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CURRENT AND PROJECTED NATIONAL SECURITY  
THREATS TO THE UNITED STATES

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HEARING  
BEFORE THE  
SELECT COMMITTEE ON INTELLIGENCE  
OF THE  
UNITED STATES SENATE  
ONE HUNDRED FIFTH CONGRESS  
SECOND SESSION  
ON  
CURRENT AND PROJECTED NATIONAL SECURITY THREATS TO THE  
UNITED STATES

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WEDNESDAY, JANUARY 28, 1998

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Printed for the use of the Select Committee on Intelligence



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# CURRENT AND PROJECTED NATIONAL SECURITY THREATS TO THE UNITED STATES

WEDNESDAY, JANUARY 28, 1998

U.S. SENATE,  
SELECT COMMITTEE ON INTELLIGENCE,  
*Washington, DC.*

The Select Committee met, pursuant to notice, at 9:37 o'clock a.m., in Room SH-216, Hart Senate Office Building, the Honorable Richard Shelby Chairman of the Committee, presiding.

Present: Senators Shelby, Lugar, DeWine, Inhofe, Roberts, Alard, Kerrey of Nebraska, Glenn, Baucus and Robb.

Also Present: Taylor Lawrence, Staff Director; Chris Straub, Minority Staff Director; Dan Gallington, General Counsel; Don Mitchell, Professional Staff; and Kathleen McGhee, Chief Clerk.

Chairman SHELBY. The Committee will come to order.

Last year marked the 50th anniversary of the enactment of the National Security Act, the legislation that created the Central Intelligence Agency and established the national defense and intelligence structure for the Cold War era.

This year, we approach an equally significant anniversary—November 1999 will mark the tenth anniversary of the fall of the Berlin Wall, the beginning of the end of the Cold War, and the beginning of the post-Cold War era.

Today, it is fitting that the Committee meet publicly, at the beginning of a new session of Congress, to hear the Intelligence Community's views regarding the nature and extent of the changing national security threats to the U.S.

The identification and analysis of these threats are crucial to defining and conducting our nation's foreign policy. Our intelligence on these threats provides the basis for our defense strategy and planning, informs our budget and procurement choices, and supports our military forces when they go into action.

To be useful, intelligence must be timely and, of course, accurate.

Equally important, the Intelligence Community must "call it as it sees it"—reporting the facts to policymakers without bias, even if the intelligence findings do not support a particular policy or decision.

Every day, U.S. policymakers and military forces rely on Intelligence Community reporting. By its very nature, most of this information must be classified to protect the sources and methods from which it is derived.

Today we meet in open session so that, at a time of waning interest in international affairs, the American people may learn about the very real threats that we face in the post-Cold War era.

(1)

We look forward to hearing from Director Tenet and other witnesses on the broad range of threats to U.S. national security.

Many of the issues we will discuss bear directly on critical policy choices facing the administration and the Congress today and in the near future, and raise a number of complex questions. For example:

Once again, Iraq is refusing to allow UN inspectors full access to its weapons programs.

How strong is Saddam Hussein within his own country that he can defy the international community?

Is he, in fact, better off than he was before he instigated the current crisis over weapons inspections? What is the status of the Iraqi weapons programs? How quickly could these programs be expanded or revived if sanctions were removed?

Is it true, as has been suggested in the press, that Iraq tested biological and/or chemical weapons on human beings?

Will Saddam Hussein ever comply with the UN resolutions?

And on the other side of the Shatt al Arab, we have Iran. Many of us saw Iranian President Khatami's recent television interview. What do his remarks then and subsequently—and the response of his hardline opponents—mean for US-Iranian relations?

Most critically, has the Intelligence Community seen any reduction in Iranian support for international terrorism, or slackening in Iran's pursuit of weapons of mass destruction, since the election?

How soon will Iran deploy new ballistic missiles capable of threatening Israel and other U.S. allies?

Iran of course is only one of more than a dozen or so countries which possess or are developing ballistic missile systems, and one of over two dozen nations that are developing weapons of mass destruction.

I am extremely concerned of the potential that such weapons will be used, or that someone somewhere will plausibly threaten to use such weapons, against the United States, our troops, our allies or our interests in the not too distant future.

After all, it has already happened—the single greatest loss of life by American forces in the Persian Gulf War came when an Iraqi SCUD crashed into a barracks in Saudi Arabia.

How does the Intelligence Community assess the global ballistic missile threat to the United States—the greatest single threat to our national security?

The Committee is looking forward to reviewing in the very near future the updated National Intelligence Estimate on this subject, but we hope the witnesses will provide us with a preview today.

The 1995 National Intelligence Estimate of ballistic missile threats to North America was the subject of extensive, and in my view largely justified, criticism.

What steps have been taken in the current intelligence estimative process to address those criticisms? In particular, I would be interested to hear how Iran's faster-than-expected progress in its missile program comports with the assumptions underlying both the 1995 National Intelligence Estimate and the planned update?

And of particular concern to this Committee is the status of North Korea's missile and nuclear programs. How does the Com-

munity view the unfolding political, military and economic developments in North Korea?

On another front, I would like to commend the Intelligence Community for its support for the arrest of suspected war criminal in Bosnia last week.

Although that matter did not receive the attention that I believe its deserved, I know that your efforts were critical to the success of that operation.

But tough questions remain: What are the prospects for a meaningful peace in Bosnia? When, if ever, will conditions there permit the withdrawal of US forces? What is the potential for a terrorist attack on US troops deployed in Bosnia and the region?

On the terrorism front, I am pleased to note that the past year has yielded some significant successes, including the rendition and conviction of Mir Aimal Kasi, who killed two CIA employees outside CIA headquarters in 1993, and the recent sentencing of Ramzi Yousef for his role in the World Trade Center bombings and his plot to blow up U.S. airliners.

