qualify. We have been doing a good job, I think, in trying to help the Indians create a stock market and a regulatory system in Bombay. One of the needs of this country is to attract foreign investment. When you have a stock market that people have some confidence in, indirect foreign investment is much more likely. I cannot imagine that that will qualify as a humanitarian program.

We also have a very large energy efficiency program in India. There is an exception written in the appropriations act that any program that would contribute to the lowering of greenhouse gas emissions would be excepted from provisions of law otherwise barring that aid. Again, we have suspended that program and all programs right now in India awaiting a decision as to what would qualify under these exceptions.

In terms of Pakistan, we terminated our bilateral program under the Pressler amendment in 1995. We have undertaken a 4-year, $9 million activity in Pakistan through a nongovernmental organization to improve basic education and strengthen literacy, to improve mother and child health, and to strengthen income generation opportunities especially for women. That program is, again, suspended until we can get a decision as to whether or not that would qualify as a humanitarian program.

Senator BENNETT. Do you have a dollar figure, total for India and Pakistan, the dollar amount that presumably is in your budget that might have to come out as a result of the Glenn sanctions? I do not need you to be exact. But, can you give me a ballpark figure as to how much money we are talking about?

Mr. ATWOOD. We are talking—we are thinking that based on our, again, preliminary assessment and our recommendations within the administration that we would have to terminate $12 million of development assistance funds for economic growth activities and approximately $9 million in housing guarantee authority in India. Again, that is under the assumption that the remaining part of what we are doing is humanitarian exception. In Pakistan, it is approximately $10 million we are spending. That would appear that that would qualify as a humanitarian exception.

Senator BENNETT. Do you have any plans for the Baltic States in the next fiscal year?

Mr. ATWOOD. Yes; we still have programs in I believe two out of the three Baltic States. I do not have the details with me, but perhaps someone will come up with that before we are finished here. I will provide it for the record.

Senator BENNETT. Yes; they can furnish that for the record.

Mr. ATWOOD. All right.

[The information follows:]

USAID'S FISCAL YEAR 1999 BUDGET REQUEST FOR THE BALTIC REPUBLICS

USAID has on-going bilateral technical assistance programs in Latvia and Lithuania. In September 1996, Estonia became the first country to graduate from SEED Act assistance.

*Latvia.*—Fiscal year 1998 will be the final year of funding for bilateral USAID programs in Latvia. Current programs in the areas of capital markets, collateral law, and energy are expected to end by Latvia's graduation date in September 1999.

*Lithuania.*—Until Lithuania's expected graduation in fiscal year 2000, USAID's bilateral technical assistance programs will focus on economic restructuring and include activities in banking and capital markets reforms, bank supervision, privatization and enterprise restructuring. USAID assistance to the Bank of Lithuania will facilitate efforts to peg the country's currency, the Litas, to the Euro.

*Regional programs.*—Funding for regional programs in energy as well as those implemented under the Baltic American Enterprise Fund and the Baltic American Partnership Fund will, however, continue in all three Baltic republics over the next several years.

HAITI

Senator BENNETT. I have no further questions, Mr. Chairman. Thank you.

Senator MCCONNELL. Thank you, Senator Bennett. Mr. Atwood had a choice between coming up here today and going to the dentist, and I am sure he has decided he made the wrong decision. [Laughter.]

We want to try to wrap up by 4 o'clock, but I do want to go to one more area of some controversy, Mr. Atwood, and that is Haiti. A recent news article pointed out that Haiti has received $1.4 billion in international aid in the last 4 years, and yet 80 percent of the rural population continues to live in abject poverty on less than $250 a year, the lowest per capita in the world. The article quoted a World Bank report which stated: "The political crisis jeopardized foreign aid, delayed implementation of public sector reforms, derailed privatization, discouraged private sector investment, and ultimately aborted economic recovery."

Haiti's last prime minister resigned in June, and the parliament has rejected three of the president's candidates. I am interested in determining whether you can describe the state of play between the president and the party holding the majority known as the People's Organization of Struggle. And, can you explain why the administration has doubled the request for Haiti from $70 million to $140 million, given the fact that any objective analysis would suggest that all of our efforts there have been a total failure?

Mr. ATWOOD. I would not accept the last statement.

Senator MCCONNELL. Why not?

Mr. ATWOOD. I think there has been a lot of progress that has been made in Haiti. In fact, a good deal of progress in terms of privatization. We have been making progress in privatizing nine of

the state enterprises there, the flour mill and the cement mill and there are different activities, the port, the telephone company, the airport. They have not privatized them yet, but the progress toward that is very significant. We have seen a great deal of change in the internal situation. There are still human rights abuses, but nowhere near what they were.

We have set up a national police force that has 5,200 members. We have trained 700 judges and prosecutors. Over 2.3 million people are receiving health services through NGO programs there. Infant mortality rates have dropped by 25 percent; 7,000 primary schoolteachers have been trained. Price controls have been abolished. The exchange rate has been liberalized.

Illegal immigrants, the most significant thing I guess and the reason we got into this in the first place, are not flooding our shores and costing our Federal, State, and local governments millions of dollars. We were spending billions of dollars with a cordon of the Navy and Coast Guard ships trying to pick up people leaving that island before, and that is not happening any longer.

It is not all a bad picture. But we are very upset, as you are, with the impasse, the political impasse, and the inability to name a prime minister. We have been working behind the scenes in trying to resolve that problem. We have made some progress. I do not think it would be wise for me to talk about it in an open hearing because there are some delicate agreements that have been reached. We hope that we will see that becoming public soon, at which time we will be able to reveal more of what we have been doing behind the scenes.

The impasse which was precipitated by a controversial election, two senate seats in particular, and the role of the election commission down there has been very, very difficult, the struggle between two relatively new political parties in a very new democracy, people have not yet learned the art of compromise. It is a little bit like dealing with the Mexico City population issue here. It has not been easy to resolve that impasse. I have no excuses for that. I think it has been an embarrassment to the administration. It has certainly been an embarrassment to President Preval and to the Haitians as well because it has been holding up about 250 million dollars' worth of international financial institution support for that country. The poor people are suffering because the politicians in Port-au-Prince cannot reach agreement.

Senator MCCONNELL. Well, thank you very much, Mr. Atwood. It is not going to be an easy year, as we can all certainly agree. I appreciate your time, and we look forward to working with you in the coming months.

Mr. ATWOOD. Thank you, Senator.

SUBCOMMITTEE RECESS

Senator MCCONNELL. That concludes our hearing. The subcommittee will stand in recess until 10:30 a.m., Tuesday, June 16, when we will receive testimony from the Secretary of State, the Honorable Madeleine Albright.

[Whereupon, at 3:55 p.m., Tuesday, June 9, the subcommittee was recessed, to reconvene at 10:30 a.m., Tuesday, June 16.]

# FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1999

**TUESDAY, JUNE 16, 1998**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 10:37 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Mitch McConnell (chairman) presiding.

Present: Senators McConnell, Gregg, Bennett, Campbell, Stevens, Leahy, Lautenberg, Mikulski, and Murray.

## DEPARTMENT OF STATE

### OFFICE OF THE SECRETARY

**STATEMENT OF HON. MADELEINE ALBRIGHT, SECRETARY OF STATE**

OPENING REMARKS OF SENATOR MITCH MC CONNELL

Senator MCCONNELL. The hearing will come to order.

We have excellent attendance this morning. We must have somebody of high rank before us.

I would remind all the subcommittee members that it has been the tradition of this subcommittee for opening statements only to be made by the chairman and the ranking member, so that we can get on to our witnesses, and we will stick with that pattern. I expect Senator Leahy here shortly.

Secretary Albright, much has changed since your appearance here last year; unfortunately, little for the better. There are a few bright, hopeful spots, such as the settlement in Ireland, but there are many more flash points challenging United States resolve, resources and interests. There are no shortages of difficulties. There are threats to political stability and security in Kosovo, Cambodia, Nagorno-Karabakh, Cyprus, Colombia, India, Pakistan, North Korea, Iraq, Iran, Indonesia, and Burma.

The economies of Indonesia, Thailand, Korea, Burma, and Japan are in deep trouble, with the prospects of a devaluation in China more real and disturbing by the day. And now Russia has been added to the list of countries in economic peril.

Let me comment on a few areas which I find especially troubling, both because of the serious impact of the problems and how the administration has chosen to respond. In our own backyard, I am concerned that Colombia is entering a dangerous period in which the

future of a democratic government is very much at stake. The immediate threat is the emerging relationship between major narcotics traffickers and terrorists, which is compounded by the relationship between traffickers and well-armed, well-financed paramilitary organizations.

There is clearly a crisis of leadership in Colombia. But, this problem seems to be exacerbated by ambiguities and inconsistencies in our policy. We cannot seem to decide who to support and what we should be doing from one day to the next. Is the target of U.S. aid traffickers, terrorists, both, or neither?

Just as one example of the confusion, in January, the Department sent a letter supporting the acquisition of Blackhawk helicopters for the Colombian counternarcotics police. In May, a letter arrived reversing that decision. Without commenting on the merits of such a program, I can say that the decisionmaking process caused real alarm in the region, needlessly compromising confidence in our commitment.

I am similarly mystified by our response to the crisis in India and Pakistan. Given the close relationship between the People's Republic of China [PRC], and Pakistan and, conversely, India's strained ties with both, I was surprised Beijing was not engaged in the effort to reduce tensions after New Delhi detonated.

Similarly, I was disappointed in the decision to send a State Department team to Pakistan to discuss economic relief at a time when Islamabad was seized with the security implications of the threat. Pakistan's detonation may have been inevitable. However, they needed, and we apparently did not offer, any assurances that the United States would not let stand an Indian threat to Pakistan's existence.

The circumstances seemed to call for a senior Defense Department representative clarifying our security interests in stability rather than an offer of potential economic relief. If there is good news about the detonations, it is the revival of interest in the pending emergency on the Korean Peninsula. After the blast, the prospects of two regional nuclear crises called attention to a North Korean letter threatening to withdraw from the agreed framework because the United States has failed to fulfill obligations to provide fuel.

This accusation, this problem, is astonishing, since Congress not only fully funded the $30 million request for KEDO, but also provided an additional $10 million as a down payment to leverage contributions to cover $44 million in debt. What I find hard to understand is the fact that even if you solve the immediate shortfall, which will require using any number of special legal authorities, the administration has already determined that the $35 million request for 1999 is inadequate to meet the needs. When you are asking for a billion increase in the foreign aid budget, how can we come up short in this account?

Korea is not the only Asian problem. In a hearing last week, I expressed my continued frustration with the administration's approach in Indonesia. No doubt you have heard reports, but let me offer one example of a relatively minor policy decision pushed specifically by the East Asia Bureau, which I consider counter to our long-term interests. As the military was engaged in an effort to re-

press Suharto's opponents, the administration requested $2 million to train the Army in firefighting tactics.

Like Colombia, this decision was immediately reversed in the face of strong congressional opposition. Nonetheless, with urgent unmet humanitarian needs, this request sent a chilling message to democratic activists.

While I welcomed your call for Suharto to step aside, there has been little since that message reflecting our commitment to accelerating the election timetable or for political or economic support for the opposition.

We seem to be in similar drift with regard to the elections in Cambodia. There appears to be little stomach to call Hun Sen's bluff and support the democratic opposition's call to delay the elections, even though they are being denied full and free participation.

The final region I want to discuss is perhaps the most widely and deeply afflicted with problems: Europe and the NIS. Most immediately, many are questioning whether we learned any lessons in Bosnia. From one day to the next, from one official to the next, we are sending very mixed messages to Milosevic, to Kosovo and to other key regional players. Your call for sanctions, followed by Ambassador Holbrooke's request for sanctions relief, followed by air exercises and threats of air raids—all while the Serbs gut yet another village—communicates confusion and yields to the savagery of more ethnic cleansing.

While I questioned our major commitment of resources in Bosnia, I have no doubt of our interest in this area. I am convinced that the Bush administration got it right in Kosovo, with the 1992 Christmas warning to Serbia. As the President and Brent Scowcroft spelled out to Milosevic, the United States had and has clear interest in preventing the spread of this conflict. Milosevic understood the United States was willing to take unilateral military action if needed, to avoid a conflict with the potential to suck in Greece, Macedonia, Turkey, and Albania, and strike at the heart of NATO unity.

But the Balkans are not the only serious European problem. For the past 5 years, Senator Leahy and I have called attention to the need to restructure, implement and enforce changes in the commercial, tax and banking systems in Russia. Each year, we have been assured that the billions of dollars in bilateral and multilateral aid were making this happen. Now, senior IMF officials are warning that Russia is on the brink of a full-fledged crisis. Spending excessively outpaces tax collection, a system crippled as we all know by corruption. The immediate risk of hyperinflation is real and requires urgent correction, not another bilateral bailout.

I do not want to recite the many failed attempts Congress has made to attach conditions or constraints to aid to Russia. Not only are there severe immediate economic consequences to the administration's reluctance to challenge Moscow, I fear we will pay a heavy price in future security interests with the possibility of a nuclear-armed Iran. Every year, the administration has opposed our efforts to link aid to the end of Russia's transfer of nuclear technology and equipment to Iran. Every year, cooperation between Tehran and Moscow has expanded.

Russia's neighbors also pay a price for our approach. Nowhere is this more evident than in Nagorno-Karabakh, where a consistent United States-led initiative could produce a breakthrough. Unfortunately, after extensive conversation with leaders in the region, it is clear to me that the Russians are not interested in a settlement. If we do not elevate this issue and proceed with or without the Russians or the Minsk Group, we compromise our interests in a coherent Caspian energy security policy.

Speaking of energy, let me conclude with the observation that problems in the Persian Gulf and the Middle East remain contentious and potentially destabilizing. In this context, I was concerned by confusion recently generated over prospects of United States support for the costs of the next stages of Israeli redeployment. At a time when Israel has proposed the elimination of ESF, I am caught somewhat by surprise by representations that to secure an agreement the administration has suggested that we might be prepared to provide up to $1 billion for redeployment. I hope these promises are not being made, because many people will be very disappointed.

Secretary Albright, you have a full plate obviously. What concerns me, both as the chairman of the subcommittee and as a Senator deeply interested in the course of our Nation's foreign policy, is the preservation of American credibility and interests. That credibility is damaged by reversals, inconsistencies and inattention. Small as some decisions may seem in the global context, there is a cumulative and negative impact of the administration calling for sanctions in the face of Kosovo ethnic cleansing, then, 1 week later, reversing the decision; calling for Suharto to step down, but offering no meaningful followup or economic or political support to the opposition; and calling Iran a terrorist state, but failing to impose even the weakest of restrictions on Tehran or its nuclear partners in Moscow.

Each decision contributes to creating an impression of American weakness and a sense of hollow diplomacy. There is a mismatch between rhetoric and real requirements, a disconnect between diplomacy and the credible threat and use of force. In an effort to get a crisis off the front page, there is an inevitable push toward expedient solutions. While this approach may relieve immediate pressure, it will only make your future tasks more difficult.

You clearly have a sense of purpose and of the direction the country must go. In the face of the problems, shortfalls, reversals, and ambiguities I have reviewed, the question is: Who is following?

PREPARED STATEMENT

Much is at stake. Much more is expected from you and your team in the months and years ahead. Unfortunately, you face more challenges with fewer resources. The hard-won increase in foreign assistance which you, Senator Leahy, Senator Stevens and I fought to secure last year has been unfortunately substantially reduced by the pressures of balancing the budget and other discretionary spending priorities. I am hopeful that by delaying our markup as late as possible, the subcommittee may benefit from unused budget authority and outlays, as well as the chairman's good judgment, generosity and shared commitment to the 150 account.

[The statement follows:]

PREPARED STATEMENT OF SENATOR MITCH MCCONNELL

Secretary Albright, much has changed since your appearance here last year, unfortunately, little for the better. There are a few bright, hopeful spots such as the settlement in Ireland, but there are many more flashpoints challenging U.S. resolve, resources and interests.

There is no shortage of difficulties—there are threats to political stability and security in Kosova, Cambodia, Nagorno-Karabakh, Cyprus, Colombia, India, Pakistan, North Korea, Iraq, Iran, Indonesia and Burma. The economies of Indonesia, Thailand, Korea, Burma and Japan are in deep trouble with the prospects of a devaluation in China more real and disturbing by the day. And, now Russia has been added to the list of countries in economic peril.

Let me comment on a few areas which I find especially troubling both because of the serious impact of the problems and how the Administration has chosen to respond.

In our own back yard, I am concerned that Colombia is entering a dangerous period in which the future of a democratic government is very much at stake. The immediate threat is the emerging relationship between major narcotics traffickers and terrorists which is compounded by the relationship between traffickers and well armed, well financed paramilitary organizations. There is clearly a crisis of leadership in Colombia, but this problem seems to be exacerbated by ambiguities and inconsistencies in our policy. We can't seem to decide who to support and what we should be doing from one day to the next. Is the target of U.S. aid traffickers, terrorists, both or neither?

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Russia's neighbors also pay a price for our approach. Nowhere is this more evident than Nagorno-Karabakh where a consistent, U.S. led initiative could produce a break-through. Unfortunately, after extensive conversation with leaders in the region, it is clear to me that the Russians are not interested in a settlement. If we do not elevate this issue, and proceed with or without the Russians or the Minsk Group, we compromise our interests in a coherent Caspian energy security policy.

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Secretary Albright, you have a full plate. What concerns me both as the Chairman of this subcommittee and as a senator deeply interested in the course of our nation's foreign policy is the preservation of American credibility and interests. That credibility is damaged by reversals, inconsistencies and inattention. Small as some decisions may seem in a global context, there is a cumulative and negative impact of the Administration calling for sanctions in the face of Kosova ethnic cleansing, then a week later reversing the decision; calling for Suharto to step down, but offering no meaningful follow up economic or political support to the opposition; and calling Iran a terrorist state but failing to impose even the weakest of restrictions on Tehran or its nuclear partners in Moscow.

Each decision contributes to create an impression of American weakness, a sense of hollow diplomacy. There is a mis-match between rhetoric and real requirements—a disconnect between diplomacy and the credible threat and use of force. In an effort to get a crisis off the front page, there is an inevitable push toward expedient solutions. While this approach may relieve immediate pressure, it will only make your future tasks more difficult. You clearly have a sense of purpose and of the direction the country must go. In the face of the problems, shortfalls, reversals and ambiguities I have reviewed, the question is who is following?

Much is at stake—much more is expected from you and your team in the months and years ahead. Unfortunately, you face more challenges with fewer resources. The

hard won increase in foreign assistance which you, Senator Leahy, Senator Stevens and I fought to secure last year has been substantially reduced by the pressures of balancing the budget and other discretionary spending priorities. I am hopeful that by delaying our mark up as late as possible, the Subcommittee may benefit from unused budget authority and outlays as well as the Chairman's good judgment, generosity and shared commitment to the 150 account.

OPENING REMARKS OF SENATOR PATRICK J. LEAHY

Senator MCCONNELL. Let me now call on Senator Leahy.

Senator LEAHY. Thank you very much, Mr. Chairman.

Madam Secretary, it is good to have you here and I hope you feel the same way. Because this subcommittee, both under the chairmanship of Senator McConnell and, prior to that, under my chairmanship, has been very supportive of the budget you are testifying about.

Anyone who thought the world would become a calm and peaceful place after the cold war obviously does not think that any longer. There are major security challenges and crises today practically everywhere you look. And to your credit, Madam Secretary, you are one who, from the first day of your time as Secretary of State, warned us that could be the situation, just as you said so very clearly and very emphatically at the United Nations.

Before we get to that, I do want to congratulate you on the vote to admit Poland, Hungary, and the Czech Republic to NATO. I know this was extremely important to you personally. You deserve a lot of credit for the overwhelming vote in the Senate.

As you know, I reached a different conclusion, but I genuinely hope I am proven wrong, and that the decision to enlarge NATO turns out to be the right one. Now that we have voted for enlargement, now that it is the position of the United States, I believe the Congress should give both the administration and NATO strong support and that we are obligated to do everything possible to make it work.

We have cast our vote on both sides of the issue, but now we should be united as a country and as a Congress in giving that support. And I, for one, will pledge to do that.

Now, lately, you have been to Japan, China, South Korea, and Mongolia. You were in Ukraine a few months ago, in Africa before that. And then you spent an afternoon in Burlington, VT, which some people may think is a foreign country.

Only the people in the eastern States, like New Hampshire, feel that way, I would say to my friend from New Hampshire.

And I would thank you for that. Because the reaction of the people in Vermont, I think, in their questions to you, reflects the fact that, contrary to what some may think, most people in this country really do care what our foreign relations are and really do have strong opinions, and you found that. I think we are fortunate to have a Secretary of State who knows that a successful foreign policy needs the public's support.

And while you can sit across the table from Foreign Minister Primakov or President Jiang Zemin and speak passionately and forcefully about the world as we want it to be, you also go out to the country and talk to those who make up this wonderful country and hear their views.

But you only have to drive a mile from the State Department to find one of your most difficult and urgent challenges. It is not as dangerous as a nuclear arms race between Pakistan and India, or Russia selling nuclear technology to Iran, but it is just as deserving of your attention. Despite the strong bipartisan vote to enlarge NATO, the Congress has virtually ground to a halt over foreign policy.

The impasse over family planning is only one aspect of it. It is at least as much a reflection of widely differing views about how the United States can best achieve its foreign policy goals and the appropriate role of the Congress in that process.

Now, some of your predecessors made the fateful mistake of spending a lot of time building relations with foreign governments and trying to promote policies without first building the relationships and the support needed here. Then, when they needed Congress to back them up, the Congress was not willing to give them the political support or the resources they needed. Without that, you cannot do very much in foreign policy.

Over the past 2 years, I believe you tried hard to avoid that trap. I think we have made real progress in reversing the decline in the foreign operations budget.

But today I am afraid that we are on the verge of losing everything we have gained. You know as well as anyone that dealing with the Congress is not easy. Some here in this body and some in the House made commitments and then they broke them, like funding for the United Nations.

I come from the old school that if you make a commitment you ought to stick with it. Some did not.

Sometimes, no matter how hard you try, you cannot convince people to agree with you, even if it is in the national interest, especially if there are political points to be made by disagreeing.

Last month, we received our 1999 budget allocation. In the best of circumstances, it amounts to a $200 million cut below the current level. Not only will you not get the increases the President requested, but many foreign operations programs, except for—or because of—the Middle East, will be cut sharply.

I think that would be foolhardy, and it would nullify all that you, Chairman Stevens, Chairman McConnell, and I have done to protect this budget in the past year. And I would compliment Senator Stevens and Senator McConnell, who have put as their mantra and as their lode stone "bipartisanship" in trying to get this through.

Your written testimony lays out an extremely ambitious foreign policy agenda. Frankly, I do not think a superpower can have it any other way. And I am one of those Americans who want us to be a superpower because of our democratic ideals. And I think that being able to promote those democratic ideals is the greatest way to have peace.

PREPARED STATEMENT

I do not want to see the United States become Fortress America, and shirk from the rest of the world. I think for our children and our grandchildren, it is important that we maintain, and expand, our role in the world. But I urge you, during the coming weeks and months, to devote as much time as possible to our budget situation.

Because, otherwise, we are not going to be able to do the things that a great nation should and can and will do if we have the tools to do it.

Thank you, Mr. Chairman.

Senator MCCONNELL. Thank you, Senator Leahy.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATRICK LEAHY

Madam Secretary, it is good to have you here.

Anyone who thought the world would become a calm and peaceful place after the Cold War obviously does not think that any longer. There are major security challenges and crises today practically everywhere you look.

But before we get to that I want to congratulate you on the vote to admit Poland, Hungary, and the Czech Republic to NATO. I know this was extremely important to you personally and you deserve a lot of the credit for it.

As you know, I reached a different conclusion, but I genuinely hope I am proven wrong and that the decision to enlarge NATO turns out to have been the right one.

You have been to Japan and China, South Korea and Mongolia. You were in Ukraine a few months ago, and Africa before that. And you spent an afternoon in Burlington, Vermont, which to some people here can seem like a foreign country.

The American people are fortunate to have a Secretary of State who knows that a successful foreign policy needs the public's support, and who can sit across the table from Foreign Minister Primakov or President Jiang Zemin and speak passionately and forcefully about the world as we want it to be.

That is the job of a Secretary of State. But you need only drive a mile from the State Department to find one of your most difficult and urgent challenges. It is not as dangerous as a nuclear arms race between Pakistan and India, or Russia selling nuclear technology to Iran. But it is no less deserving or in need of your attention.

Despite the strong, bipartisan vote to enlarge NATO, the Congress has virtually ground to a halt over foreign policy. The impasse over family planning is only one aspect of it. It is at least as much a reflection of widely differing views about how the United States can best achieve its foreign policy goals and the appropriate role of Congress in that process.

Some of your predecessors made the fateful mistake of spending a lot of time building relationships with foreign governments and trying to promote policies without first building the relationships and a base of support here.

Then when they needed Congress to back them up the Congress was not willing to give them the political support or the resources they needed. Without those two things you cannot do much in foreign policy.

Over the past two years you tried hard to avoid that trap, and together we made real progress in reversing the decline in the Foreign Operations budget.

But today we are on the verge of losing everything we have gained. You know as well as anyone that dealing with the Congress is not easy. Some here made commitments and broke them, like funding for the United Nations.

And sometimes no matter how hard you try you cannot convince people to agree with you even if it is in the national interest, especially if there are political points to be made by disagreeing.

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Your written testimony lays out an extremely ambitious foreign policy agenda. I don't think a superpower can have it any other way. But I urge you during the coming weeks and months to devote as much time as possible to our budget situation, because otherwise you are not going to be able to do many of the things you need to do.

SUMMARY STATEMENT OF HON. MADELEINE ALBRIGHT

Senator MCCONNELL. Thank you, Madam Secretary, for being here. I gather you have a lengthy statement. We will put that in the record, and I ask you to proceed with your oral presentation.

Secretary ALBRIGHT. Thank you very much, Mr. Chairman.

I am very pleased to be here. I feel that both of your opening statements have raised many questions, which I will be happy to address. But I first thought that maybe I should give some of my oral statement.

I want to thank you and the subcommittee for accommodating my schedule. I was supposed to testify last month, but talks on the Middle East intervened. And certainly the past 5 weeks have given us even more to talk about, as you have listed so eloquently. But they have not altered my fundamental mission in coming here, which is to ask for money. In so doing, I will be brief.

You have my written statement, which is not so brief, and I hope that you will review it, nevertheless, because it covers many of the subjects that you have raised, and parts of the world I would not be able to include in my oral remarks and still honor your time for questions.

PEACE, PROSPERITY, AND FREEDOM

Mr. Chairman and members of the committee, we Americans want to live and we want our children to live in peace, prosperity, and freedom. But it is becoming increasingly clear that we cannot guarantee those blessings for ourselves if others do not have them as well.

Events of the past few months, especially in South Asia, the Far East, the Balkans, and the gulf, illustrate the range of perils that exist as we approach the new century. I come to this subcommittee in search of the resources and tools we need to respond to those perils, and to seize opportunities for strengthening democracy, promoting open markets and upholding American values. I realize that this subcommittee has been a champion of adequate funding for international programs. I consider our work together and our cooperation a model in trying to achieve what we can for the American people. And I salute you for the help and the work that you do.

However, this year, we have, together, been given an unacceptably low allocation, a full $900 million below the President's request. I hope very much that we can work together this year to adequately fund this account so that we can provide the kind of leadership our interests require and our citizens expect and deserve.

Mr. Chairman, despite recent setbacks, the Middle East remains an area where U.S. leadership is both needed and desired. The current deadlock in the peace process endangers historic gains and threatens our own interests. And for that reason we have been working patiently to help Israelis and Palestinians overcome their crisis of confidence.

During the past several months, we have sought to create an environment that would trigger accelerated permanent status negotiations. Chairman Arafat has accepted in principle our ideas for doing so, and we are now working with Prime Minister Netanyahu to see whether there is a way for Israel to accept them as well. I believe there is a possibility to reach agreement, and we will continue our efforts as long as we believe that Israelis and Palestinians are serious about doing so.

As we persist in our diplomacy, I hope that we have this subcommittee's support for our request for assistance to our partners in peace, including Israel, Egypt, Jordan, and the areas under Palestinian self-rule. Your help will contribute to stability, while providing a foundation for future diplomatic efforts.

In another long-troubled region, the Balkans, the cause of reconciliation is confronted simultaneously with new opportunities and resurgent danger. In Bosnia, serious challenges remain, but the prospects for an enduring peace have brightened. Our budget request, when combined with the larger amounts provided by our allies, will help keep Bosnia on the upward road to permanent peace, and will help ensure that when our Armed Forces do leave that country, they leave for good.

Unfortunately, the outlook in Kosovo is far more clouded. There, Serb repression has spurred a cycle of violence that has caused great suffering and has the potential to draw neighboring countries into conflict. The United States has joined other leading nations in sending a strong message to President Milosevic. He must end the excessive use of force against civilians, enter a serious dialog with the leaders of the Albanian-Kosovar community, cooperate in the safe return of refugees, and take steps to see that the legitimate rights of all the people of Kosovo will be respected.

To encourage a positive Serb response, NATO leaders have not ruled out the use of force if the violence in Kosovo continues. And yesterday we conducted air exercises. Contingency planning is underway.

Obviously our strong preference is for a diplomatic outcome that restores peace and respects rights. We condemn acts of violence by all sides, including the Kosovar Liberation Army. But we must also oppose as strongly and effectively as we can the campaign of terror and depopulation being waged by Serb forces.

As we look ahead, we know that the prospects for long-term peace in Europe depend, as well, on the success of democracy in the Baltics, Ukraine, Russia, the Caucasus, and Central Asia. For this reason, I strongly urge your support for SEED and for the Partnership for Freedom.

These democracy-building, prosperity-creating, law-strengthening programs are blue chip investments. Already a number of countries have graduated and no longer need our aid. But the region is vast, and the dangers posed by criminals and backsliders are many.

In Russia, we have a vital interest in seeing that nuclear weapons technology and expertise is controlled, not put up for sale. We need your help in funding these initiatives fully and flexibly, so that the forces of democracy may be bolstered and their enemies held at bay.

Our efforts to promote lasting stability across Europe are mirrored in Asia, which I visited early last month. During that trip, I had the opportunity to sign an agreement creating important new defense cooperation arrangements with our close ally, Japan. I met with Korea's courageous new President Kim Dae Jung, who came to Washington last week.

In that connection, let me emphasize the value of funding in full our contributions to the Korean Peninsula Energy Development Organization [KEDO]. Mr. Chairman, you have helped on KEDO

funding before, and we will continue to work closely with the subcommittee on this. This is a line item that is truly vital to our national security and to the safety of a key ally.

During my Asia trip, I also met with senior Chinese officials to prepare for the upcoming summit in Beijing. Now I know that some say that the President should not go to China. But I believe it is right for the leader of the world's greatest democracy to bring a message of democracy to the world's largest nation.

While in Beijing, the President will have a chance to say things that the people of China cannot say and have not heard. And his presence in Tiananmen Square will ensure that the world does not forget, as it must not forget, the outrages perpetrated there.

Moreover, the President's visit will create an opportunity to look to the future, a chance to make further progress in our relationship with China, to cooperate in halting the spread of nuclear weapons, to maintain stability on the Korean Peninsula, to coordinate in responding to the regional financial crisis, to join in fighting global threats, and to express our concern about freedom of religion, human rights, and Tibet.

As I have said many times, Mr. Chairman, engagement is not endorsement. We continue to have sharp differences with China. But we are also developing more and more areas of common ground. And this is important to both countries, and vital to the future stability and prosperity of all Asia.

In Indonesia, there is an opportunity now to move from an era of stability without freedom to an era of stability and freedom. The challenges, however, are great. They include economic recovery under very difficult circumstances, an end to ethnic intolerance and scapegoating, and the construction almost from scratch of genuinely representative institutions. At this difficult time, America's place is by the side of the Indonesian people. Accordingly, we will continue to provide humanitarian and development assistance, and aid to civil society. And we will continue to urge the authorities in Jakarta to make good on their pledge to open up the political process so that the future of Indonesia will be determined as it should be—by the people of Indonesia.

In South Asia, our challenge, in partnership with others, is to minimize the adverse consequences to international security and peace of recent nuclear tests. During the past few days, we have seen a willingness both in New Delhi and Islamabad, to try to bring tensions under control, resume bilateral dialog and respond to international concerns. We welcome this, and urge both countries to resolve their differences peacefully and to avoid stumbling further into an arms race they cannot afford and might not survive.

More broadly, we believe there are a number of steps we can take to renew the strength of the nuclear nonproliferation regime, and that it is very much in our security interest to do so. This morning, I want to highlight one step of particular importance. That is Senate approval of the Comprehensive Test Ban Treaty [CTBT]. Now, more than ever, it is important to get the CTBT's monitoring and detection system up and running, to reinforce the principle that nuclear testing is not acceptable, and to dissuade other countries from following India and Pakistan's example.

Accordingly, I urge members of the subcommittee to encourage your colleagues on the Senate Foreign Relations Committee to schedule hearings on the CTBT, and to approve it as soon as possible. There could be no greater gift to the future.

Mr. Chairman, our efforts to build security through democracy and greater participation in the global economy are also very much in evidence among our hemispheric neighbors and in Africa. In Santiago in April, the elected leaders of 34 nations came together to support democracy and prosperity at the Summit of the Americas. Of course, one of the great challenges we face in this hemisphere is Haiti. As a champion of freedom, a neighbor and a friend, we have a compelling interest in helping Haitian democracy to succeed. That is why the President has proposed an increase in our assistance.

Although the ongoing political stalemate is frustrating, Haiti is a place where every dollar of our aid helps people move a little further from their terror-ridden past and a little closer to the goal of true democracy. With the memories still fresh of thousands of immigrants fleeing to our shores, we know that helping Haiti is the smart thing to do. It is also the right thing to do.

During his historic visit to Africa this past March, President Clinton issued an inspiring call for a new American partnership with the people of that continent. To launch our initiative, I urge the subcommittee's support for funds to build democracy, promote justice, spur investment, and create incentives in the form of debt relief for nations undertaking needed economic reforms.

I also urge your support for the Africa Growth and Opportunity Act. This measure embodies our belief that trade, even more than aid, will prove the engine of African growth.

Mr. Chairman, I began my statement this morning by saying that the purpose of our foreign policy is to help build a world that is increasingly peaceful, prosperous and free. As appropriators, you can help by approving the President's request for funds to respond to global problems.

For example, you can help children and empower women by supporting the U.N. Development Program and UNICEF. You can help safeguard nuclear programs and materials worldwide by approving funds for the IAEA. You can promote the use of clean technologies by meeting our commitments to the Global Environment Fund. You can help protect our families by backing the President's request for funds to fight the war against international drug trafficking and crime. You can support our global demining initiative, which was inspired by Senator Leahy, and which aims to end the threat posed to civilians by land mines in every country on every continent by the end of the next decade.

And, finally, you can renew your approval of funds to pay our share of financial backing to the International Monetary Fund [IMF]. These funds are critical to demonstrate American support for the IMF's effort to restore financial confidence and stability in East Asia, and to prevent the problems there from spreading to other regions. Because of the way the IMF is set up, these contributions will not cost U.S. taxpayers a dime, but they will help ensure the health of the global financial system in which America and your constituents have the largest stake.

Unfortunately, through no fault of this subcommittee, the President's request both for the IMF and the United Nations have become embroiled in an unrelated disagreement over international family planning. I ask your help to resolve this deadlock on the basis of what is best for America and for our ability to promote U.S. interests. I urge you to vote yes on the IMF, without regard to any unrelated issue.

Mr. Chairman, half a century ago, a democratic President and a Republican Congress worked together to help forge the institutions that have shaped our foreign policy and defined the history of our age—institutions that proved instrumental in the defense of freedom, the growth of prosperity, the defeat of Communism, and the confirmation of America's standing as the world's leading force for justice and law. Our predecessors were not prophets. But because they stood tall, they were perhaps able to see a little bit further into the future than others. And they had faith in our people and in the principles upon which our Nation was founded.

PREPARED STATEMENT

Today we have a responsibility to honor their faith, to reject the temptation of complacency, and to assume, not with complaint, but welcome the leader's role established by our forbearers. Only by living up to the heritage of our past can we fulfill the promise of our future, and enter the new century free and respected, prosperous and at peace.

Mr. Chairman and members of the subcommittee, I thank you very much, and I now will be very pleased to respond to your questions.

Senator MCCONNELL. Thank you, Madam Secretary.

[The statement follows:]

PREPARED STATEMENT OF HON. MADELEINE K. ALBRIGHT

Mr. Chairman and members of the subcommittee, good morning. I am pleased to be here to seek your support for the President's request for funds for the foreign operations programs of the United States.

I want to acknowledge at the outset that this Subcommittee and its members have been leaders in supporting a principled and purposeful U.S. foreign policy. We have not always agreed on all subjects, but the disagreements have almost always been on tactics, not goals. We all agree that the United States is, and should remain, vigilant in protecting its interests, careful and reliable in its commitments and a forceful advocate for freedom, human rights, open markets and the rule of law.

The budget request before you seeks to ensure that we have the foreign policy tools we need to sustain our leadership.

It includes funds for programs that help us promote peace and maintain our security; safeguard our people from the continuing threat posed by weapons of mass destruction; build prosperity for Americans at home by opening new markets overseas; promote democratic values and strengthen democratic institutions; respond to the global threats of international terrorism, crime, drugs and pollution; and care for those who are in desperate need of humanitarian aid.

Given the scope of American interests, the range of threats to our security, the connections between our prosperity and that of others, and America's role as a champion of freedom and defender of human rights, we need the full measure of U.S. influence and leadership at this critical time. I urge you to help us, as you have in the past, to obtain the resources we need to conduct our foreign policy in the way our interests demand and our citizens deserve.

I would like to begin my discussion here this morning with our programs for maintaining the security and safety of our people.

*The Middle East*

One region that is central to maintaining international security and peace is the crescent of land bridging Asia and Europe, including the Gulf and Middle East.

Here, American policy is designed to strengthen the forces of peace, encourage regional economic integration, marginalize extremists, and defeat terror.

In Iraq, our primary purpose remains what it has been since the Gulf War ended seven years ago. We are determined to prevent Saddam Hussein from ever again threatening Iraq's neighbors or the world. And we want to do all we can to ease the hardships faced by the Iraqi people as a result of his misrule.

Since 1991, Iraq's path to renewed respectability has been open through compliance with all relevant Security Council resolutions. But in spite of the strong incentive provided by sanctions, Iraq has not been willing to take this road. Instead, its leaders have lied and concealed information, and harassed and blocked UN weapons inspectors. As a result, a journey that could have been completed in a matter of months remains far from finished. And Saddam's intransigence has deprived the Iraqi people of over $100 billion in oil revenue.

Under its February agreement with the UN, Iraq is obliged to provide UN inspectors with full access to all sites, including those from which they were previously barred. To date inspections under this agreement have gone smoothly.

But UNSCOM must continue to test Iraq's promises.

The Security Council must be rigorous in judging Iraq's actions not according to some artificial timetable, but according to the quality of information received and actions taken.

The United States will continue to insist on Iraqi cooperation that satisfies not just the letter, but the spirit of Security Council resolutions. And unless that occurs, sanctions will remain.

And to keep a lid on Saddam's military options, we will continue to enforce the no-fly and no-drive zones.

Although our military is returning to its prior force levels in the Gulf, our troops there remain strong, versatile, well led and well equipped. If the need should arise, they can and will be promptly reinforced. As always, the United States will not make a decision to take military action lightly, but we are prepared to do so if that is required to protect our interests and our friends.

In the meantime, we will do all we can through the United Nations to ease the hardships faced by the Iraqi people.

Across the border from Iraq in Iran, there are signs that popular support is building for a more open and less confrontational approach to the world. The United States would welcome that. An Iran that accepts and adheres to global norms on terrorism, proliferation and human rights could be a significant contributor to the security and prosperity of the entire region.

Iran's President Khatemi has called for a dialogue between our two peoples. There is merit in this, for we have much to learn from each other. But the issues and deeds that have divided us these past two decades are not matters of respect between our two peoples, but matters of policy that ultimately must be addressed by governments.

Elsewhere in the region, America's interests are best served when we help meet the challenge of building peace—for peace creates a climate friendly to economic growth and democracy, which leads, in turn, to greater stability. This is true, for example, in the Caucasus and Cyprus.

It is also true in the Middle East, where we continue to strive with our Israeli, Palestinian and Arab partners to make progress towards a just, lasting and comprehensive peace.

Unfortunately, the Arab-Israeli peace process remains stalled. Historic accomplishments and future hopes are both at risk.

Indeed, the longer the present stalemate continues, the greater the chance the momentum that had been built in the direction of peace will snap back and begin to run in reverse. If that happens, we may see a future in the Middle East that mirrors the grim and conflict-ridden past. That would not be in the interest of the United States, our Israeli allies and friends, the Palestinians or anyone but the forces of extremism and terror.

For that reason, the United States has been working patiently to help Israelis and Palestinians overcome their crisis of confidence and put the process back on track.

Over the past several months, we have sought to create an environment that would trigger accelerate permanent status negotiations. Chairman Arafat has accepted in principle our ideas for doing so. We are now working with Prime Minister Netanyahu to see whether there is a way for Israel to accept them as well.

I believe there is a possibility to reach agreement, and we will continue our efforts as long as we believe that Israelis and Palestinians are serious about doing so.

At the same time, we cannot make the parties agree. Nor would it be appropriate for us to try. For just as the credit for opportunities opened by peace would belong to Israeli and Palestinian leaders, so would responsibility for the consequences of failure rest with those who make progress towards peace impossible to achieve.

As we continue our diplomatic efforts, I hope that I can count on your support to fund the programs that help make the peace process possible, such as our requests for Economic Support Funds and Foreign Military Financing to our partners in peace—Israel, Egypt, Jordan and the areas under Palestinian self-rule.

We have requested that aggregate assistance for the region remain at the same level as in previous years. Within that total, I hope we can work together to find appropriate funding for all our concerns in the Middle East.

Over the years, the level of assistance provided to this region has been the subject of increasing scrutiny as foreign aid budgets have decreased and dollars are more carefully allocated than ever. We welcome the initiative of the Israeli Government in beginning discussions with the Executive Branch and Congress on a gradual reduction, and eventual phase-out, of economic support funds, coupled with a proposed increase in military assistance. I look forward to working closely with you as we move discussions forward on this subject.

*Europe*

In Europe, we have two strategic goals. We work with our allies and partners across the Atlantic to respond to the global challenges no nation can meet alone. And we work together to build a Europe that is itself peaceful, undivided and free.

The Senate's vote this spring to enlarge and strengthen NATO has sent a message to our old and new allies that America will continue to defend its interest in the peace and security of Europe. It has made it clear to Europe's new democracies that we are not going to treat them as second-class citizens in the future simply because they were subjugated in the past. And it is a resounding bipartisan signal that America will defend its values, protect its interests, stand by its allies, and keep its word.

I congratulate members of this Subcommittee for their roles in this historic decision, whether as supporters or as thoughtful skeptics who demanded that hard questions get sound answers.

In the quest for a peaceful, undivided Europe, our efforts in support of the peace process in Northern Ireland also have borne fruit. The "Good Friday" agreement, approved by sizeable majorities in the North and South last month, marks a turning point in the history of that troubled province.

I thank this Subcommittee for its support for the annual U.S. contribution to the International Fund for Ireland, which serves as a tangible expression of our support for peace in Northern Ireland.

Two years ago, also in support of a Europe at peace, the United States led the effort to stop the war in Bosnia. We recognized that it did not serve American interests to see aggression undeterred, hatred unleashed, and genocide unchecked and unpunished in the heart of Europe. Now, we must finish what we started and continue helping the parties to implement the Dayton Accords.

Bosnia today remains deeply divided. But multi-ethnic institutions are once again beginning to function. Economic growth is accelerating. Air and train links are being restored. Despite troubling violence, more refugees are returning. And more indicted war criminals are facing trial. Since I appeared before this Subcommittee last year—and with your strong support for our renewed emphasis on apprehending war criminals—more than 30 people indicted as war criminals have surrendered or been turned over to the International Criminal Tribunal for the former Yugoslavia in The Hague.

Perhaps most importantly, a new Bosnian Serb government has turned its commitment to implementing Dayton into action—encouraging minority returns, enacting a program of privatization, taking an active part in Bosnia's national institutions.

We must make good on our pledge to support the new Bosnian Serb leaders as they work toward these goals. That is why I have waived restrictions on our assistance to help rebuild infrastructure and revitalize private business—when and where Serbs are ready to work with their neighbors.

Our aid to Serb regions—as to others—is strictly conditioned on progress in implementing Dayton. It will support those who seek to build peace, not those who would undermine it.

