

RUSSIAN-AMERICAN TRUST AND COOPERATION ACT OF
2000

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

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

R E P O R T

together with

MINORITY VIEWS

[To accompany H.R. 4118]

[Including cost estimate of the Congressional Budget Office]

The Committee on International Relations, to whom was referred the bill (H.R. 4118) to prohibit the rescheduling or forgiveness of any outstanding bilateral debt owed to the United States by the Government of the Russian Federation until the President certifies to the Congress that the Government of the Russian Federation has ceased all its operations at, removed all personnel from, and permanently closed the intelligence facility at Lourdes, Cuba, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

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

SECTION 1. SHORT TITLE.

This Act may be cited as the “Russian-American Trust and Cooperation Act of 2000”.

SEC. 2. FINDINGS.

The Congress makes the following findings:

(1) The Government of the Russian Federation maintains an agreement with the Government of Cuba which allows Russia to operate an intelligence facility at Lourdes, Cuba.

(2) The Secretary of Defense has formally expressed concerns to the Congress regarding the espionage complex at Lourdes, Cuba, and its use as a base for intelligence activities directed against the United States.

(3) The Secretary of Defense, referring to a 1998 Defense Intelligence Agency assessment, has reported that the Russian Federation leases the Lourdes facility for an estimated \$100,000,000 to \$300,000,000 a year.

(4) It has been reported that the Lourdes facility is the largest such complex operated by the Russian Federation and its intelligence service outside the region of the former Soviet Union.

(5) The Lourdes facility is reported to cover a 28 square-mile area with over 1,500 Russian engineers, technicians, and military personnel working at the base.

(6) Experts familiar with the Lourdes facility have reportedly confirmed that the base has multiple groups of tracking dishes and its own satellite system, with some groups used to intercept telephone calls, faxes, and computer communications, in general, and with other groups used to cover targeted telephones and devices.

(7) News sources have reported that the predecessor regime to the Government of the Russian Federation had obtained sensitive information about United States military operations during Operation Desert Storm through the Lourdes facility.

(8) Academic studies assessing the threat the Lourdes espionage station poses to the United States cite official United States sources affirming that the Lourdes facility is being used to collect personal information about United States citizens in the private and government sectors, and offers the means to engage in cyberwarfare against the United States.

(9) It has been reported that the operational significance of the Lourdes facility has grown dramatically since February 7, 1996, when then Russian President, Boris Yeltsin, issued an order demanding that the Russian intelligence community increase its gathering of United States and other Western economic and trade secrets.

(10) It has been reported that the Government of the Russian Federation is estimated to have spent in excess of \$3,000,000,000 in the operation and modernization of the Lourdes facility.

(11) Former United States Government officials have been quoted confirming reports about the Russian Federation's expansion and upgrade of the Lourdes facility.

(12) It was reported in December 1999 that a high-ranking Russian military delegation headed by Deputy Chief of the General Staff Colonel-General Valentin Korabelnikov visited Cuba to discuss the continuing Russian operation of the Lourdes facility.

SEC. 3. PROHIBITION ON BILATERAL DEBT RESCHEDULING AND FORGIVENESS FOR THE RUSSIAN FEDERATION.

(a) **PROHIBITION.**—Notwithstanding any other provision of law, the President—

(1) shall not reschedule or forgive any outstanding bilateral debt owed to the United States by the Government of the Russian Federation, and

(2) shall instruct the United States representative to the Paris Club of official creditors to use the voice and vote of the United States to oppose rescheduling or forgiveness of any outstanding bilateral debt owed by the Government of the Russian Federation,

until the President certifies to the Congress that the Government of the Russian Federation has ceased all its operations at, removed all personnel from, and permanently closed the intelligence facility at Lourdes, Cuba.

(b) **WAIVER.**—

(1) **IN GENERAL.**—The President may waive the application of subsection (a)(1) with respect to rescheduling of outstanding bilateral debt if, not less than 10 days before the waiver is to take effect, the President determines and certifies in writing to the Committee on International Relations of the House of Representatives and the Committee on Foreign Relations of the Senate that—

(A) such waiver is necessary to the national interests of the United States; and

(B) the Government of the Russian Federation is substantially in compliance with multilateral and bilateral nonproliferation and arms limitation agreements.