However, numerous other terrorist threats remain—in Bosnia, in the Middle East, and around the world.

These include both traditional state-sponsored terrorist groups, and other more independent actors such as Usama Bin-Laden. Furthermore, the murderers of 19 U.S. servicemen in the Khobar Towers bombing have yet to be brought to justice. I hope Director Tenet and Deputy Director Bryant today will provide us a status report on that investigation, including the cooperation of the Saudi government, and any indications of whether the government of Iran should be held responsible.

Turning now to one of our most significant foreign policy and intelligence challenges of the 21st century: that is, China.

I look forward to hearing the Community's assessment of the status of China's proliferation of nuclear, missile, chemical, biological and advanced conventional weapons technologies to Iran, Pakistan, and other countries.

But today, we will also want to hear how China's extensive military modernization is complicating our ability to carry out military missions in support of key US interest in the region, as well as the extent and purpose of China's nuclear force modernization.

Nearly a decade after the end of the Cold War, the United States continues to face a serious counterintelligence threat. We look forward to hearing from Deputy Director Bryant on the extent and the sources of this threat.

In particular, we hope the FBI will be able to share with the American public its findings to date with respect to allegations that the Chinese government has attempted to illegally influence the American political process.

We are also interested in the recent revelation that a former US government physicist passed classified information to the Chinese government, and in other Chinese government intelligence activities aimed at the United States.

While China poses new challenges for the U.S., Russia still remains the only nation with the power to destroy the United States with intercontinental ballistic missiles. The security of Russia's nu-



clear arsenal, and the integrity of Russia's nuclear command and control systems, are of vital importance.

So too are Russian sales of missiles and other technologies of mass destruction to Iran and elsewhere. We look forward today to hearing your assessments of the nature and extent of these programs.

In addition to the traditional threats of a massive nuclear attack, terrorism, espionage, and the proliferation of advanced weaponry, we face new threats to our critical information infrastructure from hostile states, terrorism groups, and organized crime.

Recall the enormous disruption to the northeastern United States and Canada caused by recent power outages. These disruptions were caused by an ice storm.

Imagine if a computer operator in Tehran or Pyongyang could create the same havoc and confusion—or worse—with a few keystrokes.

We look forward to hearing the Intelligence Community's current assessment of these threats.

US businesses today also face an unprecedented level of industrial and economic espionage.

A recent report cited in the Los Angeles Times estimated that U.S. businesses lost \$300 billion worth of information in 1997 alone.

We look forward to hearing from Deputy Director Bryant on the extent of this threat—the countries involved, their methods, and what US technologies are most at risk.

I have spent enough time outlining my concerns and raising questions regarding threats to the United States—it is time to hear from the real experts—our witnesses.

Without objection, our four witnesses will submit their written testimony for the record. Director Tenet will begin by giving his statement.

After Director Tenet's opening statement, he will be joined, as I think he already is, at the witness table by: FBI Deputy Director Bob Bryant, Assistant Secretary of State for Intelligence and Research Phyllis Oakley, and Lt. General Patrick Hughes, Director of the Defense Intelligence Agency.

These witnesses will provide their perspectives on the current and projected threats to US national security.

They have all submitted written testimony to the Committee, although not necessarily in a timely fashion, and so they will be asked to give brief summaries of their written testimony.

We will then open the session to 5 minutes of questions from each Member of the Committee, based on the order in which Members have entered the hearing room.

At 2:30 p.m. this afternoon in the Committee's hearing room, SH-219, the Committee will meet in a closed session to discuss classified matters related to threats posed to the national security of the United States.

Director Tenet, Deputy Director Bryant, Assistant Secretary Oakley, and General Hughes—I want to thank you all for appearing before us today.

Today's hearings mark the first time that the FBI has been asked to participate in our annual threat hearings, and represent Mrs.

Oakley's first appearance before our Committee in her new capacity. We look forward to hearing your perspectives on these important issues.

Senator Kerrey.

Vice Chairman KERREY. Thank you, Mr. Chairman.

I would first just ask that my full statement be included in the record.

Chairman SHELBY. Without objection, it is so ordered.

[The prepared statement of Senator Kerrey follows:]

SENATE SELECT COMMITTEE ON INTELLIGENCE OPEN HEARING ON WORLD WIDE  
THREATS

Thank you, Mister Chairman. The Committee is starting out on the right foot with this very important hearing. I join you in greeting our witnesses, and in giving a special welcome to Secretary Oakley in her first appearance before the Committee in her new position. Secretary Oakley was born in Omaha, Nebraska, so her success was a foregone conclusion. This is also the first appearance of the FBI at this annual hearing, and I welcome Deputy Director Bryant.

In measuring threats, we must resist the politician's natural tendency to follow the CNN curve, the pull of the international crisis of a particular moment. We must take the long view and prioritize the threats in terms of the life of our nation, the lives of our citizens, and the livelihoods of our citizens. We should also make this assessment in full awareness that Americans don't feel very much threatened today, at least not from external sources. The threats are more subtle now but they must still be identified and watched and deterred. The cycles of history or our short-term preoccupation with other matters do not absolve us of this duty.

If preserving our life as a nation is the first priority, then Russia's nuclear weapons are still the first threat. The U.S. Strategic Command continues to deter the use of those weapons and our intelligence could have no more important topic. Nine years after the fall of the Berlin Wall I am disappointed we have not done more to reduce this threat further. The Russians have not done enough, either. Action is overdue. The Russian Duma should ratify START 2 promptly, and then we should discuss de-alerting the weapons of both sides together. Beyond deterring the other side's nuclear forces, these weapons have no purpose. But as long as they exist, we'll need all the intelligence on them we can get.

