

Response from the Department of State

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In the course of our recent meeting, you asked me to consider the points raised by J. Michael Waller in his June *Reader's Digest* article, "To Russia with Cash." The article takes a very hard look at U.S. assistance programs in the NIS, and points out several areas for concern—some of them date from years past, for instance grain sales to Russia, others are related to problems like corruption in Russia which continue today and cannot be overlooked.

In that light, let me address some of the points he raised, beginning with humanitarian food deliveries. Mr. Waller's article questioned food assistance programs in Russia. There has been no U.S. Department of Agriculture food assistance to Russia of the type Mr. Waller discussed since FY 1993. At that time, USDA provided bulk commodities through both new commodity exchanges and with the old state monopolies. This created friction between the new fledgling entrepreneurs, whom we wished to encourage, and the old guard, which spread allegations similar to those in the *Reader's Digest* article. Since FY 1993, USDA has not provided any bilateral food assistance to the Russian government.

Even in that historical perspective, the article misses two important points. First, the primary goal of early food assistance to Russia was to augment Russia's inadequate domestic supplies. At the time, these new commodity exchanges could not handle the quantity of grain involved, and some had to go through existing distribution channels. Second, food aid was part of a comprehensive package of U.S. assistance the intent of which was to help Russia stabilize and to help the Kremlin move Russia toward democratic and market-oriented reforms. There is no question that in the short term food assistance channeled through state monopolies can impede movement to a market economy; it is also true, however, that failure to deliver needed assistance at that time could have led to social unrest and loss of support for the first democratically elected government in Russia.

In the economic arena, the article in its title and elsewhere leaves the impression that U.S. government programs supply funds directly to Russian individuals and entities. In fact, the vast majority of U.S. assistance is in the form of know-

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how, not cash. We retain experts to advise Russians on democratic government and free market economics.

The voucher privatization program resulted in over 40 million individual shareholders, and privatization of 15,779 medium and large enterprises in 86 regions of Russia. This was the largest privatization in world history, and there are now more individual shareholders in Russia than in the United States. That there were individual cases of management manipulation at some factories does not invalidate the historical significance of dismantling a state-controlled economy and giving market forces a chance to work.

The article claims that Russian privatization was a \$63 million failure because the privatization vouchers failed to hold their original "nominal value." In fact, they were given out for free, and citizens could either hold them, or invest them, or sell them for whatever the secondary market would bear. Understandably, the value of vouchers both rose and fell as market forces prevailed. The nominal value in the secondary market had nothing to do with how many shares of a given company one voucher could be redeemed for or what the future earnings potential of those shares might be.

The article is misleading when it states that the Agency for International Development "underwrote" the voucher program. AID did not finance the printing of the vouchers or their distribution. AID did however help finance the implementation and management of the regional and national voucher auctions—those where citizens in 86 oblasts [sic] across the entire country could all bid on the largest enterprises. Thereafter, AID programs involved assisting local privatization agencies to put in place the infrastructure and systems for settlement, management of the pipeline of enterprises up for auction, and telecommunication links between 20 regional depository and clearing centers.

The article further claims that "millions of extra vouchers were illegally produced." In fact, the number redeemed was slightly less than the number issued. Some vouchers were undoubtedly never redeemed, and there were very likely some attempts to pass counterfeit vouchers, but not millions of them. The article implies the U.S. government is to blame because some Russians were able to manipulate the system to ensure privileges and continued positions of power for themselves. The Russians did not pass legislation prohibiting former Communists from participating in the voucher privatization process, so it is not surprising that some of the old guard managed to stay on top. This was not the result of any U.S. policy, nor is it a guarantee that, as market forces began to operate, that the old guard will not be replaced by new entrepreneurs.

There is a misstatement regarding Gazprom. AID's \$3.2 million program was not a subsidy for a "supposedly struggling" Gazprom, but in fact the program was an energy efficiency and export promotion program that benefited U.S. firms, in this case Caterpillar, Inc. Moreover, the program required a 70 percent co-payment from Gazprom, which they did not provide. As a result, the money was re-allocated to other Russian firms. Gazprom never benefited from this program.