(2) **ADDITIONAL REQUIREMENT.**—If the President waives the application of subsection (a)(1) pursuant to paragraph (1), the President shall include in the written certification under paragraph (1) a detailed description of the facts that support the determination to waive the application of subsection (a)(1).

(3) **SUBMISSION IN CLASSIFIED FORM.**—If the President considers it appropriate, the written certification under paragraph (1), or appropriate parts thereof, may be submitted in classified form.

(c) PERIODIC REPORTS.—The President shall, every 180 days after the transmission of the written certification under subsection (b)(1), prepare and transmit to the Committee on International Relations of the House of Representatives and the Committee on Foreign Relations of the Senate a report that contains a description of the extent to which the requirements of subparagraphs (A) and (B) of subsection (b)(1) are being met.

SEC. 4. REPORT ON THE CLOSING OF THE INTELLIGENCE FACILITY AT LOURDES, CUBA.

Not later than 30 days after the date of the enactment of this Act, and every 120 days thereafter until the President makes a certification under section 3, the President shall submit to the Committee on International Relations of the House of Representatives and the Committee on Foreign Relations of the Senate a report (with a classified annex) detailing—

- (1) the actions taken by the Government of the Russian Federation to terminate its presence and activities at the intelligence facility at Lourdes, Cuba; and
- (2) the efforts by each appropriate Federal department or agency to verify the actions described in paragraph (1).

BACKGROUND AND PURPOSE

H.R. 4118, the “Russian-American Trust and Cooperation Act of 2000,” was introduced on March 29, 2000, by Ms. Ros-Lehtinen, Messrs. Diaz-Balart, DeLay, Burton, Hyde, Rohrabacher, Smith (of New Jersey), and five other original sponsors. The bill prohibits the rescheduling or forgiveness of any outstanding bilateral debt owed by the Government of the Russian Federation until the President certifies to the Congress that the Government of the Russian Federation has ceased all its operations at, removed all personnel from, and permanently closed the intelligence facility at Lourdes, Cuba. The purpose of the bill is clear: no further rescheduling or forgiveness of any of the Russian government’s bilateral debt to the United States Government shall be provided by the United States either directly or in any multilateral forum, including the Paris Club of official creditors, until Russian espionage activities conducted against the United States from the facility at Lourdes, Cuba are ended.

**REVENUE EARNED BY THE CASTRO REGIME FOR THE OPERATION OF
THE RUSSIAN ESPIONAGE FACILITY AT LOURDES, CUBA**

The rent provided to the communist regime of Fidel Castro in Cuba by the Russian Government is considerable, according to open press reports and statements by the United States government. According to the Fiscal Year 1999 annual report on the “FREEDOM Support Act” program, there are “reports of oil shipments totaling three million metric tons authorized by the Russian Government to Cuba as compensation for the use of the Lourdes intelligence facility. * * *” The former U.S. State Department Coordinator for Assistance to the New Independent States of the Former Soviet Union, Ambassador Thomas Simons, told the International Relations Committee on March 3, 1995 that: “In November 1994, following a visit to Cuba, Russian Chief of the General Staff Kolesnikov announced that Russia would provide Cuba with \$200 million in goods for Lourdes rent in 1995.” The Secretary of Defense, referring to a 1998 Defense Intelligence Agency assessment, has reported that Russia leases the Lourdes facility for up to \$300 million annually.

THE COSTS TO THE RUSSIAN GOVERNMENT OF RENTING AND OPERATING THE LOURDES FACILITY AS A PERCENTAGE OF THE RUSSIAN FEDERAL BUDGET

During a visit to Moscow in November 1999, staff of the International Relations Committee were informed by Russian Finance Ministry officials with whom they met that annual Russian federal government revenues then totaled about \$19 billion while federal expenditures totaled about \$25 billion. The provision of at least \$200–300 million annually worth of commodities and/or equipment to the Cuban government as rent for the Lourdes facility would easily represent one percent of the Russian federal budget. In fact, as this bill (H.R. 4118) notes, it has been estimated by some observers that the Russian government has spent in excess of \$3 billion on the operation and maintenance of the Lourdes facility.