The proliferation of nuclear weapons—and also chemical and biological weapons—is a growing concern. When proliferation links up with terrorism, we could face a high-order threat. Regional conflicts such as the Yugoslav war of the early 90's or the chronic instability of the Persian Gulf represent threats in the sense that the U.S. military could be in combat there at any moment. The foreign threats affecting the greatest number of Americans are probably the illegal drugs and accompanying crime coming from south of the border. Our interest in the stability and prosperity of a democratic Mexico, a Mexico which can stop the drugs and crime before they get here, has never been greater. This is about keeping Americans safe.

Two events of 1997, the Asian economic crisis and the Kyoto summit on global warming, represent trends which are not traditional threats but which can certainly affect the livelihoods of Americans. I look forward to our witnesses' views on how much effort the intelligence community should devote to these topics.

I want to highlight some of my concerns about intelligence as we start this session of Congress. First, we must act this year to reverse a fifty year trend and reduce government secrecy, including intelligence secrecy. It is not only a question of saving the cost of creating and keeping these millions of secrets. My goal is for the American people to understand how necessary your work is and how well you and our intelligence professionals do it. I want to counter the presumption that everything you do is somehow sinister. It can't happen unless we tell the people more. Also, we can't keep the secrets we must keep unless we get the classification system under control and throw the excess, unnecessary secrets overboard. The Committee has scheduled a hearing on the Moynihan-Helms secrecy legislation, and I look forward to it.

The opposite of secrecy is openness, and I want to see the government and the public benefit from greater openness. All Americans, not just policymakers and military commanders, need information about our world to make decisions. I would like to see much more declassified information, including images, available to the public.

The Intelligence Community should also be getting more of its information from open, unclassified sources. In addition, a new set of sources, the American commer-

cial imagery industry, will soon have products available to respond to many of the demands of intelligence customers. I hope you will make use of them.

I also challenge you to find more intelligence technologies with applications to benefit citizens. NIMA made a great start with image interpretation technology which could also help doctors detect breast cancer. But there is much more to be done and I urge you to redouble your efforts.

We have not forgotten the whistleblower legislation which was dropped in conference with the House last year. In fact, the Committee will have a hearing on it next week. This legislation is about the right of Congress to know, the right of government employees to come to Congress with evidence of wrongdoing, and ability of both branches of government to keep necessary secrets from leaking. We will pass it this year.

After our questions about the threats have been asked and answered today, I ask each of you to carry back to your agencies our appreciation for what your people do. They are striving in anonymity to keep our country safe, to keep policymakers informed, to give our warfighters the edge, and some of your people take significant risks. The overwhelming majority of them do this work in full accordance with American law and American values. If there were less unnecessary secrecy, more Americans would know that. Thank you, Mister Chairman.

Vice Chairman KERRY. Mr. Chairman, I would say this as well to the public, that one of the questions that very often is asked is why, and the Chairman alluded to it—why do we have an open hearing on threat assessment. And I believe it is important to do so in order to engage the American people in a discussion, in a debate about what the threats are to this country and to hear especially from the Executive branch policymakers, how they prioritize the threats to the people of the United States of America.

America, as a consequence of our leadership position of the world, sometimes gets called upon to do things that we perhaps would prefer not to do. Leaders always do get called upon to do things that they perhaps would prefer to fall to somebody else.

We're an open society. We take sides in international conflicts. We're involved extensively in trade. Nearly a third of all the new jobs created in America today are created as a consequence of sales abroad. So there are lots of reasons for the United States of America to be engaged with the world, and lots of reasons, as a consequence, for us to be at risk. We're a target for very many reasons.

And as I see it, your work has two parts—one, and most importantly, to provide accurate intelligence to the policymakers, particularly to the Commander in Chief, so that their decisions are good and so that their decisions enable them to prevent a conflict. The best war we ever fight is the one we avoid as a consequence of getting there ahead of time and with diplomacy preventing it from happening; or to deter, as a consequence of believing that somebody is not going to be able to be persuaded; or to organize a military effort; or to increasingly get to the bottom of some situation such as Khobar Towers, where we have been under attack and we then have to find out who it was that has done something against the United States of America.

So good intelligence can reduce cost and increase the likelihood of success.

I had the pleasure of working with General Hughes prior to him taking over at DIA and the organization of the takeover authority of Bosnia. And unfortunately, all Americans didn't have an opportunity to see the value of intelligence in making that operation a success.

Back in the Ice Age, when I was in the Vietnam War—and General Hughes probably has similar experiences—there were many things that we probably could have got done if we had similar kind of intelligence. Our war fighters are much better prepared, much more able to get the job done, much more likely to be successful.

There are things that America can do today. I know, with pride, the President's been nominated for a Nobel Peace Prize. I suspect that he, like I, would say that an awful lot of the success of that operation was due to the fact that we were able to get our war fighters good intelligence, enabling us to say, here's what you have done, here's what you haven't done, and as a consequence, get the warring parties to abide by the Dayton Peace Agreement.

The most difficult thing for us to do is to prioritize the threats, however. It's very easy to get sort of drug around in this town in the current following the latest story, the latest news event, especially in the last week. We've all been in this black hole of conspiracy theories.

And it is very important for you to come to us and orient us to the most important threats. And as I see them, as the Chairman said, there's only one threat that can still take every single citizen of the United States of America to their grave, and that's a nuclear weapon.

And, I, for one, would have preferred the President to have talked about that last night in the State of the Union. It's been eight years since the Soviet Union fell apart. It's been seven years since August of 1991, when the coup was unsuccessful inside of Russia.

We still don't have the Duma ratifying START II. I don't hear a vision of where we're going to go with nuclear weapons. The proliferation of nuclear weapons are clearly a major problem for us. And retargeting would be very easy for the Russians to do. It seems to me that if you look at the threat that can still take every single American down and the cost of maintaining and the difficulty of maintaining with the nuclear test ban in place, it seems to me that that ought to be top of the list, and we ought to be trying to figure out what it is, what's our strategy, what's our plan of attack to reduce that threat to the people of America.