Overall, we are requesting $225 million for Bosnia in fiscal year 1999, primarily from the Support for Eastern European Democracy (SEED) program. These re-

sources will support economic reconstruction, humanitarian assistance, democratic development, and physical rebuilding, as well as U.S. police monitors and reform of Bosnian police forces. These programs are designed to continue and make irreversible the progress that Bosnian communities are finally beginning to see.

The United States should continue to play an appropriate role in Bosnia as long as our help is needed, our allies and friends do their share, and most importantly, the Bosnian people are striving to help themselves. That is the right thing to do. And it is the smart thing—for it is the only way to ensure that when our troops do leave Bosnia, they leave for good.

Today, the international community faces a second challenge in the Balkans—preventing the escalation of violence and helping the parties find the path to peace in Kosovo.

There, Serb repression has spurred a cycle of violence that has killed hundreds of civilians, left dozens of villages in ruins, and sent thousands of refugees into neighboring Albania and the Former Yugoslav Republic of Macedonia. Without international involvement, Mr. Chairman, there is no natural endpoint to the conflict unleashed by President Milosevic. There is a growing risk that fighting will spill across the border and draw in neighboring countries.

Last Friday, in London, leading nations agreed on a strong message to President Milosevic to cease his brutal and provocative military campaign; enter a serious dialogue with leaders of the Kosovar Albanian community; and take steps to see that the legitimate rights of all the people of Kosovo will be respected.

To encourage a positive Serb response, NATO leaders, including the United States, have not ruled out the use of force if the violence in Kosovo continues. In preparation, the alliance has decided to move forward with air exercises in Albania and the FYROM. Further contingency planning is underway. The United States would strongly prefer a diplomatic outcome that restores peace to Kosovo based on respect for the rights of all. We condemn acts of violence by all sides, including the Kosovar Liberation Army. But we must also oppose as strongly and effectively as we can the campaign of terror and de-population being waged by Serb forces.

The expansion of NATO and the effort to build and maintain peace in the Balkans are important parts of our effort to build a Europe that is wholly democratic and stable. But there are a number of other initiatives, as well.

For example, we are encouraging integration among nations of the Nordic and Baltic region, and helping strengthen their ties with us, their neighbors, and European and transatlantic institutions.

We strongly support the expansion of the EU into central and eastern Europe, and Turkey's desire to be part of that process.

We are working hard to achieve a settlement in Cyprus that respects the rights and needs of both communities.

We are putting in place a new Southeast Europe strategy to help integrate countries in that region into western institutions.

We are leading the transformation of the OSCE into an organization that produces not just reports, but results. The funding we have requested for the OSCE helps support human rights and elections monitoring in Bosnia and Croatia; special arms control regimes across the former Yugoslavia; and conflict resolution missions elsewhere in eastern Europe.

Finally, we are once again asking your help in funding the Support for East European Democracy (SEED) programs. As two more states, Hungary and Latvia, conclude their use of SEED programs this year, we are shifting our focus to the countries of southeastern Europe, whose political and economic transformations are more slow and uncertain. In addition to our efforts in Bosnia, we will be supporting economic stabilization in Bulgaria and Romania, to help reforms begun in good faith generate positive results. And we will be promoting regional partnerships to use the region's own resources to stimulate growth.

Although a great deal of the world's attention has been focused elsewhere, Mr. Chairman, our efforts to build security and democracy continue in the New Independent States (NIS).

We were pleased to see President Yeltsin's new Prime Minister, Sergei Kiriyenko, confirmed by the Duma in April and look forward to working with him to build on the past accomplishments of the U.S.-Russia Bilateral Commission.

Unfortunately, Russia faces an even more difficult economic environment than it did just a year ago. The Asian financial crisis, a substantial decline in world oil prices and insufficient implementation of fiscal and other reforms have darkened the economic outlook considerably.

President Clinton has made clear, as have our G–7 partners, that there should be additional, conditional support from international financial institutions in the context of a strong Russian reform program, if that support proves necessary.

Meanwhile, the United States and Russia continue to work together on a broad range of issues from peace building in Bosnia to proliferation in South Asia to dealing with Saddam Hussein.

During the many times I have seen Foreign Minister Primakov in recent weeks, I have raised American concerns about Russian cooperation with Iran's nuclear and missile programs, as well as related matters, including President Yeltsin's effort to gain Duma ratification of START II. And I have urged the Foreign Minister to recognize the depth and seriousness of American opposition to religious discrimination in Russia, and our concerns about Russia's new religion law.

Mr. Chairman, we agree that an independent, democratic and prosperous Ukraine can be a keystone in the archway to the new Europe. Our efforts to build a strong relationship with Ukraine have led to better cooperation in the area of non-proliferation, including an express commitment by its government to cancel participation in the Bushehr nuclear reactor project.

In April, I certified that Ukraine has made significant progress toward resolving the concerns of the dozen U.S. businesses that have faced extraordinary obstacles in operating and investing there.

But this is by no means a clean bill of health. For as you know, Mr. Chairman, I was barely able to certify. And we are withholding a portion of our assistance to the Ukrainian government pending progress on reform.

Ukraine's friends abroad and the international business community are watching closely. Ukraine has no margin for error. It is our strong hope that President Kuchma will demonstrate the leadership, and the new Rada the wisdom, to press ahead quickly with overdue reforms.

Throughout the NIS, a great deal of work remains to be done to build stable democratic governments and functioning, transparent market economies. In this connection, the Administration continues to seek repeal of Section 907 of the Freedom Support Act. This would restore balance in our policy toward Azerbaijan and Armenia, and reinforce our role as an honest broker in the peace process.

In the coming year, we will continue to promote peaceful solutions to regional disputes in the Caucasus. We will work to support and strengthen democratic institutions. And we will continue to foster regional cooperation in Caspian energy development and transportation infrastructure. I know these issues are of great interest to many in Congress, and I welcome your support in providing the tools we need to make progress.

Our contributions to democracy building through the Partnership for Freedom will not re-make the region overnight, but they can help those in the region who are helping themselves to move in the right direction.

For example, our support fosters economic development by encouraging investment in small businesses; promotes tax reform and transparent and effective regulation of industry; helps to build accountable democratic institutions; and fights the crime and illicit dealing that have shadowed emerging markets.

We fund these NIS programs neither as a favor to governments in the region nor as a stamp of approval of all their policies, but because they serve American interests. And frankly, we need to do more. These priority programs were funded well below our request last year. So I urge you to back our full request for $925 million this year. And I ask that you grant the flexibility we need to support democratic and market reforms wherever in the region they flower—and whenever our support will best serve America's interests.

*Asia*

In Asia, we are working to maintain stability by solidifying our key alliances with Australia, Japan, the Republic of Korea, the Philippines and Thailand.

I had the great pleasure of visiting Japan last month to reaffirm the strength and breadth of our bilateral relationship. The U.S.-Japan security alliance is a foundation of Asian stability. I took the opportunity, while in Tokyo, to express U.S. concerns about Japan's economic situation and the need for efforts to promote domestic-led growth and deregulation.

I also had a chance in May to visit Korea, whose new President Kim Dae Jung was in Washington for a state visit just last week.

During that visit, President Clinton made it clear that the United States remains committed to South Korea's security and supports President Kim's bold program of economic reform. We are also coordinating efforts to facilitate a lasting peace on the Korean Peninsula, to be achieved through a process of dialogue between North and South.

Obviously, the past twelve months have been difficult for many parts of Asia. Our policy has been to promote economic and political reforms that are essential to prosperity and human dignity from Bangkok to Beijing.

In Korea, the Philippines and Thailand, for example, democratic governments have made progress in overcoming the Asian economic crisis in part because their people were able to elect new governments, which started work in a climate of openness and trust, and with the moral legitimacy to call for shared sacrifice.

Indonesia now has a chance to achieve both democracy and stability, but it also faces immense challenges—from restoring growth, to preserving religious tolerance, to building truly representative institutions.

Democracy can only be built by the people of Indonesia. But what America says and does will matter, as it has in other critical periods in Indonesia's history.

Our message is simple. America's interest lies not in who rules Indonesia, but in how that immense and important country is ruled: whether it ends up with a legitimate democratic government, or an unrepresentative, unaccountable and therefore unstable regime.

The key is credible progress toward open, accountable government. Free elections must be held in a timeframe and under rules acceptable to the Indonesian people. Political parties and labor unions must be allowed to form. Press freedoms must be respected. Political prisoners must be released.

America's interest also lies in standing by the Indonesian people now. We will continue to provide humanitarian and development assistance and aid to civil society. And if and when elections are held, we will stand ready to help in any way we can.

As the world well knows, Mr. Chairman, President Clinton will leave next week for a visit to China.

Although some have suggested that the President not make this trip, I cannot imagine anything more consistent with his responsibilities as President. For the President's purpose is to promote the security, political and economic interests of the United States and to bring to China a message of support for democracy, the rule of law and human rights.

Although the space for political discussion in China has clearly expanded in recent times, the President will have the opportunity to say things that the people of China cannot say, and have not heard. And the President's presence in Tiananmen Square will ensure that the world does not forget, as it must not forget, the terrible suppression of peaceful political expression that occurred there.

Moreover, the President's visit will create the chance for additional progress towards a more constructive overall relationship with China. Mr. Chairman, that process of engagement is not the same as endorsement. We continue to have sharp differences with China on human rights, Tibet and other issues, but we also believe that the best way to narrow those differences is to encourage China to become a full and responsible participant in the international system.

Steps in the right direction include China's security cooperation on the Korean peninsula and very recently in South Asia, its commitment to strictly control nuclear exports, its assurances on nuclear cooperation with Iran, its continued economic liberalization, its positive role in responding to the East Asian economic crisis, its agreement to pursue cooperative activities with us to strengthen the rule of law, the release of Wei Jingsheng and the remarkable Wang Dan, and its announced intention to sign the International Covenant on Civil and Political Rights.

In Cambodia, we are deeply engaged in a diplomatic effort to press the Government to hold free and fair elections in which all elements of the opposition can participate without fear of intimidation or threat.

In Burma, we are deeply troubled by the military's regime's refusal to enter a dialogue with its democratic opposition, its continued repression of dissent, and by its ties to leading drug traffickers.

I know that you are deeply concerned as well, Mr. Chairman. Indeed, it seems we are both members of the "international colonialist gang" that the regime's propaganda machine loves to complain about, since we both believe that the Burmese people should have a say in running their country. I want to thank you for helping develop a range of measures to ensure that Burma's generals cannot realize their economic ambitions without heeding the aspirations of their people.

As you know, Mr. Chairman we also have a small humanitarian aid program designed to help the Burmese people survive without helping their government endure. The people who receive our support realize that it comes from the friends of Burmese democracy abroad, not from the junta that is the cause of their suffering. Their needs are staggering; years of government neglect and denial, for example, have left Burma with the highest rate of AIDS infection in all of East Asia.

Let me assure you, Mr. Chairman, that we will not move forward in this area—or in the area of counternarcotics—without consulting with the Congress. And any efforts we undertake will only be designed with the support and involvement of Burma's legitimate elected leaders.

*South Asia*

There is no question that the recent Indian and Pakistani nuclear tests endanger international security and peace and dealt a blow to the nuclear nonproliferation regime. Working with other members of the UN Security Council, the G–8, and nations from around the world, we are striving to minimize the adverse consequences of those ill-considered tests.

During the past few days, we have seen a willingness in both New Delhi and Islamabad to try to bring their bilateral tensions under control, resume dialogue and begin to respond to international concerns. We welcome this and urge both countries to resolve their differences peacefully, and to avoid stumbling further into an arms race they cannot afford and might not survive.

More specifically, we have called upon both countries to join the Comprehensive Test Ban Treaty (CTBT), without conditions; to stop producing fissile material; to refrain from deploying nuclear weapons and from testing or deploying missiles capable of delivering them; and to formalize their pledges not to export any materials or technology that could be used to build nuclear weapons.

India and Pakistan should take such measures not as a favor to the world community, but because it is in the security interests of each to do so.

And in considering their next steps, they should realize that the Non-Proliferation Treaty (NPT) will not be amended to include them as nuclear weapon states.

This is fundamental—for the NPT is fundamental to nuclear nonproliferation. A generation ago it was predicted the world would have twenty to thirty nuclear states. No measure has done more than the NPT to prevent that. If we were to allow India and Pakistan to test their way to nuclear status under that agreement, we would create an incentive for others to follow their example.

The nuclear tests in South Asia present us with an historic choice. Some now say that nuclear nonproliferation is doomed, and the sooner we accept that, the better off we'll be. The Clinton Administration does not share that view.

We believe there are a number of steps we can take to renew the strength of the nonproliferation regime, and that it is very much in the security interests of America to do so. Last week, I outlined those measures in a speech sponsored by the Stimson Center, and I will not repeat that discussion now. I do, however, want to highlight one step of particular importance, and that is Senate approval of the CTBT. For despite the South Asia tests, the CTBT remains essential to our strategy to reduce the nuclear danger.

This Treaty has been a goal of U.S. Presidents since Dwight Eisenhower and John Kennedy. If approved and enforced, it will arrest both the development and the spread of new and more dangerous weapons. It has been widely endorsed by our military and scientific leaders. And it has consistently commanded the support of no less than seventy percent of the American people.

Now more than ever, it is important to get the CTBT's monitoring and detection system up and running; to reinforce the principle that nuclear testing is not acceptable, and to dissuade other countries from following India and Pakistan's example.

Accordingly, I urge Members of the Subcommittee to encourage your colleagues on the Senate Foreign Relations Committee to schedule hearings on the CTBT, to examine its merits and to approve it as soon as possible.

*The Americas*

In our own hemisphere, we have important interests dictated not only by proximity of geography, but by proximity of values. As President Clinton said in April at the Santiago Summit, "never have we had such an opportunity to build a true community of the Americas."

With one lonely exception, every government in the hemisphere is freely elected. Every major economy has liberalized its system for investment and trade. With war in Guatemala ended, Central America is at peace for the first time in decades. Ecuador and Peru have made real progress toward resolving their long-standing border dispute. From pole to pole, it would seem, our nations are determined to live in security and peace.

But the region still faces serious challenges, which can affect us as well. For many, the dividends of economic reform are not yet visible, but the costs of accompanying austerity measures are. Growing populations put pressure on natural resources, spark large-scale migration, and make it harder to translate macroeconomic growth into higher standards of living. The building of democracy remains in all countries a work in progress, with stronger, more independent legal systems an urgent need in most. And narcotics trafficking and crime still tear at the fabric of our societies.

In Santiago, President Clinton and the other 33 democratic leaders of our hemisphere set an agenda for meeting those challenges together. We agreed to boost in-

vestment in education as a foundation for success in the next century, and to fight poverty and discrimination to make sure that success is shared by all. We established new programs to protect freedom of the press, strengthen judicial systems, and improve local government—all pillars of the kind of strong democracies we want as our neighbors. And we agreed to work together to assess and improve our efforts in the war on drugs.

Finally, we all reaffirmed our commitment to free and fair trade and economic integration. To reach that goal, we will soon begin negotiations for a Free Trade Area of the Americas. We also will do more to ensure that basic worker rights are secure throughout the hemisphere, so that prosperity for some does not come at the cost of suffering for others. And we will work together to develop clean energy sources and protect our environment as we grow.

This new quality of partnership means that the United States is not supporting all these projects alone. Several South American countries have joined us as major donors for education, democracy and anti-poverty projects. Many nations from this hemisphere contribute to UN peacekeeping operations and play important roles in mediating regional conflicts.

We can count on strong support from our neighbors—but where our interests are at stake, we cannot fail to lead.

That is why it is vital that we remain engaged in Haiti's democratic transition—and why we have requested a substantial increase in assistance for that country this year.

The job of creating a democratic culture and market economy in Haiti, where none has ever existed, is daunting. For months, the government has been mired in a stalemate, while efforts to restructure the economy have lagged. For millions of impoverished Haitians, democracy has not yet delivered on the hope of prosperity.

When I visited Haiti in April, I was reminded again how much Haitians desire change. I had the chance to meet many dedicated people who are using our assistance programs, and their own ingenuity and drive, to vaccinate children, open schools, and fight drugs. They have a vision of a better future, and we are supporting it through programs that create jobs, lay the foundation for sustained economic growth, and professionalize Haitian law enforcement.

We cannot turn our backs on Haiti at this critical stage. To do so would risk creating a future there that mirrors the past: an undemocratic country that serves as a safe haven for criminals and drug traffickers—and from which thousands of would-be migrants are driven to seek refuge on our shores.

Helping democracy put down roots in Haiti serves U.S. interests.

The same is true in Cuba. Over the past two decades, the Americas have been transformed from a hemisphere dense with dictators to one in which every single country but one has an elected government. We believe the Cuban people deserve the same rights and liberties as their counterparts from Argentina to Alaska.

With that goal in mind—and taking advantage of the opportunities presented by the Pope's historic visit—the President in March decided to take four actions to reach out to the people of Cuba to make their lives more tolerable, while maintaining the Helms-Burton Act and the embargo and other pressures for change on the Castro regime.

We are working with leaders in the Senate and the other body to develop bipartisan legislation to meet humanitarian food needs on the island. We are streamlining and expediting the issuance of licenses for the sale of medical supplies to Cuba. We are resuming licensing direct humanitarian charter flights. And we are restoring arrangements to permit Cuban-American families to send remittances to their relatives in Cuba.

We know that in expectation of the Pope's visit, Christmas Day had special meaning in Cuba this year. We will not rest until another day—Election Day—has real meaning there, as well.

*Africa*

As the world saw when President Clinton visited Africa earlier this year, this is a continent whose problems remain deeply-rooted, but whose potential is great. More and more, countries are modernizing. Centralized economies are giving way to open markets seeking new investment. And civil society is starting to take root.

Accordingly, we have a good opportunity now to engage and enlist Africa in the fight against terror, narcotics trafficking, crime, environmental degradation and other global problems before they spill over into other parts of the world—including America.

As the President's visit reflects, we have been according a high priority to events in Africa.

Recently, for example, Assistant Secretary Susan Rice has played a lead role in diplomatic efforts to end the senseless and destructive fighting between Ethiopia and Eritrea. We are exploring every option for encouraging the new leaders in Nigeria to respect human rights and to move down the path towards real democracy. And we have tried hard to persuade the leaders of the Democratic Republic of Congo to permit opposition political activity and to take steps that would enable that vast and strategic country to get back on its feet economically.

Although these diplomatic initiatives have not yet succeeded, we retain our faith in the promise of Africa, and are determined to persist in our efforts throughout the continent.

Let me highlight three important initiatives that can have real benefits for Africans—and for us:

The Great Lakes Justice Initiative will help prevent violence and bring justice to Africa's heart. We have requested $30 million for this urgent initiative, that can help save lives directly and soon.

For the Education for Development and Democracy Initiative, which will build civil society and fuel economic growth, we seek $66 million in new funding.

The Trade and Investment Initiative will stimulate African economic reform and domestic and international trade. It involves $30 million for technical assistance and $35 million of special debt relief for poor countries that are taking the right steps toward reform.

I also urge the Senate to act this year to approve the Africa Growth and Opportunities Act, to spur trade between the United States and Africa's most forward-looking economies. This is a Capitol Hill initiative, on which I will testify tomorrow before the Senate Finance Committee. The bill is strongly supported by the Administration; it was approved on a bipartisan basis by the House of Representatives; and is designed to frame a new American approach to the new Africa.

We believe that the African countries that most deserve our help are those that are doing the most to help themselves. And that the most useful help we can provide is the kind that will enable economies to stand on their own feet—through open markets, greater investment, increased trade and the development among their peoples of 21st century skills. These programs deserve your support.

*Promoting our security through arms control*

When we help ease conflicts in regions important to the United States, we advance the long-term interests and safety of Americans. The same is true of our support for arms control and anti-terrorism efforts around the world.

The South Asia nuclear tests have complicated, but not altered, the nature of the twin imperative our diplomats face: sustaining a global full-court press to keep biological, chemical and nuclear weapons, and the missiles to deliver them, from falling into the wrong hands; and achieving further progress with Russia and others so that the American people never again face the costs and dangers of a nuclear arms race.

Toward these goals, we ask your support.

This year, we are requesting $28.9 million to fund the CTBT Preparatory Commission, which is laying the human and technical foundation for the Treaty's entry into force. Whether or not the test ban treaty is in force, we need to do the best job we can to detect and monitor any explosive testing of nuclear weapons around the world. These funds will help build the international verification system that will help us to accomplish those tasks.

I also ask your support for our proposed $40 million voluntary contribution to the International Atomic Energy Agency (IAEA). These funds will help the Agency continue strengthening the safeguards system that helps deter and detect cheating on NPT obligations in such countries as North Korea, Iraq and Iran.

Our request this year includes $35 million for the Korean Energy Development Organization (KEDO). The Agreed Framework has succeeded in freezing North Korea's dangerous nuclear program. And it has secured, under international safeguards, all of that program's spent fuel rods—which once could have been reprocessed into several bombs' worth of weapons-grade plutonium.

Our own spending on KEDO is needed to leverage contributions from our Asian allies that will ultimately dwarf our own. More importantly, it is a national security bargain—spending that has helped to stabilize a volatile peninsula, support a close ally, and make our 37,000 troops in Korea safer.

Finally, our Nonproliferation and Disarmament Fund lets us move quickly to destroy or remove dangerous weapons or poorly protected nuclear materials from NIS countries. And the International Science Centers in Kiev and Moscow address the human side of the proliferation threat, helping to prevent a perilous brain drain of scientists with special weapons expertise to rogue states.

*Fighting terrorism*

We also have a critical national interest in fighting international terror and helping others to do the same.

This year, we are requesting $21 million for our anti-terrorism programs. These programs enhance the skills of police and security officials in selected countries so that they may be more effective partners in preventing and punishing terrorist acts. The $2 million increase over last year's funding level will help fund training in terrorist interdiction and explosives detection and investigation, and will allow us to beef up our programs in the Middle East and Asia.

*Anti-personnel landmines*

This year we seek a major increase in funding, from $20 million to $50 million, to support the Administration's Demining 2010 initiative. With strong support from Senator Leahy and other Senators from both parties, America leads the world in humanitarian demining—and we are determined to do even more.

President Clinton has pledged that the United States will substantially increase America's support for de-mining programs. The resources we have requested from you will help persuade other countries to increase their own contributions as well. And that will help us meet our larger goal: to free civilians everywhere from the threat of landmines by the year 2010.

The security-related programs I have been discussing fall within the Non-Proliferation, Antiterrorism, Demining, and Related Programs, or "NADR" Account, which was created in the fiscal year 1997 Foreign Operations Appropriation Act to consolidate in one account a number of related programs previously funded separately. This year our NADR request includes funding for the CTBT PrepCom previously funded through ACDA and the CJS Appropriation, funding for the Science Centers previously included in the NIS account, and our first request for export control assistance as a separately funded activity.

*Fighting drugs and crime*

Last week at the UN Special Summit on Drugs, President Clinton re-stated America's strong commitment to the international war against illegal trafficking in narcotics.

In that war, we have moved aggressively and with results. This past year, our support for eradication and interdiction helped trigger the largest decline ever in Latin American coca production. For the second year in a row, production fell in every Latin American country—except Colombia, where traffickers moved when denied the freedom to operate elsewhere. In Peru, coca cultivation is at its lowest level in a decade.

Although drug-related corruption remains a very serious problem in Mexico, official cooperation and support for anti-drug initiatives has been substantial. Last week in New York, Presidents Clinton and Zedillo reaffirmed that policy of cooperation, notwithstanding the recent controversy surrounding the drug money laundering investigation Operation Casablanca.

Over the past year, Mexico has enacted legal reforms to combat drug trafficking, organized crime and money laundering. It has formed specialized investigative units, sought out and punished official malfeasance, and passed a comprehensive chemical control law. Drug seizures, arrests and extraditions are up.

We ask your support for our request for $275 million to continue the fight against international narcotics and crime. In addition to other anti-crime initiatives, these funds support our source country narcotics eradication and alternative development programs—following up on our progress in the Andes and transferring that approach to new projects elsewhere in Latin America and in Africa and Asia.

These funds support police and military counter-narcotics forces as they uncover and block new smuggling routes and methods.

They will bolster eradication and interdiction programs in Laos, Colombia, Peru, and elsewhere.

They fund a comprehensive, international heroin control strategy.

And they support carefully-monitored multilateral narcotics efforts in Afghanistan and Burma—where success is critical but our access is limited.

Our request also includes $20 million for worldwide anti-crime programs. This training and technical assistance helps fight money laundering, trafficking in women and girls, alien smuggling, and other crimes which, although they begin far from our shores, often put Americans at risk. We are depending on these funds as we work to bolster anti-crime initiatives with our partners in the New Independent States. And these same resources support the International Law Enforcement Academy in Budapest, and similar academies slated to open elsewhere.

II. PROMOTING ECONOMIC GROWTH AND SUSTAINABLE DEVELOPMENT

Mr. Chairman, peace and security are paramount goals of our international programs, but promoting economic prosperity is another top priority.

International trade is twice as important to our domestic economy as it was twenty-five years ago. Strong trade-building policies and healthy trading partners are essential—for increased trade is responsible for fully one third of our economic growth over the last five years.

The Clinton Administration is committed to seeing that American companies, workers and farmers have a level playing field on which to compete.

That means being a global leader for trade agreements that help open markets and create jobs for Americans.

It means using the expertise and contacts of our embassies to provide all appropriate help to American firms.

It means sustaining the Export-Import Bank, the Trade and Development Agency, and the Overseas Private Investment Corporation, which help our business people find new markets overseas.

And it means putting our full weight behind better enforcement of intellectual property standards, and improved observance of core labor rights, from the halls of the World Trade Organization and the International Labor Organization to our assistance programs and to my dealings with other world leaders.

But our diplomats and our business people need your commitment as well, and your support for the resources that make these efforts possible.

The first place we need your support is for our leadership at the international financial institutions, such as the IMF and the World Bank. They provide money—far more than we ever could—not just to help countries develop, but to head off crises in some of our key trading partners and friends.

This is important because, in a globalized economy, trade is not a zero-sum game. When the economies of our trading partners falter, we risk slipping as well.

East Asia, for example, is home to some of our closest allies and friends—and some of the best customers for U.S. products and services. More than one third of our nation's exports go there. As much as half of some states' exports, and thousands of good jobs, depend on the economic vigor of such places as Bangkok and Seoul.

The IMF is not perfect. No international organization, or government, can make that claim. But its programs have helped restore financial stability, and promote better governance, in East Asia.

But we are far from out of the woods yet. Financial markets are watching for signs of relapse, of contagion in regions such as Central Europe and Latin America—or for signs that the international community, beginning with the United States, will not supply the IMF with the resources it needs to support countries in difficulty.

We can choose to be leaders at these institutions, by paying our full share and staying heavily involved in their decisionmaking; or we can forfeit our involvement by not paying, and thus lose our influence.

Simply put, the IMF's programs are a hand up, not a hand-out. They won't cost U.S. taxpayers a dime—they are a loan that will be repaid with interest as our financial markets stay strong and our trade with the Asia-Pacific recovers and grows.

With members of this Subcommittee providing leadership and insight, the Senate took early, bipartisan action to fully fund our emergency supplemental request. I deeply regret that the Senate position was not retained in Conference, and that no action was taken on our urgent request for UN arrears and IMF funding. But I hope we can work together to fund these requests soon. By paying our full share of the IMF's quota increase, we will spur economic recovery in East Asia and help limit similar crises in the future.

Our supplemental request would also provide our contribution to a line of credit for the IMF to use if a crisis threatens the world financial system. Both of these requests are for budget authority only—they involve no outlay of funds and have no effect on calculations of government spending.

The choice to support the IMF is a choice between shaping the global economy, or allowing ourselves to be buffeted by it; between sustaining America's leadership, or abdicating it.

Our support for the World Bank and the five regional development banks also works to build healthier economies and strengthen societies in countries which are already our partners in diplomacy and trade, as well as in those which are unable to participate fully in the international system but seek to do so.

Our total request for multilateral development banks includes $502 million in arrears payments, for the second year of a three-year plan to clear our debts to these institutions.

With the support of this Subcommittee, we have begun to make catch-up payments this year—and have been able to negotiate substantial reductions in our contributions to these organizations. Our campaign for transparency and accountability has helped open Bank activities, especially in East Asia, to greater public scrutiny. But we cannot sustain our influence in these areas unless we sustain our funding as well.

Let me also emphasize the work of the Global Environment Facility (GEF), which mobilizes the resources of developed and developing nations to protect the environment. Our contributions to the GEF help protect our fisheries and our climate by cutting pollution of the world's oceans. Already, GEF programs are working to reduce emissions in developing nations. Making sure that all nations do their part in slowing global warming is a critical part of our strategy; through the GEF, those efforts have already begun. And we know they work.

But it is difficult, to say the least, to obtain more cooperation from our partners on these matters so long as we are failing to fund our pledged share of the GEF's expenses—as has been the case for the past three years. I urge you to fund our $300 million request fully—of which almost $193 million is for arrears payments—both to meet these important objectives and to work toward keeping our promises and sustaining our influence on behalf of sound and sensible environmental protection.

Similarly, I ask your support for activities under the Montreal Protocol, to help address the critical issue of ozone depletion.

When we contribute to multilateral efforts promoting sustainable development, we leverage as much as eight or ten times our national contribution to support goals we share.

This year, we have requested a modest $7 million increase in our contributions to the United Nations Development Program (UNDP), a body which has to date always been headed by an American.

For years, UNDP has been at the forefront of helping developing countries establish democratic institutions, market economies and basic human rights. It supports free elections from Yemen to Mexico City; establishes credit arrangements for small enterprises in Ghana, Mongolia and Romania; and coordinates de-mining programs from Mozambique to Cambodia.

The need for UNDP's work remains especially strong among African countries emerging from war and hunger with great aspirations—and serious reform plans; and among Asia's poorer nations, trying to catch up with their neighbors. It also plays a major role in supporting women worldwide as they work to gain more equal access to the levers of political and economic power.

Like UNDP, UNICEF plays an important role in countries suffering or recovering from the devastation caused by civil or international conflict. Around the world, UNICEF helps protect children—a society's most vulnerable members and its hope for the future. We have maintained our request for funding for UNICEF at $100 million for fiscal year 1999.

Mr. Chairman, one of the most inspiring ways this account helps make a difference in the lives of men and women in this country and around the world is through its support for the Peace Corps. The Peace Corps has been one of this country's most successful programs overseas—both in bringing skills and knowledge to those who desperately need them, and in bringing great respect and admiration to America and Americans.

President Clinton's request for $270 million in funding will put us well along the path to having 10,000 volunteers serving overseas by the year 2000.

Mr. Chairman, we also ask your support for our population and health programs, which help developing nations devote more of their scarce resources to building a better future for their citizens.

Our voluntary family planning programs serve our broader interests as well. When women and families can choose the number and timing of their children, population growth rates stabilize. Maternal and infant mortality decline—as does the demand for abortions. In Russia alone, for example, AID's support for voluntary birth control has helped reduce the abortion rate by a reported thirty percent over five years.

### III. PROMOTING DEMOCRACY, HUMAN RIGHTS AND THE RULE OF LAW

Mr. Chairman, America's global leadership is derived not only from our economic and military power, but from the power of our ideals. And fundamental to American ideals is our commitment to democracy, human rights and the rule of law.

To millions around the world, the United States represents the potential of democracy. Wherever we are visibly present and engaged, we give hope to people who are struggling to secure their human rights and to build democracy.

By building partnerships with other freedom-loving peoples, we extend the spread of democracy and open markets that has enhanced our own security and prosperity and been the signature element of our age. The State Department's Democracy, Human Rights and Labor Bureau and USAID's Democracy and Governance Center work together to consolidate democracy where it has taken root and to support nations seeking paths to democratic rule.

USAID's democracy and governance funds have helped nearly double women's participation in Bangladesh elections and encourage greater accountability within the Palestinian Authority. For many years, USAID programs quietly provided the sole source of outside support for NGOs and human rights groups in Indonesia—groups that today have emerged to help shape their country's future. I know you have heard separately from Brian Atwood about USAID's request, but let me take this opportunity to indicate my strong support for it, and for the work USAID is doing around the world.

We also bolster democracy through our economic support and development assistance programs in selected countries. For example, the economic support funds we request will help improve judicial systems in Africa and Latin America; work to sustain peace and democracy in Guatemala; and contribute to the work of the War Crimes Tribunals for Rwanda and the former Yugoslavia.

Whether through the SEED and Partnership for Freedom programs, the President's Africa Great Lakes Initiative, or USAID's Office of Transition Initiatives, when we support human rights and democracy we are supporting our natural partners—and our natural interests.

## IV. PROVIDING HUMANITARIAN ASSISTANCE

This year, we have requested $670 million for Migration and Refugee Assistance and for our emergency funds in this area. That is the amount we need to do our part in international relief for victims of persecution or armed conflict. The request also includes funding for new initiatives to assist and protect refugee children.

We have also requested funds for international disaster assistance, including programs to respond to the ever-present risk of biological, chemical or nuclear disasters abroad.

## V. CONCLUSION

As always, Mr. Chairman, I come before you with my mind focused on the present and future, but conscious, also, of past events that have shaped our lives and that of our nation.

Fifty years ago, a Communist coup in my native Czechoslovakia altered forever the course of my life and prompted, as well, an urgent rethinking by the west of what was needed to defend freedom in Europe.

In that defining year, a Democratic President and a Republican Congress approved the Marshall Plan, laid the groundwork for NATO, helped create the Organization of American States, established the Voice of America, recognized the infant state of Israel, airlifted life-sustaining aid to a blockaded Berlin and helped an embattled Turkey and Greece remain on freedom's side of the Iron Curtain.

Secretary of State George Marshall called this record "a brilliant demonstration of the ability of the American people to meet the great responsibilities of their new world position."

There are those who say that Americans have changed and that we are now too inward-looking and complacent to shoulder comparable responsibilities. This year, we have the opportunity to prove the cynics wrong. And Mr. Chairman and members of the Subcommittee, I believe we will.

From the streets of Belfast and Sarajevo to classrooms in Africa and South America to boardrooms in Asia and courtrooms at The Hague, America's influence and leadership is as beneficial and as deeply felt in the world today as it has ever been.

That is not the result of some foreign policy theory. It is a reflection of American character.

We Americans have an enormous advantage over many other countries because we know who we are and what we believe. We have a purpose. And like the farmer's faith that seeds and sweat and rain will cause crops to grow, it is our faith that if we are true to our principles, we will succeed.

Let us, then, live up to the heritage of our past, and together fulfill the promise of our future—and so enter the new century free and respected, prosperous and at peace.

Mr. Chairman, Members of the Subcommittee, thank you very much. And now, I would be pleased to respond to your questions.

REMARKS OF SENATOR TED STEVENS

Senator MCCONNELL. The chairman of the full committee has stopped by, and I want to give him an opportunity to make a few observations before we go to our questions. We are going to have a 5-minute rule on questioning which will give everybody a maximum opportunity to have an exchange with the Secretary.

Mr. Chairman.

Senator STEVENS. Thank you very much, Mr. Chairman.

I am sorry I was a little bit late and could not hear your full statement, but we had talked about it on the phone before, so I am sure that you said what you said you were going to say.

But I have to say what I said to you before. We deal with hard dollars that are in the bank. We cannot deal with prospective streams of revenue that are based on increased revenue charges, increased taxes and further acts of Congress that appear dubious as far as being passed in time to have them spendable by October 1.

As a consequence, it is my sad duty to tell you that there just is no more money. We just have come across an additional $900 million out of approximately out of the highway bill passage, but it is unfortunately claimed—I do not see the people here who put down the claim—for Amtrak already. And I do not see, really, how we can relieve the stress that you, I think, so rightly point out in time to give this subcommittee any additional moneys by the time the markup will come about.

It may be possible, by the time we get to conference, that we can have a further allocation for Senator McConnell and his colleagues on this subcommittee. I would hope that it will. I join you in hoping that we can untie the problems of Mexico City from the problems of some of the very pressing needs that we have, particularly I believe we made a commitment on the U.N. arrears, and I think we have got other commitments we have to meet. And as far as this Senator is concerned, the IMF situation is getting more and more acute daily. But those are other issues to deal with.

But if you want that money, you are going to have to help us find it. We have not allocated the money to other subcommittees. To the contrary, they have the same problems.

So, I welcome you here. But these are the days of very tight purse strings. And I do not see any way to open the purse any further in this climate that we have right now.

Thank you, Mr. Chairman.

Senator MCCONNELL. Thank you, Mr. Chairman, for stopping by, even though the news is not great. This is an issue upon which all of us agree.

We used up a good deal of political capital last year, both the Secretary, with the administration, and myself and Senator Stevens and Senator Leahy up here, to get the increase that we all thought was necessary. And, unfortunately, we find ourselves in this situation this year. We are not happy about it.

Madam Secretary, let me lead off with my 5-minute round. You touched on Kosovo, which is certainly the big news of the moment.

In the Financial Times today, the headline is: "Serbs Ignore NATO Exercise to Continue Kosovo Attacks." And Mr. Solana, the NATO Secretary-General, warned that his organization was, "preparing to go further, if required, to halt the violence and protect the civilian population."

As I mentioned in my opening statement, in the so-called Christmas warning of December 1992, the Bush administration, warned Milosevic that the United States would use unilateral force if ethnic cleansing was carried out in Kosovo. As a CRS issue brief points out, President Clinton reiterated that policy when he took office in early 1993.

However, in congressional hearings and statements of policy, CRS notes, "administration officials have declined to confirm or deny the continued validity of the warning."

So, I guess I would like to start, Madam Secretary, by asking, is the warning still valid?

Secretary ALBRIGHT. Well, let me, Mr. Chairman, if I might just take a minute because you had mentioned some other issues on Kosovo that I would like to respond to. We are obviously very concerned about the Kosovo situation. I have also just gotten a report on President Yeltsin's meeting with President Milosevic, in which I would say there was some progress, but did not meet our primary points that the contact group raised, which was for Milosevic to pull back his security forces.

He said he would do so only in the context of a halt of the Kosovar Liberation Army terrorist activities, which is clearly unacceptable to us, because we believe that Milosevic has the primary responsibility here to halt the repression and stop making excuses for the repression. There is an offer, again, of dialog, which is something that we do want, because we believe that this can ultimately only be resolved through a political solution.

But, at the same time, it is insufficient to say that dialog could go forward if the killing of civilians and depopulating of villages continues. We will continue to press on this issue.

Let me speak more specifically now to what you have said. The Kosovo situation is, frankly, more complicated than was Bosnia at the time of 1991, primarily because of two issues. First of all, Bosnia was an autonomous country, recognized by the international community, and the ethnic cleansing that was going on there was clearly unacceptable to the international community. I do not have to recount all the actions that we have taken to reverse that.

Kosovo has been a part of the Federal Republic of Yugoslavia. What happened was that this whole mess began when Milosevic took away the autonomy that it had and created a problem, I think, in radicalizing the Kosovar population. The best recruiters for the Kosovar Liberation Army are the Serbs, who are out there torching various populations.

So, we are doing everything we can, through NATO, to plan for various options that involve the use of force. And as the President and I have said, and Secretary Cohen has said, all options are on the table in terms of the use of military force. That is our position, that we are prepared to use force. We would prefer, as I am sure you would, that the situation be resolved through talks, peaceful

dialog, and the NATO planning is done in support of forceful diplomacy.

One of the problems, I have to say and I think that you would also see this, is that the Kosovar Liberation Army and some of the tactics they are using are also not the kind that help the peaceful dialog go forward. And we support President Rugova and his colleagues in trying to get substantive dialog going.

Senator MCCONNELL. The Bush letter said: "In the event of conflict in Kosovo caused by Serbian action, the United States will be prepared to employ military force against the Serbians in Kosovo and in Serbia proper."

Maybe you do not want to answer it, but I want to ask one more time, is the warning still valid?

Secretary ALBRIGHT. Mr. Chairman, the Christmas warning has never been made public, specifically. And it is a private diplomatic conversation. And my answer to you is that all options are on the table. Nothing has been removed from the table.

Senator MCCONNELL. In response to the Kosovo crisis, you worked successfully to secure a ban on investments in Serbia. Can you explain the thinking behind the reversal of that position a week later in the negotiations involving Ambassadors Holbrooke and Gelbard? My understanding is the reversal secured talks between Milosevic and Rugova. What results have those talks produced, and at what price, in terms of offering more time for more Serbian violence?

Secretary ALBRIGHT. Mr. Chairman, we have had a number of contact group meetings. You correctly say that in the first one we were able to get a series of sanctions, an investment ban and a freeze on assets. As a part of those contact group talks, there was also a desire to develop a way to get dialog between Milosevic and Rugova. That was part of what the contact group wanted.

There was a proliferation of envoys to Belgrade. We then took the issue up and Ambassador Gelbard and Ambassador Holbrooke went there. There was not a reversal. There was a suspension of the execution of those sanctions. And we thought that there was value in getting this dialog going. As soon as we saw that the dialog was not going anywhere because of the lack of credibility in terms of it becoming a process dialog rather than a substantive dialog, we did in fact then impose those sanctions. And last Thursday, when the contact group met, we also added a sanction of Yugoslav Airline flights.

So, it was not a reversal; it was a tactical suspension because we thought it was worth trying to see if we could get the dialog—a good dialog or a useful dialog going.

Senator MCCONNELL. I am going to stick to my own imposed time limit here. If the other questions on Kosovo do not answer all of mine, I will come back to it on the next round.

Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman.

Madam Secretary, I was glad to hear what you said about the President's upcoming trip to China. I am not one of those who feel he should not go to China. Just as I strongly urged each of the five Presidents I have served with to go to the then-Soviet Union at the height of the cold war and hoped that there would be return visits

here. I urged that because I felt it was most important that our leaders meet and discuss our differences.

By the same token, with China as important a country as it is, I think it is important for the President to go there. That does not signify that the American people agree with the Chinese on human rights. There are many issues on which we disagree with them very strongly. What is most important is what the President says when he is there.

President Tiang Zemin did not hesitate to express his views when he was here in the United States. And he heard us speak right back to him. And we both gained by that. And President Clinton, I think, needs to speak publicly and forcefully about human rights, Tibet and so forth, as I know he has in private conversations with Tiang Zemin.

So, I think it is important for the United States that our President go there. It does not condone improper activities by the Chinese any more than we condoned the activities of the Soviet Union when a number of President's, Democratic and Republican alike, went there.

Yesterday's New York Times reported that Iraq and the United Nations have agreed on a 2-month schedule for completing the program to monitor Iraq's destruction of its chemical and biological weapons. Has the administration been consulted about that agreement? And do we agree with it?

Secretary ALBRIGHT. Well, first of all, let me just say, in terms of what you said about China, I think a motto here is that we engage but do not endorse. And we have said very clearly that we can never have a completely normal relationship with China unless their human rights record is one that is quite different from the one they have now.

On Iraq, let me just say this. We obviously are in very close consultation with the United Nations. The problem according to the people involved in all of this, is that there has not been a very good road map—or the Iraqis have said—that they have not had a road map about what they have to do, when.

I think that what has happened now is that we have taken that excuse away from the Iraqis, because Chairman Butler has indicated to them what they have to do and by when they need to do it. He will be checking up on this road map. And then, in August, he will give some discussion of that. But, then again, in October, when there are sanctions reviews, he will then make clear to the Security Council whether they have in fact come clean on the various files, the nuclear, chemical and biological.

So, this does not in any way prejudge the effects, but does, in my opinion, basically take away an excuse from the Iraqis, as well as those who support them, who say, well, you never really tell them what they have to do; you are always adding things. And this really is a road map, a work plan basically, in terms of what they have to do.

Senator LEAHY. We will watch carefully, all of us, to see how well we do, as well will you all.

Secretary ALBRIGHT. Well, we will. And we are not going to give them a passing grade on a work plan that is not carried out properly.

Senator LEAHY. The negotiations on the International Criminal Court have begun in Rome. You have been perhaps more outspoken than anyone in support of the War Crimes Tribunal at The Hague. I notice in Rome one proposal is that any country whose citizens are charged with war crimes would have to consent before a trial takes place. Well, Saddam Hussein or President Milosevic or others are not going to consent.

And if a Security Council veto could block prosecution, don't we run the risk of China, for example, blocking prosecution of the Khmer-Rouge? And if there were not already the Bosnia War Crimes Tribunal, then Russia possibly blocking prosecution of Serbian war criminals? Wouldn't that court become as ineffective, actually, as the United Nations has been at times when strong action is needed?

Secretary ALBRIGHT. Well, I think that we have, in principle, backed an international criminal court because we think that there continue to be serious violations of the core crimes of genocide, war crimes and crimes against humanity. We support a practical court that reinforces these institutions charged with maintaining international peace and security. What we desire is for the court to have a proper relationship with the Security Council. And we are looking forward to working for a positive outcome of the Rome conference.