At a time when the Russian government consistently fails to pay pensions to its retired workers or wages to its current employees, when it is receiving hundreds of millions of dollars in revenue from the proceeds of sales within Russia of donated American food aid, when it is receiving hundreds of millions of dollars from the United States to pay the costs of reducing its nuclear arsenal in line with its commitments under the START–I Treaty, and when it is demanding further debt rescheduling or forgiveness from the United States and the support of the United States for further low-cost loans from international financial institutions, it is a matter of great concern that the Russian government expends such large amounts of funds and resources to maintain an aggressive campaign of espionage against the United States from its facility in Cuba.

THE NATURE OF RUSSIAN ESPIONAGE CARRIED OUT AGAINST THE UNITED STATES BY THE RUSSIAN GOVERNMENT AND THE ROLE OF THE LOURDES FACILITY IN SUCH ESPIONAGE

The Sunday Times newspaper of London, England stated in a report of January 26th, 1997 that “the Lourdes base, the largest spy facility outside Russia, is staffed by about 1,500 Russian intelligence experts. Using satellites and high-speed computers, they can pick up millions of microwave transmissions every day and communicate with Russian spies operating on the American continent.” Mr. Stanislav Lunev, a former colonel in the Russian GRU (military intelligence) has said the following: “The strategic significance of the Lourdes facility has grown dramatically since the secret order from Russian Federation President [Boris Yeltsin] of 7 February 1996 demanding that the Russian intelligence community step up the theft of American and other Western economic and trade secrets. It currently represents a very formidable and ominous threat to U.S. national security as well as the American economy and infrastructure.” The private Center for Security Policy of Washington, D.C. reported that: “It is all but certain that at least some of the phone, fax and e-mail transmissions involving targeted individuals, companies and organizations that relay politically sensitive or potentially compromising information could wind up in the hands of people prepared to exploit it. Indeed, as the director of the Defense Intelligence Agency told the Senate Intelligence Committee

in August 1996, Lourdes is being used to collect "personal information about U.S. citizens in the private and government sectors."

In a May 1998 letter to Congress accompanying a report on Cuba, U.S. Secretary of Defense William Cohen stated that he was "concerned about the use of Cuba as a base for intelligence activities directed at the United States." According to a report in the Russian newspaper "Izvestiya" of November 5th, 1998, the Russian intelligence facility at Lourdes, Cuba "provides between sixty and seventy per cent of all [Russian] intelligence data about the United States." "Jane's Intelligence Review" wrote in September 1998 that the Lourdes facility is "* * * perhaps the greatest single overseas GRU [Russian military intelligence] asset. * * *" The Center for Security Policy, a private research organization, stated in a report of April 10th, 1998 that: "The Kremlin's use of intelligence garnered by its Lourdes listening post is not limited to penetrating secret U.S. military operations. Its targets also include the interception of sensitive diplomatic, commercial and economic traffic, e.g., Federal Reserve deliberations, planned U.S. mergers and acquisitions, competitive bidding processes, etc. and even private U.S. telecommunications." In an appearance before a joint hearing of the Senate Intelligence and Judiciary Committees in February 1996, FBI Director Louis Freeh stated that the expertise of Russian intelligence agencies "presents a very formidable, very ominous threat to this country, to the infrastructure, to our economy."

These statements, reports and allegations must be viewed with great concern. In August 1999, the U.S. FBI and State Department discovered a very sophisticated Russian listening device planted in the heart of the U.S. State Department and operated at a remote distance by a Russian spy in the United States under diplomatic cover. In 1998-99, news reports stated that Russian spying against the United States by means of placement of spies within the United States had increased substantially in recent years. The Daily Telegraph of London, England reported that "Moscow is massively increasing espionage activity in America. * * *" In fact, the "Washington Times" of July 26th, 1999 reported that U.S. Ambassador to Russia James Collins had been instructed to warn top Russian officials to reduce the large number of Russian intelligence officers operating in the United States. It would appear that the Lourdes facility plays an important role in supporting such espionage aimed against the United States and against American citizens.