As I said, proliferation of all things—all matters—I was pleased with the President's very strong statement last night about Iraq. He went right to camera, right to Saddam Hussein, right to the people of Iraq, saying that we're not going to give you the capacity to use weapons of mass destruction again. We're going to prevent that from happening. However, we all know that until this dictatorship is gone, it's not likely that we're going to feel safe and secure. It's likely you're going to see a repeat of this kind of behavior in the future.

I'm pleased, Mr. Bryant, to have you here for the first time. As I look at the radar screen of threats to us, increasingly they're non-rational threats. You can't negotiate with terrorists that aren't sent out by their government.

Certainly, we still have nations that are funding terrorism throughout the world. But increasingly, we find, whether it's the kind of thing that the chairman is alluding to with information warfare or other kinds of terrorist activity, especially those associ-

ated with the movement of drugs into the United States of America, these are not being run by governments. They make corrupt governments, and they make governments less stable, and they may create problems for us in lots of ways. But these are non-rational threats and much more difficult to deal with, as a consequence.

And I hope as well in your testimony, Mr. Bryant, Mr. Tenet, that you'll talk to us a little bit about your plans to resolve the conflicts over this encryption legislation. It is tied up in Avogadro's number of committees up here that have some sort of jurisdiction. Everybody has got a point of view on it. Almost none of us understand the technology. It is a very important issue from the standpoint of the U.S. economy, from the standpoint of U.S. values, of openness and personal freedom.

But I'm also very much aware that if we want to make the American people continue to feel safe, you and NSA and others that have the responsibility of accumulating intelligence have to be able to somehow deal not just with a complexity of signals, but increasingly encrypted signals that are impossible for us to break.

Next, I would say this committee intends to hold a hearing on the legislation that has been introduced by Senator Helms and Senator Moynihan on secrecy. Not only are the American people our customers from the standpoint of making them safer; they're our customers from the standpoint of informing them. This is government of, by, for the people; if they suspect we're withholding information, as we did for a short time, with the National Reconnaissance Office building just to protect our own mistakes, it's likely that they will suspect us, and it's likely, as a consequence, they're not going to give us the support that we need to keep those secrets that are essential for the security of this country.

So we've got to make certain that this classification system is done in a fashion that protects national security, in order to protect the safety and security of the American people, and not just there as a consequence of our desire to have the American people not see how occasionally we can make mistakes and be stupid and do things wrong.

The American people cannot make good decisions unless they are informed. As I said at the beginning, if the United States of America is going to lead, our people have to make good decisions. And increasingly, they are having to make decisions with open-source information. And I believe that though it's very tricky ground, I think that the creation of NIMA gives us the opportunity to use images in an open fashion to help the American people make better decisions.

And I hope, Mr. Tenet, that we're able to over the course of the next couple of years get the American people to understand that they are our customers—their safety, their security and their capacity to make good decisions.

Mr. Chairman, I appreciate this open hearing, and I look forward to the testimony.

Chairman SHELBY. Senator Inhofe.

Senator INHOFE. Thank you very much.

I think I caught everything that Senator Kerrey said. And everything I can remember, I do agree with. This hearing is taking place

at the same time—at 10:00 o'clock we're having a Senate Armed Services Committee hearing on essentially the same thing. And I have no choice, I have to be there.

But I was a little distressed last night in the hour and 20 minutes, we never did hear anything about what's happened to our ability to defend ourselves, the nature of the threat that's out there. And I think that's far more critical than anything else that I heard last night.

Mr. Chairman, when you talked about the problems in Iraq and when are we going to—are we going to see any cooperation from Saddam Hussein, or when are we going to, I don't think we are. I think our head is in the sand if we think that we're going to get cooperation that he's going to do anything that he doesn't have to do.

And as far as Iran is concerned, we do know there is—that Iran does have weapons of mass destruction. There's a communication and a transfer in trading of technology and systems between both China and Iran and Russia and Iran. And I really want to pursue this.

Senator Kerrey said, when he talked about the fact that we are a target—and I agree with that—but he also asked the question about having this as an open meeting. I think it's very, very important to have this out in the open so that the people of this country can get over this euphoric idea that the Cold War is over and there's not a threat out there. There's a huge threat out there and a threat that we're going to have to face.

I see some good things happening. I was very pleased when Secretary Cohen came out and now is talking about over 25 nations with weapons of mass destruction—biological, chemical and nuclear—and the fact that we don't have a nuclear—a defense system, a missile defense system. He also talked about VX gas, that Saddam Hussein has enough to kill every man, woman and child on the face of this earth in 60 minutes. That's huge. That's very significant.

Unfortunately, I won't be able to stay for this meeting, but I will be there at 2:30 and want to pursue this. I have such a high degree of confidence in Director Tenet that I'm very glad that at this very treacherous moment in our history, that he is at the helm of our intelligence community.

I would, finally, say that I think that having open meetings like this are helping a lot. Prior to the recent sex scandals, virtually every national weekly publication has come out with articles talking about the threat that we're facing and our inadequate defense system.

So, I will be here at 2:30 and look forward to the closed session. Thank you, Mr. Chairman.

Chairman SHELBY. Senator Lugar.

Senator LUGAR. Mr. Chairman, I thank you for calling the hearing in such a timely way, and I join you and Senator Kerry in welcoming the witnesses.

I would just underline, again, a theme that was picked up by you and Senator Kerry and Senator Inhofe. You alluded, Mr. chairman, to the thought that there appears to be a waning interest in foreign and security affairs. That is clearly not true of this Committee or

of the panel that we have before us or those who have joined us in this hearing in the audience.

