The Committee will come to order.

It is clear that the path that the Administration has followed

over the past few years with regard to Russia is rapidly approaching

a dead end. The pattern is clear: Top American officials have

repeatedly described Russian President Boris Yeltsin as advancing

the objectives of democracy and economic reform in Russia. Yet, for

years now, his commitment to those objectives is a bit questionable

at best. In fact, some of Mr. Yeltsin’s actions have been inconsistent

with those objectives and his personal engagement in the

day-to-day governance of Russia now seems to consist largely of his

routine hirings and firings of prime ministers.

Over the past few years, top Administration officials have

pressed the International Monetary Fund to provide bigger and

bigger loans to the Russian Government. But witnesses before this

Committee, public commentators, and events in Russia itself have

shown that providing more loans only leads to the need to provide

more loans later on.

Huge amounts of money have flooded out of Russia and are being

laundered in non-Russian banks, including American banks, and

yet nothing truly meaningful has been done to halt this flood.

If they weren’t themselves stolen, IMF moneys have only replaced

in part the moneys that have been stolen from Russian industry

and from the Russian government. Meanwhile, the Russian

economy sinks deeper into a morass while our top officials call for

patience and point to few successes.

It is hard to ignore the dismal characteristics of life for many

Russians today: life-threatening poverty, contagious diseases, a rising

mortality rate, the theft of government pensions and salaries,

renewed anti-Semitism and a possible new fascism on the horizon.

It is hard to see how Russia will gain the stability we want for it

if these circumstances continue to prevail.

In foreign policy, Russian officials tell us one thing and do the

other, whether it involves a new Russian military operation in the

region of Chechnya, Russia’s recent surprise deployment of peace-

keeping troops in Kosovo, or what appears to be continued Russian

proliferation of weapons technology to Iran.

Our Committee on International Relations today will begin a

new review of our Nation’s policy toward Russia and how it has

been implemented over the last few years. Today, we will be reviewing

warnings that may have been ignored or disregarded over

the past few years, warnings that have come from within executive

branch agencies as well as from outside. Today’s hearing will be

followed by a hearing tomorrow morning during which our Committee

will gauge the extent of corruption within the Yeltsin government.

That hearing will be followed by a closed briefing for the Committee

next week by the Director of Central Intelligence, who will

discuss the Intelligence Community’s record of analysis and reporting

on corruption in Russia.

Our Committee has also extended an invitation, almost 3 weeks

ago, to Secretary of State Madeleine Albright or Deputy Secretary

Strobe Talbott to appear before the Committee on the issues of our

policy toward Russia and corruption in Russia. We expect to receive

a positive response to that invitation within the next few

days.

Finally, there have been a number of troubling articles and allegations

regarding the Administration’s willingness to disregard alleged

Russian malfeasance. There are questions about the State

Department’s handling of an alleged assault on a U.S. Naval officer

who believes that he was blinded by a laser device while observing

a Russian cargo ship near our shores.

In 1996 American businessman Paul Tatum was murdered in

Russia, and his family members have expressed their concern that

a proper investigation of that murder may never have been carried

out due to the possible impact on our relationship with Russia.

There are stories going back to 1995 alleging that an intelligence

program was closed down after questioning the extent of Russia’s

control over its nuclear materials.

Finally, there are questioned about the removal of AID officials

who openly questioned events in Russia and the character of President

Yeltsin. At this point, I ask unanimous consent to insert in

the record statements submitted by Lieutenant Jack Daly, U.S.

Navy, and Ambassador Richard Armitage, former coordinator of assistance

to Russia with regard to two of these incidents.

Before I recognize our Ranking Member, Mr.

Gejdenson, for any opening remarks he would like to make, I would

like to briefly introduce our witnesses. Our first panel consists of

two witnesses with experience in the policymaking and analysis

that underlies our policy toward Russia.

Ambassador David Swartz is retired from our U.S. Foreign Service,

having served in the region of the former Soviet Union. His last

post in that region was as our first Ambassador to Belarus. We

welcome you, Ambassador Swartz.

Mr. Fritz Ermarth is retired from our Central Intelligence Agency

where he worked on intelligence analysis matters. Mr. Ermarth

has also served on our National Security Council staff.