I think that what is very important, Senator Leahy—because there have been questions about this—is that we want to develop a comprehensive approach to the court that advances the cause of justice and protects American citizens from unwarranted action from a court. So, we have the goal of trying to develop a functioning, good court, but also make sure that our citizens are protected and also that it does fulfill the responsibilities of international institutions.

Senator LEAHY. I hope you follow carefully on that. Because I read that the Chief Prosecutor of the War Crimes Tribunal recently dismissed charges against 14 Bosnian Serbs because she does not have money to prosecute them. I want to see an effective War Crimes Tribunal. But that means that the nations who support it have got to fund it, too. And to have 14 people go free simply because the money is not there should be a matter of grave concern to all of us.

Secretary ALBRIGHT. I agree with that. And I think that what is interesting is that the record of the War Crimes Tribunal now has gotten quite good in terms of the number of indictees and those who really have come to trial. I think that one of the reasons we want to have a permanent international court is that there is some fatigue, I think, in terms of funding ad hoc war crimes tribunals, and this is a more efficient way.

I definitely agree that we need to fund the War Crimes Tribunal now. I think it is doing a great job. And, ultimately, the only way that there can be a real reconciliation in Bosnia is if individual guilt is assigned and collected guilt is removed.

Senator MCCONNELL. Thank you, Senator Leahy.

Senator Gregg.

Senator GREGG. Thank you.

Madam Secretary, it has been reported that missile technology was sold to China by a United States company that has the capac-

ity to allow the Chinese to target their missiles on the United States—not necessarily that they are, but it gives them that type of technical capacity. It was also reported that that decision was taken after the State Department—and I presume yourself—had the good sense to advise the administration not to allow that sale to go forward.

My question is, is that correct? Did the State Department advise the administration not to approve that sale?

Secretary ALBRIGHT. Senator, there are really two parts to this question. First of all, there was the whole issue as to how commercial sales of satellites should be handled. Since these are commercial satellites, after a great deal of discussion, it was determined that it was appropriate for the Commerce Department to handle this issue, with the State Department always having the ability to be a part of the decisionmaking process on this. And we continue to do that.

We look at each of these sales in a way to make sure that our national interests are protected. And we look to make sure that the recommendations are appropriate. This justification for commercial satellites to be launched by the Chinese is something that goes back two administrations. It is done basically in order for competitiveness, because we are the ones that are leaders in the satellite technology; for openness, CNN, et cetera—to be able to beam into China; for nonproliferation reasons.

And so we consider it something in the national interest. And the State Department has its review process, and we did not recommend against it.

Senator GREGG. You did not recommend against selling this technology to China?

Secretary ALBRIGHT. No.

Senator GREGG. So, those reports are inaccurate, representing that you did?

Secretary ALBRIGHT. It is a complicated inner process. And I think that we believed that this was in the national interest. There were other departments that made their recommendations.

Senator GREGG. There is a bit of irony, though, isn't there, when we go to China and ask them not to sell technology to Iran and to potentially Pakistan that is missile technology, when we are selling China missile technology which may give them the capability of targeting the United States should they decide to use it that way?

Secretary ALBRIGHT. Senator, we are not selling them the kind of technology that allows them to target the United States. These are commercial satellites that are used for the purposes that I described. We certainly would not be involved in any kind of sale that in any way jeopardized our national interest.

We have been concerned about Chinese missiles, as well as nuclear proliferation. They have systematically, I think, come within international regimes that limit any country's ability to sell or transfer weapons. It is a subject of discussion that we have them, and will continue to be a subject of discussion as we go into the Beijing summit.

Senator GREGG. So, basically, the reports that represent that this technology gave them guidance systems which could give them the capacity to target America if they decided to do so—with adjust-

ments, obviously, to these systems—target the United States with their missiles, you believe that is inaccurate?

Secretary ALBRIGHT. My understanding, Senator, is that that is inaccurate and this is not that kind of technology.

Senator GREGG. I am interested also in this India/Pakistan situation. Why is it that the European nations have been so reticent to participate in pursuing whether, under our statutes, required sanctions relative to India? Why have our European allies been so reticent to pursue sanctions and been unwilling, especially France, to do anything in the area of limiting or putting pressure on the Indians in the area of nuclear proliferation?

Secretary ALBRIGHT. Senator, I think we have all kind of had this discussion before. I think that other countries view sanctions, the use of sanctions or the imposition of sanctions, in quite a different way than we do. We have seen sanctions—depending upon how they are used and what the flexibility associated with the piece of legislation is—as a useful tool of foreign policy. There are times—and I hope that we can all have a broader discussion of this—when sanctions are more sledgehammers than scapels that allow some surgical activity to take place and actually limit the American ability to carry out our policy.

The Glenn amendment is probably the strongest sanctions resolution that has existed. We had hoped that it would deter India and Pakistan. It clearly did not, even though they are going to, I believe, suffer economically. And they certainly have become less secure as a result of these bomb blasts, or tests.

I discussed this issue when we had a Permanent Five meeting in Geneva. And I said, you know that the Americans have a very strong sanctions resolution. We would like you all to join us. But certainly what we do not want is, while we are being firm, for you all to go in and pick up the contracts. I think that we have to work more closely with our allies. And I must say that our meeting of the Permanent Five was very good. We were also able to get condemnation of India and Pakistan by NATO, by the NATO Joint Council, with the Russians, by the Euro-Atlantic Partnership Council, by the OAS General Assembly.

And so, within a matter of 4 or 5 days, we had 80 countries that had made quite clear their condemnation of what India and Pakistan had done. And there are numbers of countries that have joined us in the sanctions, just not the ones that you mentioned.

Senator MCCONNELL. Thank you, Senator Gregg.

Senator Murray.

Senator MURRAY. Thank you, Mr. Chairman.

And I welcome Secretary Albright. It is good to have you before this committee. I appreciate your testimony and your work for all of us around the world.

Secretary Albright, you know, as you were just discussing, the administration has moved to implement the mandatory sanctions against India and Pakistan for their nuclear weapons tests. The law does exempt food and humanitarian aid from the sanctions. However, the Justice Department recently concluded that agricultural credits for the purpose of purchasing food were not exempt from those sanctions.

Last week, in the Appropriations Committee, on an amendment to the agricultural appropriations bill, I offered an amendment that would exempt those agricultural credits from the sanctions. And it was accepted with a lot of bipartisan support in the Senate. I would like to know what your view is of that issue, and if you will support the Murray amendment to exempt agricultural credits for food purchases from those sanctions.

Secretary ALBRIGHT. Yes; thank you very much, Senator. And the administration very much thanks you for your leadership in addressing this question. We would support your amendment. We think that it is useful, because it does in fact allow for an exception for credit, credit guarantees and other financial assistance provided by the Department of Agriculture for the purchase or the provision of food or other agricultural commodities. And so we support your efforts on this and do in fact believe that it is important to go forward with humanitarian assistance.

I think this is a point that needs to be made, generally, about the fact that we are not trying to punish the people of India or Pakistan, and we do not wish to create major instability. Therefore, this, I think, is very useful. Thank you for offering it.

Senator MURRAY. Thank you. And I will look forward to working with you. It is important to my State and my region, and we appreciate your support.

Secretary ALBRIGHT. And we look forward to working with you, Senator.

Senator MURRAY. I also want to ask you about the IMF fund. You mentioned it in your comments, as well. But that too, the Asian currency crisis, is dramatically affecting the Pacific Northwest, our farmers as well as our exporters. And I note that the United States, in the last week, has once again seen that it is a serious and long-term problem. Our own stock market has dropped by 6 percent recently as a result of the fears that are generated by Asia's situation.

Could you expand on your comments, and tell us what the administration is doing to encourage Congress to fund the IMF request? And in your opinion, what are the risks to the United States if Congress refuses to act?

Secretary ALBRIGHT. Well, I think that we have all been kind of talking about the Asian financial crisis for some time. I think Americans are becoming more and more aware of it. I think that with each passing day it becomes evident that this is not something that is just happening in Asia that has no effect upon us.

The Japan stock market declined slightly today, and we continue to be concerned about the fluctuation. And we are concerned, deeply concerned, about the prolonged weakness of the Japanese economy.

We feel that there are any number of ways that we can be helpful as far as the Asia financial crisis is concerned. But the IMF is the major tool here because it allows for or directs that there be transparency, open markets, business practices and procedures that provide a certain level of confidence. They are the international way of letting the leaders of countries know the direction that they can take to dig themselves out of a hole.

Our problem is that with our lack of funding for it, we are in effect weakening that particular tool. And as I explained in my testimony, it is basically an international credit union, so that it does not cost the American taxpayer. On the other hand, it provides the kind of security that allows the leaders to take steps in terms of reforming their economies.

We will continue to press to try to get full IMF funding, and also to get the arrears. Because, again, that is a problem that we have talked about, vis-a-vis the U.N. It is very hard for us to keep exercising the leadership role and at the same time put ourselves in a position where other countries criticize us for not fulfilling our obligations.

So, we consider this very important, and we must separate it from the family planning issues. Because while I think that there are really good folks on both sides of that issue—and I know that we all have different views on it—it is an important issue that should be discussed separately and not attached to a national security issue. Funding the IMF at this point is a national security issue.

Senator MURRAY. Thank you. I look forward to working with you on that, as well.

Secretary ALBRIGHT. Thank you.

Senator MURRAY. And, finally, Secretary Albright, I recently sent you a letter with a set of questions on Guatemala and the release of documents pertaining to human rights violations. Our staffs have been speaking about this letter. I just simply wanted to ask that you ensure a timely response to that, with as much information as possible.

Secretary ALBRIGHT. Absolutely, yes. And we are. I have had a beginning discussion with some of the Guatemalan officials that I have just seen recently at the OAS General Assembly. So, we will follow up on that.

Senator MURRAY. Thank you very much. I look forward to that.

Senator MCCONNELL. Thank you, Senator Murray.

Senator Bennett.

Senator BENNETT. Thank you very much, Mr. Chairman.

Madam Secretary, when you were confirmed last year, I sent you some written questions. And in your responses, you revealed that Chinese military companies were selling germ warfare equipment to Iran. And last year, in this place, you confirmed, in response to my questions, Chinese sales of poison gas equipment to Iran.

And by coincidence, this morning, Bill Gertz, in the Washington Times, says that the Chinese are assisting the Iranians and the Libyans in purchasing missile equipment.

Are we ever going to get a handle on Chinese arms smuggling?

Secretary ALBRIGHT. There does seem to be an odd coincidence.

Senator BENNETT. Every time you come, I seem to have these questions. But it continues.

Secretary ALBRIGHT. Let me go through this, if I might, in a little bit of detail because there is no question that we have been concerned about issues that deal with nonproliferation and China. And as a major producer of nuclear-, chemical-, and missile-related equipment, China does have a responsibility to meet internation-

ally accepted nonproliferation standards. This is a subject that comes up all the time with the Chinese as we meet with them.

I think that it is worth detailing for you the extent to which China has become increasingly a part of the international norms that are so essential to all of us. On nonproliferation, there has been a sea change, particularly in the nuclear area. They have joined the NPT, the CTBT, the Biological Weapons Convention, the Chemical Weapons Convention, and they have committed to no nuclear cooperation with Iran, joined a major international nuclear suppliers group—the Zanger Committee, and instituted comprehensive nuclear export controls.

They have, and they do, also cooperate with us in our efforts to maintain stability on the Korean Peninsula. When I was in China the last time and also when I met with the Chinese Foreign Minister again 4 or 5 days ago, in Geneva—we talked on a regular basis about their necessity to fulfill their obligations and to make sure that they expand their control over dual-use chemicals and refrain from any arms transfers. This is very much a part of our ongoing dialog.

They have improved. I think the record will show it. They still need to improve. And we will continue to press that. The President is going to raise all these issues when he is in Beijing.

Also, we have expert-level talks. Acting Under Secretary Hollum has met with senior visiting Chinese officials. And Assistant Secretary Einhorn continues to have expert-level talks.

On the subject of today's article, I think that it is very important that it be clear that we strongly oppose any missile cooperation with Iran. We have repeatedly made that clear to China at senior levels, our concerns about reports of Chinese exports of missile-related equipment and technology to Tehran. We have said that and we will continue to do so, as I have stated.

I think that this is an important problem, and we continue to deal with it. Engaging China on nonproliferation has been a top priority of this administration for several years. And it will continue to be so.

I think that I need to also make very clear to you that we still have important concerns about China's missile-related exports. It is, as I have said, very much on our agenda.

Senator BENNETT. You are talking about having a strategic partnership with China. Maybe words do not mean too much, although I think very often the choice of words is perhaps the No. 1 challenge of a diplomat. The word "partnership" is the word that comes out of this that I would like to pursue.

And in light of what we have just been discussing, how can we have a strategic partnership—not a relationship, not a dialog, but a partnership with a country that is involved in this kind of activity and proliferation of weapons of mass destruction—germ warfare, poison gas, and now missile technology to Iran? How do you explain this strategic partnership with China to our Asian allies? And what is their reaction to the idea that the United States is going to be partners with someone who is exporting this kind of technology around the world?

Secretary ALBRIGHT. Senator, let me again put this into some context. I think Senator Leahy spoke about the President's trip. And I had some comments in my opening testimony.

Senator BENNETT. I am not saying the President should not go.

Secretary ALBRIGHT. No; but let me comment. I think that we have many challenges as we look at the world of the 21st century. And I do not want to make this answer too broad, but the questions and points that Chairman McConnell raised are part of a very complex world that we are looking at as we move into the 21st century.

I think there is no argument about the fact that China is the largest country in the world in terms of its population and also in terms of its economic possibilities. I think you could rightfully haul us all up here and get us on incompetence if we were not having some kind of a relationship with China that engaged them and that did not isolate them.

Senator BENNETT. I agree with that. I am focusing on the idea of creating a partnership with a Communist country that is involved in exportation of weapons of mass destruction. We did not have a partnership with the Soviet Union. We had engagement. The President, whoever he was, went to Moscow regularly. I am not talking about that.

I am talking about this concept of a strategic partnership. Do we view the future as a joint China-American relationship in Asia?

Secretary ALBRIGHT. Well, let me say that we are looking toward the future of having a relationship with China, and who knows what they are going to look like in the 21st century. Plus, maybe I had this wrong, but I think one can be partners with more than one country, and it does not exclude other countries from having a partnership or relationship with us.

I can tell you now that, while we clearly disagree with the form of government in China and, as I just explained, we also are taking very active steps to have them improve and change their proliferation relationship, they have in fact been quite helpful in a number of issues of strategic importance. That is, in terms of stabilization on the Korean Peninsula and their support for what we are doing there.

And I might add that the Chinese were in the chair of Permanent Five members of the Security Council who met last week in Geneva, the chairmanship of that rotates. The Chinese did the formal part of the meeting and then turned it over to me. And we were able to get a statement out of the Permanent Five that was condemnatory of India and Pakistan that I think we could not have occurred had we not worked on having a strategic relationship or one where we are increasingly engaging China.

I think, sir, that perhaps you are reading too much into the word "partnership." But it is an effort, I think ultimately, because we are hoping that China will in fact play an increasingly responsible role in Asia, and we want to engage it across the board. And I think there is evidence that there is some good coming out of it. Though, clearly, there are problems, whether they be in human rights or in the proliferation area or in other ways that they run their country.

Senator MCCONNELL. Madam Secretary, shifting back to the Middle East for a moment. There has been some controversy sur-

rounding the views of the administration related to the status of Jerusalem. The Vice President recently made a speech on the occasion of the 50th anniversary of the State of Israel, and he made that speech in Jerusalem.

In your view, when he made that speech, was he in Israel?

Secretary ALBRIGHT. Jerusalem is a final status issue. I think that both Israel and the Palestinians have agreed that Jerusalem is one of the issues to be addressed in permanent status negotiations. And, clearly, no issue in the Middle East peace process is more volatile than Jerusalem. I think it is not appropriate for us to offer our views. This is going to be a permanent status issue.

I think that what is important here is that we get to permanent status, so that we can actually deal with that and the other very complex issues.

Senator MCCONNELL. Staying in that part of the world, as I mentioned this in my opening remarks I am curious as to whether there have been additional financial commitments made with reference to the peace process?

Secretary ALBRIGHT. No, sir; there have not been. There have been feelers as to whether there could be. But there have not been any additional commitments. Obviously, if there were, we would be discussing them with you.

Senator MCCONNELL. Moving to Cambodia, we all have watched with disappointment over the past 11 months as the situation in Cambodia has deteriorated, reaching what by any standard would have to be agreed were unacceptable levels of corruption. The Hun Sen government has relied on tactics of murder, extortion and military intimidation to maintain power. The world community publicly condemns the practices, but remains largely disengaged. And no effort seems to be underway to ensure that the July 1998 elections are legitimate.

Now, Assistant Secretary Roth was up before the Foreign Relations Committee recently. He said that a framework "exists in which free and fair elections could conceivably be held." Do you share that optimism?

Secretary ALBRIGHT. Well, Mr. Chairman, this has been very much on my mind. We have worked very closely with the ASEAN troika on this, as well as created a Friends of ASEAN group. I think that we have done what we can to try to give the Cambodian people a chance at these elections. There are going to be observers. The opposition leaders are back. There is access to the media. And there has been a drop-off in the violence.

I go back to how we all talked about the first Cambodian elections, when people thought that nothing would happen in them and that the people would not really have an opportunity to voice their views. I went to Cambodia shortly after those elections. People had flocked to the polls in record numbers and stated their views.

And so I think that I agree with Assistant Secretary Roth, or he agrees with me——

Senator MCCONNELL. How surprising. [Laughter.]

Secretary ALBRIGHT [continuing]. I think there is a chance here, and we ought to make sure that we are able to get the NGO's and various observers in their and give the Cambodian people a chance.

In the meantime, we will also continue to press, with ASEAN again and through our Friends of Cambodia group.

Senator MCCONNELL. Well, you are familiar with the concern expressed most recently just this morning in the Washington Post, which I will quote. It says: "Unfortunately, the Clinton administration is giving hints of leading toward a third even less attractive option—accepting the election results without much of a fuss."

I gather what I hear you saying is that you think they are on track to having a relatively free and fair election?

Secretary ALBRIGHT. What I am saying is I guess there is not—I do not always agree with every editorial. But I think that we have at least provided a framework for them to have a chance to do that—not a guarantee, but a chance. And we will continue to do that.

And if the election is not free and fair, we will so declare. But we have set up a process whereby there should be enough observers in there in order for us to be able to make the judgment.

Senator MCCONNELL. So, you are still optimistic that this may pass the international smell test when it occurs in July?

Secretary ALBRIGHT. Mildly optimistic, yes.

Senator MCCONNELL. Mildly optimistic.

In terms of Cambodia, let me just ask this, finally, before going to Senator Leahy for a second round; does the administration have a plan in place to deal with the more than 75,000 Cambodian refugees along the Thai border?

Secretary ALBRIGHT. Well, we generally have been looking very carefully at this vast increase of refugees all over the world. One of the things that we are asking is for increased funding in the refugee accounts. I will have to get back to you with a specific plan for those on the Thai border. But it is something that we have discussed a great deal. I have also had discussion with the Thai authorities. And also it is a subject that I am sure will come up again as we meet with the ASEAN group later this summer.

Senator MCCONNELL. Senator Leahy, do you want to have a second round?

Senator LEAHY. Thank you. Briefly, and then I will put my other questions in the record.

One thing I would like to ask about, Madam Secretary, our law prohibits aid to any unit of a security force of a foreign government if that unit has been implicated in gross violations of human rights unless the foreign government is taking effective measures to bring the individuals responsible to justice—the so-called Leahy Law. I believe it is common sense. And I appreciate that you and others in the State Department have seen this law as an opportunity to support human rights. And you and others from the Department have been very strong in their support in your testimony on the Hill.

The Pentagon has said that it also adheres to this standard, but I have received reports that make me wonder if that is so. Can I assume that it is the administration's policy, regardless of which budget the funds come from they will follow the Leahy Law?

Secretary ALBRIGHT. Well, first of all, let me just tell you what we do to let people know about the Leahy Law. In March, we sent out a cable to all diplomatic posts, informing them of the new re-

quirements, and instructing them to formulate action plans to implement the legislation. And before disbursing any funds to foreign security forces units, our Embassies vet the proposed recipients to ensure no human rights abusers are among them. We are working with DOD to make sure that the law is properly implemented.

We also have human rights officers at each of our diplomatic posts, and they routinely gather information on human rights violations. And we are working very assiduously to make sure that the law is implemented, as I said, working with DOD also.

Senator LEAHY. Thank you.

I have been watching the growing civil unrest in Mexico, as I know you have. There are some 70,000 soldiers in Chiapas, about one-third of the Mexican armed forces. And there has been clashes between rebel groups and soldiers in several other states. And while we would all like to think of Mexico as being different than a lot of the countries in Central America, it has many of the same problems. And I worry about what happens in Mexico.

Despite President Zedillo's statements to the contrary, every indication is that the government is trying to solve these problems with force. A lot of people are being killed in Chiapas. The negotiations on a peace agreement have broken down. The Bishop who headed the negotiations quit in disgust last week.

Is this situation just going to become worse and worse?

Secretary ALBRIGHT. Senator, President Zedillo did move very quickly to have his Attorney General investigate some of the December massacres and to really try to get the situation dealt with in a negotiated way. I have now met with the Mexican Foreign Minister a number of times on a number of issues recently, in a number of places—whether in Santiago or Caracas or in Washington last week. I can assure you that the Government of Mexico knows of our concern, in terms of what is happening in Chiapas—massacres—and trying to make sure that there is a very thorough investigation.

We are following the investigation very closely, and have told the Government of Mexico that we will be doing so. We are also working generally with the Mexican Government to try to make sure that there is timely notification of detention and counsel access to United States citizens that are in Chiapas.

So, I think, on the whole, Senator, we are pressing them to resolve the Chiapas situation and, at the same time, pressing them to deal with what we consider issues that need to be investigated thoroughly.

Senator LEAHY. The reason I ask is we license a lot of sales of military equipment to Mexico—lethal equipment, helicopters, and so forth. And I worry, as many others in my own State of Vermont worry, that a lot of that equipment is being used in Chiapas in a way that would go beyond anything we have licensed or would condone. And I would hope that we are following that very, very closely, so it is not being done.

I have further questions, but I will submit those for the record, Mr. Chairman.

Secretary ALBRIGHT. Senator, if I might just say, that was a question asked of me at St. Michael's College.

Senator LEAHY. I just thought I would throw it in again.

Secretary ALBRIGHT. I came back and specifically asked whether there was any evidence of American equipment being used, and was told that there was not. I said I was asked this by a very smart young woman in Vermont, and I needed an answer.

Senator LEAHY. Well, I expect that she is probably going to stop me on the street while I am up there and ask me again. So, I just want to make sure.

Senator MCCONNELL. Thank you, Senator Leahy.

Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

We will undoubtedly be pursuing the question of United States-China relations for a long time as this subcommittee goes forward. I simply note that Secretary Christopher did not want to use the word "partnership" in his relationship with the Chinese. It is Secretary Albright who agreed to the phrase during her April meeting.

That is why I raised it here. Because I think words do have meanings, and I want to pursue that, not for the point of splitting semantic hairs but to go back to a strategic statement that I got out of my last visit to China, when the U.N. Ambassador told us that China's long-term goal was to get the United States out of Asia and become the only significant power in that part of the world, and that our other allies' long-term goal was to make sure we did not get out of Asia, because they did not like the idea of having China as the only superpower in Asia.

And it is against that background that I raised the questions in the first round. We will undoubtedly have some more.

Let me go to another quick issue that I would like to give the Secretary an opportunity to respond to. The CIA now admits that it was surprised by the Indian nuclear tests last month. I would be interested in knowing if the State Department was also caught unawares by the Indian actions?

Secretary ALBRIGHT. Senator, let me, if I might, just go back to the previous question. I think that there is a dynamic relationship between us and the Chinese, and we are moving in a positive direction with them, which would allow us to have the kind of relationship that I discussed. But things have moved and changed quite dramatically on a number of issues, especially on some of the nonproliferation issues which we discussed.

Also, I think that we cannot and should not operate on the premise that China is trying to keep us out of Asia. It is impossible to keep the United States out of Asia. We are a Pacific power. We have interests there. It is very evident in the meeting with President Kim Dae Jung, for instance, just now that we are viewed as a major Pacific and Asian power. There is no way that anybody can keep us out.

I think what we need to clarify is that our policy is not one of containing China, but of engaging China, and that we need to work systematically to have regular summits with them, to engage in a dialog that goes beyond just United States-Chinese relations, but talks about what they see in the Asian subcontinent, et cetera.

So, we will probably have a lot of opportunity to discuss that.

Senator BENNETT. Yes; and I do not mind engaging. I voted for MFN, and have done the other things that have brought some political heat on me with respect to China. But it is true, in my view,

that the PRC has signed a number of arms control agreements. And the problem is they do not seem to live up to them. And the administration has had a lot of meetings with the Chinese on arms sales, and the problem is that nothing seems to come of these meetings long term.

So, that is why I continue to pick away at the sore.

Secretary ALBRIGHT. Well, I would respectfully disagree about the fact that nothing comes of them in the long term. I think there is progress to be made, and progress has been made. I think if you believe that the word "partnership" means that we are not friends or partners with anybody else, then it is the wrong word. But if you see it as a possibility of engaging with them on a series of issues where we can press them or cooperate with them, then I think maybe we could agree.

But let me just say, on the Indian issue, we have known, obviously, all of us, for some time that the Indians and the Pakistanis were capable of having these kinds of tests. And we have raised the subject of proliferation with them every time that we have met with them. I did so when I was in India. We do so when we meet with the Indians and Pakistanis.

What happened here was that a party in which the testing of nuclear weapons was part of their party platform got elected. Their people were here, and simply denied the fact that they were going to happen at that particular moment. But we knew that the possibility existed. Yes, we were all surprised by the fact that the tests took place when they did. And I think that the CIA has said that this was a problem, and they have had an investigation looking into it.

The Glenn amendment was supposed to hold all this back. But we clearly all knew about the fact that it was a long-term possibility. We were surprised by the moment.

Senator BENNETT. Thank you, Mr. Chairman.

Senator MCCONNELL. Madam Secretary, I want to close with the Caucasus. When you were here last year, you indicated your belief that the Russians were as anxious as we were—as we are—to see a settlement of the Azeri-Armenian dispute. I was there last August, which does not in any way make me an expert, but I have had a chance to meet with the players. In Armenia, since last August, the principal player has changed, with the resignation of President Ter-Pertrossian and the new election of Mr. Kocharian.

I am deeply skeptical that the Minsk Group, as a process for resolving this dispute, can work. And as I look out at the places around the world where we have clear interests, it seems to me, Madam Secretary, one could argue that we have a good deal more interest in the Caucasus, particularly given the involvement of many of our energy companies in the Caspian Sea development, than we do in the Balkans. Yet, we are intensely involved in the Balkans, and while I am not arguing necessarily that we should not be, it seems to me, in looking at priorities, by any standard, we have huge interests in the Caucasus.

Do you have any optimism—or anything that could illustrate a reason for optimism I guess would be a better way to put it—that a settlement of the Armenia-Azeri dispute is someplace in the near

future? And if you are optimistic about the Minsk Group as a framework for achieving a peace, tell me why.

Secretary ALBRIGHT. Mr. Chairman, I looked at the subject even before I got to the United Nations. But the issue, when I was Ambassador at the United Nations, was very much on our agenda. I went to both Armenia and Azerbaijan to talk about this. At that stage, I talked a great deal about my own sense that the Minsk Group was not really moving. In fact, I discussed it also within OSCE circles, and tried to really press it.

I think that you made a statement as part of your opening remarks about trying to do this without Russia. I think I heard that right. I think it is very hard to see about some kind of settlement in Nagorno-Karabakh without having Russian involvement in the discussions of it.

Senator MCCONNELL. I did not mean to say that they would not be involved at all. After all, it is on their doorstep. But do you see any evidence that you can cite that the Russians are interested in a settlement of this dispute.

Secretary ALBRIGHT. Frankly, I believe that in the long run they would like to have the various disputes on their borders settled, because they create a series of problems for them.

Senator MCCONNELL. My question is about the short run. Can you cite any evidence that they would like to see this settled?

Secretary ALBRIGHT. Well, the last evidence that I had was that we discussed this in the tripartite talks—with the French and the Russians.

I must agree with you that I would like to see more steam put behind this, and that, to some extent, it is in one of those categories that you just let it bubble along, I think, without enough action to it.

Senator MCCONNELL. Are you willing to make it a higher priority? I know Strobe Talbott is, at least ostensibly, the point person on this for you. How frequently is he dealing with this? Does he go to the meetings, or is it instead passed down to somebody below him?

Secretary ALBRIGHT. He goes to a number of them. But there is somebody who does this on a full-time basis, because it requires constant following.

I am taking what you are saying very seriously, and I will make a point of making sure that we rev it up a bit. It is one of those situations that is—having dealt with this myself previously—there is no quick and easy solution to it. And if the parties do not want to talk to each other about it, and if changes in government make it difficult for the various problems, in terms of the corridors and the blockages to be resolved, it is very hard to push.

I agree with you on the general point that the Caucasus are an area of major importance to us. We spend quite a lot of time, in terms of dealing with general issues in the Caucasus and in Central Asia—and even more, I think, with the whole issue, obviously, of their strategic importance and the issue of Caspian oil, and, generally, the whole area.

When I testified before the Foreign Relations Committee, I brought my globe, and I showed that we basically look at the world always through the prism of the Western Hemisphere. Then I

turned it around and I showed how much of Eurasia there was. And there are the Caucasus, central to all that. So, it is one of the areas that we are trying to spend more time on, in terms of its overall importance to us.

Senator MCCONNELL. Well, I know you have a lot of trouble spots. I appreciate what you said about giving this more personal priority, in terms of your own time, because I frankly think, Madam Secretary, that unless this is escalated on the priority list in your shop, the chances are it is just going to drift along with this Minsk Group, where nothing ever happens. In the meantime, I believe you visited the refugee camps as I have, there is a desperate situation.

Wholly aside from the oil interests, which are apparent, the humanitarian side of this is very bleak. And if CNN had spent any time in the refugee camps in either Armenia or Azerbaijan, I think we would have a lot more interest in this issue in this country. And I hope you will in fact take a greater interest in it.

Secretary ALBRIGHT. Mr. Chairman, just now and also in your opening statement, you really had a long list of the various issues that we have to deal with. And as I have said to all my political friends, every county has been heard from. I mean, there is not a problem anywhere that somehow is not out there for us.

And I think we need to have more discussions about generally how we proceed into the 21st century. With the kind of statement that Chairman Stevens made, you know, I would like to see the money. I think we all would like to see the money. We also would like to have the ability to deal with the Nagorno-Karabakhs and the various other issues that have come up here today.

I think we need to understand what our role is; that the United States cannot lead without the resources. We talked about sanctions——

Senator MCCONNELL. Can I interrupt you on that point, though?

Secretary ALBRIGHT. Yes.

Senator MCCONNELL. I think the money would follow the success. I mean, what happened after Camp David is that the Congress made a very generous commitment, which it is still keeping 20 years later. I think if there is a success that requires some American commitment, you will find people in Congress on both sides trying to figure out a way to do our part.

Secretary ALBRIGHT. Well, I hope that we have that opportunity. And I also hope that we have an ability to work on something that is tying our hands. That is the whole issue of sanctions policy that we have talked about, that came up here today. I would welcome very much a much broader discussion of the various issues that we have to deal with, because they are bubbling everywhere, and we need to work together on it.

I would like to correct something, though, Mr. Chairman, that I said on the refugees. We have not requested an overall increase, but we have changed some of the allocations. And we will get back to you on that.

Senator MCCONNELL. Thank you very much, Madam Secretary. We wish you well.

Senator BENNETT. Mr. Chairman, may have one last shot at a totally unrelated issue?

Senator MCCONNELL. All right, Senator Bennett.

Senator BENNETT. Wearing my hat as chair of the Senate Special Committee on Y2K, may I ask, Madam Secretary, that you continue to press on the initiative that I understand you have from John Koskinen, to see that every U.S. Ambassador raises the year 2,000 [Y2K] issue with every country vigorously? Because I think the evidence is now coming through that while we will have problems in this country, we are now close enough to the possibility that we will get most of our Y2K problems under control in this country, the evidence indicates that it will be a disaster in many parts of the world, with serious economic consequences. And I would hope you would continue to press forward on that issue.

I would be derelict, as you know, Mr. Chairman, if I did not take every opportunity to raise this.

Secretary ALBRIGHT. I have to say, Senator, that you remind me of me on this. Because in every meeting that I have with a foreign minister, after we have finished with everything, I say—we have had a meeting of the Cabinet, and the President has made very clear that we are all responsible for our sectors in terms of letting them know that they have to do something about the Y2K problem. And so the Transportation Department has to deal with local police stations, et cetera.

I consider that my sector is the world, and, therefore, every time I meet with a foreign minister, I say, you have to do something about this. Some of them think I am a techie because I even raise it, but I am telling them that we are not going to be able to talk to each other. So, I promise you that that is very high on my agenda.

Senator BENNETT. Thank you.

Senator LEAHY. I am not planning on traveling on the day we change over. I also want to emphasize that I agree with what Senator McConnell said on the refugee issue. This is something that I think you will find strong, total agreement on.

Thank you.

Secretary ALBRIGHT. Thank you very much.

Senator MCCONNELL. Thank you, Madam Secretary.

CONCLUSION OF HEARINGS

Senator MCCONNELL. The concludes our hearings, the subcommittee will stand in recess subject to the call of the Chair.

[Whereupon, at 12:22 p.m., Tuesday, June 16, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

# FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1999

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

## NONDEPARTMENTAL WITNESSES

[CLERK'S NOTE.—The subcommittee was unable to hold hearings on nondepartmental witnesses, the statements and letters of those submitting written testimony are as follows:]

### ENVIRONMENT

PREPARED STATEMENT OF SCOTT SKLAR, EXECUTIVE DIRECTOR, SOLAR UNITY NETWORK

INTRODUCTION

The U.S. Export Council for Renewable Energy (US/ECRE), the trade consortium of the six renewable energy and energy efficiency industry associations, urges the Subcommittee on Foreign Operations to stick with its strong guidance to the Agency for International Development (AID) to integrate renewable energy applications in our bilateral programs. Renewable energy can significantly enhance the child survival, environmental, agricultural, healthcare, development and infrastructure programs in a meaningful way.

Our recommendations for fiscal year 1999 are for $20 million for AID's Office of Energy, Environment and Technology within the Center for Environment as well as level funding for the Center's other programs. These recommendations mirror the previous guidance of this Subcommittee, as well as the growth in opportunities of the U.S. renewable energy industries in an era of reprioritization of AID's programs, and the implementation of sustainable private sector projects in the developing world.

The Subcommittee should realize that developing country activities to promote renewable energy have increased significantly where 2 billion people still have no access to electricity. India represents the largest short-term market and Mexico is electrifying nearly 60,000 villages beyond the existing electric utility grid. The renewable energy options, in this case, micro-hydropower, photovoltaics and wind, are the least-cost options to provide electricity to a population that would otherwise be unserved for generations. Similar efforts have been initiated in Indonesia (48,000 villages), Sri Lanka (20,000 villages), South Africa (35,000 villages) and Brazil (22,000 villages). The real issue is whether the United States or our competitors will garner the dominant marketshare of these new and emerging markets.

These immense impending market and development opportunities, which will surpass $4 billion in aggregate by the year 2000, require an unusual focus and resolve of the United States' development and export agencies to work hand-in-hand with the U.S. renewable energy industries. Therefore, recommendations will effectively promote environmentally benign U.S. technologies, principally biomass, energy efficiency, geothermal energy, hydropower, photovoltaics, solar thermal, and wind energy.

In photovoltaics for instance, the developing world markets with the help of AID's Center for Environment, specifically the Office of Energy, Environment and Technology have contributed to the increase of U.S. solar manufacturing capacity. The following manufacturing facility openings represent this increase from last year's testimony:

—January 1998, British Petroleum Solar, this country's fourth largest photovoltaic manufacturer, ribbon-cut a new state-of-the-art automated manufacturing facility in California.

—December 1997, ASE Americas ribbon-cut its new photovoltaics manufacturing plant in Massachusetts.

—March 1998, Tucson Electric announced its intention to ribbon-cut its U.S. photovoltaic manufacturing plant for exports geared to Latin America.

—April 1998, Solarex Corporation, a business unit of Amoco/Enron Solar will hold its ribbon-cutting for a new state-of-the-art, 10 megawatt per year amorphous silicon photovoltaics plant in James City County, Virginia.

The failure of the United States to position itself as a market leader on the range of emerging energy technologies hinders not only our competitive position, but also encourages dependency by the poorest countries of the world to export their precious resources and foreign exchange in order to import energy. This encouragement of fossil fuel dependence insures that these developing countries will be unable to grow out of debt, leaving them with fewer resources to acquire a broad range of U.S. produced goods and services.

The U.S. renewable energy industries are asking the Subcommittee to adopt and maintain clear, consistent, and determined mandates for the Agency for International Development. The goal would be to implement a strategic development plan in cooperation with the U.S. renewable energy industries and the AID Mission Directors to promote these technologies in a cost-effective and systemic way to promote sustainable development.

FISCAL YEAR 1999 APPROPRIATIONS AND DIRECTIVES

The U.S. Export Council for Renewable Energy asserts that an essential ingredient for increased Third World democratization must be a substantial increase in the utilization of renewable energy. If sustainable development by the Third World is to be ultimately achieved, it must rely on the use of renewable indigenous resources to build worldwide economic growth. And finally, the only way to significantly achieve the kind of world market penetration needed to accomplish these goals is to develop policies and create new financing tools to aggregate markets which will significantly lower the costs of renewable energy to make these technologies accessible to the world's peoples.

The renewable energy and energy efficiency industries want to bring to your attention one of the most successful private sector-driven programs within the Agency for International Development through its Office of Energy, Environment and Technology.

Over the last five years, this subcommittee with bipartisan support, has consistently supported funding for AID's Energy Office at a consistent level of $20 million for innovative replicable renewable energy and efficiency projects.

AID's Office of Energy, Environment and Technology has worked collaboratively with industry to leverage global renewable energy markets in order to provide electricity and thermal energy not only to the 2 billion people without access to energy, but to the other billion people who have access to electricity for less than ten hours per day. Over 70 percent of U.S. photovoltaic technology is exported to Third World countries and several new U.S. automated manufacturing plants are to be built in the U.S. to meet global demand, which is increasing at a rate of 30 percent per year. Nearly 1,300 megawatts of wind capacity has been installed worldwide as have been over 85 megawatts of geothermal in 1995. Over 3,000 megawatts of geothermal are now under contract in Indonesia and the Philippines by U.S. companies. A multi-billion dollar market exists worldwide for U.S. energy efficiency technologies and services with over $500 million in sales ranging from Mexico, Russia, India, Thailand, and Indonesia.

The AID industry-driven program has created new multilateral financing programs and U.S. industry cost-shared prefeasibility programs with over $2.5 billion in short term sales opportunities in Mexico, Chile, Central America, India, Indonesia, Philippines, South Africa, Zimbabwe, Brazil, and Russia.

We have been very concerned that AID not only enhance AID's Office of Energy, Environment and Technology and related programs working through existing NGO's and industry consortia as earlier directed to do.

Our industries urge you to nurture these demonstrated successful industry-driven programs at the high level and spirit first achieved in the Bush Administration. There is no reason that international development programs must build U.S. jobs and strengthen U.S. industry's global market advantage, but to establish working groups to further AID's goals.

Renewable energy and energy efficiency technologies support viable development worldwide. Our industries lead the world technologically and thanks to our strong partnership with USAID, have begun to penetrate multi-billion dollar overseas markets.

Can the United States foster sustainable development and increase U.S. business opportunities simultaneously? Yes, but only if AID's programs are reinforced toward

a collaborative effort with the private sector. The directives this Subcommittee has given in the last few years has surely helped (AID would have done nothing otherwise). But unless funding priorities are explicit in the fiscal year 1999 appropriations which do not count in-kind AID Missions contributions which cannot be guaranteed or relied upon towards renewable energy and energy efficiency, we will be unable to achieve an even modest advance.

The Subcommittee should be reminded that promises by AID to use mission buy-ins to meet appropriations report directives are not substantial.

In addition, the US/ECRE consortium wishes to have the additional $5 million historically directed toward AID Mission buy-ins transferred under the federal interagency board, (the Committee on Renewable Energy Commerce and Trade (CORECT)), of which AID is a member and which AID should become the administering agency to drive village power programs.

CONCLUSION

The United States must come to terms with how best to utilize its development programs. The current AID programs must be enhanced through new credit and technology transfer options. However, the Congress must begin to set development priorities now, to integrate renewables in the Subcommittee's priorities including child survival, democratization and health to name a few. By sending a new set of signals, the United States can leverage an impressive set of global activities.

The world is moving towards renewable energy and the United States holds the lead in almost all these technologies. The United States also holds a lead in services including the development of Energy Service Companies (ESCO's) and packaging and system design, maintenance, and deployment services.

While over 50 percent of renewable energy equipment and services are exported, the U.S. cannot sustain our markets globally without a pragmatic U.S. development program committed to renewable energy. The global renewable energy market should grow nearly 30 percent per year and the U.S. could garner over half of that expanding market with a minimal investment. Our industries ask you to join with us to take advantage of this unprecedented opportunity.

Thank you.

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PREPARED STATEMENT OF ALEXANDER F. WATSON, VICE PRESIDENT AND EXECUTIVE DIRECTOR, LATIN AMERICAN AND CARIBBEAN DIVISION, THE NATURE CONSERVANCY

The Nature Conservancy appreciates this opportunity to submit testimony for the record concerning our views on foreign assistance appropriations for fiscal year 1999.

SUMMARY

The Nature Conservancy's mission is the protection of the plants and animals that make up the natural world, primarily through protection of their habitat. We work mainly through private means. The generosity of our members during the last fifty years has enabled us to purchase, using private funds and exclusively from voluntary sellers, the 1.2 million acres that we now preserve in the United States, making up the world's largest system of private nature preserves. The Conservancy also works in 24 countries in Latin America, the Caribbean, and the Asia/Pacific region; abroad, we help local organizations improve the effective level of protection to biodiversity, mainly in existing parks and protected areas, by strengthening local institutional capacities, building infrastructure, and involving local people in community-based conservation. Since the beginning of our international program in 1981, we have helped protect more than 74 million acres of biologically significant land in the Western Hemisphere alone, as well as critically important marine and forest conservation sites in Pacific island countries. Economic implications for forest and soil conservation, watershed and fisheries protection, for instance, are enormous.

Parks in Peril (PiP), the flagship of our Latin American and Caribbean efforts, turns "paper parks" into genuinely protected areas. The Agency for International Development (AID) has been vital to our international efforts by its support to global biodiversity protection and, especially, through its funding of Parks in Peril. Our partnership with AID is managed under an innovative multi-year cooperative agreement that minimizes administrative burdens and expenses while maximizing return on taxpayers' dollars. AID's growing commitment to helping international conservation, using assistance instruments, leverages resources from non-AID sources. For example, the $27.5 million PiP has received from AID since 1990 has been formally matched by more than $10 million from The Nature Conservancy, local in-country

partners, and governments. However, that total greatly understates the real multiplier. Local partners and governments have thus far attracted approximately $180 million of non-AID funding; this includes debt-for-nature swaps, carbon sequestration projects with major U.S. utility and oil companies and partners in developing countries, grants from the Global Environment Facility (GEF) and foreign governments including Japan, the Netherlands, and the European Union.

This Committee in previous years has explicitly recognized the importance of defending biodiversity through public-private partnerships. The Nature Conservancy appreciates that support very much and urges that the Subcommittee once again strongly support continued funding for Parks in Peril, as well as the rest of AID's biodiversity programs in the fiscal year 1999 appropriations process. We also endorse appropriations for two other activities with great potential impact on international conservation. First, we support full funding at the Administration's $300 million request level for the Global Environment Facility (GEF), which includes biodiversity among its concerns. There is just no substitute for the GEF in dealing with the global environmental problems. Second, we support the Tropical Forest Conservation Act, originally cosponsored in the House by Congressmen Portman, Kasich, and Hamilton, which was approved on the House floor March 19 and is pending before the Senate as S. 1758. If it becomes law, appropriations will be needed. We hope that Members then will look to all possible sources to support this worthy measure—outside Function 150, but also within it, and hence that this Committee's report will create space for this measure. We have appended to my written statement language regarding PiP, the GEF, and the Tropical Forest Conservation Act, which we hope the Committee will find useful in preparing its report accompanying the appropriation legislation it is considering.