I would have appreciated, as all now have pointed out, if the President had outlined—at least as the most crucial set of facts facing our country—our security and our military position. I think that really is essential, and we are working with the cooperative threat reduction situation in Russia with the Nunn-Lugar-Domenici program in this country right now in a quiet way, city-by-city, to prepare our citizens for what might be a terrifying threat—biological or chemical weapons conveyed by means other than missiles, by human beings, to those communities.

The most dire threats right now to Americans, they come in unconventional forms, and the Intelligence Community that is represented here today is our major bulwark, because information, uncovering, revelation of this, prompt activity, coordination with state and local authorities, may make a very large difference in the saving of American lives in a way that we do not often think about as we think about more dramatic foreign adventures.

So we look forward to this as a very, very important step in commencing our Committee's work this year. And I thank you again, Mr. Chairman, for your diligence in making certain we are on the job—literally the morning after the State of the Union.

Chairman SHELBY. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Chairman, I thank you and particularly our witnesses. It is important that we establish this precedent of having as our first hearing a threat assessment. I think it's a good way to start the year, and again I compliment you and the Vice Chairman for beginning the year this way.

As we look at threats, though, I think it's important—as has been indicated by other Senators—that the definition of threat has various meanings. It's changed and evolved over the years. We no longer concern ourselves only with traditional military threats as we did, say, during the Cold War. Rather we're now concerned, in addition, with more subtle threats. They may not be as dangerous as that presented by the Soviet Union—certainly the threats during the Cold War—but we must deal with them very clearly.

Let me give an example. Last month, I visited the Philippines, Brunei, Thailand and Indonesia to investigate the financial crisis that's affecting that region. Now this may seem remote to some people, but it's not. In the last 100 years, we fought seven foreign wars, and five, in part or in whole, were in Asia. But due to the political stability created by growth and prosperity in Asia, along with our military presence in the region, none of them happened in the last 20 years. But a prolonged period of high unemployment, high inflation and recession could turn the clock back with very serious implications for us.

At present, we also see very different responses to the crisis in different Asian countries. One interesting point is that democracies seem to be proving more capable of addressing the crisis than authoritarian countries.

A second point is our failure to predict that economic troubles in Thailand could, within days, cause an Asian-wide financial crisis that's also affecting not only America but the rest of the world.

Now this is not a swipe at the Intelligence community, because neither the Congress, banks or Asian governments themselves did any better. They did not anticipate this or take measures to correct it. But I wonder what we can learn and how we can do better in the future?

And I also hope to hear our witnesses' views on other questions. What is the outlook in Asia? What are the short and long-term implications of this crisis for the United States? And how well are the respective governments poised to respond to the challenges that they face?

Finally, by focusing on the economic questions, I do not want to imply that the military threats have disappeared. They have not. As my colleagues have mentioned, the threat of nuclear weapons remains. We have American soldiers keeping the peace in many part of the world. Other American military units are watching the bad actors like Saddam Hussein.

Intelligence plays a crucial role in protecting them from the unexpected and preparing them to act decisively when we must. I am sure our witnesses will cover these issues in detail, and I look forward to their testimony during this hearing.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman.

Like other Members of this Committee, I'd like to thank you for the hearing. I think it is appropriate that we do have public hearings from time to time to remind the American public that we still have some very dangerous spots in this world and by no means is it—could we consider it a safe world.

Information plays a vital point in how we shape public policy and many of the decisions that we have made in this Committee as well as the Administration has to make.

So I am looking forward to this hearing. I think the gathering of information certainly has to occur with the cooperation of both domestic as well as foreign agencies. So I'm glad to see you put together this panel for us this morning so we can hear their perspective.

I think we also have to realize that what is happening in the world of intelligence is many—corresponds in many regards as what is happening in just the regular business world out there as far as high technology and as far as drugs are concerned. And I think the drugs in many cases become an international currency, and I think our keeping track of what happens with the—in the international markets, as far as illegal drugs are concerned, leads to many other discoveries. And so not only does it help from a domestic standpoint in trying to control the use of illegal drugs, but I think it gives us a better feel of what is happening in the international area.

So I'm going to keep my remarks brief, Mr. Chairman. I'm looking forward—because I want to hear what the panel has to say. And I'd like to associate myself with your remarks and those of my colleague from Oklahoma. I do believe that we live in a dangerous world, and we need to work hard to stay on top of it, and we shouldn't take anything for granted, and just because we have no major powers out there other than ourselves, I think. But we do



have a lot of hot spots, and they can create a lot of instability in the international environment.

So thank you, Mr. Chairman, and we'll listen to the panel.

Chairman SHELBY. Senator DeWine.

Senator DEWINE. Mr. Chairman, thank you very much for holding these hearings, and I'll waive my opening statement.

Chairman SHELBY. Director Tenet, before your testimony begins, I have one brief administrative comment to make just for the record. During the first session of Congress, I was disappointed, and others on the Committee, in the performance of the Intelligence Community in the timeliness of their responses to questions for the record propounded by Members of the Senate Intelligence Committee.

Of the 31 sets of questions submitted to you and others over at the CIA, our hearings last session, 74 percent of the responses were received late with an average tardiness of over 24 days. And there are at least four sets of questions from hearings back in September and October that are still outstanding. That's a long time. In addition, the community does not seem—the Intelligence Community—to be respectful of rule 8.5 of the Committee that requires witnesses to submit a copy of their written testimony at least 72 hours in advance of their appearance before the Committee.

For example, we received your testimony, Director Tenet, for today's hearing only 16 hours ago. And General Hughes' final testimony was not received until just a few moments ago. Director Tenet, as a former staff director for this Committee, I'm sure you may have even written the rule. I'm sure you're well aware of the need to provide this Committee with timely information so that the staff can adequately prepare the members for hearings such as this.