THE RUSSIAN GOVERNMENTS'S QUEST FOR FURTHER DEBT RESCHEDULING AND FORGIVENESS OF DEBT

Upon the dissolution of the former Soviet Union in December 1991, the Government of the newly-independent Russian Federation, the largest successor state to the Soviet Union, insisted that it receive various assets of the Soviet government at home and abroad, including ownership of Soviet embassies and facilities around the world, Soviet-created banks abroad, and the stocks of Gold held by the Soviet regime, among other things. The new Russian government also agreed to assume responsibility for the payment of debts owed to both private sector and official creditors by the Soviet Union upon its demise. Since that time, while enjoying the benefits of such Soviet-era assets, the Russian Government has

failed to meet its obligations to re-pay Soviet-era debts, resorting instead to outright default and to reschedulings to avoid honoring the bulk of those debts.

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

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

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

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

In particular, the 1996 rescheduling arranged with the Paris Club, by avoiding a Russian Government default on its debts to other governments, also made the Russian government eligible for

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

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

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

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

The lenient treatment of the Russian government with regard to its debts and its continued borrowing from international financial institutions must be viewed with some concern, given the record of Russian willingness to benefit from the assets it inherited from the former Soviet regime and from loans it has borrowed abroad while clearly showing, at the same time, an unwillingness to live up to the debt obligations it took on from the former Soviet regime or to carry out its dealing with international financial institutions in a proper and transparent manner. With regard to the latter point, the "Economist" magazine, in its August 7th, 1999 edition, made

the following comment: "Already they [the Russian government] have secured a highly irregular \$4.5 billion loan-renewal from the IMF, despite having been caught out lying to the Fund about their reserves."

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

RUSSIAN GOVERNMENT DEBT TO THE GOVERNMENT OF THE UNITED STATES

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

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

While H.R. 4118 does not speak to the issue of debt owed such international financial institutions, the United States Government's leniency in previous Paris Club reschedulings with regard to Russian Government bilateral debt owed to it and the United States' support for extensive loans to the Russian Government by those international financial institutions have supplemented the American government's policy of providing extensive aid and financial support to the Russian Government since the end of the Soviet Union. Such direct and financial support to the Russian Government has been provided through various programs, including the "FREEDOM Support Act" assistance program for economic and po-

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

COMMITTEE ACTION

H.R. 4118 was introduced by Representative Ros-Lehtinen on March 29, 2000 and referred by the Speaker to the Committee on International Relations.

MARKUP OF THE BILL

On May 4, 2000, the International Relations Committee marked up the bill, pursuant to notice, in open session. The Committee adopted by voice vote an amendment by Mr. Gejdenson that would add a presidential waiver provision and reporting requirement. A unanimous consent request by the Chair that the Committee be deemed to have before it an amendment in the nature of a substitute, consisting of the text of the bill as currently amended, was agreed to.

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

ROLLCALL VOTES

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

Description of amendment, motion, order, or other proposition (votes during markup of H.R. 4118—May 4, 2000)

There were no recorded votes on the bill or amendments.

OTHER MATTERS

COMMITTEE OVERSIGHT FINDINGS

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

COMMITTEE ON GOVERNMENT REFORM FINDINGS

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

ADVISORY COMMITTEE STATEMENT

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

APPLICABILITY TO THE LEGISLATIVE BRANCH

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

CONSTITUTIONAL AUTHORITY STATEMENT

In compliance with clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee cites the following specific powers granted to the Congress in the Constitution as authority for enactment of H.R. 4118 as reported by the Committee: Article I, section 8, clause 1 (relating to providing for the common defense and general welfare of the United States); Article I, section 8, clause 3 (relating to the regulation of commerce with foreign nations); and Article I, section 8, clause 8 (relating to making all laws necessary and proper for carrying into execution powers vested by the Constitution in the Government of the United States or in any Department or Officer thereof).

PREEMPTION CLARIFICATION

Section 423 of the Congressional Budget Act of 1974 requires the report of any committee on a bill or joint resolution to include a committee statement on the extent to which the bill or joint resolution is intended to preempt state or local law. The Committee states that H.R. 4118 is not intended to preempt any state or local law.

NEW BUDGET AUTHORITY AND TAX EXPENDITURES, CONGRESSIONAL BUDGET OFFICE COST ESTIMATE, AND FEDERAL MANDATES STATEMENTS

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

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

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

Section 423 of the Congressional Budget Act requires the report of any committee on a bill or joint resolution that includes any Federal mandate to include specific information about such mandates. The Committee states that H.R. 4118 does not include any Federal mandate.