IMPORTANCE OF INTERNATIONAL BIODIVERSITY

People in developing countries rely on living natural resources for a multitude of economic and social benefits, and the rest of the world, including the United States, also benefits from them. Biodiversity is critical for the pharmaceutical industry, agriculture and a wide variety of other industrial processes. According to the World Resources Institute, 4.5 percent of the U.S. Gross Domestic Product is due to economic benefits from wild species. Genetic diversity used in plant breeding accounted for about one-half of all the gains in agricultural yields in the U.S. between 1930 and 1980. Major U.S. crops now depend on infusions of new genes from other countries. One-quarter to one-third of all the prescriptions drugs in the U.S. contain compounds derived from wild species. 120 prescription drugs currently come from about 95 species of plants; of these, 39 grow in tropical forests. Botanists believe that more than 35,000 plant species (mostly drawn from tropical forests) provide traditional medicines to local peoples and, hence, are good candidates for future pharmaceutical research. Recently, the Abbott Laboratories company announced the development of a new drug that reportedly uses an entirely new mechanism to block pain with few of the side effects of existing drugs; the active compound was originally found in the skin of a frog living in the tropical forests of Ecuador. Only about 2 percent of plants have been examined for medicinal properties. There is no way to know what new cures we may be losing with each species that goes extinct or what the health care costs can be of remedies never developed.

Moreover, the destruction of natural ecosystems in the developing world is now widely viewed as a major threat to social and economic stability. The true economic value of biological, and other "renewable" resources such as water, may at times be difficult to measure. After all, aren't biological resources and water, by definition, renewable? They can be, but not if species become extinct. Not if watersheds are destroyed. Not if coral reefs are killed. Not if topsoil is blown or washed away. Not if interlocking communities of living organisms are disrupted.

The developing world's economic development (and, ultimately, the health of much of our environment here) is unquestionably tied to the protection of its natural resources. Coastal wetlands, mangrove forests and off-shore reefs, for example, are essential for healthy fish populations—and fish is currently the leading source of animal protein in the human diet worldwide. Forests serve as "carbon sinks" to help control carbon dioxide buildup in the atmosphere. Forests also promote the retention of water and keep soil from blowing away and eroding into critical waterways—waterways that provide drinking water, hydropower, irrigation and transportation to millions of people. Biodiversity enables the recycling of essential elements, such as carbon, oxygen and nitrogen. Parks and protected areas are critical to conserving biodiversity, and they have the added benefit of attracting tourists which generate income and employment. Nature tourism alone already generates $12 billion annually.

By contrast, the degradation of natural and biological resources leads to poverty, hunger, disease and civil unrest. Massive shifts in population density may occur when affected peoples migrate from areas that once were productive but now cannot support them. The linkages between natural resource depletion in developing countries, and the national security of the United States, are real.

USAID'S COMMITMENT TO BIODIVERSITY PROTECTION/THE EXAMPLE OF PARKS IN PERIL

The Foreign Assistance Act states that the protection of tropical forests and biological diversity is a goal of U.S. foreign policy. AID is active in implementing this goal, and its biodiversity conservation activities reach more than 60 countries. These programs focus on developing sustainable economic uses of biological resources; building local capacity for the management of biologically diverse areas, including parks, protected areas and buffer zones; supporting innovative programs for non-governmental organizations in conservation and resource use; encouraging participation of stakeholders, including women, indigenous peoples, and local communities at every stage of decision making; and facilitating the setting of conservation priorities at the local, national and regional level.

The Nature Conservancy strongly believes that the U.S. Government should continue to devote significant resources to the protection of biodiversity. Administrator Brian Atwood has indicated that AID will look to partnerships with NGO's in order to achieve AID's goals in the most cost-effective manner possible. Parks in Peril (PiP) has been a model of long-term cooperation.

Over the course of recent decades, many nations of Latin America and the Caribbean took important initial steps to conserve their living resources by establishing protected area systems to safeguard critical watersheds, coastal and marine ecosystems, wildlife, scenic attractions, and other areas of significance. Unfortunately, these nations often had not succeeded in managing these areas so as to truly protect them—they remained "paper parks."

To address this serious problem, in fiscal year 1990 AID began supporting The Nature Conservancy's Parks in Peril (PiP) program, a public-private partnership that seeks to protect the most threatened national parks and reserves in this hemisphere. Parks in Peril was designed to secure minimum critical management for a series of sites, transforming them into functional protected areas. Parks in Peril is administered by The Nature Conservancy and its Latin American and Caribbean partners, under a series of multi-year cooperative agreements with AID. The program builds collaborative partnerships among national, international, public and private organizations. It has become the largest in-situ biodiversity conservation project in the tropical world and has drawn wide support from other governmental and non-governmental constituencies in the region and around the globe.

Parks in Peril works to achieve four objective goals: (1) To build on-site protection and management infrastructure; (2) to integrate the protected areas with the human societies inhabiting their surrounding regions; (3) to create long-term funding and policy mechanisms to sustain the local management of the Parks in Peril sites; and (4) to use PiP's activities to influence conservation in other sites in the region's most imperiled ecosystems.

AID and the Conservancy have designed a scorecard to measure how well particular sites meet these goals. As they do so, they are "consolidated"—having achieved the program's original goals, they are phased out from receiving direct assistance from the centralized AID program. This transition to long-term sustainability has been from the outset a goal of the program.

Here is a "scorecard" for the program as a whole: to date, AID LAC Bureau funds have supported conservation efforts at 29 PiP sites, comprising over 22 million acres in 12 countries. (Parenthetically, I would note that the Conservancy also works at more than 30 additional PiP sites, totaling another 50-plus million acres.) Of those 29 sites, 14 have been "consolidated." We are working with AID to extend the PiP model to 8 new sites. Four of the new sites are in countries (Brazil, Honduras and Jamaica) where PiP has not operated before. PiP has provided exceptional leverage for the American taxpayer: the $27.5 million PiP has received from AID since its inception in fiscal year 1990 has been formally matched by more than $10 million from The Nature Conservancy, local in-country partners, and governments, but that total greatly understates the real multiplier. Local PiP partners and governments have thus far attracted approximately $180 million of non-AID funding. This includes debt-for-nature swaps, carbon sequestration projects with major U.S. utility companies and partners in developing countries, grants from the Global Environment Facility (GEF) and foreign governments including Japan, the Netherlands, and the European Union.

PiP has worked to protect cloud forests, coral reefs, tropical forests, and savannas. PiP funding has supported efforts to demarcate critical boundaries; recruit, train and equip rangers and community extensionists; build protection infrastructure and provide transportation and communication technology; promote compatible natural-resource use in local communities; carry out baseline studies and biodiversity monitoring; and establish sources of long-term financing for reserve operations. At all PiP sites, local peoples' involvement is stressed, including measures to involve them in management decisions, creation of local opportunities for compatible resource uses and tangible economic benefits from the park. Parks will not ultimately survive unless local people value them and take pride in the their preservation. Parks in Peril is, thus, fundamentally different from one-time grant programs for park protection, and its methodology has become a model toward which the rest of the world is looking.

In concluding the portion of my statement concerning AID's efforts in support of protection of biodiversity, I would note with approval the important cooperative activities of its non-PiP programs. The Biodiversity Support Program (BSP) operates globally to promote biodiversity protection by integrating conservation with on-the-ground development, research, and information exchange. The Biodiversity Conservation Network (BCN) promotes and measures the effectiveness of enterprise-oriented conservation at sites in Asia and the Pacific islands. Both these initiatives have been assistance instruments with The Nature Conservancy, World Wildlife Fund, and World Resources Institute, and have done excellent work.

Before closing, I will briefly touch upon two other topics with great potential for boosting international biodiversity conservation: the Global Environment Facility (GEF) and the Tropical Forest Conservation Act.

*The Global Environment Facility (GEF)*

The Nature Conservancy supports the proposed appropriation of $300 million to the GEF—enough, if approved, to fund the current U.S. pledge level of $107 million and pay off $193 million of arrears. The GEF, supported by 120 members, is an essential financial mechanism. There is just no substitute for the GEF in dealing with the major global environmental issues. Grants from many other countries leverage the U.S. share. The GEF had teething problems early on, but has now largely worked through them. It has committed $1.3 billion for over 200 large projects in more than 80 countries, plus 300 smaller projects funded through its successful Small Grants Program. The GEF is potentially a strategic mechanism to assist countries to develop innovative and effective means to deal with environmental threats, especially as the GEF involves a broader array of stakeholders, such as through its new Medium Sized (up to $750,000) Grants Program. We urge the Subcommittee to fund GEF at the full request level.

*The Tropical Forest Conservation Act of 1998*

H.R. 2870, the Tropical Forest Conservation Act of 1998, passed the House on March 19 with overwhelming support and is pending before the Senate as S. 1758. It has more than twenty Senate cosponsors, broadly bipartisan. It is based firmly on the precedents and administrative structure of the "debt-for-environment" provisions of the Bush Administration's Enterprise for the Americas Initiative (EAI). Under EAI, Western Hemisphere governments could restructure some of their official debt to the United States. They can pay, in local currency to national funds, the money that would otherwise have gone to pay the debts. The funds use the stream of income for environmental protection and child survival. There have been seven EAI trust funds created so far and their funds will receive a total of at least $154 million from local currency payments. The Funds proposed under the Tropical Forest Conservation Act would operate under rules similar to EAI's as they promote debt reduction, swaps and buybacks, but would focus on tropical forest conservation and extend eligibility to include countries in Africa and Asia. The Nature Conservancy welcomes and supports this initiative; so do the World Wildlife Fund, Sierra Club, Environmental Defense Fund, and Conservation International.

The new Act has great potential to boost forest protection. The current status of the world's tropical forests is alarming. Within 25 years, half of all the remaining tropical rain forests are projected to be gone; with them will disappear about 10 percent of all the species currently alive on the Earth. This has implications for the countries where the forests are located, and also for the people of the United States. More needs to be done to protect and preserve the tropical forests, by private and official U.S. action and, especially, by the governments where the forests are located.

The Tropical Forest Conservation Act will, if passed and appropriated, represent an investment by the American people in the survival of forests that have great economic, environmental and moral value. This is the sort of sensible, results-oriented

effort with staying-power that The Nature Conservancy likes. We thank the Congressmen and Senators who have brought it forward and urge that space be found for an appropriation. The bill would authorize $50 million in fiscal year 1999 to pay Treasury's costs under the rules for "scoring" such debt reductions and swaps. The Administration's position toward this legislation, as affirmed by Congressmen Gilman and Hamilton during the House floor debate, is that it supports its passage but has expressed concern about where to find financing. We urge that the Members and Leadership of the Congress look imaginatively within Function 150, but also at other areas of the Federal budget, for possible sources of appropriations.

Thank you for this opportunity to submit to the Subcommittee The Nature Conservancy's views on these important international conservation issues.

APPENDIX TO TESTIMONY BY THE NATURE CONSERVANCY SUGGESTED LANGUAGE FOR FISCAL YEAR 1999 FOREIGN OPERATIONS REPORT

*Parks in Peril*

The Committee notes its strong support for the existing AID Parks in Peril program, a partnership with the private sector to promote biodiversity conservation in imperiled ecosystems throughout Latin America and the Caribbean. AID/Parks in Peril has worked at 29 sites in twelve different countries. It has made significant progress at turning "paper parks" into genuine protected areas, to the extent that 14 sites have been "consolidated" from the program; central AID funding are being phased out to those sites, and the program is shifting its successful methodology to 8 new locations. Since its inception, Parks in Peril has received $27.5 million from central AID funds, formally matched by more than $10 million from The Nature Conservancy, foreign partners, and foreign governments, and has indirectly leveraged more than $180 million from non-AID sources.

*Global Environment Facility*

The Committee believes that the GEF should play a critical role in addressing global environmental problems. As bilateral sources of assistance decline, it will be increasingly important for the U.S. to leverage its contributions through multilateral institutions such as the GEF, an institution that supports a broad range of globally-significant environmental programs. The Committee further notes that, in many developing countries, NGO's have superior capacity and expertise to implement biodiversity conservation projects, and therefore the U.S. should continue to press for improved access for NGO's to GEF funding, such as through active implementation and funding of its new Medium-Sized Grants window with simplified application and accounting procedures.

*Tropical Forest Conservation Act of 1998*

The Committee endorses this measure, which has the potential to protect threatened tropical forests of global significance.

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PREPARED STATEMENT OF THE WORLD WILDLIFE FUND

On behalf of World Wildlife Fund's 1.2 million members, we welcome this opportunity to submit written testimony on the prospective fiscal year 1999 Foreign Operations Appropriations bill. Known worldwide by its panda logo, WWF is the largest international conservation organization working in over 100 countries to protect the rich biological diversity necessary to save life on Earth.

WWF supports the administration's proposed fiscal year 1999 budget increases for bilateral and multilateral assistance programs in the Department of State, U.S. Agency for International Development, and Department of Treasury. These modest increases will help ensure the effectiveness of key international environmental programs essential to protect U.S. national interests.

This statement highlights programs that are important to WWF's goals of conserving global biodiversity by recovering endangered species, effectively addressing global threats—overfishing, toxic chemicals, climate change and unsustainable logging—and ecoregion-based conservation.

BILATERAL ASSISTANCE

*U.S. Agency for International Development*

WWF strongly supports the President's proposed $1.769 billion for USAID's development assistance funds, of which $290 million—an increase of $46 million over fiscal year 1998—is proposed for global environmental programs. USAID's integrated approach to biodiversity conservation and sustainable use recognizes the inter-

dependency of humans, wildlife, and their environment. USAID provides technical and financial support for conservation projects around the world that emphasize community-based conservation of natural resources.

WWF applauds the administration's proposal to devote $730 million in development assistance to the Development Fund for Africa (DFA). This fund assures U.S. commitment to help the countries in Africa achieve broad-based, sustainable economic growth. Given the acute environmental problems in many African nations, biodiversity conservation has long been an integral part of the DFA's goals. For example, the Rwenzori Mountains Conservation Development Project, co-funded by WWF and the DFA, straddles the Uganda-Zaire border and encompasses some of the highest peaks and richest biodiversity in Africa. The project, through collaboration with Rwenzori Mountains National Park staff, is developing a park management plan. Cooperation with local communities emphasizing sustainable forest use and agricultural activities, such as tree planting and bee keeping, help reduce human pressure on the park.

WWF also supports USAID's integration of biodiversity conservation in development assistance programs in other regions of the world. For example:

—In Bolivia, WWF and its conservation partners have played a key role in the creation of two new protected areas, the Otuquis National Park and the San Matia Integrated Management Area, in the Bolivian Pantanal. The Pantanal represents one of the world's largest wetland complexes and supports abundant populations of wildlife, including several endangered or threatened species—jaguar, giant anteater and anaconda. The Pantanal is under assault from an increasing demand for its resources. Forests are being cleared for agriculture and timber, rivers are threatened by toxic chemical pollution, gold mining is crippling the river ecosystems. With USAID funds, management plans are being developed and implemented for these two protected areas.

—In Nepal, USAID funds a project to conserve biodiversity in the Shey Phoksundo National Park. Shey, covering over 3,500 sq. km., was set aside to protect one of the last habitats for the endangered snow leopard, blue sheep, wild yak and other wildlife. Communities living adjacent to the protected areas depend heavily on forests and rangelands for energy, fodder and timber. The USAID-funded program strengthens the conservation and resource management capacities of local people and promotes sustainable enterprises to raise rural incomes.

*USAID'S Climate Change Action Plan*

Climate change issues have been an important and long-standing part of the USAID's environmental agenda. For several years, USAID has actively funded conservation projects that have reduced greenhouse gas emissions.

WWF is encouraged by USAID's proposed Climate Change Action Plan, which reflects a renewed effort to facilitate technology transfer and collaborate with developing and Central and Eastern European countries to achieve the goals of the U.N. Framework Convention on Climate Change. The use of credit mechanisms, such as development credit authority to leverage funds for climate friendly investments, are vital to breakdown barriers to energy efficiency and renewable energy. WWF believes that win-win strategies are available that simultaneously promote sustainable development and combat climate change by reducing emissions. Furthermore, these strategies can be carried out through projects which advance development priorities of both the developing countries and the United States.

*Tropical Forest Conservation Act*

WWF enthusiastically supports the Tropical Forest Conservation Act (S. 1758), introduced by Senator Lugar on March 13. Similar legislation passed the House of Representatives on March 19. The legislation will protect the world's dwindling tropical forests by providing urgently needed resources for forest conservation. When the bill is enacted, we urge the Subcommittee to appropriate the authorized level of $325 million over three years, beginning with $50 million for fiscal year 1999.

Intact forests are essential to global biodiversity conservation. However, there is a severe crisis in many parts of the world resulting from forest destruction. An estimated 40 million acres, more than one percent of total forest land, disappear every year. The woeful lack of resources in many countries to stem this destruction is equally alarming. The severe forest fires burning in Brazil and Indonesia dramatically underline the seriousness of the problem.

The Tropical Forest Conservation Act authorizes "debt-for-nature swaps," whereby outstanding bilateral government debt owed to the United States is reduced. In exchange, the eligible developing country places local currencies in a tropical forest fund to finance preservation, restoration, and maintenance of its tropical forests.

The appropriation compensates the U.S. Treasury for any revenues lost due to the restructuring of outstanding debt. For several years, the U.S. government has been involved in debt-for-nature swaps, the most well-known being the Enterprise for the Americas Initiative established under the Bush administration.

In addition to the bill's important contribution to financing forest conservation, H.R. 2870 offers other benefits:

—U.S. contributions by means of debt restructuring can serve as a model for European and Asian nations to do the same with debt owed them by some of the world's poorest countries.

—Establishing environmental funds in developing countries helps strengthen democracy and nongovernmental organizations. Environmental funds promote accountability and consensus-building and often bring together governments and non-governmental organizations for the first time.

—Delivering U.S. international assistance via trust funds for the purpose of tropical forest conservation is an issue Americans care about.

—Offering an opportunity for the U.S. to encourage other bilateral creditors, the IMF, and the World Bank to actively pursue opportunities to apply the debt-for-nature mechanism to many poorer countries that will participate in the World Bank's Highly Indebted Poor Country (HIPC) Initiative.

MULTILATERAL ASSISTANCE

*Department of State*

WWF supports the administration's fiscal year 1999 request for $6 million for the International Conservation Programs of the Department of State's International Organizations and Programs account. This amount will finance crucial conservation programs such as the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), Ramsar Convention on Wetlands of International Importance, and the World Conservation Union (IUCN).

We urge the Subcommittee to direct the Secretary of State to meet the U.S. commitment of $1.123 million to the core budget of the CITES Secretariat. It is especially important to provide full funding for CITES in light of decisions made at the 1997 Conference of Parties adding significant new responsibilities to the Secretariat for monitoring threatened and endangered species such as the African elephant.

WWF supports an increase of $250,000 over the fiscal year 1998 level of $750,000 for the U.S. contribution to the Ramsar Convention on Wetlands of International Importance. This increase would fund the new "Wetlands for the Future" program in Africa. Successfully piloted in Latin America over the past four years, the "Wetlands for the Future" concept provides funding directly to local groups for wetlands conservation. We believe the program should be expanded to Africa in order to provide habitat for a wide range of animals as well as natural resources for people.

In addition, we support an increase over the fiscal year 1998 level of funding for the World Conservation Union (IUCN). IUCN has been instrumental in implementing the important international agreements such as CITES, the Biological Diversity Convention, and the Ramsar Convention. IUCN, a union of 70 governments, 100 government agencies, 700 non-governmental organizations (NGO's) and over 8,500 volunteer experts operating in more than 180 countries, has been recognized by the U.S. government as a unique forum that strengthens cooperation among international programs, national and local governments and the private sector, and in translating global policy into practical action.

*International Development Association (IDA)*

WWF supports the administration's fiscal year 1999 request for $800 million for full payment to the twelfth International Development Association (IDA) replenishment.

IDA, the concessional window of the World Bank, is the single most important source of development finance for the world's poorest countries. Through investment in specific projects and economy-wide or sector-specific reform programs, IDA can address the root causes of political and economic instability such as extreme poverty, environmental degradation, and weak institutions of government and civil society.

IDA also is cost-effective—every U.S. dollar contribution leverages several additional dollars from other donors. Finally, IDA is responsive to U.S. leadership, which has been responsible for recent reforms to make the institution more transparent and accountable.

While IDA and the World Bank have been criticized for failing to pay adequate attention to poverty reduction and to the environment in its policies and loan-funded operations, WWF believes that U.S.-led progress toward reform is sufficient to

justify continued support. Moreover, prospects for continued reform are strong—the World Bank's Board of Executive Directors last year approved a "Strategic Compact" with bank management to invest resources in improving the bank's efficiency and effectiveness as well as to focus its efforts in such critical areas as social analysis, rural development, and capacity-building in Africa.

From WWF's perspective, there is unexploited potential for IDA and the World Bank Group to play a more proactive role in promoting environmental sustainability in the context of individual borrower countries and the global community as a whole. Indications that the bank is moving in this direction are the recent global alliance between the World Bank and WWF for forest conservation and sustainable use.

WWF believes that meeting the administration's request for IDA funding this year would provide a signal of support for such initiatives and for the important new direction the institution has taken.

*The Global Environmental Facility*

WWF endorses the administration's fiscal year 1999 request for $300 million for the Global Environmental Facility (GEF) to pay the accumulated arrears ($192.5 million) as well as the current U.S. contribution ($107.5 million). While this amount is a substantial increase over the fiscal year 1998 appropriated level, WWF believes the GEF is the only international financial institution dedicated solely to assisting qualified countries in addressing critical environmental threats—biodiversity loss, degradation of international waters, climate change, and the thinning of the ozone layer. U.S. national interests require that these environmental threats be addressed on a global scale.

We urge the Subcommittee to examine the GEF's strengths, its untapped potential and its receptivity to reform. Specifically, we urge the Subcommittee to consider the following examples of success:

—*"A learning institution"*.—The GEF, only in its third year of full scale operation, considers itself a "learning institution," committed to incorporating into the future, lessons from the past. A recently released independent performance study commissioned by the GEF Council recommended a number of ways the GEF could be strengthened. The council has adopted them.

—*A catalyst for reform*.—The GEF has been a catalyst for environmental reform in the policies and operations of its implementing agencies—the World Bank, United Nations Development Program (UNDP), and United Nations Environment Program (UNEP). The GEF's operating principle of "mainstreaming" (i.e., integrating global environmental concerns into the non-GEF operations) has led to closer scrutiny of the World Bank's commitment to integrating environmental concerns into its core projects.

—*A good record, the small grants program*.—The GEF's small grants program, by which GEF funding effectively reaches the field level, has been widely viewed as a success story. Some 300 smaller local projects have been established under this program.

—*Leveraging power*.—Every dollar from GEF leverages an additional $4 from the private sector, recipient countries and bilateral donors, thus ensuring funding for full-scale projects.

—*Direct American benefit*.—Last year, U.S. companies were the largest beneficiary of GEF procurement, receiving $48 million (16 percent of total procurement and 30 percent of contracts to industrialized countries).

—*Problem solving*.—The GEF deserves credit for successfully addressing problems such as slow disbursement of funds hampered by insufficient strategies and project criteria and cumbersome procedures for NGO access to the fund. These issues have been largely resolved, including the establishing of new procedures to streamline NGO access.

The staff at WWF can personally attest to productive NGO and GEF cooperation in furthering biodiversity conservation. For example:

—*Galapagos project*.—Through its mid-size grant program, the GEF is funding a project jointly managed by its Ecuadorian associate Fundacion Natura and WWF to help conserve the world famous archipelago, the Galapagos Islands. While the Galapagos have so far survived major human incursions, the islands face significant threats, including overfishing due to heavy external demand for certain marine products, increasing impacts from tourism, and increasing immigration from mainland Ecuador for jobs in tourism and fishing industries.

The Galapagos project will establish information systems to monitor the environmental impact of policy decisions and the conservation status of the Galapagos. The systems will, for example, monitor the impact the fishing industry is having on the ecosystem, monitor the status of introduced species to the islands,

and the impacts of tourism. Compiling this information is important in order to better evaluate the threats to the islands, and serve as an important basis for policy decisions.

—*Caribbean of Central America and Mexico*.—With GEF funding, the regionally-based Central American Commission for Environment and Development is mobilizing conservation efforts on an ecoregional scale in the Meso-American Caribbean Reef. The Meso-American Caribbean Reef is the fourth longest barrier reef in the Western Hemisphere and contains the most diverse coral reefs in the western Atlantic. It is located along the coast of four countries—Belize, Mexico, Guatemala, and Honduras. In 1997, these countries signed the Tulum Declaration to establish political guidelines and principles for the reef's preservation. There are significant pressures on the reef system—overfishing, water quality degradation due to municipal waste, ocean-going vessels, and banana plantations, and development for tourism. The Central American Commission will establish and improve management of protected areas and strengthen regional development to support conservation of this important natural system.

—*Bhutan Trust Fund for Environmental Conservation*.—The BTF currently has assets of approximately $30 million, including grants from WWF and the Global Environment Facility. Founded in 1991, the trust fund has financed a number of major activities, revised a national protected areas system, developed a management plan for the Royal Manas National Park which hosts an astounding variety of rare and endangered species, and developed a biodiversity information system. The World Bank supervised the implementation of BTF's benchmark activities, accomplished well ahead of schedule. The bank, when it ended its supervisory role last year, noted in its final report, "a fund such as the BTF probably has better prospects for serving the long-term conservation objectives of the (Royal Government) than any other financial device."

Ultimately, GEF must be judged by its track record on improving the environment. There are hopeful signs that GEF projects are making a real difference on the ground. WWF urges the Subcommittee to appropriate the administration's requested level, to give the GEF the opportunity to achieve more and reach its full potential. The U.S.'s continued underfunding of the facility at this early stage in its development undermines the GEF's full effectiveness and undercuts U.S. influence in shaping the facility's direction.

Finally, the success of U.S. domestic environmental policy ultimately depends on effective global collaboration. The GEF provides the forum for such collaboration.

### CONCLUSION

For more than three decades, the United States has been a key participant and catalyst in global efforts to protect endangered and threatened wildlife, to promote international cooperation on environment and science, and to support community-based efforts in conservation and biodiversity. WWF urges the Subcommittee to support the administration's efforts to restore much of past years' budget loss, thereby helping to regain U.S. prominence in global environmental programs.

World Wildlife Fund looks forward to working with the Subcommittee on the Foreign Operations bill. Thank you again for the opportunity to present our views.

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## INFECTIOUS DISEASES

### PREPARED STATEMENT OF THE PAN AMERICAN HEALTH ORGANIZATION

The Pan American Health Organization (PAHO) would like to thank the members of the Subcommittee on Foreign Operations for the opportunity of presenting this statement.

The Pan American Health Organization is the oldest continuing health agency in the world. It was founded in Washington, D.C. in 1902. It has 35 Member States from the Americas, three Participating Governments, and one Associate Member Government. The United States was one of its original founders. PAHO cooperates with its Member States, individually and collectively, in designing and implementing measures to improve the health of their populations.

### ANTIBIOTIC RESISTANCE

In the Region of the Americas, as in the rest of the world, antimicrobial resistance poses a major and growing threat to public health. Drug-resistant strains of microbes are having a deadly impact on the fight against tuberculosis, malaria, cholera, diarrhea and pneumonia, major diseases that together kill more than 10 million

people worldwide each year. Disastrously, this is happening at a time when too few new drugs are being developed to replace those that have lost their effectiveness.

Many of our most powerful antibiotics have been rendered impotent. The two most common bacteria that are the major cause of death in children through acute respiratory infections, particularly pneumonia, are becoming more and more resistant to drugs. Antibiotic resistance in hospitals throughout the Region threatens to leave medical and public health workers virtually helpless in the prevention or treatment of many infections. Antibiotic resistant bacteria are responsible for up to 60 percent of hospital acquired infections in the United States, for example. Resistance means that people with infections are ill for longer periods, and are at greater risk of dying. Disease epidemic are prolonged, as well. Moreover, with the enormous increase in the frequency and speed of international travel, individuals infected by resistant pathogens during travel abroad may introduce those pathogens into other countries where resistance can spread. Tourism alone mobilizes over 110 million people per year in the Region of the Americas.

Major factors that contribute to antibiotic resistance are the uncontrolled and inappropriate use of antibiotics. There is a need to prevent the improper prescription of these drugs by the medical community, and their non-prescription use by the population at large. In addition, implementation of legal and policy guidelines that mandate the rational use of antibiotics must be promoted.

An additional constraint in this area is the lack of reliable data to determine the real magnitude of antibiotic resistance in the Region and to provide baseline information for planning interventions. In order to address this situation and the misuse of antibiotics, PAHO feels that it is necessary to collaborate with the best and most influential individuals working in the countries on the issue, especially if changes in policy and health care practices are to be promoted in the near future. Some work is already in progress with organizations in the United States, including collaboration with the Centers for Disease Control and Prevention (CDC), the Agency for International Development, the National Institutes of Health, other research institutions, national and regional professional associations, pharmaceutical companies and others.

PAHO, together with the World Health Organization, the Ministry of Health of Venezuela, and the Pan American Society of Infectology will cosponsor the Pan American Conference on Antibiotic Resistance, to be held in Venezuela in November 1998. During this event, information will be gathered on the current situation of antibiotic use and resistance in the Region, especially in regard to public policy, health care practices, economics, quality control, surveillance and training. A series of group discussions will also take place, and it is expected that a product of the discussions will be a sound plan of activities for the next five years, aimed at strengthening surveillance and promoting policy formulation. Also invited are technical experts form the CDC, participants from four major drug companies and other international experts.

### INFECTIOUS DISEASES SURVEILLANCE

Today communicable diseases continue to be the major source of illness and death in developing countries, but industrialized countries are becoming increasingly aware that they too are at risk from many new and reemerging diseases. Infectious diseases today affect us all in many spheres of life. The socioeconomic development of many nations is being crippled by the burden of these diseases, which cause huge losses in foreign currency and income from food trade and tourism as a result of epidemics of diseases such as cholera, plague and other diseases. Another case in point is dengue, which in recent decades has reemerged with dramatic force and is now endemic in most of the Americas. During 1997 alone, 387,000 cases were reported with the consequent losses in productivity and impact on health services.

The problem of emerging and reemerging diseases must be approached from a regional perspective, since it does not affect countries in isolation any longer. For example, with the enormous increase in the frequency and speed of international travel, individuals infected during travel abroad may introduce a given disease into a previously unaffected area in a matter of hours.

Infectious diseases are not only a health issue. They have become a social problem with tremendous consequences for the well being of the individual and the world in which we live. In order to control these diseases, we need to have strengthened epidemiological surveillance systems nationally and internationally to detect infectious diseases and, particularly, drug-resistant forms.

PAHO is currently working very closely with the CDC, the U.S. Department of Defense, national research institutes, ministries of health and other partners to de-

velop a regional surveillance system for infectious diseases, as well as to strengthen existing antimicrobial surveillance programs for selected pathogens.

In order to strengthen the regional capability for emerging and reemerging diseases surveillance in the public health sector, effective plans for data collection, analysis, investigation and prompt intervention are being prepared with the following objectives: (a) strengthening regional infectious disease surveillance networks as well as the capacity to implement effective prevention and control strategies; and (b) developing the national and regional infrastructure for early warning of and rapid response to the threat of diseases.

Once in place, the new surveillance system will make use of available Internet technology to build e-mail and Intranet systems (closed access) for communications. Access to the system will be granted to ministries of health and PAHO/WHO Country Representative Offices in each country; the Canadian Laboratory Centers for Disease Control (LCDC), and the U.S. Centers for Disease Control and Prevention (CDC) and the Department of Defense. All participants will have equal access to the common database for analysis. Once the project is finalized, surveillance systems and corresponding infrastructures will be in place which are capable of monitoring emerging pathogens and diseases for the confirmation of current epidemics; assessment of health and socioeconomic impact and likely evolution of the problem; and determination of local response capacity, identification of most effective control measures, and assessment of additional immediate needs.

TUBERCULOSIS

Tuberculosis, a curable and preventable disease, remains a major public health threat in the Region, with an estimated 400,000 new cases occurring each year. Each case is at risk of death without proper treatment. Each year 60,000 to 75,000 persons die, the majority of them in their most productive adult years. An estimated 3–5 percent of all new cases in the Region are attributable to co-infection with the human immunodeficiency virus (HIV). Fewer than two-thirds of all new cases are reported, and most that go unreported will receive inadequate treatment or no treatment. As a result of poor treatment, some patients may develop and spread drug-resistant strains.

To confront what the World Health Organization has declared a "Global Health Emergency," the World Health Assembly has adopted two objectives for tuberculosis control for the year 2000 which will diminish morbidity, mortality and transmission of the disease: cure of 85 percent of all detected pulmonary smear-positive (infectious) cases; and detection of 70 percent of these incident cases. WHO has just announced that due to the slow pace of many large, high TB incidence countries, the global targets will not be met. Many of the countries of the Americas could still meet these targets, but only if we intensify our actions and find additional resources.

The global strategy for control of the disease is based on the implementation of a strategy call Directly-Observed Treatment Short-course ("DOTS"). It is among the most cost-effective health interventions available, and is included in the World Bank's proposed "essential package of health services." The five elements of the global control strategy are: government commitment to a TB program; case detection through predominantly passive case-finding; standardized and directly-observed short-course chemotherapy for all pulmonary smear-positive cases; regular drug supply; and a program monitoring and evaluation system.

The DOTS strategy makes a difference in the American countries. Countries that have applied it are doing far better in curing cases and in evaluating their work. For the 10 countries and two territories applying DOTS in 1995, 76 percent of patients were successfully treated, compared to only 30 percent in the 13 non-DOTS countries who reported to PAHO/WHO. In 1995, DOTS countries reported results for 91 percent of their patients vs. 41 percent for non-DOTS countries. Of patients successfully treated, 89 percent were lab-confirmed cured in DOTS countries. In non-DOTS countries, only 40 percent were confirmed.

Still too many countries have not begun to use the DOTS strategy or are applying it incompletely. More support is needed to purchase drugs, train and supervise health workers, equip labs and motivate the public to help find and cure patients.

Recent national surveys show that multidrug resistant TB is present and poses a real threat to the public and to disease control programs. Treatment of these patients is often too costly for public health systems. They are less likely to be cured and are more likely to die, even with treatment. Drug-resistant TB can develop as a result of poor prescribing and treatment monitoring, drug supply problems, and poor patient compliance. The DOTS strategy addresses each of these problems.

PAHO seeks to improve awareness of the TB epidemic and of the DOTS strategy. It works with Member countries and partner agencies in training health personnel, building inter-country collaboration, developing tools to facilitate the application of the DOTS strategy, mobilizing resources for effective and sustainable programs, and encouraging investigation of new interventions.

The main international agencies and non governmental organizations working with PAHO in different countries are: World Bank (Haiti, Venezuela); International Union Against Tuberculosis and Lung Disease (Central America, Cuba, Bolivia, Peru); United States Centers for Disease Control and Prevention (Mexico, CAREC, Argentina, Peru); Royal Netherlands Tuberculosis Association (Bolivia, Central America); U.S. Agency for International Development (Bolivia, Honduras, El Salvador, Mexico); Canadian International Development Agency (Ecuador, Peru); Laboratory Centers for Disease Control, Canada (Supra national reference laboratory for the countries in the Region); Damien Foundation, Belgium (Guatemala, Panama); German Leprosy Relief Association (Colombia, Ecuador, Brazil, Bolivia, Paraguay); and German Federal Ministry of Economic Cooperation (Ecuador).

## MALARIA

*Epidemiological Surveillance for Malaria Control*

PAHO has been monitoring and advising on epidemiological activities of malaria eradication and control programs in the Region for at least 44 years. Standard malariometric indices and operational indicators are calculated in order to measure the impact of control activities and to assess the adequacy of intervention efforts. Surveillance data, including trend analysis and epidemiological situation assessment in each endemic country, are reported annually in a document on the "Status of Malaria in the Americas."

These data are used as follows: to define and classify endemic areas according to levels of transmission risk; to classify geographical areas by operational phase of intervention and surveillance activities; to measure specific indicators of disease incidence according to parasite species; to analyze epidemiological trends, identifying key factors associated with the trends; to extend the knowledge of biology and vectorial capacity of anophelines; to estimate coverage of population in endemic areas according to different case-finding strategies; to adjust the different surveillance strategies according to endemic level; to assess coverage rates of insecticide spraying for vector control; to evaluate availability of antimalarial drugs and their distribution; to identify social and economic risk factors associated with transmission in areas of recent colonization, deforestation and mining; to predict epidemics based on population movements in the endemic area; to assess the onset and map malaria drug resistance and advise on antimalarial drug policy; to identify structural and functional deficiencies in the control programs; to implement a strategy for control based on a stratification of rates defined for each locality; to perform cost-effectiveness analysis of control programs; to promote decentralization as the appropriate strategy to increase coverage for diagnosis and treatment, as defined in the Global Strategy for Malaria Control.

*Current situation of P. falciparum resistance:*

P. falciparum resistance in the Americas is highly variable as is the ability of the health services to provide prompt diagnosis and proper treatment for malaria. Although this variability is related to the parasite reservoir movement (population), special groups of people are more affected by the parasite resistant strains than the population as a whole, mainly those who live in primitive organized social communities (indigenous peoples, hunters and gatherers) and those with high risk behaviors, such as those seeking the extraction of natural resources utilizing low technological means (subsistence agriculture, gold/gem mining and lumber).

From the population exposed to highest risk of transmission in the Americas (46.3 million persons or 5.9 percent of the total population), between 1994 and 1996 there was an increase from 9.8 to 12.1 million exposed to high P. falciparum transmission, resulting in a very high incidence rate (> 1,900 cases per 100,000 exposed population). This spread of P. falciparum exposure is particularly severe in the Andean Countries' rain forests.

*Major challenges and constraints*

There are three major challenges to malaria control in the Americas; one is related to the need for a change in the public health perception that "malaria control is obtained by insecticide spraying and this can only be done by a major operational institution." Major advances in the implementation of new concepts and expansion of coverage have been achieved in Bolivia, Brazil, Colombia, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Peru and somewhat in Venezuela.

The second and third major constraints are related: drastic budgetary reduction, and major administrative processes of decentralization of health services.

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PREPARED STATEMENT OF THE UNIVERSITY HEIGHTS SCIENCE PARK

Infectious diseases now pose a profound threat to national and international security. Changing international conditions, post-Cold War deployment of U.S. troops in new geographic areas, and an increasingly global economy have contributed to a resurgence of infectious microbes. The rapid and repeated exposure to diseases arising in any part of the world is now a reality for military men and women as well as our citizens at home. In 1980, there were 280 million international travelers, including military personnel. By the year 2000 there will be 400–600 million international travelers. In response, many federal agencies are developing infectious disease initiatives to address the emergence of new infectious agents as well as the re-emergence of known infectious agents in drug resistant form. The creation of the International Center for Public Health is a direct response to this emerging public health crisis.

The International Center for Public Health is a strategic initiative that will create a world class, infectious disease research and treatment complex in University Heights Science Park, Newark, New Jersey. Science Park is located in a Federal Enterprise Community neighborhood. The International Center will have substantial local, regional, national and international impact as it addresses many critical social, economic, political and health related issues. The Center is a $78 million anchor project that will launch the second phase of a fifty-acre, $350 million mixed-use urban redevelopment initiative, University Heights Science Park. The facility will total 161,600 square feet and house three tenants: The Public Health Research Institute (PHRI), the University of Medicine and Dentistry of New Jersey's (UMDNJ) National Tuberculosis Center, one of three Federally funded TB centers, and the UMDNJ New Jersey Medical School Department of Microbiology & Molecular Genetics. The International Center for Public Health is a priority project for UMDNJ, Rutgers Newark, the New Jersey Institute of Technology, Essex County College and the City of Newark.

The core private tenant for the International Center is PHRI. PHRI is an internationally prestigious, 57-year-old biomedical research institute that conducts a broad range of infectious disease and public health research. A major PHRI research focus is the study of antibiotic resistance to life threatening bacterial organisms, and the development of new antibiotics. Among its many accomplishments over the years, PHRI has contributed to the development of smallpox vaccine, developed a new diagnostic assay for influenza, conducted early experiments on oncogenes, cloned the gene responsible for toxic shock syndrome, and identified the multi-drug resistant TB strain "W". PHRI's current research centers on molecular pathogenicity, drug discovery, drug resistance, diagnostic and vaccine development, and gene expression. Scientific disciplines include virology, immunology, biochemistry, genetics, cell and structural biology, and regulation of cell development. Presently, PHRI supports a staff of 110, including 20 Principal Investigators. These numbers will double in the move to the International Center.

UMDNJ will be the primary medical center linkage and academic affiliation for the Public Health Research Institute. The New Jersey Medical School National Tuberculosis Center at UMDNJ, one of only three model Tuberculosis Prevention and Control Centers in the United States funded by the CDC, will add an important clinical, epidemiological and training component to the International Center, since many TB patients also manifest other infectious diseases, and knowledge and strategies to deal with the world wide epidemic are seriously deficient. The TB Center was founded in 1993 as a response to the national resurgence of antibiotic resistant tuberculosis strains. At the time, Newark had the nation's second highest rate of TB cases for a major city.

Rounding out the International Center's initial tenants will be the New Jersey Medical School's Department of Microbiology & Molecular Genetics. The Department's relocation will add a staff of 100 to the Center's critical mass of microbiology research. Currently the seventeen-member faculty conducts research in control of cell proliferation; cellular aging; transcriptional, post-transcriptional, and transcriptional regulation; mutagenis; DNA replication and recombination; chromosome structure and segregation; human molecular genetics; and molecular pathogenesis of viruses, bacteria and parasites.

Together PHRI, the National TB Center and the Department of Microbiology & Molecular Genetics will create a world class research and treatment complex having substantial local, regional, national and international impact.

Other collaborators in the development of the International Center include the New Jersey Department of Health & Senior Services (NJDHSS) and the pharmaceutical industry. Responsible for overseeing all statewide public health initiatives, NJDHSS will contract with the International Center to have cutting edge molecular epidemiology services provided to the State of New Jersey. Expanding the strategic use of molecular epidemiology to direct public health activities will facilitate prompt identification and containment of emerging and re-emerging pathogens. New Jersey's major biomedical companies will also participate in the International Center. An infectious disease consortium will be developed to serve as a forum for disseminating fundamental research on the underlying molecular processes of infectious disease organisms. This research will contribute to pharmaceutical industry development of new drug therapies for antibiotic resistant microorganisms. Private industry R&D facilities contiguous to the International Center are also being explored.

The International Center for Public Health will be located in University Heights Science Park (UHSP). UHSP is a collaborative venture of Newark's four higher education institutions, the City and Community of Newark, and private industry designed to harness university science and technology research as a force for urban and regional economic and community development. The university sponsors, New Jersey Institute of Technology (NJIT), The University of Medicine & Dentistry of New Jersey (UMDNJ) and Rutgers University at Newark, annually conduct nearly $100 million of research in Newark, much of it federally funded. Essex County College trains technicians in eleven science and technology fields, and prepares Newark residents for employment with Science Park technology companies. Four Newark based companies also sponsor the Park: Public Service Electric & Gas, The Prudential Insurance Company, First Union National Bank and Bell Atlantic of New Jersey.

Located in a Federal Enterprise Community neighborhood, UHSP is a 50-acre, mixed-use, science and technology park in Newark's Central Ward, adjacent to its higher education sponsors. At buildout UHSP will include one million square feet of technology commercial space, 75,000 square feet of technology incubator space, up to 20,000 square feet of retail business opportunities, an 800 student technology high school, two blocks of new and rehabilitated housing and a community day care center. The $10 million first phase of Science Park is complete and includes the NJIT Enterprise Development Center 2 (a technology business incubator), a 100 child day care center and the CHEN Building (housing the industrial laboratories for the Center for Biomaterials and Medical Devices). CHEN is the acronym for the Council for Higher Education in Newark, the four universities who founded Science Park. For almost two decades CHEN has jointly sponsored educational, housing, and retail/commercial projects in Newark's public schools and the neighborhoods of University Heights. The NJIT technology incubator was completed in fall 1996, and is now 100 percent leased. Nearly half of the 17 incubator companies are MBE/WBE's. In addition, over half of the children in the Science Park day care center are from the surrounding community, and the majority of day care center staff are from Newark.

The construction of the International Center will anchor the second phase of Science Park, and serve as a magnet to attract pharmaceutical, diagnostic and other biomedical companies to Science Park. The Center will have the same impact on the Park as an anchor store does in a retail shopping mall.