The dramatic decline in U.S. assistance resources over the past few years has led us to sharpen the focus of our assistance to Russia. Rather than supporting

systemic reform at the federal level, U.S. government assistance to Russia is focused on developing linkages between U.S. and Russian communities, as well as partnerships between U.S. and Russian non-governmental institutions and organizations. In fact, most U.S. assistance to Russia is directed at non-governmental organizations (NGOs), small businesses, local and regional governments, hospitals, and educational institutions.

As Mr. Waller correctly points out, targeting assistance at the community level is an excellent way of maximizing the impact of limited U.S. assistance resources. Contrary to Mr. Waller's assertion, however, the amount of money being devoted to community-based programs is increasing, as privatization and other major economic restructuring programs are phasing down in Russia. We are introducing several new community-based programs in Russia, including the Peace Corps' Small Projects Assistance grants, a program to reward innovation in Russia's secondary schools, and an embassy-based small-grants program to support democratic institution-building in Russia.

We agree with Mr. Waller that crime and corruption in Russia represent serious threats to both political and economic reform. Through the State Department's Anti-Crime Training and Technical Assistance Program, the U.S. government is helping Russian officials fight crime and corruption, while at the same time supporting criminal justice reform. It is as much in our interest as Russia's interest to show Russian citizens that their country's transition to a democratic, free-market system does not have to lead to a nationwide breakdown of law and order.

In a section of the article on strategic weapons, Mr. Waller states that ". . . money intended for dismantling the Soviet nuclear stockpile is being frittered away while Russia rebuilds its arsenals." Mr. Waller ignores the benefits to U.S. national security from the accelerated pace of weapons dismantlement under the Strategic Arms Reduction Treaty (START I), facilitated by U.S. assistance funds under the Department of Defense's Cooperative Threat Reduction (CTR) program. More egregiously, Waller accuses the U.S. assistance program of "actually expanding Moscow's nuclear warhead stockpile by paying for warheads from Belarus, Kazakstan, and Ukraine that are transferred to Russia, away from the eyes of U.S. military monitors."

The end of the Cold War resulted in four nuclear successor states capable of threatening U.S. or international security rather than just one—Russia. Monitoring four separate command and control systems and ensuring the security of nuclear weapons and material in four independent nations would not only have been much more costly than the average \$400 million annual cost per year of the CTR program, but the dispersion of such weapons and materials would have greatly increased the potential for proliferation. Additionally, the command and control systems in Belarus, Kazakstan, and Ukraine were incomplete, at best, without Russian participation. The nuclear warheads returned to Russia from Ukraine, Kazakstan, and Belarus are under better control now, thanks to CTR assistance that has helped Russia to ensure the safe transport and storage of the warheads as they are being returned. Nearly all the warheads being withdrawn to Russia are slated for subsequent dismantlement.

After dismantlement, the resultant fissile material will be stored in a new, environmentally sound, safe and secure fissile material storage facility at Mayak, in the city of Chelyabinsk, Russia, a formerly closed city. The U.S. has provided assistance for the design and construction of this facility to include the installation of state-of-the-art safeguards and transparency measures, to which the Russians have agreed.

Ukraine and Kazakstan are nuclear weapons-free countries now, and Belarus is to follow suit by the end of the year. They are also signatories of the Nuclear Non-Proliferation Treaty (NPT) and are working, with U.S. and other international assistance, to develop viable export control and nuclear material protection control and accounting systems that meet international standards.

These accomplishments are the results of a combination of efforts, of which the U.S. assistance under the CTR program is a major factor.