Our second panel includes Mr. Mike Waller, Vice President of the

American Foreign Policy Council, who has written extensively on

U.S.-Russian relations and our policy toward Russia, as has Mr.

Kenneth Timmerman, who is Contributing Editor to Reader’s Digest.

They will be joined by Mr. Martin Cannon, a member of the

Board of Directors of the U.S.-Russia Business Council and the

Managing Director of CIS Operations for the firm of A.T. Kearney.

I now recognize Mr. Gejdenson, our Ranking Minority Member,

for any opening remarks that he would like to make. Mr. Gejdenson.

Mr. Leach.

. Thank you, Mr. Leach.

Mr. Lantos.

Thank you, Mr. Lantos.

Does any other Member seek recognition? If not, we will get on

with the panelists.

Ambassador David Swartz entered the Foreign Service in 1967,

and during his career with the State Department, he served in our

American embassy in Moscow in the early 1970’s, in the consular

office that predated our current Embassy in Kiev, Ukraine established

in the late 1970’s, and as Deputy Chief of Mission in Warsaw

from 1984 to 1988. Ambassador Swartz was our first Ambassador

to the newly independent state of Belarus from 1992 to 1994,

a vantage point from which he was able to closely view our policy

toward the entire former Soviet Union and its largest successor

state, Russia. Ambassador Swartz retired in 1995 and has most recently

served as a Visiting Professor at Lawrence University in

Wisconsin.

Ambassador Swartz, you may summarize

your written statement, which, without objection, will be inserted

in full in the record. Please proceed.

I am sorry to interrupt, Mr. Ambassador. We

will continue right through the hearing. I have asked some of our

Members to go over and come back to conduct the hearing while

we are voting. So if any of the Members wish to go over and vote

and come right back, we will continue with the hearing without

interruption.

Please continue.

Thank you, Mr. Ambassador.

Before I proceed, I would like to submit for

the record a statement by our distinguished Subcommittee Chairman,

Mr. Royce, with regard to U.S. policy toward Russia. Without

objection, we will make it a part of the record.

We are pleased to have with us Congresswoman

Marcy Kaptur of Ohio, a Member of the Appropriations

Committee and a Ranking Member on the Agriculture Subcommittee

who wants to submit a statement. Ms. Kaptur.

Thank you for bringing this to our attention.

Your statement will be made part of the record, without objection.

We will continue with our hearing.

Now I would like to call our second panelist, Mr. Fritz Ermarth.

Mr. Ermarth retired from the Central Intelligence Agency in 1998.

During a career of more than 30 years, Mr. Ermarth served as a

Soviet Affairs Analyst at Radio Free Europe and the RAND Corporation,

as well as with the CIA. Mr. Ermarth has served as Special

Assistant to the Director of Central Intelligence, the National

Intelligence Officer for the Soviet Union and East Europe, and

Chairman of the National Intelligence Council. He has also served

twice on the National Security Council staff under Presidents

Carter and Reagan, and recently, Mr. Ermarth has written on the

problem of corruption in Russia and its impact on U.S. policy toward

that nation in both the ‘‘New York Times’’ and the ‘‘National

Interest.’’

Mr. Ermarth, you may summarize your written statement which,

without objection, will be inserted in the record. You may proceed.

I am sorry to interrupt, Mr. Ermarth. I am

going to turn the Chair over to our Vice Chairman, Mr. Bereuter,

while we go to vote. Please continue.

The gentleman’s time has expired.

Thank you.

Ambassador Swartz, what do you predict to be the future for

Russia and our relationship with them if our current policy does

not change?

Talking about what?

Thank you, Mr. Ambassador.

Mr. Ermarth, as a retired intelligence analyst and also an expert

in the field of Russian affairs, do you believe that it was necessary

for our policymakers to have access to sensitive intelligence information

on corruption in Russia and in the Yeltsin government in

order to realize the extent of the problem? Or could they have assumed

from the many reports in credible, open, press publications

in both Russia and the West, that this was a serious problem?

Mr. Ermarth, in your ‘‘National Interest’’ article

earlier this year, you make reference to Russian official

Anatoly Chubais’ statement last year that with regard to a loan to

the Russian Government that went through the IMF with U.S.

support, that the Russians had ‘‘conned’’ the IMF. You then went

on to point out that our foreign policy regarding Russia involves

such large sums of money as that IMF loan and that dealings with

Russian officials and others can involve a ‘‘thicket of insider relationships’’

where there is room for ‘‘the wasteful, the dangerous and

the sinister,’’ again your quote.