*How the International Center for Public Health Addresses Foreign Operations Objectives*

The United States is vitally concerned with the impact of infectious diseases on individuals in foreign countries, both because of the health impact on the citizens of those nations, as well as the threat posed by exposure to diseases as the result of increased world travel resulting from an ever-expanding global economy. Individuals traveling to new geographic areas always encounter new infectious disease threats. Of particular concern are new and re-emerging diseases, food-borne diseases, and drug resistant organisms.

USAID recognizes that disease and endemic ailments often overwhelm and disrupt developing countries, posing a strategic challenge to the U.S. The spread of HIV/AIDS, drug resistant tuberculosis, and other infectious diseases consumes resources needed for long-term investments. Without long-term investments, long-term stability cannot be achieved. USAID is actively seeking to implement health related programs it considers vital through partnerships with non-governmental and private organizations. The International Center will contribute to the achievement of these objectives in the following ways:

—The Center will develop cooperative programs with foreign governments to implement molecular epidemiology techniques as a means of focusing public health

priorities and programs in those counties. PHRI is presently engaged in a 13-nation European Economic Community DNA TB fingerprinting project, and is in discussions with Egypt, Indonesia, and Russia to provide similar and expanded infectious disease services. UMDNJ's National Tuberculosis Center is currently consulting with the Singapore government to develop a TB Elimination Plan, with the Center's Executive Director chairing an international advisory panel. Staff training is currently being provided during the implementation phase of the Elimination Plan. The National Tuberculosis Center, through its International Scholars Program, is currently training physicians and other staff from China, India, the Netherlands, Singapore and Japan.

—Last summer, PHRI received a $12 million grant from Mr. George Soros to implement infection control laboratories and programs in Russia. This grant was the result of an earlier successful collaboration between Mr. Soros and PHRI, in which PHRI administered the distribution of $130 million of Soros funds to Russian research scientists following the end of the Cold War in an attempt to prevent a mass scientific community exodus from Russia. On March 5, 1998 PHRI, representing the International Center for Public Health, presented the Russian Infectious Disease Program to the Medical Committee of the Gore/Chernomyrdin Commission in Washington, D.C. Attached is a progress report on the implementation of the Russian program.

—The most notable part of the collaboration between UMDNJ's TB Center and PHRI is the fact that for several years, the WHO and CDC have been unsuccessful in convincing Russia with its monumental TB problem to adapt the DOTS strategy (Directly Observed Therapy Short course) even though the DOTS program is the WHO's global tuberculosis programme's standard of care, and its implementation is their highest priority worldwide. Last July, A PHRI/National TB Center site visit team analyzed the PHRI/Soros program and recommended that it not be carried out unless the Russian ministry of health adopted the DOTS strategy. In September, 1997, U.S. Secretary of Health and Human Services, Donna Shalala, announced at the Gore-Chernomyrdin Commission meeting in Russia that the Russian Ministry of Health would be using the DOTS strategy. This decision was further reiterated at the Gore-Chernomyrdin Commission meeting held in Washington, D.C. earlier this month.

—A mission of the International Center is the establishment of molecular epidemiology laboratories in foreign countries. PHRI just signed an agreement with Egypt to establish elements of the Russian program in that mid-eastern country.

—The National TB Center currently collaborates with the International Union Against Tuberculosis and Lung Disease (IUATLD, an NGO) and WHO, providing them with ongoing consultations and TB staff training. On March 18–19, I was the only non-U.S. government representative from North America among the 17 member WHO Ad Hoc Committee on the Global Tuberculosis Epidemic.

—The International Center will raise private funding to supplement governmental funding for these programs.

*Request For Assistance*

Through the leadership and direction of the Governor Christine Todd Whitman, a Memorandum of Understanding (MOU) was signed between the State of New Jersey, UHSP, UMDNJ and PHRI in October 1997. The MOU commits $60 million of State loan and grant funds toward development of the $78 million International Center for Public Health. Science Park is working closely with the New Jersey Economic Development Authority, through whom project bonds will be issued and 14-acres of land acquired. Presently the Science Park partners and International Center for Public Health tenants are seeking the remaining $16 million from Federal and private sources during 1998. Groundbreaking is scheduled for March 1999.

University Heights Science Park is requesting $5 million from the United States House Appropriations Subcommittee on Foreign Operations for fiscal year 1999 to support the International Center for Public Health. On behalf of the University of Medicine and Dentistry, I want to thank the Committee for the opportunity to present this request. We appreciate your consideration of our proposal, and hope to receive your support for the creation of the International Center for Public Health at University Heights Science Park, Newark, NJ. This project is a top priority for UMDNJ, Rutgers Newark, the New Jersey Institute of Technology, Essex County College and the City of Newark.

PHRI/SOROS RUSSIAN INFECTIOUS DISEASE PROGRAM, AN INITIATIVE OF THE INTERNATIONAL CENTER FOR PUBLIC HEALTH EXTRACTS FROM PROGRESS REPORT OF DR. ALEXANDER GOLDFARB, PHRI PROJECT DIRECTOR—JANUARY 29, 1998

*Introduction*

This program is carried out by the Public Health Research Institute (PHRI) under a $12.3 million grant from the Open Society Institute (Soros Foundation). The program is part of the $500 million pledge of aid to Russia made by Mr. Soros last October. The aim of this program is to combat emerging infectious diseases in Russia, with special emphasis on TB and hospital infections. This extract covers the period from project inception in October 1997 through the end of January 1998.

*Highlights*

The groundwork for Clinical Microbiology Laboratory at the Moscow Medical Academy has been completed with regard to space preparation, personnel recruitment, purchase of equipment and supplies. The first Russian team begins training in Canada in February.

A full TB control program is under way in Tomsk. This includes a comprehensive reform of the regional TB service and provision of TB care in the prison system. The program is the prototype for similar programs to be implemented in other regions.

TB control programs are in the development stage in Ivanovo, Marii El, Nizhniy Novgorod and Leningrad oblasts.

*Tuberculosis*

Four specific problems are addressed by our TB program: (1) The catastrophic rise of TB within the Russian prison system; (2) The presumed high incidence of multiple drug resistant TB, particularly among inmates, compounded by general lack of reliable specific information on this subject; (3) The resistance to the World Health Organization (WHO) recommended Directly Observed Therapy—Short Course (DOTS) approach from the old-school Soviet TB establishment; and (4) Waste and inefficiency in the regional TB control services; need for health care management reform.

*Tomsk Regional Government*

We have chosen to first tackle these issues in a single regional demonstration project (Tomsk), and then expand to other regions. Tomsk was chosen because of its relatively advanced status due to the prior work of the British medical group MERLIN. Tomsk is fairly typical for Russia, and MERLIN's work provided specific and detailed insights into the situation.

We succeeded in bringing the issues of TB control to the personal attention of the Tomsk Governor. The approach that we offered was for PHRI/Soros to provide bridge financing for TB service reform in exchange for binding guarantees of long-term funding from the local government and political support of the restructuring.

A working group was set up that included representatives of PHRI, MERLIN, Tomsk Regional TB service, Tomsk Regional Department of Health, the Governors office, the Ministry of Health in Moscow and the Moscow Research Institute of TB.

As the result, an agreement between PHRI and the local government of Tomsk was reached on a three-year plan which includes the following components:

—cuts and reductions in the inefficient parts of TB service that will lead to savings of $2 million a year. This includes reduction of the number of TB hospital beds, reduction of the number of x-ray examinations and closing of TB sanatorium for children—within a period of one year.

—the savings generated by these cuts will be used for enhancement of outpatient services, building of TB hospice, payment of salaries, and support of DOTS infrastructure for three years

—during the first year, we will purchase drugs, pay salaries, install new equipment, train personnel and create region-wide DOTS network, including a bacteriological laboratory for monitoring of drug resistance.

*Tomsk Prison System*

The Tomsk prison system includes a special TB colony (1,300 patients), a jail (estimated 50–100 TB cases) and five regular prisons.

An agreement has been signed with the Tomsk Department of Corrections to fully implement DOTS in the prison system. The plan includes training of medical officers, provision of drugs and vitamin supplements for all TB patients, setting of a bacteriology field lab in the main TB prison, improvement of TB diagnostics among general prison population, identification and isolation of patients with multiple drug-resistant TB, and an extensive system of oversight and control by the regional TB service, Moscow Institute of TB, and our own representatives.

*Other Oblasts*

Similar agreements for regional TB service reform and for prison DOTS programs have been signed with the government and prison authorities of Marii El, a small ethnic region in central Russia. Negotiations are in progress with the authorities of Ivanovo and Leningrad oblasts, and with the prison administration of Nizhniy Novgorod.

The precedent of Tomsk facilitates negotiations with other regions, and we expect to commit all available funds by mid-1999. Our current funding will permit support of regional TB reform in four regions (Tomsk, Marii El, Ivanovo, Leningrad oblasts), and prison program in 7–8 regions.

*Additional Resources*

The Central Research Institute of TB has been chosen by WHO as the site of a national DOTS center. We have committed funds and are providing technical assistance for the establishment of National Bacteriological TB Reference Lab that will provide training and quality control to regional laboratories (e.g. in Tomsk). The Moscow laboratory will work together with the Massachusetts State TB lab in Boston (run by a Russian expatriate).

The molecular analysis of bacterial strains collected in Moscow will be carried out at PHRI laboratories in New York. This network is the first systematic effort to monitor drug resistant TB in Russia and make information on this subject available to international health agencies. A grant application, for funding beyond that available from the Soros grant, to expand the understanding of MDRTB in Russia and to use this information in both patient treatment and TB control, is currently being prepared.

The Central Research Institute of TB will serve as the national training center for regional TB services. A first group of six medical officers from the Tomsk prison will start training these in mid-February.

We are setting up the TB Information Center at the Moscow Medical Academy. It will provide informational backup to the program, maintain a data base of patients involved in DOTS treatment, monitor and process the results, publish training materials, carry out information campaigns, etc. The center will utilize resources of the Academy (particularly students) and will in turn aid the teaching process.

*Publicity and Relationships*

The PHRI/Soros program was highly praised in a cover story in the Russian national newsmagazine ITOGI and several newspaper publications. It has also been attacked as a foreign plot to "destroy" the Russian TB service.

In addition to cooperation with MERLIN in Tomsk, we are negotiating a collaboration with Doctors Without Borders to provide bacteriology support to their project in Mariinsk prison in Kemerovo.

The implementation of the PHRI/Soros Russian TB program is being carried out in consultation with the WHO Global TB Program in Geneva, the U.S. Centers for Disease Control and Prevention (CDC) in Atlanta, and National Institutes of Health (NIH) in Bethesda.

*Hospital Infections*

This project is aimed at establishing a state-of-the-art clinical microbiology laboratory at the Ob/Gyn hospital at the Moscow Medical Academy, which is a major teaching hospital in Russia. The need for such laboratory stems from general absence of microbiology in Russian clinical practice, a major problem of the Russian health care system. The laboratory is designed to become a teaching resource and reference center on a national scale.

During the past period, the following steps were implemented:

—A team of U.S./Canadian experts visited Moscow in October. As the result, a specific action plan was designed, including requirements and specifications for lab space, equipment, supplies, personnel, job descriptions, and training goals.

—Adequate space has been allocated and renovated by MMA at its own expense.

—Russian project participants have been identified. The first Russian group has been scheduled for training at the Mt. Sinai Hospital in Toronto.

—The list of needed equipment and supplies has been compiled. The equipment is currently in various stages of purchase/delivery.

—A Russian expatriate U.S. trained MD specializing in Ob/Gyn and pediatrics infections has been retained to oversee the project on a day-to-day basis and provide specific guidance to the Russian team via regular video/audio conferences over the Internet.

INTERNATIONAL AGENCIES

PREPARED STATEMENT OF MICHAEL D. BARNES, ESQ., CO-CHAIR, U.S. COMMITTEE FOR THE UNITED NATIONS DEVELOPMENT PROGRAMME

Thank you for providing the opportunity for me to submit this testimony to the Senate Foreign Operations Subcommittee. My name is Michael Barnes and I am a former Member of Congress from the 8th Congressional District of Maryland. I represent the U.S. Committee for UNDP which I Co-Chair. My testimony represents my views not just as a former Member of Congress, but as an American citizen, a businessman and a lawyer committed to a strong U.S. foreign policy and strong U.S. leadership in international affairs.

With the support of this Subcommittee, the United States returned to the position as the number one donor to UNDP last year. As a Member of the U.S. Committee for UNDP, I would like to thank the Subcommittee for that strong support for and their endorsement of American leadership of this agency.

My testimony contains good news.

First, UNDP has made real progress in implementing a far-reaching internal reform process with stronger accountability, a culture of cost-consciousness and a sharper focus on country operations. The increase that the U.S. Government provided to UNDP last year helped to make that reform possible. The Subcommittee should be proud of the work that has been done. In recognizing these remarkable changes, I believe UNDP deserves an increase in the contribution this year. I am proud to represent an organization that the United States heads and through which it has been able to implement these reforms.

Second, this new Committee, which has been in operation for about a year now, has begun to reach out to the private sector to establish a base of support around the country, and to bring in private sector contributions so Americans can begin to make their own contributions to this organization. Clearly this is an idea whose time has come. It has been shown that Americans will support the United Nations when the need is clear and this is something this Committee is helping to do, to show a clear need for support of poverty eradication, protection of the environment, promoting women and good governance in the developing world so we can have true partnerships with the countries around the world. This is the role of UNDP.

In my work, I travel all over the world, and I have witnessed the progress made by developing countries in recent years in their move toward establishing more democratic institutions, market economies, and greater protection of human rights. UNDP has played a significant role in promoting this positive change. Having had the privilege of serving as Chairman of the Subcommittee on Western Hemisphere Affairs, I am very familiar with all the countries in Latin America and the Caribbean and U.S. relations with them. I would thus like especially to acknowledge the role of UNDP in assisting the impoverished and war-torn countries of Central America in their transition to stable and democratic societies with market-oriented economies.

The President has requested an increase of $7 million for UNDP for next year, raising the U.S. contribution to UNDP to $105 million. If that level is met, there is a very good chance the U.S. will retain its position as the leading donor to the organization. There are four reasons why it is important for the U.S. to maintain its position as top donor and these are as follows:

First, it will help the U.S. retain the position of UNDP Administrator. This is the highest post held by an American in the entire U.N. system. Starting with the first UNDP Administrator and veteran Marshall Plan Administrator Paul Hoffman, this post has always been held by an American, including a former friend and colleague who served with distinction in the U.S. House of Representatives, Bradford Morse, (R-MA). Thirty years ago, the United States contributed more than 40 percent of total core resources of UNDP. But today, thanks to greater burden-sharing by the other donor countries, the U.S. share is down to approximately 10 percent. However, the competition with other countries to retain the top job is much more intense today.

Second, as a result of reforms undertaken in recent years, UNDP has become a lean, cost-effective and country-focused organization. Since 1992, UNDP has reduced its administrative budget by 19 percent in real terms and decreased total regular staff by nearly 15 percent. Headquarters staff has been reduced by 31 percent. Further administrative budget reductions are planned in 1998–99 and a policy of cost containment will then go into effect. UNDP is a hands-on organization with 85 percent of its staff in the countries it serves. At the field level, UNDP helps the United Nations as a whole to succeed. The 132 UNDP Resident Representatives normally serve as Resident Coordinators of the United Nations System, reporting to the Sec-

retary-General through the UNDP Administrator. Resident Coordinators constitute a global network for coherent and cohesive United Nations action. They are the U.N.'s main agents of reform around the world, helping to establish common program frameworks, common premises and common services. That network is funded and managed by UNDP under a decision of the General Assembly. A summary of the reform effort is attached.

Third, UNDP promotes the interests and values of the United States of America. For every dollar invested by the U.S. in UNDP, the U.S. receives a return of more than 2 to 1 in the procurement of American goods and services. Americans constitute the largest pool of talent selected to advise governments, non-governmental organizations, and the private sector in developing countries throughout the world through UNDP. Last year, the General Accounting Office published a report on UNDP. Chapter 7 of that report described the ways in which the work of UNDP is consistent with basic U.S. foreign policy objectives.

Fourth, UNDP is the U.N.'s largest and most influential multilateral development organization and has a positive global impact on the lives of billions of people throughout the world. UNDP concentrates its efforts in the poorest countries and in countries in crisis. Ninety percent of UNDP core resources go to 66 low-income countries that are home to ninety percent of the world's people living in extreme poverty.

In the distribution of UNDP core resources, 45 percent goes directly to good governance; 24 percent to environment, and 31 percent to poverty eradication and family livelihoods.

UNDP's overriding goal is poverty eradication and its priorities include job creation, instituting the rule of law, establishing systems of accountable governance, promoting democratic institutions, regenerating and protecting the environment and empowering women.

Since much of my law practice focuses on Latin America, let me point out how the countries in that region which formerly were such trouble spots for the United States have today come to embrace democratic institutions and have opened up their societies and their economies through the assistance of UNDP. One of UNDP's key functions is to provide technical assistance to developing countries to hold fair and free elections. It has done so in Guatemala, Nicaragua and El Salvador. UNDP has helped each of these countries move from humanitarian relief programs to long-term development strategies by establishing the infrastructure for the executive, legislative and judicial branches of government and by assisting with the establishment of the legal foundation to promote foreign direct investment.

For example, in Nicaragua, UNDP is strengthening the National Assembly and the Supreme Court to make them more effective in supporting the political and economic reform processes. UNDP is also working with the Ministry of Finance to help bring final resolution to the thorny property settlement issue.

From my own personal perspective, and speaking as a businessman, let me clearly acknowledge how important UNDP's role in setting up the infrastructure for democratization, promoting the framework for solid economic growth and supporting the advancement of good government in this particular region also serves American values and our interests abroad.

In summary, Mr. Chairman, an appropriation of $105 million for UNDP in fiscal year 1999 will help ensure American leadership of this vital U.N. organization which is effectively and efficiently carrying out its global mission while promoting American interests and values abroad.

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## UNIVERSITIES

### PREPARED STATEMENT OF DR. RAYMOND E. BYE, JR., ASSOCIATE VICE PRESIDENT FOR RESEARCH, FLORIDA STATE UNIVERSITY

Thank you, Mr. Chairman, and the Members of the Subcommittee, for this opportunity to present testimony. I would like to take a moment to acquaint you with Florida State University. Located in the state capital of Tallahassee, we have been a university since 1947; prior to that, we had a long and proud history as a seminary, a college, and a women's college. While widely known for our athletics teams, we have a rapidly emerging reputation as one of the Nation's top public universities. Having been designated as a Carnegie Research I University several years ago, Florida State University currently exceeds $100 million per year in research expenditures. With no agricultural or medical school, few institutions can boast of that kind of success. We are strong in both the sciences and the arts. We have high quality students; we rank in the top 25 among U.S. colleges and universities in attract-

ing National Merit Scholars. Our scientists and engineers do excellent research, and they work closely with industry to commercialize those results. Florida State ranks seventh this year among all U.S. universities in royalties collected from its patents and licenses. In short, Florida State University is an exciting and rapidly changing institution.

I want to express my appreciation to the Subcommittee for its support in fiscal year 1998 for the activities of the Caribbean Law Institute (CLI), which is housed at Florida State University. That Institute, a joint endeavor between FSU and the University of the West Indies, was formed to promote the reform and harmonization of commercial laws in the Commonwealth Caribbean. Projects have included a wide range of commercial statutes including company law, insurance law, insolvency banking, and arbitration. Legislation has been passed in several countries as a result of the CLI's efforts in Trinidad and Tobago, St. Vincent, Grenada, Antigua, Dominican, and St. Lucia.

The recent effort, which focuses on alternative dispute resolution, environmental law, and fair competition legislation, is just beginning, and I look forward to providing this Subcommittee with progress reports periodically. I should add, however, that if the United States is to genuinely make progress in this and other regions around the world, one way of doing so is to undertake efforts that allow for the economic development of those nations. That can often be done through providing assistance to nations that would result in laws and legal frameworks that allow for trading and other means of economic commerce to take place more effectively. Corporations in the U.S. and in other nations as well will more likely embark on economic activities with developing nations if the legal framework allowing for routine economic activity is in place and functioning. Here is where an organization like the Caribbean Law Institute is invaluable. With its ties into an academic institution within the Caribbean region, the CLI can assist with expertise but without the outsider's presence.

The Caribbean Law Institute proposes to expand its focus for fiscal year 1999 and seeks to provide an array of activities around the broad topic of criminal justice legislation. Such areas as money laundering, for example, can have substantial impacts on trade and other relationships between nations. Working closely with legal practitioners and criminal justice experts, the CLI and other experts from Florida State University and the University of the West Indies will continue discussions with officials at USAID on this effort. We envision utilizing the CLI model of working closely with the Attorneys-General in each of the Caribbean states, along with appropriate criminal justice officials, to identify legislative areas in need of redress, work to draft such changes, and assist where appropriate in their legislative approval. The effort will build upon the successes of the past and present activities of the CLI. The estimated costs for this effort will be approximately $2 million in fiscal year 1999.

I appreciate the past support this Subcommittee has provided the Caribbean Law Institute (CLI) at Florida State University and look forward to your continued support for this effort.

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## PREPARED STATEMENT OF GEORGETOWN UNIVERSITY

Mr. Chairman and Members of the Subcommittee: We are Father Julio Giulietti, S.J., Director of Georgetown University's Center for Intercultural Education and Development (CIED), and Father William George, S.J, Assistant to the President of Georgetown University. We appreciate the opportunity to testify before this Subcommittee on the Cooperative Association of States for Scholarships (CASS) Program and the East Central European Scholarship Program (ECESP).

We would like to thank you and your Subcommittee for your generous support of the cost-sharing program, the Cooperative Association of States for Scholarships (CASS). We would also like to thank you for your encouragement to the East Central European Scholarship Program (ECESP) which provides scholarships for Poland, Hungary, the Czech Republic and Slovakia.

We are grateful to the Subcommittee for its support of $13.75 million for Central America and the Caribbean and $2.75 million for East Central Europe. We would ask the Subcommittee to continue its support in fiscal year 1999 as we have had very productive negotiations with USAID.

*Cooperative Association of States for Scholarships (CASS)*

Under a Cooperative Agreement with USAID, Georgetown University administers CASS. The University's mission in fulfilling the will of Congress is to provide peace scholarships to capable, economically disadvantaged students from Central America

and the Caribbean who attend United States community-based institutions for academic education and technical training.

CASS has been designed to contribute to the formation of more effective work force resources and to foster the leadership and technical skills required to meet social, economic, and democratic needs in Central America and the Caribbean. CASS works closely with in-country experts, support network members, United States PVO's, USAID Missions and USAID Washington to determine which fields of study can best support strategic objectives and contribute to the economies of participating countries.

United States community-based institutions then develop or adapt programs to provide students with the technical skills and experience that are in demand in the region. Needs analysis and follow-up studies of alumni are conducted periodically to modify course offerings based on current and projected economic realities in the region.

"Experience America" is an essential phase of the program. Its three major components—academic training, experiential opportunities, and personal and professional development—reinforce self-reliance, self-responsibility, and commitment. Living with American families and studying at community-based institutions, peace scholars develop an understanding of U.S. culture and values, and our democratic processes. These students in turn have a positive impact on their host communities, heightening cultural awareness, geographical knowledge, and political and personal insights about the Americas. The result is the formation of lasting social, economic, and cultural links between the United States and future leaders of Central America and the Caribbean.

In 1991, 179 CASS participants arrived to begin two-year programs of study. Eighty-five percent (85 percent) of these students successfully completed their program and returned to their home countries in 1993. The uncertain situation in Haiti had a direct impact on our success with scholars from that nation. CASS' successful completion rate in 1993 for non-Haitian CASS students is ninety-two percent (92 percent).

In 1992, 311 CASS participants arrived in the U.S. to begin two-year programs of study. Ninety-one percent (91 percent) of these students (284) successfully completed their program and returned to their home countries in 1994. This is a six percent (6 percent) improvement over the previous year.

In 1993, 325 CASS participants came to the U.S. for two years of technical training. Eighty-seven percent (87 percent) of these students (285) graduated and returned to their home countries in 1995.

In 1994, 305 CASS participants arrived in the U.S. for two-year training programs. 91.8 percent successfully completed their program of study and returned home in 1996. It was the most successful of the seven CASS cycles since 1989. We have generally defined "success" as having completed the degree, or target objective (it might be a certificate) and returned home at the end of training.

In 1995, 253 CASS participants arrived in the U.S. for two-year training programs. Ninety-four percent (94 percent) returned home, 90 percent having graduated with an associate degree.

Today, 469 CASS participants in Cycles 96 and 97 are enrolled at 20 community-based institutions in 14 states. An additional 18 participants from Central America and the Dominican Republic arrived in the U.S. in January, 1998, for a special six-month program for strengthening the skills of math and science teachers.

In 1998, 257 students will begin training in CASS programs. 227 participants will begin two years of study at 14 U.S. community-based institutions, leading to associate degrees in 14 fields of study. In addition, 30 CASS students from Haiti will come to the U.S. for 6-month programs in the fields of health and education administration.

In Nicaragua, CASS designed the Nicaragua Peace Scholarship Program (NPSP). NPSP is an innovative program designed to teach young adults who, because of social and/or economic circumstances, could not complete secondary school educations during the past decade of civil strife in Nicaragua. A small number of veterans from both sides of the conflict are included in the target population. Training is focused to equip Nicaraguan youth with technical and democratic leadership skills so that they may increase their opportunities to be productive in their communities upon return.

Today a total of 105 NPSP participants are in the U.S. studying English as a Second Language, courses leading to the GED, and technical courses in public health, computer repair, business management, industrial manufacturing management, and electronic communication technology. They are placed at three community-based institutions in three states.

Prior to U.S. studies, a three-month Academic Upgrading program is conducted in Nicaragua emphasizing not only basic math and Spanish skills, but personal development, self-esteem enhancement, leadership practice and practice to participate in a culture of peace rather than a culture of war. Two hundred seventy-one (271) NPSP graduates returned home between 1992 and 1997. Fifty-seven (57) Cycle 97 NPSP participants initiated their 18-month technical training in January 1998 and 48 Cycle 96 participants will complete studies and return home in June 1998.

It is noteworthy that in 1997, CASS had a total of 82 participants in programs at Historically Black Colleges and Universities (HBCU's), namely Harris-Stowe State College in St. Louis, Missouri and Kentucky State University in Frankfort, Kentucky.

Federal funds for CASS are being supplemented by states and private sector contributions, increasing the total number of students served. After an intensive effort in the first two years of CASS to identify a model for cost-sharing funds to maximize the federal dollars allocated to the program, we learned that no one policy or plan for state or regional support of the program will evolve. Each participating CASS state has its own funding formula for higher education which simply means no one legislative approach can be applied to all states. Colleges in our network are effective partners in providing significant cost-sharing resources for CASS. We require all participating colleges to contribute twenty-five percent (25 percent) of the total costs of the program. Colleges are exceeding this goal. From 1990 through September 1997, we have received $25 million (40 percent) cost-sharing from our colleges in the form of tuition waivers, indirect cost waivers, and the funding of other program components. The program has also received over $451,000 of in-kind support from private donors in the countries in which CASS operates.

Follow-up surveys of alumni activities solidly demonstrate the success of the CASS program through sustainable employment levels, continuance of education in-country and community service. Data collected over the last several years show that between ninety-one percent (91 percent) and ninety-two percent (92 percent) of all CASS alumni in the 8 participating Central American and Caribbean countries are employed in their countries. This figure is in stark contrast to the massive unemployment in the region. One in ten CASS graduates owns his or her own business. As of December, 1997, ninety-seven percent (97 percent) of the 271 NPSP alumni is occupied as mid-level technicians and managers and/or is studying in a national economy where over 50 percent of the working population is unemployed.

CASS has pioneered training opportunities for economically disadvantaged disabled persons and is achieving impressive results. In 1990, CASS began a pilot program to offer computer business applications training to hearing impaired students from Central America and the Caribbean. Seventy-six percent (76 percent) of the CASS deaf alumni are employed in their countries. Twenty-six percent (26 percent) of the deaf alumni continues their studies; seventy-three percent (73 percent) are involved in community service activities.

Since 1990, CASS has negotiated 20 credit transfer agreements for CASS alumni with universities in Central America and the Dominican Republic. Last year, twenty-three percent (23 percent) of CASS alumni reported they are currently continuing their studies, most working full-time and studying concurrently. Sixty-five percent (65 percent) of all CASS alumni responded that in addition to their work and/or studies, they continue to actively participate in community leadership and service activities.

GEORGETOWN CASS DISTANCE EDUCATION

The Cooperative Association of States for Scholars (CASS) delivered an innovative international distance education business program via the Internet in 1996. Designed in 1995, the results of this creative application of Internet technologies to education and training has been a catalyst for providing continuing professional and personal development opportunities to large numbers of people who because of their employment, economic, or geographic location in Central America do not have access to traditional classes. The program is called Tecnicas en Soluciones Empresariales (TSE).

The TSE program is offered to companies and organizations in Central America who are employers of CASS graduates. Participants do not have to leave the workplace to go to a classroom or university; instead, they access class lectures and group discussions from their computers at work. In 1996, the TSE course in business solution techniques targeted mid-level managers and technicians to solve chronic problems in real time. In 1997, the target was expanded to include their supervisors. These new work groups, incorporating supervisors, more effectively implement quality management strategies in the work place.

Georgetown University administers TSE in Guatemala, Nicaragua, El Salvador, and Panama. In 1996, forty-four companies and 88 students received 9-month training in Guatemala, Panama, and Nicaragua. In 1997, TSE trained 150 participants, expanded to El Salvador and lengthened the training period to twelve months. In 1998, TSE will train 177 participants from 59 companies in four countries. The new 12-month TSE program comprises three modules. Employers have input into the training and a clearly defined responsibility to work with students to ensure that training is applicable to their jobs. In addition to theory, students are required to select topics for study and solution from among chronic job-related issues that impact their performance as employees and supervisors as well as the achievement of company goals. Each project team is responsible for defining and researching the selected project, recommending the solution and leading it's implementation.

Instruction is delivered through the Internet, written books and publications. It is supported by local instruction teams. Students access class lectures and assignments from the Internet and use ListServes for group discussions among participants in the four countries. E-mail is the primary vehicle of communication between TSE teams and participants.

Administered by Georgetown University and funded by the U.S. Agency for International Development, CASS is now among the first to combine training and Internet technologies, having devoted eleven years to the invention and successful conduct of traditionally-managed technical and leadership training for thousands of disadvantaged Central American and Caribbean young adults.

*The East Central European Scholarship Program (ECESP)*

The East Central European Scholarship Program (ECESP) was founded at Georgetown University to address the rapid political, social, and economic changes in post-communist European countries. It was the first education and training program to be funded and implemented under a 1989 initiative of the U.S. Congress to support democratization and privatization in East Central Europe.

The goal of the program is to educate a core group of public administrators and experts in public administration and policy, management, finances, banking, health care administration, regional/rural development, and education. Over the past years, these experts have included administrators of central institutions (high ranking civil servants from the Ministry of Finance, Privatization, Agriculture, Health, Environment, and Labor/Social Services, and from State Property Agencies); members of provincial and local self governments (governors, council members, as well as mayors and vice-mayors); administrators of key state and private sector financial institutions; managers and administrators of non-government and non-profit institutions, including institutions of higher education; educators involved in educational reform and planning, curriculum evaluation, teacher training, minority and disability education; and faculty from universities, colleges, and professional schools working to introduce new courses into the curriculum of their institutions. In an effort to meet the ever-changing needs of the participating countries, ECESP introduced in 1995 a health care policy and administration program designed to aid the processes of privatizing and reforming the health care and insurance sector. In 1996, ECESP initiated a short term, specially designed program of training for the National Bank of Poland with the aim of building a stronger and more transparent banking industry in Poland. Today, that program also encompasses the National Banks of Hungary and Slovakia, as well as the Polish Bank Guarantee Fund, the Bank of Economic Union, and the regional banks. The program cooperates with the U.S. Federal Reserve, the Office of the Comptroller of Currency, and the Federal Deposit Insurance Corporation.

ECESP hopes that the education and training it provides will allow the participating countries to reap the benefits of a more open and structured policy-making process, an increased number of civic-minded citizens, a better educated and skilled democratic leadership and administration, and a more evolved pattern of cooperation between civil society and government in solving key social, political and economic problems.

Since its founding in 1990, ECESP has sponsored 609 Czech, Hungarian, Polish and Slovak participants. An additional 40 participants are scheduled to arrive shortly. As programs in Hungary and Slovakia close in 1999, ECESP will shift its main focus to southern tier countries, as approved by the U.S. Congress. In fiscal year 1998, ECESP will complete its training in Poland (centered on final programs for the Ministry of Finance and the National Bank, the Bank Guarantee Fund, the European Union Bank and the regional and cooperative banks). It will also prepare programs for Albania, Macedonia and Romania. Discussions on the scope of those programs are currently under way with USAID. Finally, ECESP will address the training requests from the Governor of the National Bank of Croatia and the Min-

istry of Health in Bulgaria. ECESP anticipates selecting approximately 100 new participants for training under fiscal year 1998 funds.

Georgetown University, with the assistance of this Committee, has agreed with USAID to negotiate a new cooperative agreement to cover five years; that is fiscal year 1998 through fiscal year 1902. Funding has been set for $53 million over five years. Beginning in fiscal year 1999, Georgetown will apply $6 million to the traditional CASS technical program; $2 million to infectious disease control and prevention; and $2 million to educational administration and training of primary school teachers. The Georgetown CASS program will continue to focus its resources on the same population this Committee is concerned about: socio-economically disadvantaged men and women from the region of Central America and the Caribbean.

We thank the Committee for its support in the past and for its assistance in the negotiations for a new Cooperative Agreement.

PARTICIPATING INSTITUTIONS BY STATE

COOPERATIVE ASSOCIATION OF STATES FOR SCHOLARSHIPS (CASS) INCLUDING NICARAGUA PEACE SCHOLARSHIP PROGRAM (NPSP)

*California*.—Kings River Community College; and Modesto Junior College.

*Florida*.—Florida Community College at Jacksonville; Santa Fe Community College; and St. Petersburg Junior College.

*Iowa*.—Iowa Western Community College; Kirkwood Community College; and Scott Community College.

*Kansas*.—Coffeyville Community College; and Hesston College.

*Kentucky*.—Kentucky State University (HBCU).[1]

*Massachusetts*.—Berkshire Community College.

*Missouri*.—Harris-Stowe State College (HBCU)[1]; and St. Louis Community College.

*New York*.—Broome Community College.

*Ohio*.—Hocking Technical College.

*Oregon*.—Mt. Hood Community College.

*Pennsylvania*.—Mount Aloysius College.

*South Carolina*.—University of South Carolina at Sumter.

*Texas*.—Alamo Community College District with St. Philip's College (HBCU).[1]

*Utah*.—Utah Valley State College.

*Wisconsin*.—Fox Valley Technical College; Northcentral Technical College; and University of Wisconsin Center-Marinette County.

*Washington*.—Edmonds Community College.

EAST CENTRAL EUROPEAN SCHOLARSHIP PROGRAM (ECESP)

*Kentucky*.—University of Kentucky; and Eastern Kentucky University.

*Wisconsin*.—University of Wisconsin (La Crosse); and University of Wisconsin (River Falls).

*New York*.—Rensselaer Polytechnic Institute; and State University of New York (Syracuse).

*Washington, D.C.*—George Washington University; and Georgetown University.

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PREPARED STATEMENT OF CYRUS M. JOLLIVETTE, VICE PRESIDENT FOR GOVERNMENT RELATIONS, UNIVERSITY OF MIAMI

Mr. Chairman and Members of the Subcommittee, on behalf of the University of Miami, I would like to present testimony on two important nationally recognized centers located on our campus, the North-South Center and the International Center for Health Research.

NORTH-SOUTH CENTER

The mission of the North-South Center is to promote better relations and to serve as a catalyst for change among the United States, Canada, and the nations of Latin America and the Caribbean. The North-South Center conducts programs of research, public outreach, education, training, and cooperative study. It publishes and disseminates policy-relevant information on the Americas. Its programs and activities also foster linkages among academic and research institutions, NGO's, governmental institutions both civilian and military, and philanthropic and private sectors throughout the Americas.

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[1] (HBCU) Historically Black College/University.

We are convinced that such a mission is fundamental to the national interests of this country. Informed and balanced analysis and improved understanding of our neighbors in the Western Hemisphere provide us great opportunities to enhance our economy, expand our jobs, and learn of risks before they reach threatening proportions. The United States has long equated stability in the region with its own security interest. The maintenance of that stability today requires a sophisticated partnership among the countries of the Hemisphere. It also demands continually new approaches in U.S. policy. Fulfilling a singular role in inter-American affairs, the Center's programs produce nonpartisan, policy-relevant analysis and discussion of key issues directly affecting the lives and well-being of citizens of the United States. Unlike partisan institutes and advocacy groups, the North-South Center engages vital inter-American issues such as trade, investment, competitiveness, security, corruption, civil-military relations, institutional reform, drug trafficking, immigration, and the environment from the perspective of the public good. The Center devotes its efforts toward publishing analyses that are accessible and relevant for diverse audiences, including legislators, government officials, nongovernmental organizations, and the private sector.

The North-South Center is a reflection of the belief that the nation benefits when the great issues of the Western Hemisphere are analyzed and debated by private sector and nongovernmental groups under the auspices of a neutral forum. Governments cannot successfully convoke and organize nongovernmental opinion, and academic institutions have a different mandate. As a respected, independent, public policy institution—fully cognizant of the special responsibilities attached to its federal funding—the Center has served this function successfully. Most notably, the Center has established a unique capacity to serve as a forum and facilitator for civil society input in the far-reaching inter-American policy negotiations that seek to build upon the Miami Summit of the Americas. These negotiations are creating the underlying architecture of inter-American relations for decades to come.

*Hemispheric Security Issues*

The Center has been deeply engaged in promoting and sponsoring research and dialogue on inter-American security issues, especially since the onset of federal funding support in 1991. Among other issues, the Center has conducted an extensive research program on drug trafficking in the Hemisphere. It has studied and promoted dialogue on the crises in Cuba, Panama, and Haiti. The Center has engaged in research in civil-military relations, conflict resolution, and security cooperation, and it has followed closely the Peru-Ecuador border conflict, in which the United States has acted as one of the primary "guarantor" powers. The Center hosted, in December 1996, an international conference attended by 58 scholars and government officials from eight countries in the Americas to assess the impact of that conflict on inter-American relations.

The Center founded its own inter-American security program in April 1997, headed by Dr. Richard Downes, a former officer in the U.S. Air Force. The program focuses on ways to improve Hemispheric collaboration on control of illegal drug trafficking, improving civil-military relations, initiating and sustaining efforts at conflict resolution in the Americas, exchange of information on arms proliferation in the Americas, and exploring systematic ways to improve cooperative security in the region. The focus of the program and the Center's accomplishments in the security area were recognized in a letter to the Center's director from General Wesley K. Clark, USA, the then Commander in Chief, United States Southern Command, in March 1997.

The relocation of the U.S. Southern Command to Miami in late 1997 has afforded an enhanced role for the Center in security issues. The Center figured prominently in discussions on the future of civil-military relations in the Hemisphere at a recent conference with key Latin American military officials sponsored by the U.S. Southern Command and the U.S. Army War College. In December 1997, the Center founded the "Miami Security Roundtable" with the cooperation of the University of Miami School of International Studies, the Latin American and Caribbean Center of Florida International University, and the U.S. Southern Command headquarters in Miami. Three meetings of the Roundtable held thus far have brought together, in an informal setting, thirty or more academic experts and staff members of the U.S. Southern Command to discuss the latest security issues in the Americas, including drug trafficking and transnational crime. The Center's Issues report on inter-American security cooperation has been well-received in academic and professional circles. We are currently preparing a monograph in the Center's Agenda paper series entitled "Building New Security Relationships in the Americas: The Critical Next Steps" for release in mid-May 1998 and a new Issues report on environmental security in the Americas, to be published in June 1998. We are in close

consultation with the newly established Center for Hemispheric Defense Studies at the National Defense University at Ft. McNair, Washington, D.C. We anticipate that cooperative programs will result this year from our discussions.

The Center's director serves on the Board of Visitors of the U.S. Army School of the Americas in Ft. Benning, Georgia. In that capacity, he has been engaged in reviewing the curriculum of the school and sharing perspectives with a senior officer from U.S. Southern Command headquarters who acts as the Command's liaison with the school. The Center's director also has a Presidential appointment to the Panama Canal Consultative Committee, a body charged with making recommendations in connection with the operation and future of the Panama Canal. The Center looks forward to enhancing its contributions in the security field. We have applied for sponsorship from a major foundation for a grant to conduct a security review of an increasingly turbulent region of the Hemisphere—the Amazon Basin. The Center is prepared to collaborate with the Department of State and the Office of National Drug Control Policy to conduct a series of seminars on conflict resolution, civil-military relations, and drug control strategies with civil society experts.

In summary, the Center is committed to advancing the state of security cooperation in the Americas. It serves as a bridge between government officials dedicated to enhancing regional security and academic and other civil society experts who have devoted their professional lives to analyzing the Hemisphere's critical security issues. We believe that Hemispheric cooperation on security issues can multiply the impact of United States policy initiatives generally and overcome historically profound cultural and political gaps between North and South.

*The Overall Agenda: Economic Growth and Sustainable Development*

In a broader context, the Center's research programs are framed in a manner which recognizes the imperatives for the development of the economies of the Latin American and Caribbean countries and for the extension and deepening of the region's democratic practices. These are seen as crucial for the long-term prosperity of the United States, and as a means by which to address the human problems that result from poverty and under development, such as environmental degradation, uncontrolled migration, narcotics production, and political and social instability. The programs under this thematic include research and outreach in the Inter-American Business and Labor Program, Summit of the Americas working groups on trade and the environment, the above-mentioned research activities on the emerging agenda of inter-American security issues, analysis of immigration problems in a multilateral context, studies on institutions and democratic governance, and training and education seminars. A special regional emphasis is given to the wider Caribbean through the Caribbean Studies Program. Small-scale studies on discreet research topics that fall within the scope of the overall research theme are carried out through the Adjunct Senior Research Associate Program.

*Accomplishments Toward Meeting Objectives in Fiscal Year 1997 and Fiscal Year 1998*

In April 1997, the Center participated in a trade and investment seminar on Trinidad and Tobago, which featured the Prime Minister, Baseo Panday. In May 1997, the Fifth Annual Reuters Seminar for economic and financial journalists in Latin America was designed by and held at the Center under the title of "The Challenge of Hemispheric Integration: Economic Alliances and National Realities." Another Reuters seminar is planned for May 1998. In February and June 1997, sessions were held at the Center's Washington office for civil society consultation with Timothy Wirth, Under-Secretary of State for Global Affairs, and representatives of U.S. civil society on follow-up and implementation of the agreements from the December 1996 Santa Cruz Summit on Sustainable Development. In February, the Center hosted the OAS Coordination Group for the "Inter-American Strategy for Participation (ISP): Strengthening Public Participation in Environment and Sustainable Development Policy Making in the Americas." Later in the year, the Center participated in a meeting of the OAS Inter-American Commission on Sustainable Development, which also sought to follow up on the Santa Cruz Summit. In April 1997, Ambassador Richard Brown, Senior Coordinator, Summit of the Americas, U.S. Department of State, visited the Center for a discussion with some 30 invited participants on "Developing the Hemispheric Agenda for the 1998 Summit of the Americas."

*Toward a Better Hemisphere*

To summarize, the North-South Center's work unfolds against a backdrop of auspicious changes and urgent concerns. The Center addresses these issues, as it has for more than ten years, influencing positive change throughout the Western Hemisphere in several distinctive ways:

—Supporting economic growth, competitiveness, jobs, and regional trade integration;
—Serving as a catalyst to promote solutions for pressing regional security problems, including regional conflicts;
—Promoting democratic governance and social change with equity;
—Providing a forum for the study of environmental policies that promote sustainable development;
—Developing research and training programs that foster the exchange of ideas and analysis of critical hemispheric issues;
—Promoting technical and scholarly interchange and productive networks among scholars and throughout the private and public sectors;
—Producing policy-relevant books and reports.

The Summit of the Americas process offers the best hope for creating a secure, durable and beneficial framework for inter-American relations. Yet, the promises of summitry only become significant in their implementation. No other independent body has been as active as the Center in monitoring progress on the commitments made at the Miami Summit. As the Summit of the Americas II in Santiago, Chile fast approaches, this function will only take on added importance for U.S. policy interests. We fully realize that the Congress always faces many difficult funding decisions. In an age of deepening interdependence in the Americas, and with great opportunities for regional economic growth before us, the North-South Center provides a value-added return on U.S. taxpayer dollars. As a national resource in the public interest providing informed analysis of issues whose effects reach into every American home, the North-South Center represents an investment in our citizens' future and well-being.