I hope that you and the other leaders in the Intelligence Community will work with the Committee to improve this in the second session of Congress, and I believe you will.

Director TENET. Mr. Chairman, you're right. We'll do better.

Chairman SHELBY. Okay.

Director Tenet, you may proceed, as you wish.

[The prepared statement of Director Tenet follows:]

#### STATEMENT OF DIRECTOR OF CENTRAL INTELLIGENCE GEORGE J. TENET

Mr. Chairman, thank you for the opportunity to address the Committee again this year on the worldwide threats to our national security. I have submitted a detailed Statement for the Record and would like to summarize its key points in my opening remarks.

Before plunging into the details, Mr. Chairman, I'd like to step back for a moment and put the threats to our security into a broader strategic context. Scholars and pundits, as you know, are still struggling to capture the essence of this post-Cold War world we live in, but no one, in my view, has quite put their finger on the things that make it uniquely challenging for US interests. From the perspective of an intelligence officer, Mr. Chairman, I think it comes down to three words: complexity, scope, and speed.

Let me explain what I mean.

I say complexity because, as my testimony will make clear, the dangers facing the United States today—ranging from chemical warfare to terrorism, regional crises, and societal turmoil—are linked in unprecedented ways and frequently span multiple countries or continents. Dealing with them therefore requires multiple intelligence disciplines, along with the combined tools of diplomacy, law enforcement, and the proliferation of Weapons of Mass Destruction (WMD), international terror-

ism, drug trafficking, information warfare and, most recently, the fallout from the Asian financial crisis.

Second, Mr. Chairman, the stakes remain high for the United States in countries like China and Russia as they struggle through unprecedented political and economic transformations.

Third, are the challenges facing us from countries that continue in the post-Cold War era to view the United States with varying degrees of hostility or suspicion—Iraq, North Korea, Libya, Sudan, and in a more complicated way this year, Iran.

Fourth, we are challenged still by regional trouble spots that could flare into conflict, whether in the Middle East, South Asia, the Aegean, or Bosnia.

Fifth, we must continue to be alert to humanitarian emergencies—caused by natural disasters, ethnic conflict, and foreign government mismanagement—that emerge rapidly and place heavy demands on U.S. military and financial resources.

#### CHALLENGE I: TRANSNATIONAL ISSUES

Mr. Chairman, in today's world few events occur in isolation, and national boundaries are much less reliable shields against danger. Emblematic of this new era is an assortment of transnational issues that hold grave threats for the United States. That is where I would like to begin today.

*Proliferation.*—I am most concerned, Mr. Chairman, about the proliferation of WMD because of the direct threat this poses to the lives of Americans. Despite some successes for U.S. policy and U.S. intelligence, technologies related to this threat continue to be available, and potentially hostile states are still developing and deploying WMD-related systems.

Efforts to halt proliferation continue to be complicated, moreover, by the fact that most WMD programs are based on technologies and materials that have civil as well as military applications.

Finally, a growing trend towards indigenous production of WMD-related equipment has decreased the effectiveness of sanctions and other national and multinational tools designed to counterproliferation.

Chinese and Russian assistance to proliferant countries requires particular attention, despite signs of progress.

My statement for the record provides the details but some key points should be made here. With regard to China, its defense industries are under increasing pressure to become profit making organizations—an imperative that can put them at odds with U.S. interests. Conventional arm sales have lagged in recent years, encouraging Chinese defense industries to look to WMD technology-related sales, primarily to Pakistan and Iran, in order to recoup. There is no question that China has contributed to WMD advances in these countries.

On the positive side, there have recently been some signs of improvement in China's proliferation posture. China recently enacted its first comprehensive laws governing nuclear technology exports. It also appears to have tightened down on its most worrisome nuclear transfers, and it recently renewed its pledge to halt sales of anti-ship cruise missiles to Iran.

But China's relations with some proliferant countries are long-standing and deep, Mr. Chairman. The jury is still out on whether the recent changes are broad enough in scope and whether they will hold over the longer term. As such, Chinese activities in this area will require continued close watching.

The Russian proliferation story is similar. On paper, Russia's export controls specifically regulate the transfer of missile-related technologies as well as missile components. But the system has not worked well, and proliferant countries have taken advantage of its shortcomings. Iran is one of those countries. When I testified here a year ago, Mr. Chairman, I said that Iran, which had received extensive missile assistance from North Korea, would probably have medium-range missiles capable of hitting Saudi Arabia and Israel in less than ten years.

Since I testified, Iran's success in gaining technology and materials from Russian companies, combined with recent indigenous Iranian advances, means that it could have a medium range missile much sooner than I assessed last year.

Following intense engagement with the United States, Russian officials have taken some positive steps. Just last week Prime Minister Chernomyrdin issued a broad decree prohibiting Russian companies from exporting items that would be used for developing WMD or their delivery systems—whether or not these items are on Russia's export control list. If it is enforced, this could be an important step in keeping Iran from getting the technology it needs to build missiles with much longer ranges.

Without minimizing the importance of Russia's response, Mr. Chairman, I must tell you that it is too soon to close the books on this matter. Russian action is what

matters, and therefore monitoring Russian proliferation behavior will have to be a very high priority for some time to come.

Mr. Chairman, in focusing on China and Russia, we should not lose sight of other proliferators. North Korea is the most notable here, as it continues to export missile components and materials to countries of proliferation concern. Likewise, Mr. Chairman, in focusing on Iran's acquisition of WMD technology—as we should since it is one of the most active countries seeking such materials—we cannot lose sight of other proliferants. Iraq retains the technological expertise to quickly resurrect its WMD program if UN inspections were ended. Syria continues to seek missile-related equipment and materials. Despite the UN embargo, Libya continues to aggressively seek ballistic missile-related equipment and materials. Despite the UN embargo, Libya continues to aggressively seek ballistic missile-related equipment, materials, and technology.