The Committee adopts the cost estimate of the Congressional Budget Office as its own submission of any new required information with respect to H.R. 4118 on new budget authority, new spending authority, new credit authority, or an increase or decrease in the national debt. It also adopts the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act. The estimate and report which has been received is set out below.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, May 8, 2000.

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

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 4118, the Russian-American Trust and Cooperation Act of 2000.

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

Sincerely,

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

Enclosure.

H.R. 4118—Russian-American Trust and Cooperation Act of 2000

H.R. 4118 would prohibit the President from rescheduling or forgiving any bilateral debts of Russia until the President either certifies that Russia has closed its intelligence facility at Lourdes, Cuba or waives that prohibition and certifies that the waiver is necessary to the national interest of the United States. The bill would require the President to report to the Congress on Russia's efforts to close its facilities at Lourdes and, if he provides the certification, on the extent that a waiver is in the national interest and that Russia is in substantial compliance with nonproliferation and arms limitation agreements. CBO estimates the additional reporting requirement would cost less than \$500,000 a year, assuming the appropriation of the necessary funds. Although the other budgetary impacts of enacting the bill are highly uncertain, CBO estimates that they would not be significant. Because the bill could affect direct spending and receipts, pay-as-you-go procedures would apply.

In August 1999, creditor countries agreed to reschedule payments on Soviet-era debts coming due between July 1, 1999, and December 31, 2000. Rescheduling those payments would increase the likelihood that the debt would be repaid. Under that 1999 agreement, the United States would create a new debt instrument out of the \$496 million due on World War II lend-lease loans and agricultural commodity credits extended to the Soviet Union before December 31, 1991. That amount plus interest would be repaid

over the 2001–2020 period. The United States has not yet signed the bilateral accord with Russia that would implement the multi-lateral agreement.

CBO assumes that the President would use the waiver authority. In that case, the bill would not affect direct spending or receipts. If not, the United States would be unable to reschedule Russia’s debts under the bill. Not rescheduling Russia’s debts would increase net outlays from the forgone payments due upon signing of the bilateral agreement. A Russian default on its lend-lease loans could affect governmental receipts because Russia could lose its normal trade relations status thus affecting tariff collections.

H.R. 4118 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

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

SECTION-BY-SECTION ANALYSIS

Section 1. Short title

The bill may be cited as the “Russian-American Trust and Cooperation Act of 2000”.

Section 2. Findings

This bill contains a number of findings—all based on general press or open source reports and statements—with regard to the Russian government’s rent and operation of the intelligence facility at Lourdes, Cuba. It notes that the Russian government pays up to \$300 million annually in rent for the facility, that that government has spent an estimated \$3 billion for the operation and modernization of the facility, and that Russia is upgrading and expanding the facility. The bill notes that some academic analysts believe the facility is being used by the Russian government to collect personal information about United States citizens through electronic intercepts of targeted telephones and other electronic communications and that, in that regard, its significance to Russian intelligence agencies has grown since former Russian President Boris Yeltsin issued an order to those agencies in February 1996 to increase their gathering of economic and trade secrets in the United States. The bill notes that the Secretary of Defense has formally expressed concerns to the Congress regarding the facility at Lourdes, Cuba and its use as a base for intelligence activities directed against the United States.

Section 3. Prohibition on bilateral debt rescheduling and forgiveness of the Russian Federation

The bill, notwithstanding any other provision of law, prohibits any rescheduling or forgiveness of any outstanding bilateral debt owned to the United States government by the government of the Russian Federation until the President can certify to the Congress that the Russian government has permanently closed its facility at Lourdes and removed all of its personnel and ended its operations there. It also requires the President to instruct the United States representative to the Paris Club of official creditors to oppose such

rescheduling or forgiveness for Russia until the President can make that certification.

The bill provides the President with the authority to waive the prohibition, only with regard to rescheduling of the bilateral debt owned to the United States by the Russian government, if he certifies that that waiver is in the national interests of the United States and the Russian government is substantially in compliance with multilateral and bilateral nonproliferation and arms limitation agreements. If the President exercises that authority, his written certification must include a detailed description of the facts that support his determination to issue a waiver. He may provide that certification in classified form. The President shall also provide to the relevant Committees of the Congress subsequent reports, every 180 days, describing the extent to which the national interests of the United States are being met by the issuance of the waiver and the extent to which Russian is in compliance with multilateral and bilateral nonproliferation and arms limitation agreements.