INTERNATIONAL CENTER FOR HEALTH RESEARCH

I would especially like to commend this Subcommittee for its significant and invaluable efforts in providing $50 million for the "Communicable Diseases Initiative" at USAID in fiscal year 1998. Like the Subcommittee, we believe that it is imperative that the United States address the threat of infectious diseases by responding to the dramatic increase in, and resurgence of, communicable diseases affecting children and adults, assisting developing countries to strengthen their ability to protect and care for their people, and stopping the spread of these communicable diseases in developing countries. Emerging infections have been defined as those diseases whose incidence has increased in the past two decades, or threatens to increase in the near future. Re-emergence is the resurgence of known infections after declines in incidence. Emerging and re-emerging diseases, once thought to be under control, have sharply increased in recent years around the world. The reasons are multidimensional, including population growth and increased mobility, environmental and climate changes, urbanization, the evolution of microbes, drug resistant organisms, and modern travel and trade. International commerce, travel, and migration within the Americas are creating new opportunities for disease re-emergence and greater spread, particularly when the movement of people and products is from developing to industrialized nations.

Infectious diseases are the leading cause of death worldwide, causing 17 million of the 52 million deaths each year. The U.S. has also been adversely impacted by emerging infectious diseases. This is evidenced by the fact that the death rate from infectious diseases in the U.S. has increased more than 50 percent since 1980 and in 1996, infectious diseases in the United States were ranked as the third leading cause of death. This trend will continue in the future since infectious microbes can easily travel across borders from other parts of the world and be introduced into the United States, threatening our national health and security. Controlling disease outbreaks and factors promoting them in other countries is important not only for humanitarian reasons, but also to prevent those diseases from entering the United States. Moreover, U.S. supported research in other countries provides American investigators with the opportunity and capacity to determine the causes, patterns of spread, factors that promote infectivity, and strategies for prevention and control of these diseases in the United States. Emerging infections are particularly serious in individuals with impaired immune systems, including malnourished children and adults. Even subclinical malnutrition or deficiency of individual vitamins and minerals that can only be detected by laboratory means, may predispose populations to infectious diseases. Poor nutritional status has been shown to influence all aspects of the humoral and cell mediated immune responses.

The synergistic interaction of malnutrition and infection has long been recognized. Infectious illness influences nutritional status which, in turn, affects host susceptibility to infection. The interrelationships between infection, nutritional status and

immune function are especially apparent in individuals infected with the HIV virus, who exhibit impaired immune function and altered nutritional status. The international dimensions of emerging, and re-emerging infectious diseases are a continuous challenge that call for concerted efforts of the American countries. For example, in 1993 a new hantaviral illness, hantavirus pulmonary syndrome (HPS) was identified in the southwestern region of the United States (CDC, MMWR, 1993). This disease is characterized by a febrile prodrome in young, healthy adults and disease progression can lead to respiratory failure. This virus has now been identified from cases around the world.

Cholera, has also returned in epidemic proportions. In the United States, more cases occurred in 1992 than in any other year since cholera surveillance began in 1962. Since 1991, over 1 million cases and 9,000 deaths have occurred in Latin America, and the disease is showing a tendency to become endemic in areas in which basic sanitation is deficient and the educational level of the population is low. Although cholera initially reemerged in Peru, the disease has occurred throughout Latin America. The most profound problem associated with the reemergence of cholera has been the rapid emergence of multi-drug resistant strains. For example, Honduras witnessed its first case of cholera from the new pandemic in October, 1991. Within five years, antimicrobial-resistant V. cholera strains appeared in this country (Dubon, et.al. 1997). This may be due to the overuse of antibiotics in this area of the world or may indicate that drug-resistant cholera is becoming the dominant infecting form of the organism. International commerce may play a role in the redistribution of multi-drug resistant Vibrio cholera strains to the United States and other Latin American countries. The cholera problem illustrates how factors in one continent interact with global health by facilitating increased microbial traffic to distant regions. The re-emergence of dengue and dengue hemorrhagic fever (DHF) has been dramatic in the Americas. During the last ten years, five countries in South America have experienced major epidemics, for the first time in over 50 years. In the United States, the first indigenous transmission of dengue after 35 years of absence occurred in Texas in 1980. Between 1986 and 1992, the Centers for Disease Control and Prevention (CDC) diagnosed 157 cases of dengue. In 1994, 37 laboratory-confirmed cases were reported, doubling the annual average from the previous years (1987–1993). From 1977 to 1994, a total of 2,248 suspected cases of imported dengue fever were reported in the United States. Both mosquito vectors, Aedes aegypti and Aedes albopictus, are present in the southeastern part of the United States (8 states) permitting rapid transmission of the virus throughout this region. More recently, a major outbreak of dengue fever and DHF was reported from Cuba. Nearly 3,000 cases of confirmed dengue fever (including 12 fatalities) were reported during 1997 by the Cuban Ministry of Health (Kouri et.al., 1998). Since asymptomatic and subclinical dengue cases frequently occur, the number of people infected with dengue virus was probably much higher. There are strong indications that dengue virus infections are currently increasing in several other Caribbean countries as well in several countries in Central America. Thus, there is a compelling need to increase surveillance activities to track the movement of dengue fever and DHF throughout the Americas.

Tuberculosis (TB) appears to be on the rebound. In the United States, TB incidence rose from 22,210 to 25,313 between 1985–1993, with 60 percent of the excess cases attributed to disease in foreign-born individuals. From 1986 to 1993, 40 percent of foreign-born cases were from Latin America. Between 200,000 and 250,000 cases have been reported annually in the Americas since 1980. Eight countries face very severe problems, with incidence rates estimated at over 80 per 100,000: Bolivia, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Paraguay and Peru. There are four factors that seem to contribute to such a resurgence of TB: the HIV/AIDS epidemic, drug resistance, an increase in marginalized populations, and neglect of public health TB control programs. According to the PanAmerican Health Organization (PAHO) estimates, 3.5 percent of TB cases in the Region were associated with HIV infection in 1990 and 15 percent will be linked to HIV infection in the year 2000. In several countries of the Americas, including the United States, the emergence of multi-drug resistant TB (MDR-TB) has been also intimately related to the HIV epidemic. Thus, drug resistance surveillance can be an important program indicator for policy makers. Support of laboratories for international drug resistance monitoring needs to be considered.

Malaria has had a resurgence in many tropical areas. The disease now occurs in more than 90 countries worldwide and it is estimated that there are over 500 million clinical cases and 2.7 million malaria-caused deaths per year. A multitude of factors have contributed to the reemergence of malaria, including (1) insecticide resistance in the Anopheles mosquito (2) social instability resulting in movements of unexposed nonimmune individuals into areas where malaria is endemic and (3) the

failure to develop an effective malaria vaccine. Compounding the problems of malaria's geographical expansion and of increasing morbidity and mortality are the emergence and rapid spread of antimalaria-drug resistance which necessitate the use of more expensive and sometimes toxic antimalaria drugs and longer treatment course. In various parts of the United States, concomitance of competent vectors, suitable weather conditions, and malaria-infecting carriers entering the country have caused isolated cases or small outbreaks of "autochthonous malaria". In the past, these cases were limited to rural settings, but since 1990, indigenous malaria has been reported in urban areas as well. Plasmodium falciparum, the hemoparasite which causes the most severe form of the disease, has become even more resistant to commonly used antimalarial drugs. Resistant falciparum malaria is now present throughout malaria endemic areas of South America.

Antimicrobial drug resistance is perhaps one of the most alarming threats among the problems presented by emerging and re-emerging infections. The problem is well documented in the United States where increasing levels of drug resistance in both community-acquired (e.g. MDR Streptococus pneumonia) and nosocomial infections (resistant enterococci) have led infectious disease experts to declare the situation a crisis that could lead to a "post-antibiotic" era. Although less well-documented, the threat of antimicrobial resistance in the developing nations of the Western Hemisphere appears to outweigh that present in the United States and Canada. Most of the Latin American countries have conditions that facilitate antimicrobial drug resistance: uncontrolled sale of antibiotics, frequent self-medication, overcrowding and lack of adequate nosocomial infection control programs in many hospitals, along with almost nonexistent surveillance and reporting of antimicrobial resistance patterns.

The HIV/AIDS pandemic continues to increase exponentially. Reports from the World Health Organization (WHO), the Joint United Nations Programme on HIV/AID (UNAIDS), and the World Bank (WB) predict dramatic increases in worldwide HIV infections, particularly in developing nations. Dr. Piot, executive director of UNAIDS recently announced that "We are now realizing that rates of HIV transmission have been grossly underestimated—particularly in sub-Saharan Africa". The WHO has stated that "The growing global HIV/AIDS crises is reversing decade of progress toward improving the quality of life in developing countries." It is now estimated that more than 30 million individuals are infected with HIV worldwide with as many as 16,000 new individuals becoming infected each during 1997. Nearly 90 percent of all people infected with HIV live in developing countries (Fox, 1998). Clearly, major research efforts need to be focused on the development of HIV prevention programs and more importantly, into the development of an effective vaccine.

The HIV/AIDS epidemic has also refocusing the attention of public health experts on the problem of emerging and re-emerging infectious diseases. HIV/AIDS and other sexually transmitted diseases (STD's) illustrate the impact of changes in demographic conditions, social standards, modification of the global environment, and the mutability of microorganisms. The impact of HIV/AIDS on public health is due in large part to the multiple opportunistic infections that develop in association with this condition (e.g. Mycobacterium complex, Pneumocistis carinni, Toxoplasma goondii, Cryptosporidium, etc.). In 1993, the United States experienced the largest waterborne disease outbreak ever registered. The source was the urban municipal water supply contaminated with Cryptosporidium, an intestinal parasite that causes prolonged diarrheal illness, and severe disease in the immunosuppresed individuals. In addition, HIV infection interacts in complex ways with other tropical infectious diseases endemic in Latin America, such as Chagas' disease and leishmaniasis, which are occurring with varied and unusual clinical manifestations in persons infected with HIV.

The magnitude and gravity of the current emerging and re-emerging infectious disease situation in the region of the Americas is of critical concern. In order to develop an effective system for disease surveillance control and prevention, a strong and stable research infrastructure and close cooperation between scientists of United States and Latin America and Caribbean countries are essential. Enhanced research and training efforts need to be established in the areas involving the most prevalent infectious diseases including TB, malaria, dengue, cholera, and HIV. The complex interaction between nutritional status and susceptibility, as well as disease progression, and control of these infections needs to be investigated along with basic research on all aspects of disease processes and public health strategies.

The University of Miami, International Center for Health Research is located in Miami, Florida, the major gateway city to Latin America and the Caribbean. The major goals of the Center are to investigate biological characteristics of causative microbial agents, to study the risk factors related to the spread of these infections,

including interactions between nutritional status and susceptibility, as well as to develop innovative preventive strategies. An important role of the Center involves collaborative infectious disease control and prevention efforts to broaden expertise of indigenous Latin American and Caribbean health professionals, and link laboratory science and epidemiology with public health strategies and policy making processes. The Center's priority is to strengthen programs for the control of major infectious diseases, particularly malaria, dengue, TB and cholera. Emphasis is also placed on programs aimed at preventing the spread and reducing the impact of HIV infection and other sexually transmitted diseases. There is an urgent need to strengthen the existing research infrastructure and a close collaboration between U.S. and Latin American and Caribbean scientists and policy makers. This enhanced research will lead to development of new effective strategies for control and prevention of these emerging and re-emerging diseases in the Americas. We respectfully seek the Subcommittee's support for $2 million for the International Center for Health Research at the University of Miami to strengthen and expand its research and prevention efforts in Central America and The Caribbean. Once again, thank you for your critical support for USAID's efforts in infectious diseases.

On the occasion of submitting testimony for the record to the Foreign Operations Subcommittee, Committee on Appropriations, U.S. Senate, regarding the fiscal year 1999 Budget for the United States Agency for International Development (USAID).

I, Cyrus M. Jollivette, Vice President for Government Relations of the University of Miami, located in Coral Gables, Florida, state the following:

According to the two most recent audits of the University of Miami performed in accordance with provisions of Office of Management and Budget (OMB) circular A–133 ("Audits of Institutions of Higher Learning and other Non-profit institutions") for the fiscal years ending May 31, 1996 and May 31, 1997, federal awards received by the University of Miami for all activities (including research and development, student financial aid, extension education, public service, academic support, enterprise/institutional/plant support, and scholarships and fellowships) totaled $121,562,876 and $122,601,809 respectively.

Should the Subcommittee require further details of federal support received at the University of Miami, or copies of the audits as produced by Arthur Anderson LLP (for fiscal year 1996 and fiscal year 1997), the University's independent auditors, I will make every effort to see that they are provided.

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## Prepared Statement of Dr. Richard L. Bernala, Jamaica's Ambassador to the United States and Permanent Representative to the Organization of American States

Thank you for providing this opportunity to submit testimony highlighting Jamaica's views on the Clinton Administration's fiscal year 1999 Request for Latin America and the Caribbean.

### INTRODUCTION

Over the years, U.S. assistance and trade programs have fostered an important economic partnership between the United States and the countries of the Caribbean Basin. Since the 1980's, U.S. foreign aid to the region has averaged about $200 million. At the same time, during this period, U.S. exports to the Caribbean have expanded by more than 200 percent and Caribbean exports to the United States have climbed by nearly 170 percent. The Caribbean Basin now comprises the tenth largest market for the United States, and it is one of the few regions where the United States consistently posts a trade surplus. With combined trade exceeding $36 billion in 1997, U.S./Caribbean commercial links support more than 360,000 jobs in the United States and countless more throughout the Caribbean and Central America.

For Jamaica, the United States is an important economic partner and supporter of its development program. Indeed, over the past decade, Jamaica has been a major recipient of U.S. foreign aid to the Caribbean region. The United States has been a vital source of funding for the following programs: facilitating economic liberalization and private sector-led growth; promoting institution-building and public sector efficiency; supporting debt reduction; providing assistance to the social sectors to cushion the effects of economic adjustment on the poor; improving natural resource management; assisting in efforts to combat the international narcotics trade; and funding environmental protection.

Ultimately, Jamaica is seeking to reduce its traditional reliance on official assistance and to finance development through a combination of domestic and foreign private capital flows. However, this long-term goal can only be achieved with continued

United States support for Jamaica's comprehensive economic reform and development programs.

Jamaica is acutely aware of the budgetary constraints in the United States. Furthermore, given the end of the Cold War and pressing domestic concerns, Congress and the American public opinion favor a reduction in foreign assistance programs. The Government of Jamaica welcomes the refocusing of the U.S. aid program towards sustainable development, with an emphasis on entrepreneurial development, assistance to the social sectors, and popular participation in the development process. Nevertheless, while the rationale for this new approach is clearly understood, a reduction in assistance resources to be a phased process which is sensitive to Jamaica's development needs. Sudden and drastic foreign aid cuts would adversely affect Jamaica's structural transformation efforts.

SUPPORTING SUSTAINABLE ECONOMIC GROWTH

Since 1990, the Jamaican Government has been implementing a comprehensive and uncompromising economic program which has brought positive results and which has supported private sector-led, market-driven economic growth. The Government is now working vigorously to maintain and strengthen confidence in its financial sector while engaging in wide-ranging activities to promote consumer rights, dismantle government regulations, and encourage private sector development. The U.S. Government has supported this process of economic reform and trade liberalization by providing balance of payments support, in addition to traditional development assistance funding (DA) for specific projects and programmes to support overall growth targets.

Development Assistance (DA) has helped Jamaica undertake critical social programmes in areas such as education and public health, and economic programs, through the promotion of micro-enterprise development. In fiscal year 1999, USAID is proposing to allocate $11 million to Jamaica to stimulate micro-entrepreneurial activity; to increase employment in small, niche export industries; to promote environmentally sustainable policies, especially in the tourist areas, to raise educational standards of elementary school children; and to encourage effective family planning techniques.

Such programs are clearly in the U.S. interest, particularly since Jamaica is in such close proximity to the United States. It should be noted that, as the economy has expanded, so too has our ability to import from the United States, our largest trading partner. Jamaica currently imports about 70 percent of its goods and services from the United States and since 1985, annual growth of U.S. exports to Jamaica has averaged 12 percent. Moreover, the accomplishment of social, health, and educational goals contribute to overall stability, which have a dampening effect on migration and narcotics trafficking through U.S. borders.

SUPPORTING PRIVATE SECTOR DEVELOPMENT: THE MULTILATERAL INVESTMENT FUND

The United States has also supported private sector development via the Inter-American Development Bank's Multilateral Investment Fund (MIF). In fact, Jamaica was the first country to receive funding from the MIF. This $1.5 billion development facility is being used to support micro-enterprise and human resource development and strengthen private sector activities in Jamaica and other activities throughout the region. In fact, the first MIF project provided $1.8 million to support the establishment of an Employee Share Ownership Plan (ESOP) to expand the participation of Jamaica's labor unions in Jamaica's privatization program. Additional projects in Jamaica have included:

—$1.27 million to establish an Office of Utilities Regulation;

—$3.5 million to fund a human resource development pilot project—a unique collaboration between organized labor and employers to expand private sector capacity to retrain displaced workers and improve labor market exchange mechanisms;

—$1.9 million for institutional strengthening of the Jamaican Cooperative Credit Union League;

—$1 million for computer-aided technology and training in rural Jamaica—an extension of a private sector initiative: Jamaica 2000; and most recently; and

—$1.5 million in institutional support for the Financial Sector Adjustment Company (FINSAC), which was created by the government to facilitate the restructuring of the financial sector.

Cumulatively, Jamaica has received $11.7 million in grants from the MIF through December 1997. U.S. leadership in the MIF has played an important role in guaranteeing matching contributions from other donor governments, including the Japanese, thereby ensuring the success of this program. The Government of Jamaica

supports the President's commitment to request continued U.S. contributions to the MIF.

SUPPORTING PRIVATE SECTOR DEVELOPMENT: PRIVATE SECTOR INVESTMENT FUNDS

In the face of aid cuts, the government is also looking to private sector sources and foreign direct investment to generate additional capital to finance Jamaica's development needs.

U.S. Government support has been instrumental in facilitating private investment in Jamaica, strengthening a complementary partnership that ultimately generates U.S. jobs and exports. The Overseas Private Investment Corporation has supported dozens of projects in Jamaica—to the amount of $835 million—since it opened for business there in 1963. OPIC provided more than $40 million in political risk insurance during 1996 alone. Moreover, over the past ten years, the Section 936 program generated more than $2 billion in investment throughout the Caribbean, one-quarter of which was in Jamaica. Combined, these programs have supported much of the foreign direct investment targeted for Jamaica over the past decade. Regrettably, however, the Congress closed the Section 936 window in 1996.

Several programs may provide a mechanism to help the Caribbean fill this funding gap. First, OPIC itself may provide a solution through the creation of an OPIC Equity Fund for the Caribbean Basin. OPIC currently supports 4 sector-specific funds as well as 24 regional funds operating in virtually every region of the world. Conspicuously absent is an OPIC-supported regional fund for the countries of Central America and the Caribbean Basin. Several investor groups are already petitioning for the creation of such a fund as a way to help accumulate sufficient capital to invest in the region. This fund would help attract the risk-averse investors to the Caribbean Basin economies while strengthening OPIC's portfolio in the region—a fact that may also benefit OPIC, given the widespread constituency of support for regional trade links.

A related concept is the creation of an Enterprise Fund, which has recently been suggested by House Foreign Operations Subcommittee Chairman Sonny Callahan (R-AL). Although enterprise funds have posted mixed records in Eastern Europe, they have provided an important mechanism to encourage the development of a viable private sector in the former communist countries. Such a model could be replicated in Jamaica to encourage the development of a vibrant private sector among micro-entrepreneurs and the sectors of society traditionally overlooked by other development programs. Moreover, an enterprise fund could provide a structured way for Jamaicans living throughout the United States to participate in the development of their homeland.

PROMOTING TRADE EXPANSION

In the context of the foreign aid debate, Congress should also give due consideration to the strengthening of our mutually beneficial trading partnership. In the long-term, as foreign aid is phased out, it can only be replaced by a sound, and commercially viable, trade and investment relationship. Jamaica has long recognized the importance of such a relationship with the United States. Bilateral trade flows have expanded by more than 10 percent a year since the mid-1980's. Moreover, U.S. investors are playing an active role in Jamaica's growing private sector.

The Caribbean Basin Initiative (CBI) has formed an important basis for the U.S./Jamaican and U.S./Caribbean partnership to flourish. The Administration has recently developed a proposal to strengthen this CBI framework to help CBI countries cope with trade and investment diversion from Mexico under the NAFTA. Such diversion has already begun to distort trade and investment flows with the Caribbean country. In 1997, for example, contractions in the Jamaica textile and apparel sector led to a decline in both exports to, and imports from, the United States. We are hopeful that this situation can be remedied through the enactment of pending legislation during the 105th Congress.

Jamaica was an active participant in the preliminary discussions and summits leading toward the Free Trade Area of the Americas (FTAA). Jamaica chaired the Working Group on Smaller Economies, calling attention to the needs of the smaller economies in the FTAA framework. The size and trade profile of many of these countries—which by some estimates account for about two-thirds of the FTAA participants—makes them particularly vulnerable to the shocks of external events. While they all want to embrace the path of trade liberalization, they are often not capable of implementing steps on the same timetable as their more developed neighbors.

FACILITATING DEBT REDUCTION

Jamaica continues to face heavy debt service obligations. Recently, the United States has made valuable concessions which have provided important debt relief to support reform efforts. This debt relief frees scarce foreign exchange resources for crucial imports and reduced debt servicing helps to lower fiscal expenditure, thereby contributing to Jamaica's growth. The program has also channeled local currency debt repayments into environmental management funds, building a sustainable environmental framework for development. Ultimately, because of debt relief, Jamaica has been one of the few countries to reduce its stock of external debt and debt servicing. The stock of public debt currently totals approximately $5.23 billion, more than half of which is external debt.

Nevertheless, debt service obligations remain high and currently absorb approximately 45 percent of the Government's annual budget. By comparison, in the United States, where public debate has highlighted the burden of the U.S. Government budget deficit, debt service is roughly 14 percent. As Jamaica allocates such a high percentage of the public sector budget for debt servicing, it is unable to pursue other on-going development priorities. In this regard, Jamaica welcomes the approval in recent appropriations and authorizations bills of new mechanisms to effect debt reduction for environmental programs, based on the Enterprise for the Americas Initiative (EAI). Jamaica endorses efforts to renew this program for fiscal year 1999, and has engaged in discussions with the Administration about how this program can be deployed to assist in reducing Jamaica's debt burden while providing the mechanisms to sustain the mutual development efforts of both Jamaica and the United States.

SUPPORTING COUNTER-NARCOTICS ACTIVITIES

The Jamaican government is irrevocably committed to maintaining a comprehensive anti-drug campaign based upon a two-pronged approach, focusing both on supply and demand reduction. To curtail the supply of drugs, the government is engaged in a campaign to eradicate marijuana growing in the remote mountainous regions of the country and to strengthen capabilities to interdict and punish drug offenders. Already Jamaica has succeeded in reducing marijuana production substantially since 1990. Jamaica has also recently passed legislation on asset forfeiture and money laundering, implemented a Mutual Legal Assistance Treaty (MLAT) and a new shiprider agreement with the United States, and is now preparing to consider legislation to prevent trade in pre-cursor chemicals. The United States has made an important contribution through the support of economic and security assistance, training, and other material and assets, and we are actively working with U.S. government agencies to strengthen cooperation across a range of activities.

Jamaica also recognizes that without a demand for illegal drugs, there would be no industry. To stem demand for drugs in Jamaica, critically acclaimed programs are being funded that focus on rehabilitating former drug addicts and on providing drug education to vulnerable groups. These supply and demand-related programs place considerable pressure on the Jamaican government's budget, particularly at a time when there is considerable effort to fund other social programs while curtailing the growth of fiscal expenditure. With continued U.S. assistance, Jamaica can maintain its aggressive efforts, both to stop the harmful flow of drugs into the United States and to provide viable alternatives for Jamaicans to induce them out of illegal narcotics activities.

While we understand the U.S. domestic debate regarding counter-narcotics assistance, our fear is that reduced counter-narcotics funding may be interpreted as a signal to international drug cartels that Jamaica has a reduced capability to effectively engage in international narcotics interdiction. Similarly, such reductions would put additional financial burdens on the Jamaican Government at a time when it is undertaking critical economic reforms. U.S. assistance sustains an important partnership in the effort to combat international narcotics trafficking.

CONCLUSION

Jamaica is now moving decisively to promote economic growth—both by attracting foreign investment and mobilizing domestic savings. In March 1996, the Jamaican Government finalized and issued a National Industrial Policy that outlines a framework under which different sectors of the economy—government, private firms, and organized labor—can work together to ensure growth and prosperity in Jamaica through the 21st century. This policy provides an important long-term blueprint for Jamaica's economic development, focusing on growth through investment and export promotion. During that same month, Jamaica successfully completed an IMF ex-

tended funds facility agreement, bringing to an end Jamaica's long borrowing relationship with the Fund, and setting the stage for current government economic policies.

U.S. assistance is making an important contribution to Jamaica's development. USAID-Jamaica has been particularly effective at the grassroots level, funding programs that seek to incorporate the poor into the economic growth process. This is crucial for sustainable development, which in turn will further stimulate trade and investment with the United States. The U.S. foreign assistance program in Jamaica, should be viewed as an investment in the economic well-being of the United States, not as outflows of money. The mutual benefits of foreign assistance are well-documented and need to be clearly recognized. Strengthening our common economic relationship will provide an additional framework through which aid flows can be replaced by advantageous commercial linkages.

U.S./CBI TRADE STATISTICS (1985–96)

[Millions of U.S. dollars]

| Year | U.S. imports | U.S. exports | Annual export growth (percent) | Trade balance |
|---|---|---|---|---|
| 1985 | 6,687 | 5,942 | ..... | −745 |
| 1986 | 6,065 | 6,362 | 7.1 | 297 |
| 1987 | 6,039 | 6,906 | 8.6 | 867 |
| 1988 | 6,061 | 7,690 | 11.4 | 1,629 |
| 1989 | 6,637 | 8,290 | 7.8 | 1,653 |
| 1990 | 7,525 | 9,569 | 15.4 | 2,044 |
| 1991 | 8,372 | 10,013 | 4.6 | 1,641 |
| 1992 | 9,627 | 11,263 | 12.5 | 1,636 |
| 1993 | 10,378 | 12,428 | 10.3 | 2,050 |
| 1994 | 11,495 | 13,441 | 8.1 | 1,946 |
| 1995 | 12,673 | 15,306 | 13.8 | 2,633 |
| 1996 | 14,469 | 15,870 | 3.7 | 1,401 |
| 1997 | 17,740 | 18,431 | 16.1 | 692 |
| Average annual U.S. export growth | ..... | ..... | 9.95 | ..... |

Note: 1997 marked the 12th straight year of U.S. trade surpluses.

Source: U.S. Department of Commerce and U.S. International Trade Commission.

NUMBER OF U.S. WORKERS DEPENDENT ON TRADE WITH THE CARIBBEAN BASIN NATIONS

| Year | Total number of U.S. workers [1] | Number of new U.S. jobs created per year |
|---|---|---|
| 1985 | 118,840 | ..... |
| 1986 | 127,240 | 8,400 |
| 1987 | 138,120 | 10,880 |
| 1988 | 153,800 | 15,680 |
| 1989 | 165,800 | 12,000 |
| 1990 | 191,380 | 25,580 |
| 1991 | 200,260 | 8,880 |
| 1992 | 225,262 | 25,002 |
| 1993 | 248,552 | 23,290 |
| 1994 | 268,814 | 20,292 |
| 1995 | 306,120 | 37,306 |
| 1996 | 317,400 | 11,280 |
| 1997 | 368,600 | 51,200 |
| Average annual job creation | ..... | 20,813 |

[1] Assuming that $1 billion in U.S. exports creates 20,000 U.S. trade-related jobs.

Source: U.S. Department of Commerce and U.S. International Trade Commission.

U.S./JAMAICAN TRADE STATISTICS (1985–97)

[Millions of U.S. dollars]

| Year | Annual U.S. imports | Annual U.S. exports | Export growth (percent) | Trade balance |
|---|---|---|---|---|
| 1985 | 267 | 404 | ..... | 137 |
| 1986 | 298 | 457 | 13.1 | 159 |
| 1987 | 394 | 601 | 31.5 | 207 |
| 1988 | 441 | 762 | 26.8 | 321 |
| 1989 | 527 | 1,006 | 32.0 | 479 |
| 1990 | 564 | 943 | −6.3 | 379 |
| 1991 | 576 | 963 | 2.1 | 387 |
| 1992 | 599 | 938 | −2.6 | 339 |
| 1993 | 720 | 1,113 | 18.7 | 393 |
| 1994 | 747 | 1,066 | −4.2 | 319 |
| 1995 | 847 | 1,421 | 33.3 | 574 |
| 1996 | 839 | 1,491 | 4.9 | 652 |
| 1997 | 738 | 1,417 | −5.0 | 679 |
| Average annual U.S. export growth | ..... | ..... | 12.0 | ..... |

Note: U.S. trade surplus in 1997 is the 13th straight year of trade surpluses.

Source: U.S. Department of Commerce and U.S. International Trade Commission.

U.S. FOREIGN ASSISTANCE TO JAMAICA (FISCAL 1985–99) [1]

[Millions of U.S. dollars]

| Year [2] | ESF | DA | Public Law 480 | MIL | Peace Corps Narc | Prog | Total |
|---|---|---|---|---|---|---|---|
| 1985 | 81.0 | 34.3 | 40.1 | 7.6 | ..... | 2.4 | 165.6 |
| 1986 | 58.6 | 26.1 | 37.6 | 8.0 | 1.5 | 2.6 | 134.3 |
| 1987 | 26.0 | 18.1 | 39.9 | 3.4 | 3.3 | 2.5 | 93.1 |
| 1988 | .5 | 39.2 | 35.7 | .3 | 1.9 | 3.0 | 80.7 |
| 1989 | 12.9 | 51.8 | 47.1 | 3.8 | 1.0 | 3.0 | 119.6 |
| 1990 | 13.2 | 14.0 | 44.2 | 1.3 | 1.0 | 2.3 | 76.6 |
| 1991 | 10.0 | 17.2 | 44.7 | 1.9 | 1.4 | 2.4 | 77.6 |
| 1992 | 15.9 | 22.3 | 32.6 | 3.2 | 1.0 | 2.1 | 77.0 |
| 1993 | 2.0 | 13.7 | 30.0 | .4 | 1.3 | 2.3 | 49.7 |
| 1994 | ..... | 8.9 | 14.0 | .5 | .6 | 2.2 | 26.2 |
| 1995 | ..... | 10.5 | ..... | .2 | .6 | 1.9 | 13.2 |
| 1996 | ..... | 7.8 | 2.2 | .5 | .7 | 1.9 | 13.1 |
| 1997 | ..... | 11.2 | ..... | .5 | .7 | 1.9 | 14.3 |
| 1998 | ..... | 11.0 | ..... | .5 | .6 | 2.0 | 14.1 |
| 1999 | ..... | 10.9 | ..... | .5 | .8 | 2.0 | 14.2 |

[1] Fiscal year 1999 request levels equal 8.6 percent of fiscal year 1985 actual levels.
[2] Figures for fiscal years 1997 and 1998 represent actual appropriations. Figures for fiscal year 1999 are based on request levels.

Note: Figures may not total exactly due to rounding.

Source: USAID, Obligations and Loan Authorizations Fiscal Year 1946–Fiscal Year 1992. USAID Congressional Presentation, fiscal years 1995–99.

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## Assistance to Greece, Cyprus, and Turkey

### Prepared Statement of Andrew E. Manatos, President, National Coordinated Effort of Hellenes

I and the national Greek-American organizations on whose boards I serve value this opportunity to participate in our country's democratic process. What follows are our recommendations for foreign assistance levels for and American policies toward the countries of Greece, Cyprus and Turkey in fiscal year 1999. We believe that these recommendations will significantly benefit our country's short term and long term interests.

As this committee knows, this year the United States, the European Union and the United Nations have intensified their efforts to bring about a just and viable Cyprus settlement as well as greater stability in the Eastern Mediterranean. The success of these important and unprecedented efforts will be significantly advanced if the government of Turkey continues to receive the proper message from our government and the international community.

The Turkish government must understand that the path to Turkish advancement requires adherence to today's rules of a civilized world order, including a respect for human rights, intentional law and sovereignty, and the non-use of force or threat of force. The traditional American message sent to Turkey (through our previously routine and presently sporadic practice of ignoring Turkish wrongdoing) has given legitimate standing and credence to a group in Turkey who advocate that Turkey can advance by saying the "right" things and doing the "wrong" things. In today's world, whether in the EU or the U.S., leaders will no longer accept the "right" words followed by the "wrong" actions. There are a significant number of journalists, government officials and business people in Turkey who understand that the best interests of the Turkish people lay in their government adhering to standards of modern civilization. They will be strengthened if America's message on this subject is correct.

Mr. Chairman, we urge you and your subcommittee to do whatever you can in this year's legislation to help Turkey understand that in today's world, whether in the European Union or the United States, leaders will no longer accept "right" words followed by "wrong" actions. Please help reinforce, as the E.U. reinforced, the evidence to which enlightened people in Turkey can point to show the direction their country must go.

PRESIDENT'S REQUESTED AID LEVELS

With regard of the specific aid levels that President Bill Clinton requested of the Congress for Greece, Cyprus and Turkey, we strongly support these levels and encourage the Congress to adopt them. The President's budget asks the Congress to send no military aid to Turkey and Greece, no economic aid to Turkey, and the full 15 million in aid to Cyprus.

It is time to end U.S. military aid to Turkey, a country which has been using U.S. military equipment to violate internationally accepted standards of conduct, including threatening U.S. allies, Greece and Cyprus, and illegally occupying Cyprus. It would mark the end of a process started by the U.S. Congress 6 years ago to graduate Turkey and Greece from the annual U.S. foreign military financing program. The primary reason Greece and Cyprus need military equipment is to defend themselves against U.S arms and Turkish hands.

With regard to Turkey's economic aid, each year since 1994 the U.S. Congress has cut or conditioned a portion of this aid in the attempt to send a message of U.S. disapproval of Turkish actions with regard to Greece, Cyprus, Armenia, and its Kurdish population. Ending this aid sends the strongest message.

With regard to the traditional $15 million earmark in economic aid for Cyprus adopted in the final foreign operations appropriations bill each year, it is important that the Congress maintain this demonstration of support for a peaceful reunification of the island. An appropriation of anything less would send the people of Cyprus the wrong message at perhaps the most crucial time for settlement efforts in the nearly 24 years since the Turkish invasion and occupation of Cyprus.

IMPORTANT ISSUES

Mr. Chairman, I would like to take the remainder of my testimony to highlight for you some important developments that have taken place with regard to the countries of Greece, Cyprus and Turkey since I testified before your committee a year ago.

*Relations between Greece and Turkey*

On July 8, 1997, U.S. Secretary of State Madeleine Albright hosted a meeting at the NATO summit in Madrid between the Foreign Ministers of Greece and Turkey. At this meeting the two countries agreed to abide by a set of important, internationally recognized standards of conduct including: Respect for the principals of international law and international agreements; Respect for each other's sovereignty; Commitment to settle disputes by peaceful means based on mutual consent and without use of force or threat of force; and A mutual commitment to peace, security and the continuing development of good neighborly relations.

Turkey must abide by these agree-to principles to the letter. If Turkey challenges Greece's sovereign rights, it should take such a challenge to the International Court of Justice at the Hague or other appropriate legal forum.

*Turkish Provocations Continue*

Unfortunately, the Turkish government continued its aggressive acts against Greece and Cyprus, violating the internationally accepted standards of conduct to which it agreed in Madrid. Attached is a detailed list of such acts.

*Sending Turkey the Proper Message*

The administration has begun sending Turkey the proper message when such aggressive acts occur—that Turkish advancement requires adherence to today's rules of a civilized world. Two such examples follow:

—When four Turkish F–16 fighters buzzed the military transport plane carrying Greece's defense minister from Cyprus to Greece (on October 16, 1997), coming close enough to make the plane rock, the Turkish government denied the incident. The President's Special Envoy for Cyprus, Richard Holbrooke, stated publicly, "I have no doubt that the provocative action—indeed happened," and "it is an unacceptable action which does not at all help defusing tensions between Greece and Turkey."

—When Turkish warplanes flew near Thessaloniki, Greece (on December 11, 1997), the State Department spokesman called such flights, "needlessly provocative and totally unnecessary," stating clearly that the United States believes that, "military activity of this kind undermines confidence and needlessly exacerbates tensions between our NATO allies."

The traditional American message sent to Turkey (through our previously routine and presently sporadic practice of ignoring Turkish wrong doing) has given legitimate standing and credence to a group in Turkey who advocate that Turkey can advance by saying the "right" things in doing "wrong" things. The administration was the victim of those advocates following its hard work, which secured for Turkey in 1995 the European Union's Custom Union. Turkey's "wrong" actions subsequently stopped the cold the completion of the Customs Union benefits for Turkey. Again, in August of 1997, following Turkey's "right" words in Madrid, Spain, the administration released $150 million worth of frigates and $113 million in Seahawk Helicopters. Turkey's "wrong" actions following the arms transfer that they wanted, played a significant role in the European Union's finding Turkey's conduct as a nation unacceptable for accession.

The more enlightened individuals in Turkey have prevailed only when the message Turkey received suggested that only the "right" words and actions together would produce the most for Turkey. The only time Turkey announced troop withdrawals from Cyprus was during the American arms embargo against Turkey and again when the embargo was nearly reimposed.

*The European Union's Message to Turkey*

On December 13, 1997 the European Union (EU) rejected Turkey's bid to become a member of the EU. Statements by EU officials and others (below) sent Turkey a clear message:

—EU term president and prime minister of Luxembourg, Jean-Claude Juncker, said (on December 17) that, "Turkey must understand that we are not just a Christian club, but a club with principles and rules which it has to respect if it wishes to become a member * * * The EU has asked Turkey to recognize the competence of the International Court of Justice at the Hauge, to show respect for the rules of good neighborliness and to support the efforts for a solution of the Cyprus issue and the island republic's accession to the EU."

—European Parliament president, Jose Maria Gils-Robels, said (on December 12) that to begin EU negotiations with Turkey, "it is necessary [for Turkey] to end the occupation of Cyprus, to make big steps ahead concerning the treatment of the Kurdish minority and to respect human rights." Danish prime minister Poul Nyrup Rasmussen added (December 11) that, "a country wishing to be considered as a candidate for EU membership cannot have territorial designs against another member-state of the Union."

—The Jerusalem Post (on December 14) noted that, "There are several reasons why Turkey does not qualify [for EU membership], apart from economics. In no country in the EU, or among the aspiring members, are citizens tortured. In Turkey they are. No EU state has 30,000 occupation troops in a neighboring country, propping up a puppet government. In Cyprus, Turkey does. Turkey's treatment of its Kurdish minority is beneath contempt * * * It is true that Turkey is generally admired as the only successful secular democratic Moslem

state in the Middle East, but that is a long way from saying it is a fit candidate for European Union membership."

*Turkey's Path to the EU*

The EU noted (on December 13) that if Turkey wishes to join the European Conference (which will bring together EU member states and states aspiring to accede to the EU) it must prove, as other members have, that it, "shares a common commitment to peace, security and good neighborliness, respect for other countries' sovereignty * * * and the commitment to settlement of disputes by peaceful means."

Greece's Prime Minister Constantine Simitis stated (on December 16) that Greece is not opposed to Turkey's European vocation and, on the contrary, would support it if Turkey "played by the rules of the game which are accepted by all countries and pertain to values, the rule of law and in general all those principles which consolidate peaceful cooperation."

*Turkey's Reaction*

Turkish Prime Minister Yilmaz said (on December 15) that his government will sever its political ties to the EU and threatened to derail U.S.-led Cyprus settlement efforts.

Turkish-Cypriot leader Rauf Denktash announced that, "as a result of the EU decision, the intercommunal talks have been terminated and from now on Turkish-Cypriots will sit at the negotiating table only as a state."

*Cyprus Settlement Efforts*

On July 23, 1997 the House (by a vote of 417 for and only four against) and the Senate (by unanimous consent) overwhelmingly adopted legislation calling for a U.S. initiative seeking a just and peaceful resolution of the Cyprus problem. Through this resolution, the U.S. Congress stated that: "the status quo on Cyprus * * * is an unacceptable violation of international law and fundamental human rights * * * and undermines significant U.S. interests."

It also emphasized that a peaceful, just and lasting solution to the Cyprus problem would: serve important interests in the United States; strengthen peace and stability in the Eastern Mediterranean; contribute to improved relations between Greece and Turkey; and greatly benefit the security and the political, economic and social well being of all Cypriots.

*Cyprus Settlement Timetable:*

The next year and-a-half offer what many consider to be the greatest opportunity, in the over 23 and-a-half years since the division of Cyprus, to find a just and viable settlement. Following the presidential elections in Cyprus in February, the United States, the United Nations, and the European Union, launched an intensified effort to bring about a just and viable Cyprus settlement. Two clocks are ticking that require significant progress in a short period of time.

Today (March 31) the European Union formally begins accession talks with Cyprus. Turkey has threatened that if such talks take place without a united Cyprus, it will integrate the occupied areas of Cyprus into Turkey. Turkish-Cypriot leader Rauf Denktash stated that if such talks with the EU take place before a Cyprus solution, he would boycott all settlement efforts.

In addition, this summer Russia will deliver to Cyprus S–300 defensive ground-to-air missiles. The Turkish government, from its prime minister and president to its foreign and defense ministers, has clearly and repeatedly stated that if such a delivery occurs, Turkey will strike militarily. Greece has stated that such a strike against the relatively defenseless Cyprus would bring a counter attack from Greece. The government of Cyprus, which has for many years has advocated a complete demilitarization of the island, says that these defensive missiles are only necessary if the 30,000 Turkish troops remain. A Cyprus solution in the near future could become a necessity to keep NATO allies Greece and Turkey, and possibly Russia, from going to war.

The U.S., the U.N. and the EU must not broker just any solution, but one that is viable and just. A solution must be based on international law, the provisions of relevant U.N. Security Council resolutions, democratic principles, including respect for human rights, and in accordance with the norms and requirements for accession to the European Union.

Greeks and Turks want to live together again on Cyprus. The United States wants peace in the Eastern Mediterranean, beginning with Cyprus. Now is the time, and perhaps the best and final opportunity, to make this happen.

*Progress on an Important Humanitarian Issue—the Missing in Cyprus*

On March 5, 1998, the over 23 years of suffering by the Costas Kassapis family of Detroit, Michigan was finally brought to closure. The Kassapis family was informed by the U.S. State Department that through the use of highly sophisticated DNA testing, they believe that they have found the remains of their son and brother, Andrew Kassapis, in Cyprus. The last time the Kassapis family saw Andrew alive was in the summer of 1974 when the then 17-year-old was taken from their home in Cyprus by Turkish troops.

We hope that this case is just the first of many more to come. We are encouraged by recent efforts to bring an end to this tragic, humanitarian issue. The July 31, 1997, agreement to immediately and simultaneously exchange all information on the missing and the January, 1998, exchange of this information were major steps forward. We pray that the families of the other 1,618 missing in Cyprus, including four other Americans, also will be able to end their years of suffering soon.

The U.S. Congress should take great pride in this major development on this important issue. In 1994 the Congress passed and the President signed into law legislation directing the President to undertake this thorough investigation of the missing in Cyprus. We regret that such a law was necessary. However, years of efforts by the United Nations investigatory committee on the missing and previous U.S. State Department policies were unable to produce evidence for even a single case.

*The Ecumenical Patriarchate*

The Ecumenical Patriarchate, located in Istanbul, Turkey, is the spiritual center for more than 300 million Orthodox Christians worldwide, including approximately five million in the United States. There are several major concerns regarding the Turkish Government's treatment of this center of worldwide Orthodoxy:

*Attacks on the Patriarchate*

In recent years, the Ecumenical Patriarchate has experienced a number of security threats:

—On December 3, 1997, an explosive device was thrown over the wall of the Patriarchate, seriously injuring a clergyman and severely damaging the roof of the Patriarchal Cathedral and the offices of the Patriarch.

—The year before, in September, the Patriarchate came under grenade and machine gun fire attack. The explosion tore off a corner of the roof of the Patriarchal Cathedral and blew the windows out of the sleeping quarters.

—In May of 1994, three powerful bombs linked to a timing device were found and diffused only minutes before they were to detonate. Had they exploded the Patriarchate and everything within its walls would have been destroyed.

—Just two months prior to the discovery of these bombs, two firebombs were hurled into the Patriarchate.