*Asian Economic Instability.*—Moving on to a very different transnational challenge, Mr. Chairman, the recent financial troubles in Asia remind us that global markets are so interconnected—and that economics and politics are so intertwined—that economic problems in one country can have far reaching consequences for others.

At the root of this crisis is a confluence of economic, social, and political factors. Soaring growth and financial systems that lacked adequate regulation led to a speculative boom.

Lending decisions by banks and finance companies ignored fundamental economic risks and when export growth began to slow regionally in 1995, corporate borrowers had trouble repaying loans. Faced with high levels of short term debt and limited foreign exchange reserves, Thailand first and then Indonesia and South Korea were forced to devalue their currencies. Because of the high level of economic integration and reaction of investors, the currency crisis spread rapidly to other countries in the region.

The crisis has been difficult to resolve, in part because governments must take some politically risky steps like closing weak banks and shelving projects that will add to unemployment.

The current troubles in Asia will, of course, have economic costs for the United States—most important, a reduction in US exports to the region. But the troubles also carry political risks. Social tensions which we already see in Indonesia and other states in the region, are likely to increase as prices go up for things like food and fuel, and as unemployment rises.

*International Terrorism.*—Turning now to terrorism Mr. Chairman, I must stress that the threat to US interests and citizens worldwide remains high. Even though the number of international terrorist incidents in 1997 was about the same as 1996, US citizens and facilities suffered more than 30 percent of the total number of terrorist attacks—up from 25 percent last year.

Moreover, there has been a trend toward increasing lethality of attacks, especially against civilian targets. The most recent examples, of course, are the suicide bombings in Israel in 1996 and 1997 and the attacks on tourists in Luxor, Egypt last November. Perhaps most worrisome, we have seen in the last year growing indications of terrorist interest in acquiring chemical, biological, and nuclear weapons.

In addition, a confluence of recent developments increases the risk that individuals or groups will attack US interests. Terrorist passions have probably been inflamed by events ranging from the US Government's designation of 30 terrorist groups to the conviction and sentencing of Mir Aimal Kasi and Ramzi Ahmed Yousef as well as the ongoing US standoff with Iraq and frustration with the Middle East peace process.

Among specific countries, Iran remains a major concern, despite the election of a more moderate president. Since President Khatami assumed office in August, Iran has continued to engage in activities, such as support for Hezbollah and its Palestinian clients, that would not require his specific approval. Iraq, Sudan, and Libya also bear continued watching, both for their own activities and for their support of terrorist organizations.

*International Narcotics.*—Turning to the international narcotics threat, I must tell you, Mr. Chairman, that the illicit drug industry is adapting to the counterdrug successes that we and other governments have had in recent years. Most worrisome, the narcotics underworld is becoming more diverse and fragmented. In addition, traffickers are infusing their business with new technologies to enhance their operations, hide their illicit earnings, and improve their security.

Mr. Chairman, I do not mean to downplay the impressive progress that has been made against drug traffickers, especially those that deal in cocaine.

You know of the arrest of the Cali kingpins in Colombia—which has disrupted long-held smuggling patterns there and forced traffickers still at large into hiding.

Drug interdiction efforts in Peru, once the world's leading producer of the leaf used to make cocaine, have seriously damaged that country's drug economy and led to a 40-percent decline in cultivation over the last two years.

The cocaine trade, however, is still a formidable challenge—thanks to the industry's ability to adapt.

Our success against the Cali kingpins has nurtured smaller groups that now dominate trafficking through the Caribbean.

Violent Mexican drug cartels are exploiting the Cali mafia's setbacks to wrestle away a greater share of the international drug business.

Despite declines in Peru and Bolivia, coca production continues to expand in southern Colombia—where the new ingredient is the involvement of insurgents who tax drug profits to fund their war against the state.

I'm also concerned, Mr. Chairman, about developments in international heroin trafficking.

Worldwide production of opium—the source of all refined heroin—continues at record levels.

And heroin traffickers are exploiting weak enforcement institutions in the former Soviet Union and Eastern Europe to expand traditional heroin smuggling routes from the Golden Crescent and, to a lesser extent, the Golden Triangle regions.

*International Organized Crime.*—As for international organized crime, the globalization of business and technology have given crime syndicates unprecedented opportunities for illicit activities. Yet law enforcement authorities often remain constrained by national sovereignty and jurisdictions. Trends that cause us the greatest concern are:

An increasingly sophisticated financial system that includes emerging financial secrecy havens, stretching from islands in the Caribbean to the South Pacific.

A broader array of seemingly legitimate businesses that serve as fronts for criminal enterprise.

The increasing role of gray arms brokers in arming rogue states, terrorists, and criminal groups. The activities of arms brokers make it even more difficult to judge when such actions are supported by governments and when they are not.

*Information Warfare.*—As you know, Mr. Chairman, all of this is occurring in what we all call the "Information Age." With that in mind, it is clear that foreign entities are aware that an increasing proportion of our civil and military activity depends on the secure and uninterrupted flow of digital information.

In fact, we have identified several countries that have government-sponsored information warfare programs underway. It's clear that those developing these programs recognize the value of attacking a country's computer systems—both on the battlefield and in the civilian arena. In addition, I believe terrorist groups and other non-state actors will increasingly view information systems in the United States as a target.

Mr. Chairman, let me assure you that we are increasing our efforts to uncover information warfare activities. We are also developing the tools needed to improve our ability to detect and counter information warfare attacks.

This is an enormously complex, sensitive, and innovative endeavor, Mr. Chairman, that will require insights from law enforcement and the private sector in order to fully succeed.