Section 4. Report on the closing of the intelligence facility at Lourdes, Cuba

Within thirty days of the enactment of this bill, and every 120 days thereafter until he makes a certification either that the Russian government has closed the facility at Lourdes, Cuba or that a waiver is in the national interests of the United States and that Russia is subsequently in compliance with its nonproliferation and arms limitation agreements, the President shall submit to the relevant Committees of Congress a report (with a classified index) detailing actions taken by the Russian government to terminate its presence and activities at the facility at Lourdes, Cuba and efforts by appropriate Federal departments or agencies to verify those actions.

MINORITY VIEWS

ESPIONAGE ACTIVITIES AT THE LOURDES FACILITY

H.R. 4118 would prohibit the rescheduling or forgiveness of any outstanding bilateral debt owed by the Government of the Russian Federation to the United States until the President certifies to the Congress that the Government of the Russian Federation has ceased all its operations at, removed all personnel from, and permanently closed the intelligence facility at Lourdes, Cuba. The bill seeks to prevent rescheduling or forgiveness of any of the Russian government's bilateral debt to the United States Government in any multilateral forum, including the Paris Club of official creditors. The legislation also contains a reporting requirement on the status of any actions taken by the Russian government to terminate its presence and activities at Lourdes and verification of such efforts by each appropriate U.S. government agency.

Lourdes is a signals intelligence facility established in a suburb of Havana in the aftermath of the Cuban Missile Crisis to monitor naval communications and other high frequency military transmissions from the U.S. With the dissolution of the U.S.S.R. the new Russian government negotiated an agreement (at under \$200 million annually) with Cuba to ensure continuing functioning of the facility, albeit at reduced levels. Reportedly, the facility is manned at 1,000 to 1,500 personnel.

The Lourdes facility remains under control of the Russian military intelligence and enables Russia to monitor arms control agreements, thus guaranteeing a certain level of political trust between Russia and the U.S. Although some argue that Lourdes is being used to collect personal information about U.S. citizens and offers means for Cuba and Russia to engage in cyberwarfare against the U.S., the extent to which Lourdes may target U.S. individual or corporate communications is uncertain. Reportedly, the intelligence gathered at Lourdes is not shared with the Cuban government.

PREVIOUS RUSSIAN DEBT RESCHEDULING

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

guidelines¹ on May 26, 2000. The Congressional Notification (CN) on this agreement was presented to Congress on the same day.²

The goal of H.R. 4118 is to utilize the U.S. leverage obtained by ongoing rescheduling of Russian official debt to obtain Russian cooperation on closure of the Lourdes facility. In fact, the legislation explicitly prohibits the president from rescheduling or forgiving any Russian debt until he certifies that the Russians have terminated all operations at Lourdes and have closed the facility.

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

THE ISSUE OF RUSSIAN DEBT RESCHEDULING AND FORGIVENESS

In 1999, following the August 1998 financial crisis, Russia could not meet its \$17.8 billion debt service obligations.³ Collapse of the ruble made servicing the dollar denominated debt unsustainable. Full debt servicing would have absorbed over 80% of the total projected Russian federal revenue. Russia chose to seek rescheduling and forgiveness of the Soviet-inherited debt, while continuing to service its post-Soviet debt (primarily Eurobonds and other capital market issues but also debt owed to the United States such as to the Export-Import Bank). The August 1999 Paris Club agreement, as well as the February 2000 London Club (private holders of the Russian Soviet-era debt) agreement, are the outcomes of this period.

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

¹Under the Paris Club guidelines, any debt rescheduling or forgiveness must be negotiated and agreed by all members under a general framework; individual bilateral agreements between debtor and creditor country follow.

²Current law requires a Congressional Notification on debt rescheduling after the bilateral negotiations have been completed and a bilateral agreement has been signed. On debt rescheduling, the law does not require consultations with Congress before entering into the Paris Club framework agreement. On debt forgiveness, the law states that the Administration must come to Congress for an appropriation to fund any forgiveness of Russian debt to the United States.

³Includes official and private Soviet and post-Soviet debt. The Soviet-inherited debt represents two-thirds of Russian's total debt obligations.

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

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