Mr. Waller points out that the Russians have launched "an ultramodern intercontinental ballistic missile . . . Topol-M." Russian military spending has fallen dramatically in recent years and is expected to continue to decline in the future. The executive branch in Russia has signed and supports the ratification of the START II treaty under which it is required to reduce its strategic nuclear forces to one-third of pre-START levels and completely eliminate the most threatening weapons systems, multiple warhead ICBMs.

Russia is carrying out some military modernization programs such as developing the Topol-M, which is a new single-warhead ICBM that is still undergoing testing; this missile is different from the SS-25 Topol only in that it is silo-based as opposed to road-mobile. Mr. Waller fails to note that this modernization is permitted under START I and START II. By law, in order to continue to provide CTR assistance, the U.S. is required to certify to Congress that Russia is "committed to forgoing in the future military modernization programs beyond those required for legitimate defense purposes." The U.S. found this to be the case in the FY 1996 certification for Russia.

The expedited elimination of weapons systems in Russia, Ukraine, Kazakstan, and Belarus is a global security interest. Faced with tough economic choices, it is doubtful these countries would have chosen the elimination of certain weapons systems over modernization. U.S. assistance ensures that the treaty-limited systems are destroyed and removed from a threatening posture, rather than have them continue to exist while newer weapons are brought on line."

Mr. Waller also notes that the U.S. is purchasing 500 metric tons of highly-enriched [uranium] (HEU) from Russia that has been blended down into low-enriched uranium (LEU) for \$12 billion over a period of twenty years. While the U.S. does not currently have assurances that this uranium is from dismantled warheads, it is in the U.S.' and the international community's security interests that this fissile material, regardless of origin, is removed from a situation in which illicit diversion or theft could occur. The security and accounting systems for fissile material in Russia are inadequate, as even the Russians have admitted. Purchasing at-risk material is a unique, creative and effective use of limited U.S. resources. The purchase of the blended-down LEU provides additional econom-

ic benefits domestically, as cheaper nuclear fuel used in the production of energy can translate into lower energy bills for many U.S. consumers. The HEU deal is being executed successfully.

Mr. Waller also mentions a recent GAO report that stated that the International Science and Technology Center (ISTC) projects may not be employing all the former weapons scientists participating in the program full-time. What Mr. Waller fails to note is that the ISTC *intentionally* targets weapons scientists in order to redirect their research toward peaceful activities. The U.S. has no illusions that all former Soviet weapons scientists could be fully re-employed on peaceful civilian research endeavors, especially not for \$35 million, the amount of the U.S. commitment to ISTC projects in Russia. However, every day that these scientists spend on peaceful projects reduces the time they have available to spend on weapons research. And each current or former weapons scientist who remains in Russia while working on an ISTC-funded project is one fewer that could be hired by Iran, Iraq, or North Korea to work on weapons of mass destruction or delivery systems.

The Science Centers are subject to extensive financial audits and technical monitoring procedures to ensure that the funds are being spent as intended. The funds are paid directly to the scientists rather than the institutes precisely for that reason. These procedures include visits to the project sites to verify that the scientists are in fact working on assistance-funded projects and not weapons-related research.

Mr. Waller cites the GAO report's finding that an ISTC-funded project dealt with a camera that could be used for recording nuclear weapons tests. The U.S. and the Science Centers are highly sensitized to the issue of dual-use products being produced with Science Center funds. However, one of the goals of the Centers is to utilize existing weapons technology for commercial applications. The particular camera in question, while one version of it has weapons applications, is not relevant to nuclear testing. There is no evidence to support Mr. Waller's claim that ISTC-funded projects have led to products with direct weapons applications.

The ISTC does not "give work" to these scientists; rather, proposals are submitted to an international board that reviews the projects and selects only those that have scientific merit and potential commercial applications and are consistent with U.S. policies.

I hope you have found this lengthy commentary to be of help in evaluating Mr. Waller's *Reader's Digest* article. It was my pleasure to meet with you, and [I] look forward to doing so again, knowing your interest in the work of this office. If I or a member of my staff can be of any other assistance to you, please do not hesitate to call upon me.