—His All Holiness Ecumenical Patriarch Bartholomew and those associated with the Ecumenical Patriarchate are Turkish citizens and have the full protection of Turkish law.

*Reopening the Halki School of Theology*

The reopening of the Halki Patriarchal School of Theology, the only educational institution for Orthodox Christian leaders in Turkey, is vital for the long-term viability of the Ecumenical Patriarchate. The Turkish government arbitrarily closed the Halki School in 1971. Turkish law requires that the Ecumenical Patriarch, as well as all of the clergy, faculty and students, to be citizens of Turkey. The Halki School is the only educational institution in Turkey for the Orthodox Christian leadership. The closing of the Halki School is in violation of international treaties to which Turkey has been a signatory, including, but not limited to the Treaty of Laussane, the 1968 Protocol, the Helsinki Final Act (1975) and the Charter of Paris.

*Significance of the Patriarchate*

The government of Turkey does not recognize the Ecumenical Patriarchate as the spiritual center for worldwide Orthodoxy, but only as the head of the Greek Orthodox Church in Turkey. However, the Ecumenical Patriarchate, founded in 38 AD, is a locale where the new testament was codified and the Nicene Creed was first written. It was under the leadership and guidance of the Ecumenical Patriarchate that the constitutional and dogmatic framework of the Christian Church was formulated. Ecumenical Patriarch Bartholomew is the 270th successor of the nearly 2,000 year old Christian center, founded by the apostle Andrew, the first-called Disciple of Jesus Christ.

*U.S. Congress Honors Ecumenical Patriarch Bartholomew*

On October 12, 1997, the U.S. Congress honored His All Holiness Ecumenical Patriarch Bartholomew with the highest recognition it can bestow—the Congressional Gold Medal. He is only the fifth religious figure in America's history to receive this award, an honor first bestowed on George Washington in 1776 and subsequently to such significant people as Thomas Edison, Winston Churchill and Mother Teresa. The legislation bestowing this award on the Ecumenical Patriarch received more cosponsors (327) than any bill in recent memory.

AGGRESSIVE ACTS BY TURKEY AGAINST GREECE AND CYPRUS—MARCH 31, 1998

*March 14, 1998*.—Turkish troops open fire on and capture two Greek-Cypriot fishermen who were fishing in the territorial waters of the free area of Cyprus. They are held in custody in the occupied area of Cyprus for six days.

*Jan. 13, 1998*.—Turkey announces, during time of heightened U.S., U.N. and E.U. efforts for a Cyprus settlement, that Turkey's embassies around the world will now also represent the occupied area of Cyprus, in a step toward integrating the occupied area with Turkey. Turkey also announces its plan to open three new naval and air bases in the occupied area of Cyprus.

*Jan. 6, 1998 and Dec. 25, 1998*.—Turkish warplanes overfly Greek territory on two of Greece's most holy religious holidays. Planned Turkish overflihgts of the the Greek islet of Kalogiri are prevented by U.S. intervention.

*Dec. 11, 1997*.—U.S. State Department spokesman calls flights by Turkish warplanes near Thessaloniki "needlessly provocative and totally unnecessary," stating that, "military activity of this kind undermines confidence and needlessly exacerbates tensions between our NATO allies."

*Oct. 16, 1997*.—Four Turkish F–16 fighters buzz the military transport plane carrying Greece's defense minister from Cyprus to Greece, coming close enough to make the plane rock.

*Oct. 14, 1997*.—Turkish F–16 jets with rockets and warheads fly over Cyprus.

*Oct. 13, 1997*.—Two Turkish F–16 fighters buzz the military transport plane carrying Greece's defense minister to Cyprus.

*Oct. 12, 1997*.—Turkish planes harass two Greek Air Force bombers over Cyprus—the first such confrontation over Cyprus.

*Sept. 19, 1997*.—Turkish Prime Minister Mesut Yilmaz announces that his government has asked the Turkish military to "plan and propose additional military measures" to address the planned delivery of defensive surface-to-air missiles to Cyprus. U.S. State Department spokesman clarifies that the U.S. is, "firmly opposed to threats to address the missile question militarily."

*August 6, 1997*.—Just five days before the start of the second round of U.N.-sponsored Cyprus settlement talks, Turkey signs an agreement calling for the partial economic and defense integration of Turkey with the occupied areas of Cyprus.

*July 15–21, 1997*.—Just days after the first U.N.-sponsored Cyprus settlement talks in three years: Turkey's deputy prime minister Bulent Ecevit and Turkish-Cypriot leader Rauf Denktash issue a joint declaration regarding the gradual integration of the occupied areas of Cyprus with Turkey; and Turkish war ships dock at ports in the occupied area.

*July 7–8, 1997*.—While the prime ministers of Greece and Turkey meet in Greece (the first official visit by a Turkish leader in 36 years), Turkish armed forces hold their largest ever military maneuvers in and around Cyprus. These amphibious and airborne operations were the first of their kind in the 23 years of the occupation of Cyprus.

*April 7, 1997*.—Turkish air force planes fly over the occupied area of Cyprus.

*April 1, 1997*.—On this national day for Cyprus, four Turkish Phantoms follow the previous day's pattern of violations.

*March 31, 1997*.—Four Turkish F–4 Phantoms fly over the Turkish-occupied area of Cyprus in staged mock attacks.

*Feb. 5, 1997*.—Turkey dramatically escalates in 1996 its misuse of U.S.-supplied warplanes to overfly Greek sovereign territory—from 73 times in 1995 to 538 times in 1996.

*Jan. 21, 1997*.—Turkish Prime Minister Necmettin Erbakan joins Turkey's President, Foreign Minister and Defense Minister in threatening war against Cyprus following announcement of the Cyprus government's plans to acquire defensive surface-to-air missiles in 16 months. Erbakan states, "We are not going to wait passively for 16 months * * * If it is not declared within a certain time that the missiles will not be coming, we will definitely not hesitate to take the steps required * * * We will take the initiative."

*Oct. 13, 1996*.—Turkish troops kill an unarmed 58 year-old Greek-Cypriot who mistakenly wandered into the occupied area. Petros Kakoullis, who was snail gathering with his son-in-law, was shot twice while his hands were raised above his head and a third time at close range while on the ground. United Nations officials were not permitted to approach the body for over four hours.

*Aug. 9–15, 1996*.—Turkish Foreign Minister Tansu Ciller diverts thousands of dollars in government funds to send over 3,000 members of the "Grey Wolves" terrorist group from Turkey into occupied Cyprus for purposes of turning a peaceful Greek-Cypriot protest demonstration into a violent confrontation.

Turks savagely beat to death, with rocks and iron poles, unarmed 24 year-old Greek-Cypriot Tassos Isaac and seriously injure 41 other Greek-Cypriot demonstrators in the United Nations buffer zone. Greek-Cypriots were protesting Turkey's continuing illegal military occupation of Cyprus.

Three days later, Turkish troops open fire on a group of unarmed mourners in the U.N. buffer zone. Turks kill an unarmed 26 year-old cousin of Isaac, Solomos Solomou, who was climbing a flag pole, and injure 11 others, including two U.N. peace-keepers, two Cypriot police officers and a 59 year-old woman.

Turkish Foreign Minister Ciller flies to occupied Cyprus to show support for the murders, publicly stating that Turkey will "break the hands of anyone who lays a finger on the Turkish flag."

*June 18, 1996*.—The Foreign Minister of Turkey [a non-European Union (EU) member] asks the EU President not to adopt the principle of protecting the external borders of EU countries.

*June 5, 1996*.—Turkey disputes Greek sovereignty over Greek Island of Gavdos inhabited by over 300 Greeks.

*June 3, 1996*.—Turkish troops murder unarmed 19 year-old Greek-Cypriot National Guardsman in U.N. buffer zone on Cyprus. U.N. rescue team is pinned down by Turkish gunfire while boy dies from loss of blood.

*April 9, 1996*.—On the day that Greek Prime Minister Simitis meets with U.S. President Clinton in Washington, D.C., Turkish warplanes escalate violations of Greek air space to a record 48 times in one day.

*Feb. 3, 1996*.—Turkey claims sovereignty of 1,000 Greek isles and threatens war if Greece doesn't recognize that sovereignty.

*Jan. 31, 1996*.—Turkey moves 100 more U.S. battle tanks to occupied Cyprus, during height of near war in the Aegean, giving Turkish forces on Cyprus night fighting capability for the first time.

*Jan. 30, 1996*.—Turkish plan to invade Greek isle of Imia containing Greek personnel averted by U.S. presidential intervention. Invade instead Greek isle containing no Greek personnel.

*June, 1995*.—Turkish Prime Minister threatens war against Greece.

*June 8, 1995*.—Turkish Parliament adopts resolution authorizing war against Greece.

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PREPARED STATEMENT OF EUGENE T. ROSSIDES, GENERAL COUNSEL, SENIOR COUNSEL, ROGERS & WELLS ON BEHALF OF THE AMERICAN HELLENIC INSTITUTE, INC.

Chairman McConnell, Senator Leahy and Members of the Subcommittee: I am pleased to present testimony to the Subcommittee on behalf of the following organizations: the American Hellenic Institute Public Affairs Committee, Inc., the Hellenic American National Council, the Hellenic American Women's Council, the Cyprus Federation of America, the Pan Laconian Federation of U.S.A. and Canada, the Pan Cretan Association of America, and the Pan Karpathian Educational Progressive Association on the Administration's foreign aid proposals.

In the Administration's budgetary proposals for fiscal year 1999 military assistance and economic grant aid for Turkey are eliminated.

We congratulate the 104th Congress and the 105th Congress for their important role in the Administration's decision to eliminate military and economic aid for Turkey for fiscal year 1999. We particularly congratulate this Subcommittee for its leadership role. The decision of the Administration this year to eliminate military and economic aid to Turkey was due, I am convinced, in substantial part because of the policy role of the Congress and this Subcommittee.

The American Hellenic Institute Public Affairs Committee (AHIPAC) welcomes the elimination of military and economic aid for Turkey. For many years AHIPAC has argued that U.S. military and economic support for Turkey has rendered our country an accessory to Turkey's violations of international law, aggression, massive ethnic cleansing and genocidal-like actions against its 20 percent Kurdish minority and human rights abuses generally against its citizens, including widespread tor-

ture. AHIPAC is very pleased that with regard to aid policy this sad chapter in U.S. relations with Turkey is at long last coming to an end.

However, the Administration's proposals are inadequate. In the interests of the U.S., far-reaching changes in U.S. policy toward Turkey are needed, including a halt to all arms sales and transfers to Turkey. The budget does not effect these changes. Indeed, the Administration is actively contemplating such sales. Turkey's continuing violations of the norms of international behavior, as set out in the 1997 State Department Human Rights report, issued January 30, reinforce the need for a fresh U.S. approach.

The European Union leaders in their statement of December 14, 1997, declining to accept Turkey as a candidate for early accession to the EU, cited similar concerns about Turkey's adherence to democracy, human rights, and respect for the territorial integrity of its neighbors. The EU leaders made specific mention of Turkey's continuing illegal occupation of Cyprus and of its destabilizing claims to Greek sovereign territory in the Aegean.

The elimination of military and economic aid to Turkey provides an opportunity to review U.S. policy toward Turkey. So long as Turkey persists in its human rights abuses and threats to its neighbors, the U.S. should not maintain a normal relationship with Turkey. All U.S. arms sales and transfers to Turkey should be halted. Further, the U.S. should instruct its representatives in the international financial institutions to vote against any multilateral aid to Turkey.

Important U.S. interests are at stake in Southeastern Europe and the Eastern Mediterranean. To date, our policy toward Turkey has not reflected these interests. I hope that a review can put U.S. policy on a sounder footing.

In my letter of March 9, 1998 to President Clinton I discuss these matters in greater detail. (See Exhibit 1 to this testimony.)

The letter conveys a strong sense of opportunity. In both Greece and Cyprus there are vigorous democracies drawing on a broad-based political consensus about the national agenda. The result is that in Athens and Nicosia sensible, moderate governments are combining with business and civic leaders to pursue policies designed to lower regional tensions, consolidate stability, foster regional development, and to reach out to their neighbors. AHIPAC hopes that the Administration will make the most of this constructive spirit on the Greek and Cypriot sides and increase American participation in the region's political and commercial revitalization.

For this to happen, AHIPAC advocates a change in U.S. policy toward Turkey. AHIPAC urges that U.S. policy toward Turkey should give less weight to the views of the Turkish general staff and more to the more open-minded and forward-thinking elements within Turkish opinion.

We stand at a diplomatic crossroads in the Aegean and Eastern Mediterranean. It is past time for the United States to reevaluate its policies in the region. The United States must now ensure that the policies it follows will advance American interests. Specifically, the U.S. should work with the sensible, moderate, pro-American governments of Greece and Cyprus to promote its regional interests.

Greece is the strategic and economic key for the U.S. in the Balkans and Eastern Mediterranean to bring peace, stability, economic progress and democracy to the region. Our Ambassador to Greece, Nicholas Burns, spoke enthusiastically about Greece's role and actions in Southeastern Europe in a speech on March 30, 1998 in Thessaloniki.

In the interests of the United States:

1. We support the amount of $15 million in humanitarian aid for Cyprus and the demilitarization of Cyprus. We are dismayed at the Clinton Administration's condemnation of the purchase by the government of Cyprus of anti-aircraft defensive missiles, the refusal of the U.S. to sell such equipment to Cyprus, and the Administration's refusal to support the immediate demilitarization of Cyprus. The coddling and appeasement of Turkey by the White House and the State and Defense Departments is the main obstacle to the settlement of the Cyprus problem.

2. We support military aid for Greece as long as Turkey keeps its illegal 35,000 man army of occupation and its 80,000 illegal colonists/settlers in the occupied territory of Cyprus, and maintains its 125,000 man Army of the Aegean aimed at Greece's Aegean islands.

We condemn Turkey's threats on Greece's national sovereignty over the islets of Imia in the Aegean, Turkey's threats of war against Greece in the Aegean regarding Greece's internationally recognized right to extend its territorial waters from 6 to 12 miles and Turkey's threats of military action against Cyprus regarding the purchase by Cyprus of defensive anti-aircraft missiles. These threats are in violation of the U.N. Charter Preamble and Article 2(4).

Turkey is the main security threat to Greece. For the White House and career officials in the State Department and Defense Department to deny this is to deny reality.

3. We oppose any sale or transfer of U.S. weapons to Turkey as contrary to the best interests of the U.S.

4. We believe the Congress should eliminate any trade preferences for Turkey and should consider economic sanctions against Turkey.

5. We support the brave Turkish citizens struggling for human rights and the rule of law. Our dispute is not with the Turkish people, but with the Turkish military and its domination of the Turkish government.

Exhibit 2 to my testimony is a memorandum titled 1998 Greek American Policy Statements. These policy statements were prepared by the American Hellenic Institute and approved by the Order of AHEPA, the Hellenic American National Council and the Hellenic American Women's Council. These organizations are the major Greek American membership organizations.

The Clinton Administration's failure to apply the rule of law in international relations to Turkey will come back to haunt us elsewhere in the world. Instead of supporting the basic American values of democracy, the rule of law, protection of minority and human rights, the Clinton Administration is supporting the law of the jungle by Turkey.

We urge the Congress to investigate the failure of Administration officials to apply the rule of law in international matters regarding Turkey.

The following are several examples of the United States not applying the rule of law to Turkey, all to the detriment of U.S. interests: (1) the failure to apply U.S. and international law to Turkey's ethnic cleansing and genocidal war against its 20 percent Kurdish minority; (2) the failure to apply U.S. law and international law to Turkey's several invasions of northern Iraq, for military actions against Kurds in northern Iraq, including a massive invasion with 35,000 troops; (3) the periodic bombing of Kurds in Iraq; (4) the failure to apply international law to the Aegean Imia islets crisis; (5) the failure to apply the D'Amato Act to Turkey's deals with Iran and Libya; (6) the failure to apply U.S. and international law to Turkey's violations of religious freedom against Christians and Jews in Turkey, including the illegal closing of the Halki Patriarchal School of Theology; (7) the failure to apply international law to Turkey's illegal embargo on Armenia; (8) the failure to apply U.S. and international law to Turkey's continuing occupation of 37.3 percent of Cyprus with 35,000 troops; (9) the failure to apply the Geneva Convention of 1949 to Turkey's 80,000 illegal settlers; (10) the failure to apply the terms of the NATO Treaty to Turkey for its invasion of Cyprus; and (11) the failure to condemn Turkey's violation of the U.N. Charter by Turkey's threats of war against Greece in the Aegean regarding Greece's internationally recognized right to extend its territorial waters from 6 to 12 miles.

Ms. Elaine Sciolino, the distinguished diplomatic correspondent of The New York Times and former chief of its United Nations bureau, authored The Outlaw State, Saddam Hussein's Quest for Power and the Gulf Crisis (1991) stemming from Hussein's invasion of Kuwait and the conflict that followed. Ms. Sciolino could just as easily have written a book titled Turkey-The Outlaw State dealing with Turkey's invasion of Cyprus and violations of law and human rights in Turkey. Turkey's violations of law exceed those of Iraq under Saddam Hussein.

Thank you Mr. Chairman.

[NOTE.—The exhibits can be found on the institute's website at: http:ahiworld.com.]

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## MISCELLANEOUS

### PREPARED STATEMENT OF THE AMERICAN BAR ASSOCIATION

Mr. Chairman and members of the Subcommittee, the American Bar Association (ABA) appreciates the opportunity to present testimony on the fiscal year 1999 Foreign Operations Appropriations budget.

This testimony describes the many programs spearheaded by the ABA to promote the rule of law and democracy around the world. The ABA with over 391,000 members is the world's largest professional voluntary organization. It should be noted that our democratization efforts have, in large part, depended on this volunteer network of lawyers, judges, law professors, and sister institutions. The results have been extraordinary, and the ABA has been able to play a crucial role in ensuring that the U.S. maintain its commitment to engagement and leadership in the inter-

national arena in a very cost-effective manner. We, therefore, hope that these programs continue to receive U.S. contributions.

BACKGROUND

The increasingly changing world offers new challenges and opportunities for the U.S. to assist transitional countries in adopting the rule of law through legal reforms and legal institutions. The only issue here is whether the U.S. will continue its leadership role in the international community.

An important aspect of any democracy is the commitment to credible legal systems and institutions anchored in the rule of law. The creation of governments founded on the rule of law is a key element in fostering democracy and a successful market-based economy. Many U.S. foreign policy goals have been realized through the support of democratization projects. To the extent that U.S. businesses can depend on a country's legal system, foreign markets become a much more attractive export opportunity.

The ABA's international Rule of Law projects have been instrumental in protecting fundamental freedoms, human rights, and liberties in addition to promoting trade and investment opportunities. Notwithstanding, there are many more opportunities throughout the world for us to be effective. In many instances these legal infrastructures have been the foundation for the rule of law in emerging democracies. Mr. Chairman, these are the goals to which ABA projects are committed.

ABA PROJECTS

All ABA democratization projects have been guided by three principles. First, these projects are designed to be responsive to the needs and priorities of the host countries; the countries, not the ABA, define the need. Second, the design of these programs recognizes that U.S. legal experience and traditions offer only one approach that participating countries may wish to consider. Third, these projects are public service endeavors, not devices for developing business opportunities. The result of these programs has always been to take a modest grant and leverage those sums to yield a much larger benefit for the host governments and people.

*The Central and East European Law Initiative ("CEELI")*

The most comprehensive technical legal assistance project of the ABA is the Central and East European Law Initiative, or "CEELI". Shortly after the fall of the Berlin Wall in 1990, CEELI was organized by the ABA International Law and Practice Section to provide technical legal assistance to the emerging democracies in Central and Eastern Europe. By 1992, CEELI began to provide assistance to the Newly Independent States of the former Soviet Union ("NIS").

Through a variety of program components, CEELI is making available U.S. legal expertise to assist countries that are in the process of modifying or restructuring their laws and legal systems. CEELI has focused on work in several critical priority areas: constitutional reform; judicial restructuring; bar reform; criminal law and procedure reform; commercial law; legal education reform; and has helped develop and/or institutionalized self-sustaining indigenous non-governmental organizations (NGO's) in more than 22 countries.

Designed to respond to the needs of the countries, CEELI has emphasized long-term engagement and nurtured projects that facilitate extensive consultations with policy makers, legal scholars, judges, and attorneys in each country. Accordingly, CEELI has developed individual country plans that address the particularized circumstances of each locale. CEELI accomplishes its work primarily through resident liaisons and legal specialists, working pro bono, who spend one to two years working on a daily and continuous basis with local partners. CEELI liaisons often live and work in places where the comforts of life that you and I often take for granted do not exist.

Over the course of the past four years, CEELI has established itself as a fundamental force for law reform in Central and Eastern Europe and the NIS. To date, CEELI has conducted 282 Technical Legal Assistance Workshops; assessed over 323 draft laws; placed 147 long-term liaisons and 168 legal specialists in the region; hosted 47 Central and Eastern European law school deans; sent dozens of U.S. legal reform experts to assist in law school reform; and has placed over 50 students from the NIS in LLM programs throughout the United States. The credit for this remarkable achievement goes to the over 5,000 American attorneys, judges, legal scholars, and private practitioners, who have, as acts of public service, given their time and expertise to make this project successful.

When calculating the in-kind contributions of volunteer legal professionals at an understated rate of $150 per hour, CEELI has yielded over $55 million of pro bono

service. Considering the modest CEELI budget in comparison to funding allocated to consulting firms, the exceptional programmatic impact and financial leverage that an NGO can achieve by using qualified volunteer professionals in a public service project is indisputable. This model of a volunteer professional assistance project is a viable and cost-effective alternative to other uses of U.S. government funding by, for example, for-profit firms. Congress has voiced strong support for CEELI and its ability to leverage U.S. taxpayer dollars (H.R. Rep. No. 524, 1030 Cong., 2d Sess., 82 (1994); S. Rep. No. 287, 103 Cong., 2d Sess., 76 (1994); H.R. Rep. No. 128, 104 Cong., 1st Sess., 80 (1995); H.R. Rep. No. 143, 104th Cong., 1st Sess., 31 (1995); S. Rep. No. 143, 104th Cong., 1st Sess., 42 (1995); S. Rep. No. 000, 104th Cong., 1st Sess., 40 (1995); H.R. Rep. No. 600, 104th Cong., 2d Sess., 31 (1996); S.Rep. No.35, 105th Cong., 1st Sess., 25 (1977); H.R. Rep. No. 176, 105th Cong., 1st Sess., 32 (1977)).

*The ABA Cambodia Democracy and Law Project*

The Cambodia Law and Democracy Project ("Cambodia Project") was launched by the ABA Section of International Law and Practice during 1992 at the request of Cambodian institutions seeking assistance with Cambodia's law modernization process. The principal purpose of the Cambodia Project is to assist Cambodia in planning and implementing legal and judicial reforms to promote democracy, a market economy, and the rule of law.

Under a grant from the Asia Foundation in 1993, the Cambodia Project provided a collection of legal materials in Phnom Penh principally through ABA donations. In late 1996, the Cambodia Project established a Legal Research and Documentation Center at the Bar Association of the Kingdom of Cambodia (BAKC) which has now secured over 1,800 donated books and publications, which include Khmer laws and selected translations, the Official Journal of the Kingdom of Cambodia, and foreign and American legal materials. Since its official opening in March of 1997, the Center has been fulfilling requests for information from lawyers, law students, NGO's, and the National Assembly Legal Research and Documentation Center.

During 1993–94, the ABA Constitutional Law Advisors assisted in drafting the new Constitution, and legal education advisors provided a needs assessment of Cambodia's legal education programs and institutions. Short-term advisors traveled to Cambodia to assist in the areas of foreign investment, contract law, and commercial arbitration.

U.S. legal experts provided commentary in the areas of border disputes, intellectual property, penal code issues, environmental law, family law, and bar association development. During this period, an ABA resident legal advisor was placed in Phnom Penh to oversee all ABA and Asia Foundation legal initiatives. This action led to a request from USAID that the ABA take on a larger role in the law development process in Cambodia, which resulted in a cooperative agreement between USAID/Cambodia and the ABA in 1995.

Until July 1997 the Cambodia Project had three long-term resident advisors in Cambodia. They assisted the Ministry of Commerce and the BAKC, providing institution-building, teaching, and legal drafting assistance. By working in close coordination with the Ministry of Commerce, the Cambodia Project effectively extended efforts to improve Cambodia's legal system into Cambodia's market economy. The completion of Cambodia's Bankruptcy Law, Business Organizations and Contract Law, Products Liability Law, and Contracts Law is evidence of the project's successful advancement. In addition to their roles in law drafting, the advisors conducted classes at a local university, seminars in the provinces, and daily discussion and training sessions at the Ministry of Commerce. The purpose of these events were to train Cambodian officials and lawyers to understand and utilize the laws created to advance the rule of law and foster Cambodian social and economic prosperity.

In late July 1997 the Cambodia Project was placed on hold by USAID due to the political developments that occurred in Cambodia in early July. The project continues on a suspension status. The ABA expects to resume full project operations no later than September 1998.

As with all legal technical assistance programs, the ABA Cambodia Law and Democracy Project develops all program components at the request of, and in close consultation with, participating country institutions. The bulk of the assistance continues to be provided by U.S. lawyers on a pro bono basis utilizing donated materials, allowing a small grant to be leveraged for the benefit of democracy in the host country. The Cambodia Project has received $1,780,679 over the last four years, and the ABA has contributed an additional $1,033,360 to this project.

*African Law Initiative Legal Education Program*

With funding from the United States Information Agency Office of Citizen Exchanges, the African Law Initiative Legal Education Program continues to assist twelve law schools in eight African countries: Eritrea, Ethiopia, Ghana, Kenya, Malawi, Tanzania, Uganda, and Zambia. Over thirty United States law schools have been involved with this program, which was initiated at a major meeting of African and American law school deans in Nairobi in 1994. The program has created and supported links between U.S. and African law schools and helped to improve the capacity of the African law schools to train lawyers who are responsive to the new needs and opportunities brought about by democratic and free-market reforms in their countries. Solid links have emerged over the course of the program. In addition to bringing African and American law school professors and deans together to lay the groundwork for linkages, the program has assisted with faculty training and curriculum development, with an important focus on clinical legal education. The program has shipped or facilitated the shipment of many law books and journals, helping to update the collections at the law libraries.

Curriculum development continues to be the focus of the program. Over the past several months, professors from United States law schools have traveled to Africa to work on the development areas of the curriculum identified by the Africans. The newest USIA grant will enable us to continue to work on curriculum development. We anticipate that another group of Africans will travel to the United States in fall 1998 for study tours to U.S. law schools and that we will hold workshops in Africa toward the end of 1998 focusing on environmental law curriculum, commercial law curriculum and human rights law curriculum. U.S. law schools have been generous with their time and resources, with professors and deans participating on a pro bono basis, so that the project has had significantly wider impact than would be possible only with the USIA funds.

*Arab Legal Institute*

Last year we reported the organization of the Arab Legal Institute which, in view of current Middle East events, is a project of immediate consequence. Initiated and organized by the ABA's Section of International Law and Practice and its Standing Committee on World Order Under Law, the Arab Legal Institute ("ALI") is the first pan-Arab effort to promote the rule of law in the Arab states of the Middle East and North Africa, to train Arab lawyers, to train judges as independent adjudicators, and to promote human rights. Since the Institute itself is led by the Arab Lawyers Union (which includes a number of Arabs of high standing) its significance will be substantial.

While technical assistance to the Palestinians will be offered, what is most important is that the Arab Lawyers Union (representing the legal profession in the Middle East and North Africa) is leading this pan-Arab project designed to educate and to consider reforms conforming to internationally accepted standards. Such a program is critical to creating conditions for economic stability and opportunity and respect for the rule of law, principal ingredients for regional development and civil society. The strong pan-Arab support is exemplified in ALI's board which is made up of members of the Arab Lawyers Union. We are confident that such strong Arab involvement means that the project will have a sustained and continuously substantial regional effect.

The Arab Lawyers Union's leadership of ALI is supported by a coalition of international bar associations. Since this is the first Arab-directed rule of law project, it is almost certain to have a positive impact. In fact, our Arab partners are so committed to this effort that they and several of their governments have offered material assistance regardless of current events in the region.

ALI's headquarters are in Cairo with additional planned facilities in Tunis, Amman and perhaps elsewhere. Rather than restricting itself solely to Gaza and the West Bank, the Institute is concerned with all Arab states of the Middle East and North Africa. It is agreed, however, that the West Bank and Gaza will be among the Institute's first projects. This early attention to a particularly sensitive region will contribute to the success of other U.S. initiatives directed toward stabilizing the Palestinian economy and promoting investment. It will also furnish essential support to our Government's program to provide for duty-free treatment to products of the West Bank and Gaza and qualifying industrial zones.

The Arab Legal Institute has united the legal profession in the Arab states of the Middle East and North Africa in a common effort to upgrade the legal education of the profession and the judiciary, and to conduct research and to provide counseling on different aspects of the law and legal systems prevailing in the Arab states. The underlying premise is the common recognition that regional peace and prosper-

ity depend in part on educating those who develop the laws and administer the legal system and on looking at ways to improve the legal structure.

The Arab Lawyers Union has invited the U.N. High Commissioner for Human Rights to participate in the project. The International Bar Association, the Law Society of England and Wales and the Paris Bar have also joined with the ABA to provide technical assistance and to secure financial support.

Our Arab colleagues believe this project will enable them to address fundamental problems existing throughout the Arab world. In varying degrees from state to state, their history and contemporary concerns have left Arab states with legal systems and institutions that cannot cope effectively with some important problems and that cannot take advantage of opportunities, particularly in areas of economic development. Progress is inhibited by the lack of a legal profession equipped to deal with trade, economic development, privatization and capital market issues as well as insufficient acceptance of the role of a judiciary in enforcing legal rights and in settling public and private disputes. The Institute will contribute to the prospects for fundamental reform by equipping the Arab legal profession with critical resources to pursue its own agenda and at its own pace. The functions of the Institute are educational and not political.

According to the agreed Constitution, the Board of Directors' members are from Arab states, and the Board of Trustees is composed of Arab and non-Arab representatives of the supporting bar associations. We have established an Academic Advisory Committee composed of Arab and non-Arab lawyers, judges, law professors, and others with relevant experience of high standing and expertise. The Academic Advisory Committee is responsible for advising on matters relating to the academic programs, including the appointment of lecturers and professors, the establishment of courses, and more generally to facilitate the development of rule of law programs in the Arab states.

Funds or services have already been donated by several of the collaborating bar associations. The ABA has dedicated a portion of its staff time and resources to seeking grant funds in the U.S. for this important endeavor. Most recently, the International Bar Association ("IBA") has developed a list of projects which it is committed to undertake to support the Arab Legal Institute. Among the initiatives proposed by the IBA are a series of workshops addressing the independence of the judiciary, of the bar association and of legal practitioners; translation into Arabic of the IBA International Code of Ethics, IBA General Principles of Ethics, and other similar documents; and articles on selected human rights issues written for insertion into Arab journals and newspapers.

The European Union recently made a substantial grant to the Law Society of England and Wales for projects in Lebanon, Jordan and Egypt. Thus far, the U.S. government has not committed any funding.

We estimate that the value of the facilities offered by the Arab states is in excess of one million dollars. Pro bono time and expense outlays by representatives of the American Bar Association have already exceeded $200,000. For every dollar dedicated to the project's support, approximately $3 in pro bono time can be expected to be contributed.

The Association anticipates that this initiative, which unites Arab, European and American lawyers in shared principles of professionalism and respect for the rule of law, will advance our mutual interests. We are looking forward to the commencement of the initial programs, the first of many we expect will flourish under the aegis of the Arab Legal Institute. We believe that this effort will positively affect the present dynamics in the Arab states and will contribute to a future based on accepted rule of law principles.

We hope the U.S. government will join with other governments and financial sponsors to support ALI's courageous Arab leaders and this ABA-initiated rule of law program.

*United Nations Development Programme*

The ABA and the United Nations Development Programme (UNDP) have reached an agreement and expect to sign a Memorandum of Understanding (MOU) on May 1, 1998 to establish an ABA/UNDP Legal Resource Unit (LRU) to be housed within the ABA, and administered by, the ABA's Section of International Law and Practice. The MOU will establish a framework for a cooperative working partnership between the ABA and UNDP, thereby helping both organizations accomplish their mutual goals of supporting international development, good governance and strengthening of democratic institutions.

The purpose of the LRU will be to enable the United Nations Development Programme, with ABA support services, to deliver high-quality legal assistance to UNDP countries, in an effort to strengthen the legal institutions and processes that

foster sustainable democratic development and an environment conducive to free market economies.

Initially, the LRU will focus on providing ABA-identified advisors for United Nations Office of Project Services (UNOPS) and U.N. Economic and Social Department (DESD)-executed projects particularly in UNDP programme countries which are either in crisis or post-crisis situations. In addition, the LRU will work with UNDP to conduct training for UNDP Headquarters and field office staff in designated areas.

The LRU will work with UNDP to address new projects submitted to both entities, and support on-going projects in mutually agreed upon areas of interest. New project proposals dealing with the legal dimensions of good governance should ideally be initiated and submitted by UNDP programme country governments and/or civil society.

An LRU Steering Committee will provide hands-on oversight and LRU Advisory Committee will provide additional substantive and sourcing capability. All ABA entities will be invited to participate. CEELI will be asked to participate in all requests emanating from Central and Eastern Europe and the CIS.

*Cooperation in the Field of Law: China*

On May 5–6 , 1998, ABA President Jerome J. Shestack will lead a delegation composed of members of both the ABA Section of International Law and Practice, including the Section's Chair, Timothy L. Dickinson, and of the ABA Section of Business Law to explore possible legal exchanges and other forms of legal cooperation between the ABA and China. In the Joint U.S.-China Statement of October 29, 1997, Presidents Clinton and Jiang agreed to pursue cooperative activities in the following legal areas: Exchange of legal experts; Training of judges and lawyers; Strengthening legal information systems and the exchange of legal materials; Sharing ideas about legal assistance programs; Consulting on administrative procedures; and Strengthening commercial law and arbitration.

The American Bar Association is prepared to cooperate with appropriate Chinese institutions in each of these areas.

Among the ABA's most fundamental policies is the promotion of understanding and cooperation in the field of law throughout the world. In furtherance of this policy, the ABA has developed special expertise in working with lawyers around the world, especially in those countries moving from planned to market economies.

The ABA already has a long history of cooperating with Chinese institutions in the field of law. Over a period of twenty years, the ABA has hosted numerous delegations of Chinese lawyers, judges, and bar leaders, and two ABA Presidents have made trips to China. The ABA's Section of International Law and Practice has hosted many delegations from China and has published The China Law Reporter for many years. The ABA's Business Law Section has likewise collaborated with Chinese colleagues in various programs, including teaching a course to Chinese commercial law judges, working on the development of capital markets, and in 1997, at the invitation of the Chinese Government, providing consultant services in the drafting of the Chinese Securities Law.

In order to address the six areas of legal cooperation identified in the October 1997 Joint Communique, the ABA is prepared, upon request by Chinese institutions participating in the law development and modernization process in China, to make available the following kinds of exchanges and cooperation: Assessment of mutual tasks; Task forces to facilitate cross-cultural dialogue on legal reform issues; Working groups to address immediate and long-term legal issues; Long term experts working with advisors to Chinese institutions; Short term advisors and experts to focus on specific legal issues; Judicial and lawyer training programs; Commercial and trade law cooperation; Legal aid in the U.S. and Asia developmentl Bar association development; Court administration; Legislative drafting and parliamentary procedure; Law school and law curriculum development; Legal resource center development and provision of legal materials; Continuing legal education; Legal exchange programs; and Expert legal commentary and review of draft legislation, regulations, documents and implementation procedures.

CONCLUSION

The vast majority of Americans believe that the U.S. must maintain its leadership role in the international community. As an organization which has adopted the promotion of the "rule of law-international" as a priority, the ABA fully recognizes the importance of strong U.S. leadership in the advancement of human rights and economic prosperity.

Foreign aid has often been criticized and misinterpreted, in large measure because its benefits are not always apparent. The ABA appreciates the difficult task

your Subcommittee has in grappling with the fiscal year 1999 Foreign Operations Appropriations bill. However, Mr. Chairman, we trust that you will be persuaded by the vital American interests that are at stake.

We all agree that the United States is the one country capable of providing effective global leadership. It is more important now than it ever was, and in our own self-interest, to accept this challenge. Therefore, Mr. Chairman, the U.S. must lead by example in accepting the myriad of challenges and opportunities offered by world globalization through engagement and the commitment of increased foreign assistance.

Only one percent of the federal budget is devoted to foreign assistance, to programs which yield an enormous return for American taxpayers. These programs foster democracy, build free markets and free trade, and promote sustainable development. Here at home, U.S. foreign assistance leads to increased exports, high quality American jobs, and greater economic and national security.

The ABA contends that its democratization projects yield a tremendous return to U.S. citizens on a modest financial investment. Again, these programs are primarily supported by the enormous amount of free legal technical assistance contributed by ABA volunteers. A strong commitment to legal and commercial infrastructures supports the ability of emerging markets to purchase U.S. products.

Mr. Chairman, let me conclude by reiterating how important foreign assistance is to America's success. Our national interests are increasingly becoming more intertwined with the political stability of other nations, whose policies can promote or disrupt the free flow of goods and services. In that regard, countless American workers and businesses depend on trade and a thriving global economy for their livelihoods, which is fostered by the support of rule of law projects. There has been a tremendous movement in recent years toward economic and political openness. We cannot afford to reverse the tremendous gains that rule of law democracy projects have made in fostering growth in the global economy. As stated above, we respectfully urge the Committee to continue to support for the ABA's technical legal assistance programs through the appropriations process.

As provided by the House Rules requiring disclosure of relevant grants, the ABA received the following grants for International Programs: Armenian Prosecutor Program (Academy for Educational Development/U.S. Agency for International Development, $30,985); Bosnian Court Training Project (World Learning, Inc./U.S. Agency for International Development, $29,716); Rules of the Road Program with the War Crimes Tribunal Phase II (U.S. Department of State, $49,086); Court Administration Technology Training (World Learning Institute/U.S. Agency for International Development, $25,760); African Judicial Exchange Program Phase II (U.S. Information Agency, $135,000); Russia Training for Development: Legal Education (Academy for Educational Development/U.S. Agency for International Development, $43,434); Rules of the Road Project for the War Crimes Tribunal (U.S. Agency for International Development, $135,803); African Law Initiative Sister Law School Faculty Training Program (U.S. Information Agency, $134,603); Georgian Constitutional Court Training Project (Academy for Educational Development/U.S. Agency for International Development, $57,620); Cambodia Legal Assistance (U.S. Agency for International Development, $731,503); Central and East European Law Initiative Regional Anti-Drug Assistance Project (U.S. Department of State, $549,998); Russia Rule of Law Program (Agency for International Development/Moscow Office, $2,600,000); Russia Trial Advocacy Training Program (Academy for Educational Development/U.S. Agency for International Development, $75,420); African Law Initiative Clinical Partnerships (U.S. Information Agency, $134,819); Strengthening the Moldovan Bar Association (ARD/Checchi/U.S. Agency for International Development, $99,732); Belarusian Legislative Draft Training (Academy for Educational Development/U.S. Agency for International Development, $81,682); Ukrainian Law Student Association Development (ARD/Checchi/U.S. Agency for International Development, $100,000); Environmental Priorities in Asia Conference (U.S. Agency for International Development/Environmental Assistance Program, $25,000); Bar Development Training for Central and Eastern Europe (Academy for Educational Development/U.S. Agency for International Development, $86,118); Russian Defender Training Program (Academy for Educational Development/U.S. Agency for International Development, $106,341); Russian Criminal Justice Project (U.S. Department of Justice, $2,144,182); Poland and Central Europe Criminal Justice Project (U.S. Department of Justice, $1,551,454); Russia Jury Trial Follow-on Training (Academy for Educational Development/U.S. Agency for International Development, $34,337); Internship Program for New Independent States Law Teachers (U.S. Information Agency, $200,000); Moldovan Lawyers Project (Academy for Educational Development/U.S. Agency for International Development, $100,124); Legal Assistance in Cambodia (U.S. Agency for International Development, $1,094,155); African

Judicial Exchange Program (U.S. Information Agency, $250,000); African Sister Law School Program (U.S. Information Agency, $204,071); Commonwealth of Independent States Rule of Law Program (U.S. Information Agency, $12,225,000); New Independent States Law Teacher Program (U.S. Information Agency, $168,927); Sister Law School Program in Central and Eastern Europe (U.S. Information Agency, $206,061); Rule of Law & Commercial Law Program in Central and Eastern Europe (U.S. Agency for International Development, $16,361,643).

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PREPARED STATEMENT OF ROBERT KARL MANOFF, DIRECTOR, CENTER FOR WAR, PEACE, AND THE NEWS MEDIA, DEPARTMENT OF JOURNALISM AND MASS COMMUNICATION, NEW YORK UNIVERSITY

Mr. Chairman and Members of the Committee, on behalf of New York University and the National Press Institute of Russia (NPI), NYU's major initiative in that country, I would like to take this opportunity to thank you for your previous support for our work.

Formerly known as the Russian-American Press and Information Center (RAPIC), NPI was gratified by the Conference Report on H.R. 2159—which encouraged the Coordinator "to continue support for the long-term development of an independent print media in Russia" using "organizations with demonstrated experience in working with print media in countries of the region" (see H. Rept. 105–401). The Report has proved to be extraordinarily helpful to NPI as we continue to build on RAPIC's accomplishments as the most comprehensive media assistance program in the region.

I very much appreciate the opportunity to provide testimony to this Subcommittee today, and would like to offer the following comments as a journalist, an academic, and the founder and director of an NGO that has been providing media assistance in the former Soviet Union and Central and Eastern Europe since 1985—longer than any other organization operating in the region.

Having recently returned from Russia, where I met with the directors of our seven regional offices, some of our dozens of Russian staff members, and members of our nationwide Media Assistance Network, I would like to speak to four issues in my testimony: First, the continuing importance of a free and independent news media to Russia and a stable international system; second, the continuing need for U.S. assistance to create a free press in Russia; third, the critical importance of the print media (especially newspapers) at this moment of political and economic transition in the county; and, finally, the approach that the National Press Institute has adopted with these issues in mind, NPI's accomplishments to date, and its vision for the future.

IMPORTANCE OF THE RUSSIAN MEDIA TO AMERICAN POLICY INTERESTS

Americans take it for granted that a free press is essential for the functioning of democratic systems and free markets, and our own history provides abundant evidence that we are right to do so. Yet this assumption has been under attack from many quarters around the world, with the so-called "Asian model" of authoritarian capitalism constituting only the most fully articulated rejection of the political and economic transparency that a free press provides. The recent collapse of some Asian economies has led to calls for greater transparency in many quarters, but there are signs that few understand the role that a free press must play in the future.

In Russia itself, a free press in the sense that our own Constitutional Framers understood it—a press playing a central role in the unfettered exchange of vital political and economic opinion and information—is still more of a dream than a reality. Years after the fall of Communism and the disappearance of official censorship, for example, most Russian newspapers still exist on the basis of official state subsidies, and these subsidies, in turn, are always fraught with political and even commercial conditionalities. Local editors know which side their bread is buttered on, and behave accordingly. Those who fail to do so pay the price: Russia, for the second consecutive year, has been named by the International Federation of Journalists as "the most dangerous country for journalists."

Moreover, having only recently thrown off a system under which the press was required to be the "mass organizer" and "mass propagandist" for the Party and the government, many Russian journalists are implacably hostile to the idea that they have responsibilities other than to themselves. The conception of the press as a "public good" that both makes money for its owners and serves the public interest is an alien one, and one that is often greeted with hostility by journalists who are intent on maximizing their own return (all too often by selling their news columns to the highest bidders).

In Russia, the country of the Potemkin Village, appearances have always been deceiving. And, right now, the appearance of thousands of newspapers in a daily torrent can deceive us into believing that the Russian media are performing well the function of informing the Russian public, policy elites, and business community. They are not, however, and are many years, and perhaps decades, away from being able to do so successfully.

Helping the Russian press achieve maturity as a political and economic force has already been recognized by this Subcommittee, by the Coordinator, and by USAID and USIA as a significant American priority, and we believe it must continue to be a top priority because of the role the free press plays in advancing key American interests in the country and the region:

—A free press is a key agent of economic transformation, providing investors with vital information on business activity, corporate actions, and general business conditions throughout the country's many far-flung regions.

—A free press is a vital force for the creation of a civil society, providing nongovernmental organizations with the means to reach the public with their issues, experts, and concerns, and a means by which the public, in turn, can communicate with itself and with organizations in the independent sector.