Am I correct in interpreting your remarks as a warning that support

for large loans to the Russian Government, and other forms

of financial support for it in recent years, may not just stem from

American policy prerogatives, but from the self-interest of some in

the United States and elsewhere? If so, can you expand on your

comments?

One last question, Mr. Ermarth. In your article

in the ‘‘National Interest’’ earlier this year, you referred to

money laundering done by the KGB at the instruction of the former

Soviet Communist Party Central Committee. According to your article

and several other reports in recent years, foreign accounts and

front companies were set up by the KGB in the process.

What is your best estimate of the amount of money involved, who

do you believe now has control of such front companies and accounts,

and do you believe that officials in the Kremlin have control

over these accounts?

Thank you very much, Mr. Ermarth. My time

has expired.

Mr. Lantos.

Thank you, Mr. Lantos.

Mr. Rohrabacher.

I will be pleased to, on Mr. Lantos’ time, if

you might want to respond to Mr. Lantos’ comments.

Thank you, Mr. Ermarth.

Ambassador, did you want to comment?

The gentleman’s time has expired. We are

pleased to have two experts before us.

Mr. Rohrabacher.

Thank you very much.

Mr. Berman.

The gentleman’s time has expired.

Dr. Cooksey.

The gentleman’s time has expired.

Mr. Hastings.

The gentleman’s time has expired. Thank

you, Mr. Hastings.

Mr. Campbell.

Thank you, Mr. Campbell.

Mr. Sherman.

The gentleman’s time has expired.

Congresswoman Kaptur.

Ms. Kaptur, your statement will be made

part of the record, without objection.

I want to thank the gentlelady for her very

cogent observations, and I think she has given our Committee some

food for thought. We will attempt to pursue her suggestion to a

greater extent than we have in the past.

Thank you for taking the time to appear Ms.

Kaptur. Just one last question and then we will conclude with this

panel.

Mr. Ermath, in your testimony you said that the total amount

of capital flight out of Russia since the late 1980’s might be between

$200 and $500 billion, with a capital ‘‘B.’’ Is that an accurate

estimate? If so, where is this money now?

Mr. Ermarth, could we have been able able

to track much of that through the international banking system?

Mr. ERMARTH. I think it is technically possible to track it, but I

don’t think it is technically possible to reconstruct where all that

money went. One has to make some reasoned judgments. It didn’t

stay in Cyprus, it didn’t stay in Switzerland. It went to productive

places.

What is the most productive, safest, accessible economy in the

world in this period?

The U.S.

Thank you very much.

We will now proceed to Panel Number two.

Mr. Mike Waller is Vice President of the American Foreign Policy

Institute, a nonprofit educational foundation where he publishes,

as well, ‘‘the Russian Reform Monitor’’ bulletin. He holds a

doctorate from Boston University in international security affairs

and serves as editor of the journal ‘‘Demokratizatsiya: The Journal

of Post-Soviet Democratization’’.

He has also written on the problems of Russia’s transition in the

‘‘Wall Street Journal’’ and other leading periodicals.

Mr. Kenneth Timmerman is a contributing editor for ‘‘Readers

Digest’’ and has written regularly for the ‘‘Wall Street Journal’’. He

has written investigative reports on the arms trade, on terrorism,

and on technology transfer for media organizations such as ‘‘Time’’

magazine and the ‘‘New York Times’’, spending much of his career

in Europe and the Middle East. Mr. Timmerman also worked on

the staff of our Committee in 1993. Welcome back, Mr.

Timmerman.

Finally, Mr. Martin Cannon serves as a

Member of the board of directors of the U.S.-Russia Business Council

here in Washington. He also serves as managing director of CIS

operations for the firm of A.T. Kearney.

Gentlemen, you may summarize your statements

which, without objection, will be inserted in the record.

Please proceed, Mr. Waller.

Mr. Waller I might interrupt, I am being

called to another meeting at the moment. I am going to ask Mr.

Campbell if he could be kind enough to chair the hearing at this

time.

Mr. Campbell, if you will please take over, and if you would

please proceed, Mr. Waller.