—A free press that performs its watchdog role responsibly is essential to achieve full government accountability, something that exists hardly at all in Russia at this time, either in theory or in practice. Government accountability is the ultimate guarantor of the rule of law, the sine qua non of democratic politics.

—A free press committed to airing a diversity of opinion can provide outlets for views supporting American policy interests, ranging from nuclear and missile proliferation, to NATO expansion, to policy for the Balkans, the Persian Gulf, and the Middle East.

—A free press is essential to the success of the next rounds of parliamentary and presidential elections, which together will determine the direction of the country's domestic and foreign policies for years to come.

—As it did in the case of Chechnya, a free press can moderate the adventurism of the Russian government, and can contribute to the reduction of dangerous ethnonational tensions throughout the Russian Federation and the entire region.

For reasons such as these, we believe that the American stake in the future development of a truly free press in Russia is enormous, and continuing media assistance must continue to be an important thrust of American policy in the country.

WHY THE RUSSIAN PRESS NEEDS AMERICAN ASSISTANCE

The American interest in a free press in Russia is direct and substantial. But significant obstacles remain to be overcome before these interests can be realized. Specifically, critical obstacles to the development of the Russian media include the following:

—Governments continue to exert control over the media, largely through economic levers, especially at the regional level;

—Investment and capital resources are scarce, except for politically-motivated investments;

—Most media managers have little or no training or business experience;

—Newspaper advertising revenue remains tiny and three-quarters of it flows just to publications in Moscow and St. Petersburg;

—Virtual monopolies at key nodes of the media sector—from printing presses to newspaper distribution—handicap development;

—The media sector has not yet effectively organized in defense of its interests;

—State and, increasingly, corporate subsidies maintain an unlevel playing field and encourage dependency—currently approximately 85 percent of Russian newspapers receive some form of subsidy;

—The unstable and underdeveloped legal environment surrounding the media inhibits innovation, risk-taking, and sustainability;

—Information access remains restricted, despite freedom of information laws;

—A public cynical about the quality of the press makes it increasingly difficult for media institutions to sell their products.

Most media organizations do not now possess the resources (financial, professional, and organizational) to surmount these obstacles on their own, and it is not in the American interest to wait until they do in order to address them. In the interim, American assistance will be vital.

American assistance will be all the more important given the decision of Russia's major financial and industrial groups to buy up the country's media. The so-called "oligarchs" now control, through various mechanisms of ownership and subsidies,

the editorial policies of nine out of Russia's ten leading non-official daily newspapers. On the national level, most of the principal fora for public discussion and information are therefore under the control of forces bent on advancing their own interests before all else. These same oligarchs are now beginning to assemble nationwide media empires (Gazprom already owns more than 100 regional publications).

In contrast, American non-media corporations that have acquired media properties have done so many years after traditions of editorial and journalistic independence were well established. This is not the case in Russia, where editorial control is now being wielded as a blatant commercial and political weapon.

Moreover, with the exception of the National Press Institute and less than a handful of other media NGO's, there are no institutions able to articulate a vision of media independence and public service, and capable of working to establish the economic, professional and legal conditions necessary to make it a reality. Such NGO's exist in the United States, and they are supported by American corporations that recognize the important service they provide. Russia, however, has little by way of a philanthropic sector, and it will be many years before Russian corporations recognize the value of supporting media-sector NGO's. Until such time, continuing American assistance will be an absolutely critical resource for the NGO's within the Russian media sector.

WHY THE U.S. SHOULD FOCUS ON THE RUSSIAN PRINT MEDIA

It is our view, moreover, that U.S. policy should focus particularly on the print media, notably newspapers. This is so because of the especially important economic and political role they play, and also because of their particularly difficult economic circumstances.

—Studies have repeatedly shown that most Russians get their local news primarily from newspapers and that they trust local newspapers more than any other source of information.

—As the economic and political decentralization of Russia continues, local newspapers have become the locus of key economic, social, political, and other information necessary for the grassroots development on which Russia's future depends. The mayor of Rezh, a small town outside of Yekaterinburg, told a colleague that the purchase of a printing press by the local newspaper, with which NPI worked closely, served to jump-start the local economy.

—As the only significant source of in-depth news and analysis for Russia's political, business, and intellectual elites, the print media facilitate public policy debates. As noted by Assistant Secretary of State for Democracy, Human Rights, and Labor John Shattuck: "[W]hile the print media lack the intimacy of television, they can stimulate debate because print is a medium especially well suited to convey context and meaning and to explore ranges of options. In the post-Cold War era it has been largely print articles that have set the agenda for serious policy discussion and fundamental changes in public thinking."

—Given the increasing control of Russian television by a handful of elites, only newspapers support the pluralism of views and diverse viewpoints that are essential for informed decision-making. Newspapers at both the national and local level present a far wider spectrum of views than television.

—In Russia, as elsewhere, television take its cue from print coverage. The print media set the news agenda. In fact, local Russian television news broadcasting often consists of an announcer reading selections from the local press.

—The quantity and quality of television news and public affairs programming will continue to decline as television is integrated into the market (as has been the case in every major democratic market economy). Already, according to Radio Free Europe/Radio Liberty Russia analyst Laura Belin, "most private television networks and radio stations focus on entertainment programming, not news."

—Finally, an authoritative American study has demonstrated that local newspapers are the essential medium for informing voters in local and regional elections and for analyzing the local angle of national politics. Because the upcoming elections in 2000 will shape Russia's future in a profound way, the burden on Russia's local newspapers is immense.

NATIONAL PRESS INSTITUTE: A SECTORAL APPROACH TO PRINT MEDIA ASSISTANCE

*Institutional Transformation*.—Since I last submitted testimony to this Committee in April of last year, several dramatic developments have made the National Press Institute even more central to the mission of establishing a free press in Russia.

Most important, last summer NPI registered as an independent, not-for-profit Russian organization, thereby transforming the Russian-American Press and Infor-

mation Center, an American media-assistance project, into a permanent, Russian, media-sector NGO institution. Also at about this time, USAID made the decision to begin funding NPI directly, and it is now supporting work to strengthen the institutional structure of NPI, even as it is also underwritting a major new initiative to assist regional newspapers develop access to capital markets and loan funds. With continuing support from USAID (and with an ongoing relationship with USIA), NPI is now poised to become an important legacy of the American assistance effort as this effort evolves into a framework for meaningful, sustained, and mutually beneficial bi-national cooperation.

NPI continues to apply the sectoral approach that makes it unique among all media assistance organizations in the world. It works through a complex of economic, political, professional, and legal initiatives that together promote the political and economic independence of the entire media sector. To implement its sectoral approach, NPI has established the following operating divisions that build upon and consolidate NPI's core programming agenda:

—The Business Development Service will provide consulting and other services and support to media organizations seeking to attract financing, develop business plans, improve their management, or in other ways improve their financial viability and attract capital;

—The Center for Cyberjournalism will provide a range of training and consulting in new technology applications for the media; it will also develop an Internet Media Service as a prime delivery vehicle for a spectrum of informational and assistance services and resources;

—The School of Media Management and Journalism will be Russia's major mid-career training institute for the print media;

—Special Projects will be undertaken to respond to particular needs or opportunities in the Russian media sector, such as preparing the media for the 2000 presidential campaign, promoting freedom of information legislation and norms, or working to ensure improved coverage of nuclear issues;

—The Press Center will continue to organize its famous briefings, press conferences, and roundtables at all NPI centers;

—The Research Center will monitor, study, and publicize economic, political, and journalistic issues and trends affecting the Russian media sector for the international investment community and other constituencies.

*Accomplishments*.—NPI's sectoral approach has made possible some major accomplishments. For example:

—To counteract the media's over-reliance on official sources of information, NPI has organized over 2,000 briefings around the country, in which over 5,000 U.S. and Russian experts have taken part, with an aggregate participation of over 80,000 journalists.

—To combat restrictions on information access, NPI established the Freedom of Information Commission, Russia's only organization dedicated to promoting access to government information and to educating journalists on exercising their legal rights to it. The Commission has helped to shape a national FOI legislative agenda, its members have been invited to participate in a number of expert groups advising the Duma, and it has influenced the Yeltsin Administration's approach to this issue.

—To overcome the woeful lack of management experience among publishers, NPI has organized training programs for representatives of over 800 newspapers, often with spectacular results. Last year I reported that Gubernskie Vedomosti in Stavropol, like many participating newspapers, had increased its advertising revenue by 30 percent after NPI consulting; last week editor Aleksandr Yemtsov dropped by NPI to announce that his paper has begun to make a profit, "in large part thanks to NPI." The editor of Rezhevskaya Vest cited an NPI seminar as the turning point in the paper's remarkable transformation from a heavily subsidized local mouthpiece to a dynamic and fully independent news organization.

—To promote capitalization and investment, NPI has begun, with the support of USAID, a Newspaper Financial-Strengthening Program. The program is helping regional newspapers develop business plans and loan applications to access capital markets, and is promoting alternative capitalization schemes such as equipment leasing.

—As a pilot project in response to the near-monopoly of printing presses in Russia by the government, NPI installed the first modern printing press to be owned and managed by a group of independent Russian newspapers. This landmark project was hailed by USAID as "historic." The Gorodskie Vesti concern is now printing 19 different titles from as far away as Saratov and Astrakhan, and the press is in the black.

—NPI has been in the forefront of improving coverage of political campaigns during each of Russia's national election campaigns. NPI has held workshops on coverage around the country, published a handbook on election coverage for journalists, and published a news bulletin with news of regional media coverage of campaign issues.

—NPI took the initiative in establishing the independent Moscow Media Law and Policy Institute, in order to promote a free and independent press through research and education on the rule of law as it applies to media. MMLPI is now the leading institution of its kind in the region, a major resource for research, commentary, legislative advice, postgraduate teaching, and publishing on media law and related subjects.

—NPI is the leading regional authority on the use of the Internet by the media for both publishing purposes and computer-assisted reporting. NPI's annual New Media for New World conference on Internet use by the media is the leading forum of its kind. NPI's Center for Cyberjournalism has trained hundreds of reporters in the use of the Internet for reporting, and it pioneered Web publishing consulting for newspapers, many of which are now publish on-line editions.

—NPI has worked with hundreds of American community-based organizations, commercial enterprises, experts, and citizens. For example, it has established partnerships between Russian and American newspapers to promote improved management and profitability of papers in Russia. One NPI project included 14 publications in Alaska, Arkansas, California, Florida, Indiana, Michigan, North Carolina, Pennsylvania, and Washington.

—NPI paired Moscow's Skate Press with the American financial news organization Bloomberg LP to create a Russian news service devoted to providing the first detailed corporate profiles of publicly traded Russian companies—a significant contribution to the transparency which is essential to the creation of free markets. By now, companies which had been loathe to provide information on themselves have seen the benefits of doing so and are contributing information of their own accord, recognizing that transparency is essential in order to access the capital markets.

—NPI's Nuclear Security Programs provide a web of mutually reinforcing activities to promote more in-depth, sophisticated coverage. Through major conferences in Minsk, St. Petersburg, and Moscow for journalists reporting on nuclear issues, regular briefings, a bimonthly bulletin, and a program of targeted outreach and consultation, NPI has developed a core group of journalists covering nuclear security who now have world-class expertise in their beat and are committed to providing all points of view when it comes to nuclear questions.

—Through its Media and Conflict Program, NPI has helped to develop the power of the media to contribute to the prevention of conflict and the reduction of ethnonational tensions. For example, NPI published a study of media coverage of the war in Chechnya, the first of its kind in Soviet and Russian history. It also organized a pioneering television project involving the first joint professional work between Ingushetian and Northern Ossetian journalists since that conflict began—a jointly produced feature broadcast simultaneously on the television networks of both republics.

*Sectoral Agenda*.—Over the next few years, in accordance with its sectoral approach, NPI will pursue projects in a range of critical sectoral issues:

—*Promoting Financing and Capitalization*.—Through its newly organized Business Development Service, NPI will help newspapers access investment and debt capital, it will promote equipment leasing and other alternative means of capital improvement, and it will continue to provide direct consulting and problem-solving support to newspapers throughout Russia.

—*Developing Media Management Capacity*.—Through its School of Media Management and Journalism, NPI will train newspaper managers from around Russia in key areas such as advertising sales, distribution, readership surveys, marketing, and newsroom management.

—*Participating in the Development of the Legal and Administrative Infrastructure*.—Legal barriers to media independence and sustainability include lack of access to information, legislative obstacles to business development, the violation of civil rights, and ignorance or unwillingness to enforce the rule of law when it comes to the mass media. NPI will continue to work aggressively in all of these areas.

—*Fostering the Development of a Mature Information Culture*.—Through its Center for Cyberjournalism, NPI will continue to train journalists in the use of new media technology, both in Moscow and throughout the country, and its Internet

Media Service will provide a range of critical services and resources to journalists and media managers.

—*Promoting Industry-Wide Trade Organizations and Professional Associations*.—Mindful of the weakness of national-level organizations in Russia today, NPI will work to promote the development of regional newspaper associations, with the ultimate goal of building a national association to defend the common interests of the media.

—*Overcoming Government Domination of Information*.—Through its Freedom of Information Commission, NPI will continue to promote improved FOI legislation and enforcement and educate journalists in exercising their rights. NPI will also continue to promote civil society and non-governmental actors through its wide-ranging Press Center activities at all of its regional centers.

—*Raising the level of Journalistic Professionalism*.—Without a marketable product, news organizations cannot survive. NPI will continue, through its School of Media Management and Journalism, to provide mid-career training on journalistic techniques and on the coverage of specific beats, such as business and economics.

CONCLUSION

The burden on the media is great in a country where democracy is yet so fragile. The euphoria produced by the fall of Communism has long faded, and the tedious and thankless work of building democracy remains. Desmond Tutu, addressing the South African media in 1996, said, "The media have an incredible calling—you were the midwife of democracy, now you must be the watchdog to ensure that this beautiful thing is not corrupted."

For the media in Russia, too, to play this critical role, they continue need our help—and badly. Failure to act decisively during these critical years could have profound consequences not only for the future of democracy and markets in Russia, but also for the entire international system, in which the actions of Russia can yet carry immense weight and produce fateful consequences for us all.

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PREPARED STATEMENT OF HOBART C. GARDINER, PRESIDENT AND CEO, INTERNATIONAL EXECUTIVE SERVICE CORPS

International Executive Service Corps (IESC) is the most effective not-for-profit business development organization of its kind in the world. Since 1965, IESC has provided affordable expert assistance to entrepreneurs, small and medium-sized enterprises, non-profit organizations and governments in more than 120 countries. We currently operate programs in over 50 countries in the developing world and the emerging democracies of the former Soviet bloc.

IESC exemplifies the successful public/private partnership. We combine the knowledge and mentoring skills of industry and professional experts who donate their time with the financial support of private donors, clients who contribute fees for service, and grants from the United States Agency for International Development (USAID) and other government agencies.

IESC focuses on small and medium-sized private enterprises because they are the engines driving economic growth and job creation around the world. By giving them the tools for success, we create prosperity, foster conditions conducive to democratic governance, and end the cycle of dependency. Our goals parallel similar foreign assistance objectives of the United States government.

President Clinton recently underscored the value of volunteer service in his call for increased funding of an enlarged Peace Corps. We applaud the call for increased funding, and the recognition given to the work of the many young men and women who have changed their lives and the lives of others through their service in the Peace Corps.

Our work complements that of the Peace Corps. IESC's senior-level executive volunteers focus on improving the business sector. They donate their time and the accumulated experience of successful careers. Thus they work with their hearts as well as their heads, making friends while making change.

IESC documents the value of its work through a rigorous evaluation process. Over the past 33 years, we have demonstrated outstanding results for our clients and a solid return on investment for our funders.

JOBS

Over the past 33 years, IESC programs have created almost a quarter of a million jobs worldwide. These new jobs have been at all skill levels, and have been created

in areas of significant unemployment or under-employment. We are particularly proud of our efforts to create employment opportunities for women.

—In Cairo and Alexandria, Egypt, IESC created Centers for Quality Assurance to assist various Egyptian businesses in meeting ISO 9000 quality standards and thereby increase their productivity and competitiveness. In two and a half years, the Centers have worked with over 200 clients; already approximately 40 clients have received ISO certification. These Centers themselves have employed over 20 Egyptian nationals. Among our staff is the first woman in the Arab world to qualify as an ISO 9000 lead assessor.

—In Southern Russia, IESC provided production and marketing assistance to Gloria Jeans. Company management was restructured and decentralized. As a result, sales have doubled and the European Bank for Reconstruction and Development made a $3 million investment in Gloria Jeans. The transformation of Gloria Jeans created 500 jobs, all of them for women, which has helped provide economic stability to the region.

—Selyn Exporters, in Sri Lanka, which manufactures and exports table linens and soft toys to Europe, North America, and parts of Asia, provides employment for over 150 rural men and women. The majority of the workers are women who were either widowed or abandoned by their husbands, left to fend for themselves and their children. IESC provided funds to Selyn to design and print a promotional brochure and exhibit at successive American International Toy Fairs in New York. Linkages from these three shows have resulted in $200,000 in initial and repeat orders from the United States, Canada, and Europe.

—In Ghana, IESC was a primary supporter of the Ghana Association of Women Entrepreneurs, helping it present an eight-day First Global Fair and Investment Forum for Women Entrepreneurs. The fair drew thousands of participants from 35 African countries, in addition to North American, Asian, and Caribbean business and trade organizations.

—In Zambia, IESC infused life into the promising tourism industry by aiding more than a dozen small to medium-sized hotels in the capital city of Lusaka and in rural towns and villages—redesigning kitchens, training housekeeping and kitchen staff, advising on all business aspects from accounting to promotion, and even helping one couple complete the renovation of their hotel.

*Increased sales and investment*.—In 1996 alone, IESC programs increased sales for client companies by over $224 million. The total cost of our program that year was only $33 million. This means that for every dollar we spent, our clients achieved almost $7 in increased sales in the first year alone. At the same time, our clients were able to reduce costs by $18 million (a 2.5 to 1 leverage) and attract capital investments in the amount of $11 million (a 1.5 to 1 ratio)—for a total impact of $11 for every dollar invested in our programs.

—JVC Baterias Record S.A., Peru's leading manufacturer of auto batteries, faced increased competition from imports. With IESC help, JVD developed a new stationary battery, which is essential in the poorly-lit areas of Peru's cities. This new line of batteries produced sales of more than $1 million in the first year.

—IESC improved cash flow for PMO Shatura, a Moscow-area furniture manufacturer, by restructuring the company's financial management systems. We trained an expanded sales staff, creating a network of regional sales managers and a motivated sales force. As a result, the company has increased sales by $8 million and achieved two joint ventures worth $7 million.

—Frima, S.A., a Chilean meat processor, improved sanitation techniques, learned new methods of cutting meat to enhance quality, and restructured the by-products division, leading to greater productivity and efficiency. As a result of IESC's innovations, Frima increased sales by $10 million, introduced four new products, made capital investments valued at $2 million, and generated 15 new jobs.

—For a processor of food and juices in Kazakhstan (one of the first private companies there), IESC developed a business plan that led to a joint venture. As a result of the favorable forecasts in that plan, the client received more than $1.5 million in financing from the Asia Development Bank and Centrekredit. With this financing it developed a new product line that is expected to double its profits.

—IESC evaluated the master plan for the El Salvador airport and prepared technical terms of reference to solicit international consulting support, leading to direct investment by the United States Trade and Development Agency.

—IESC prepared an electric light company in Kyrgyzstan for privatization, increasing its sales by 25 percent and obtaining $400,000 in new funding from the World Bank.

—In Panama, IESC worked with an importer/exporter of tableware to increase sales. As a result of IESC's help in upgrading software programs and implementing long-term strategies to coordinate manufacturing and sales, the client increased exports to Central and South American markets by $2 million.

—In Indonesia, IESC expertise improved quality control and productivity for a paper-making plant in Java. As a result, production increased by 50 percent, costs were reduced by $100,000 and sales increased by $500,000 in just one year.

—A chemical plant in Calcutta, India, with 700 employees, wanted to reduce electrical and mercury consumption and introduce a pollution control system. IESC initiatives led to $25,000 in energy savings and increased annual sales by $1.5 million.

—In Georgia, IESC assisted a design studio for printing, advertising and publishing. The studio improved quality and efficiency, reduced production time, and increased sales by $140,000.

—In Armenia, IESC assisted Arax, a business support company in Yerevan. As a result of enlarging its production capacity, training staff, and improving services, sales increased by $250,000.

PURCHASES FROM U.S. COMPANIES

The United States Agency for International Development has invested just over $296 million in IESC programs since our first operations in 1965. The cumulative value of purchases made by our clients from U.S. companies exceeds $2 billion. This seven to one return is only a small indicator of the enormous impact IESC has had worldwide.

—Linza, a Yerevan vision care company, received months of assistance from an IESC expert, an opthamologist who dramatically improved the company's operations. To upgrade its inventory, Linza imported almost $40,000 worth of frames and lenses from U.S. suppliers. In the course of aiding the company and 20 other associated optical enterprises to reach world standards of eye care, IESC improved vision care throughout Armenia.

—An IESC automotive client in Estonia, Baltic American Car Company, has imported approximately $17.5 million worth of Chrysler and Jeep Eagle products, and $3.5 million worth of First Brands automotive products during the last five years, with obvious benefits to the U.S. economy.

—Alchem International, in India, sought IESC guidance in producing plant extracts and derivatives meeting international specifications. IESC recommended improvements in quality control, research and development processes, and plant operations and maintenance. As a result, Alchem developed seven new products, installed $50,000 of U.S. technology, achieved a 99 percent purity level in their products, and increased exports by $1 million.

—In Sri Lanka, a nation struggling with a profound internal conflict, IESC manages a large program called Technology Initiative for the Private Sector. The IESC program oversees grants, and monitors stipends to local companies that partially offset the costs of upgrading technology and expanding their markets.

*Joint ventures*.—In 1996 alone, IESC activities produced joint ventures valued at over $3 million for our clients. Many of these linked U.S. firms with our clients overseas.

—In Egypt, our Manufacturing Technology Centers (MTC) link Egyptian businesses with American suppliers, customers, and partners. With MTC assistance, the Fogarty International Center in Cairo recently convened a workshop on Investing in Biotechnology. Attending were 18 American and 100 Egyptian investors and company representatives. Several joint ventures resulted, involving purchases of U.S. pathogen-free seed potatoes and biotechnology equipment. The field of biotechnology has potential for the Egyptian economy in the areas of health, agriculture, industry, and the environment.

—In Bulgaria, IESC assistance to Samex, a food service client, led to linkages with KFC and Dunkin' Donuts, benefiting business in the United States with franchise fees and equipment purchases, while increasing sales for the Bulgarian client and creating more than 300 jobs in just two years.

—In Czech Republic, an IESC expert spent several months assisting the young management team at Janka, a manufacturer of air conditioning units, in cutting costs, improving safety, training staff, and promoting their product. He also guided them in forming their first joint venture (valued at over $8 million) with a subsidiary of an American company.

—In St. Petersburg, Russia, IESC helped a prosthetics manufacturer become a distributor for a U.S. company, thus raising the quality of prosthetics available in Russia, in high demand by young soldiers wounded in the war in Chechnya.
—In the city of Ussuriysk in the Russian Far East, IESC is assisting in the conversion of an airport from military to civilian traffic, stimulating development of the region, and opening a new air route to the area for foreign airlines.

INNOVATION

At its founding, in 1963, IESC was an innovative idea: to capture the generosity and good will of American business people to provide the expertise needed by struggling businesses in the developing world. In the past 33 years IESC industry experts have volunteered over one million days of service, conservatively valued at over $514 million. We continue to rely on this extraordinary pool of expertise: today we have more than 13,000 experts registered with us, available to go any where their skills, talent and coaching are needed.

Innovation did not stop with the concept however. We have continually created innovative programs to meet new challenges and take advantage of new opportunities.

—Working with USAID's Global Technology Network, we now help small and medium-sized American companies enter the global marketplace, increasing the number of transactions between U.S. companies and companies in developing countries and emerging democracies. Through this program, IESC experts mentor American companies, coaching them through the often confusing and difficult process of finding and following up on trade leads.
—In Brazil, an innovative approach to solving ATM fraud was designed by an IESC expert. He evaluated present and future risks to the client's operations, to the supplier of ATM equipment, and set up defensive protocols to reduce the incidence of bank fraud in Brazil, estimated at $600 million annually.
—In Lithuania, IESC is creating the Lithuanian-American Business Network (LABnet), with the cooperation of the U.S. Ambassador, Keith Smith, and the USAID mission there. The program is designed to accelerate U.S. investment in Lithuanian small and medium-sized enterprises. In the United States, four IESC experts will support the Lithuanian local consulting company by researching potential partnerships between American and Lithuanian businesses.
—In another project there, an IESC expert spent two months training sixty brokerage employees in portfolio management, educating them about U.S. funds, and facilitating contacts with several American funds. As a result, two investors have already entered the Lithuanian securities market.
—The Lithuanian president recognized IESC's contribution to Lithuania's economic revival by conferring full Lithuanian citizenship on our Country Director couple there, George and Mai Gray. Mr. Gray had been in charge of economic development as assistant city manager in his hometown of Tucson, Arizona, and brought the same sensitivities and skills to his work in Lithuania.
—As new opportunities occur, IESC continues to implement innovative services in other areas, such as assisting in legal and regulatory reform, training insurance regulators and initiating distance learning and other virtual business support services. With IESC assistance, for example, a Boston-based publishing company, International Data Group, has recently launched PC World Lithuania magazine, stimulating the development of information technology in Lithuania.

*Alliances*.—IESC recognizes that we can often accomplish our objectives more efficiently through associations with other organizations.

—IESC has formed new development partnerships in Latin America. In Panama, we are helping the Interoceanic Region Authority manage the reversion of United States military bases to Panama by the end of the decade. More than 20 IESC experts have developed marketing strategy, provided technical assistance, and promoted investment and joint ventures. We are also working with the Panama Canal Authority to protect the Panama Canal Watershed area, aiding in the formation of an inter-institutional commission protecting natural water supplies to the Canal, and training administrative staff.
—We have formed a partnership with Programa Bolivar, based in Caracas, Venezuela to create joint ventures and other strategic alliances between U.S. companies and small to medium-sized enterprises in Latin America. IESC experts provide on-site assistance or research within the United States.
—In Ukraine, IESC has pooled resources with Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance, MBA Enterprise Corps, and Citizens Democracy Corps to create "The Alliance." Recently, the Alliance assisted Korop Agrotechservice, a conglomerate of eight privatized

businesses founded in 1996. Part of the conglomerate, a former collective farm, had a cash flow crisis. To save the farm and the jobs of its 90 employees, IESC assigned an expert in agricultural management. His recommendations led to improved management and marketing practices, and new cattle-breeding methods. The Alliance next called in an ACDI/VOCA volunteer, a cattle breeding expert. By October, 1997 the farm's cash flow had improved so much that it paid all employees their back wages. By February, 1998, still implementing the IESC business plan, the farm settled a substantial portion of its outstanding debts.

—The Alliance has helped build a strong, stable investment banking sector, a priority for business growth. An IESC banking executive, formerly with Merrill Lynch, helped First Investment Bank of Ukraine improve its investment capabilities. The Ukrainian bank eventually signed an agreement with the National Bank of Paris that strengthened First Investment's ability to market and participate in Ukrainian Euro-Bond issues. In February 1998, the First Investment co-led, with Merrill Lynch and Commerzbank, a successful DM 750 million Euro-Bond issue. First Investment credited IESC's assistance with substantially improving the bank's abilities, ensuring its participation in future large securities issues.

—In Bulgaria, IESC is part of the Firm Level Assistance Group (FLAG) a consortium also including Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance, MBA Enterprise Corps, Citizens Democracy Corps, the University of Delaware, Land O'Lakes and World Learning. IESC assisted the management-employee team of Riviera Holiday Resort in Varna in acquiring the hotel complex. An IESC expert assessed investment alternatives, then guided the team in winning the right to purchase 60 percent of the resort at a cost of $11 million, with further investments of $4 million to improve services, and renovate the facility. FLAG, with the involvement of IESC, will continue to back the team in its ambitious business endeavor.

—The Business Development Services (BDS) division of IESC is currently active in Romania through a partnership agreement with the USAID-funded Romanian American Enterprise Fund and the International Center for Entrepreneurial Studies. This two-year program, known as "ACCESS for Business uses IESC industry experts to assess a company's business potential, and prepare it for investment and further growth.

—The results are exciting and encouraging. As of December 1997 (less than half way through the program), the ACCESS team has reviewed over 300 companies, 125 of which were referred to the Romanian American Enterprise Fund for financing and/or technical assistance services. BDS has used the donated services of more than 150 IESC industry experts operating within the U.S. to assist participating Romanian companies.

*Sustainability*.—IESC designs programs for both immediate and long-term impact. Before the need for our direct services end in a country, IESC is already preparing the local citizens to continue business-strengthening programs. For example:

—In the Slovak Republic and Lithuania, IESC's funding from USAID will end for both countries on September 30, 1998. However, with current support from USAID, we are training local staff and transforming our offices in both countries into self-sustainable, indigenous consulting companies. These new 100 percent locally-owned firms will continue management consulting to businesses in transition in these countries.

—Our Russia program also works to build the capacity of indigenous consulting firms. Through staff training, seminars, and cooperation on projects, IESC leads consulting firms towards self-sustainability. Developing a market presence, increasing a client base, establishing a reputation, broadening an array of services, and increasing financial stability—all these require substantial resources and evolve over time. IESC must maintain present funding levels to continue meeting these very challenging and worthy goals.

*Building the supporting structure*.—Business does not operate in a vacuum. Government policies and procedures, educational facilities, social services—all impact business operations. Therefore, IESC dedicates part of its resources to addressing needs in the public sector.

—IESC's public administration program works with public officials in the New Independent States to increase their understanding of representative government and its role in fostering a healthy economy. Because the program involves governments, it can ultimately have enormous impact on many millions of people.

—In Kazakhstan, more than 300 officials have participated in this program. Fifty have been selected to study government operations at various levels in the United States. Representative Christopher Shays has become an integral part

of this program, meeting with these officials and sharing his insights as a member of the House of Representatives. One official concluded: The most valued part of this program was meeting with various government and business people, learning from them how they interact with one another, and how they organize work.

—Many of these Kazakh officials have subsequently been promoted to senior levels. One is now Chief of Staff to the President of Kazakhstan. Previous participants have also started an alumni association, serving as mentors to newly-elected Kazakh officials.

—In Orenburg, IESC worked with the Russian Privatization Center, the city administration, and social service managers on the privatization process for 28 kindergartens. Our expert met with staff in all affected institutions, arranged for staff retraining, and developed alternative plans for school use to reduce expenses while maintaining the quality of education.

Recently an IESC staff member was invited to South Africa, Zambia, and Botswana to meet with officials and representatives of businesses, funding groups and non-governmental agencies to assess needs and opportunities for development in those countries. One immediate result is IESC's participation in the Bi-National Commission Grant from the Department of Commerce to the South African Centre for Scientific and Industrial Research.

CONCLUSION

These highlights of IESC's achievements are but a sampling of the change we have accomplished over the past 33 years with funding from the U.S. government. We have leveraged the taxpayers' dollars effectively. To continue our superb record, however, we must rely on continued funding for our effective programs. We believe what we have accomplished for America and for clients around the world is a significant chapter in a book that is still being written, with your help.

*Question.* If AID invests $24 million with you, what kind of a return on investment do you get?

Answer. A great return on investment For $24 million we got:

—clients who increased their sales by $224 million;

—clients whose exports increased by $34 million;

—clients who reinvested capital in their companies by $69 million (compared to a time when money was fleeing to Swiss Bank accounts);

—clients who purchased $13 million from U.S. companies in just one year—the first year after the project. We expect their purchases to continue year after year.

—the investment helped break the cycle of dependency in over 25 countries.

19 other countries now also think it's a good investment.

Lee Hamilton said, and I quote: "In this time of tough budget restraint, we must be looking for the most efficient and cost-effective ways of providing support for our development goals. IESC is efficient. Not only do the executives volunteer their time but clients contribute to further offset costs. IESC is effective. Fully 40 percent of the projects undertaken are follow-on endeavors building on initial activities. IESC supports U.S. trade interests. 43 percent of clients purchase goods and services from the United States."

We note that the Peace Corps got an increase of $40 million to help with private enterprise. We admire the Peace Corps, but for building business, we have a bank of talent and a 33-year track record.

*Question.* Do you undertake projects in any countries where you don't get funding from AID?

Answer. Yes sir, we work in several countries where AID funding is no longer available and the clients pay all our expenses. Several such countries are in Latin American and Asia. The clients tend to be large rather than small. Not large by American standards, but still significant to the growth of the economy.

*Question.* Why do retired executives leave comfortable conditions to work unpaid overseas in developing countries?

Answer. I think there are several reasons:

—They want to be of service where help is needed

—They want to pay back in some way. Feeling that this country, its customs and ideals, from the founding fathers on, has been good to them, they want to pass it on.

—They are used to working their butts off. Retirement and golf are not enough to satisfy their need to be busy usefully.

—They are believers in private enterprise and the market economy.

*Question.* How are you funded?

Answer. Principally through AID. We get $24 million from AID or 74 percent. The amount of work we do is directly related to AID funding. If AID were to double the funding, we would do twice as much work.

Next to AID in size are our clients. They contribute 19 percent or $6,400,000. The Department of Defense contributes nearly one million. USIA, $150,000.

Contributions and grants from other private sources are about $1,100,000.

CONTRIBUTIONS AND GRANTS

| | 1997 | Percent |
|---|---|---|
| USAID missions | 21,386 | ..... |
| AID—core grant | 3,031 | ..... |
| Total | 24,417 | 73.8 |
| Clients | 6,395 | 19.3 |
| DOD | 968 | 3.1 |
| USIA | 151 | .5 |
| Other Grants for specific reason like Chase Bank Johnson Foundation (nothing from offsets in 1997) | 553 | 1.7 |
| Contributions (corporations, foundations, individuals) | 597 | 1.8 |
| Total | 33,081 | [1] 100.0 |

[1] May not add to 100 due to rounding.

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PREPARED STATEMENT OF ROTARY INTERNATIONAL

Chairman McConnell, members of the Subcommittee, Rotary International appreciates this opportunity to submit written testimony in support of the polio eradication activities of the U.S. Agency for International Development. Rotary International is a global association of nearly 29,000 Rotary clubs, with a membership of over 1.2 million business and professional leaders in 158 countries. In the United States today there are some 7,500 Rotary clubs with over 400,000 members. All of our clubs work to promote humanitarian service, high ethical standards in all vocations, and international understanding.

Rotary is submitting this testimony on behalf of a broad coalition of child health advocates, including the March of Dimes Birth Defects Foundation, the American Academy of Pediatrics, the Task Force for Child Survival and Development, and the U.S. Committee for UNICEF, to seek your continued support for the global program to eradicate polio. Firstly, Rotary International and our coalition would like to express our sincere gratitude. In fiscal years 1997 and 1998, you recommended that $25 million be allocated for the polio eradication activities of the Agency for International Development, and the full Congress ratified your recommendation in both years.

This investment has helped to make the United States the leader among donor nations in the drive to eradicate this crippling disease. The target year is 2000 for eradication, with certification by 2005. A thousand days remain to defeat this disease in the 60 nations where the polio virus still causes death and disability. The eradication of polio, achieved through your leadership, will not only save lives, but will also save our financial resources.

ERADICATING POLIO WILL SAVE THE UNITED STATES AT LEAST $230 MILLION ANNUALLY

Although polio-free since 1979, the United States currently spends at least $230 million annually to protect its newborns against the threat of importation of the polio virus. Globally, over 1.5 billion U.S. dollars are spent annually to immunize children against polio. This figure does not even include the cost of treatment and rehabilitation of polio victims, nor the immeasurable toll in human suffering which polio exacts from its victims and their families. Once polio is eradicated, tremendous resources will be unfettered to focus on other health priorities.

PROGRESS IN THE GLOBAL PROGRAM TO ERADICATE POLIO

Thanks to your appropriations, the international effort to eradicate polio has made tremendous progress during the past two years.

For 1997, it is expected that only about 3,600 polio cases will be reported, one-half the number of cases reported only two years ago. This dramatic decline is due to the tremendous success of National Immunization Days (NID's) in South Asia and Africa. Worldwide, reported cases have decreased from over 38,000 cases in 1985—a decline of over ninety percent. Acute Flaccid Paralysis (AFP) surveillance, which is critical to the process of certification of a polio-free world, is improving, and health authorities in polio-endemic countries are better able to assess the challenges remaining to eradication.

In 1996, 154 countries reported no polio. That number is expected to rise in 1997. About 60 countries, however, remain polio-endemic.

The global eradication strategy is working. Seventy-five countries conducted NID's in 1997, protecting 450 million children against polio—more than one-half of the world's children under the age of five.

During its third year of NID's, India was able to immunize 130 million children on January 18, 1998—the largest public health event in history. Pakistan, Bangladesh, and six other countries coordinated their NID's with India's to achieve the maximum effect over the entire region.

Despite economic difficulties, more than 40 African countries conducted National or Sub-National Immunization Days during 1996/1997, as part of the continent-wide "Kick Polio Out of Africa" campaign championed by South African President Nelson Mandela, reaching nearly 70 million children. Forty-nine African countries are undertaking NID's in 1997–98. Polio-free zones are emerging in both Northern and Southern Africa.

The three-year "Operation MECACAR" (Middle East, Caucasus, Central Asian Republics) immunization campaign has been deemed a success, virtually eliminating polio from 19 contiguous countries stretching from the Middle East to Russia. For 1997, polio cases reported from WHO's European region have been confined to Tadjikistan and Turkey.

As a result of three years of successful NID's, China has reported no laboratory-confirmed indigenous polio cases in 1996 or 1997. In 1997, reported polio cases in the Western Pacific were confined to the Mekong Delta of Cambodia and Viet Nam, with no cases reported for more than a year. We are hopeful that the entire Western Pacific is now polio-free, although continued vigilance is necessary to confirm this. The entire region has started on the process of certifying polio eradication.

THE ROLE OF THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID was one of the driving forces behind the eradication of polio in Latin America and the Caribbean. Since the certification of polio eradication in the Americas in 1994, AID has turned its attention to the polio-endemic countries of Africa and Asia, and to finding ways to use American expertise to enhance immunization services globally. A major breakthrough was the development of the heat-sensitive vaccine vial monitor, which will save $10 million annually by reducing vaccine wastage. AID developed the monitor in conjunction with a private U.S. firm, at the request of the World Health Organization and UNICEF, and it is now in place on every vial of oral polio vaccine produced world-wide.

In April 1996, with the support of the 104th Congress and in response to the strong urging of your Subcommittee, AID launched its own Polio Eradication Initiative, to coordinate agency-wide efforts to help eradicate polio by the year 2000. Congress directed $20 million for AID's polio eradication efforts in fiscal year 1996, and increased that amount to $25 million for fiscal year 1997 and fiscal year 1998. We are advised by AID that their planned Polio Eradication Initiative activities in 1998 will include:

—As in fiscal year 1997, AID's Africa Bureau will provide $16 million for the Polio Eradication Initiative in Africa. These funds will flow through WHO, UNICEF, and BASICS for NID operational support, surveillance, communication, social mobilization, planning, training, evaluation and cold chain in approximately 23 countries. In 1997, special attention was given to the Democratic Republic of the Congo (former Zaire).

—As in 1997, AID will designate nearly $4 million to support India's NID's and strengthen nationwide surveillance. AID's technical and programmatic expertise have been critical to the success of India's three years of National Immunization Days to date. AID, through grants to UNICEF, WHO, and Rotary, has helped support India's cold chain, surveillance, training, and social mobilization efforts.

—An additional $5 million will again be programmed through AID's Center for Population, Health and Nutrition. These funds will be used for surveillance and training in 4 South Asian and 10 European countries, through the WHO Regional Offices, and to support communication and research concerning vaccina-

tion issues. Support is also being provided to the Voice of America for broadcasting on polio eradication, surveillance, and other immunization topics, and some funds are also earmarked for emergency vaccine transport.

THE BENEFITS OF POLIO ERADICATION

Increased political and financial support for childhood immunization has many documented long-term benefits. Polio eradication is helping countries to develop public health and disease surveillance systems useful in the control of other vaccine-preventable infectious diseases. Already, much of Latin America is free of measles, due in part to improvements in the public health infrastructure implemented during the war on polio. As a result of this success, measles has been targeted for eradication in the Americas by the year 2000. The disease surveillance system—the network of laboratories, computers and trained personnel built up during the Polio Eradication Initiative—is now being used to track measles, Chagas, neonatal tetanus, and other deadly infectious diseases. The campaign to eliminate polio from communities has led to increased public awareness of the benefits of immunization, creating a "culture of immunization" and resulting in increased usage of primary health care and higher immunization rates for other vaccines. It has improved public health communications and taught nations important lessons about vaccine storage and distribution, and the logistics of organizing nation-wide health programs. Lastly, the unprecedented cooperation between the public and private sectors serves as a model for other public health initiatives.

RESOURCES NEEDED TO FINISH THE JOB OF POLIO ERADICATION

The World Health Organization now estimates that in 1998 approximately $220 million in external funds is needed to help polio-endemic countries carry out the polio eradication strategy. For 1999, an estimated $248 million will be needed. To date, however, only $160 million has been committed by external donors for 1998, leaving an estimated shortfall of $60 million. In the Americas, some 80 percent of the cost of polio eradication efforts was borne by the national governments themselves. In Africa, many nations can contribute only a small percentage of the needed funds, meaning that foreign donors must meet up to 100 percent of the polio eradication costs. We are asking that the United States continue to take the leadership role in meeting this shortfall.

The United States' commitment to polio eradication has stimulated other countries to increase their support. Belgium, Canada, Finland, France, Italy, Korea, Norway, Sweden and Switzerland are among those countries which have followed America's lead and have recently announced special grants for the global Polio Eradication Initiative. Japan and Australia are major donors in Asia and the Western Pacific, and Japan has recently expanded its support to polio eradication efforts in Africa. And both Denmark and the United Kingdom have made major grants that will help ensure that India eradicates polio by the target year 2000.

By the time polio is certified as eradicated, hopefully by 2005, Rotary International will have expended well over $400 million on the effort—the largest private contribution to a public health initiative ever. Of this, $304 million has already been allocated for polio vaccine, operational costs, laboratory surveillance, cold chain, training and social mobilization in 119 countries. In 1997, realizing the increased role which external donors need to play in order to ensure that polio eradication is not jeopardized due to lack of resources, The Rotary Foundation committed an additional $34 million to its PolioPlus Fund. More importantly, we have mobilized tens thousands of Rotarians to work together with their national ministries of health, UNICEF and WHO, and with health providers at the grassroots level in thousands of communities.

FISCAL YEAR 1999 BUDGET REQUEST

For fiscal year 1999, we are again requesting a $25 million earmark for global polio eradication in USAID's budget, through their Polio Eradication Initiative, for the delivery of vaccine and the development of the infrastructure necessary to implement the program. This would maintain funding at the fiscal year 1998 level, and ensure that the USA remains the decisive factor in the success of the global initiative. In addition, we are seeking report language similar to that included in the fiscal year 1998 Committee report, specifying that this funding is meant to be in addition to the resources for the regular immunization program of AID, and is intended to supplement other related activities. Lastly, we would ask that the Committee again request a report, by December 1 1998, on AID's plans to fully implement this program.

Humankind is on the threshold of victory against polio, and we must not miss this window of opportunity. Poliomyelitis will be the second major disease in history to be eradicated. The world celebrated the eradication of smallpox in 1979, and no child anywhere in the world will ever suffer from smallpox again. The annual global savings of nearly $1 billion per year in smallpox immunization and control costs far exceed the approximately $300 million that was spent over ten years to eradicate the disease. The United States was a major force behind the successful eradication of the smallpox virus, and has recouped its entire investment in smallpox eradication every 2½ months since 1971. Even greater benefits will result from the eradication of polio.

Polio eradication is an investment, but few investments are as risk-free or can guarantee such an immense return. The world will begin to "break even" on its investment in polio eradication only two years after the virus has been vanquished. The financial and humanitarian benefits of polio eradication will accrue forever. This will be our gift to the children of the twenty-first century.

Thank you for this opportunity to testify.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

The mission of The Rotary Foundation is to support the efforts of Rotary International to achieve world understanding and peace through international humanitarian, educational and cultural exchange programs.

The Rotary Foundation of Rotary International was the recipient of one Federal grant in recent years: a U.S. Agency for International Development Child Survival (CSVIII) grant, for the period 1 October 1992 to 30 September 1996. This grant, in the amount of $2,650,200, was for polio immunization projects in India and Nigeria, as well as administrative expenses, and is now closed.

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