#### CHALLENGE II: RUSSIA AND CHINA IN TRANSITION

Moving beyond these transnational issues, Mr. Chairman, I want to focus for a moment on a second major challenge: the still unsettled state of affairs in key countries like Russia and China—one time Cold War adversaries who now have the potential to be major partners.

##### *Russia*

Today we see hopeful signs that the seeds of democracy and a free market economy sown in Russia just a few years ago have taken root. Moreover, Moscow cooperates with the United States and the West in ways that were unimaginable during Soviet times.

But whether Russia succeeds as a stable democracy, reverts to the autocratic and expansionist impulses of its past, or degenerates into instability remains an open question. The answer will depend in large part on how Russia copes with several major challenges.

Democratic political institutions while developing, are not yet deeply rooted. The executive branch and Communist-dominated Duma often deadlock, while crime and corruption threaten to undermine confidence in political and economic reform.

Russia has implemented many economic reforms and achieved a measure of economic stability, but long-term steady growth is still dependent on other reforms—namely ensuring that economic activities are governed by the rule of law.

The Russian military, meanwhile, continues to suffer from serious social and economic difficulties. Finding the wherewithal to pay the retirement costs of over 250,000 redundant military officers will be a particular challenge. Despite these difficult times for the military, Russia retains a major nuclear arsenal—some 6,000 deployed strategic warheads. As long as there is even the slightest doubt about future political stability in Russia, those weapons must be a major preoccupation for US intelligence.

We must also remain mindful that Russia continues a wide-range of development programs for conventional and strategic forces.

Finally, while Russia continues to seek close cooperation with the United States on matters of mutual concern, it is increasingly strident in opposing what it sees as US efforts to create a “unipolar” world. And Moscow continues to place a high priority on keeping others from gaining undue influence in the New Independent—especially in the energy rich Caucasus and Central Asia.

### *China*

Turning now to China, the leadership there was a clear goal: the transformation of their country into East Asia’s major power and a leading world economy on a par with the United States by the middle of the 21st Century.

It is too soon to say what this portends, Mr. Chairman—whether China in the future will be an aggressive or a benign power. What is clear, though, is that China will be an increasingly influential player—one that will have the capacity to, at a minimum, alter our security calculus in the Far East.

Hong Kong’s 1997 reversion to Chinese rule was peaceful but involved important changes to the political system. The Chinese Government disbanded the existing legislative council and installed a hand-picked provisional legislature. A key question now is whether new legislative elections scheduled for May will be free and fair.

Cross-strait relations with Taiwan are still tense, China has not renounced the use of force and is placing its best new military equipment opposite Taiwan.

Chinese military modernization remains a key leadership goal. China is increasing the size and survivability of its retaliatory nuclear missile force is taking important steps toward building a modern navy capable of fighting beyond China’s coastal waters.

Finally, Mr. Chairman, the post-Deng Xiaoping leadership shows no signs of abandoning Communist political ideology, although it has committed itself to market-oriented economic reforms. These are eroding State control over major sectors of the economy as well as over the daily life of many Chinese citizens.

### CHALLENGE III: REGIONAL TROUBLEMAKERS

Mr. Chairman, I would like now to turn to states for whom the end of the Cold War did not mean an end to hostility to the United States.

### *Iran*

Among these countries, Iran in many respects represents the greatest challenge we will face over the next year. It appears to us that a genuine struggle is now underway between hardline conservatives and more moderate elements represented by Iran’s new President Khatami. And so the challenge is how to cope with a still dangerous state in which some positive changes may be taking place—changes that could, and I stress could—lead to a less confrontational stance toward the United States.

Khatami’s strongest card is his electoral mandate—a 70 percent vote representing mostly youth and women, as well as ethnic and religious minorities in Iran. Since assuming office in August, he has made limited but real progress toward fulfilling his campaign pledges for political and social reforms.

He gained approval for a new cabinet that puts his people in key posts such as the ministries of Foreign Affairs, Interior, and Islamic Culture.

Censorship is now less oppressive, with previously banned periodicals reappearing and socially controversial films being shown.

And against this backdrop, there is even renewed debate about a central tenet of the revolution—rule by a supreme religious leader.

Progress is likely to be fitful, however, and hard-line elements remain formidable obstacles.

They still control the country’s defense and security organizations, for example, and therefore exert heavy influence on issues most vital to the United States.

Statements by Khatami and his foreign ministry suggest he is trying to play a more constructive role in the international community. It is simply too early to tell, however, whether this will lead to demonstrable changes in Iranian policies that matter most to the United States. We have seen no reduction in Iran's efforts to support Hizballah, radical Palestinians, and militant Islamic groups that engage in terrorism.

Moreover, even as it attempts to improve its international image, Tehran is continuing to bolster its military capabilities. Iran is improving its ability potentially to interdict the flow of oil through the Strait of Hormuz. It has acquired KILC-class submarines from Russia and is upgrading its antiship-missile capabilities.

And, as I noted earlier, Iran continues its efforts to acquire the capability to produce and deliver weapons of mass destruction.

#### *North Korea*

Turning to North Korea, we also face a more complex challenge than last year—some progress but in the face of a worsening economic and social situation and a continued real military threat.

The North is still observing the terms of the Agreed Framework that directly relate to freezing its nuclear reactor program. The IAEA has maintained a continued presence at Yongbyon since the May 1994 refueling of the reactor, and P'yongyang and the IAEA continue to discuss steps the North needs to take to come into full compliance with its safeguards commitments.

Amidst these signs of progress, however, a combination of economic stagnation and social decay continues to raise doubts about North Korean stability.

North Korea's spreading economic failure is eroding the stability of the regime of Kim Chong-il. Industrial and agricultural output continues to drop. The North's most recent fall grain harvest was far less than the 4.5 million tons the North needs to meet even minimal rations. Crime, corruption and indiscipline, including in the security services and military, are increasing, and people are more willing to blame Kim Chong-il for their plight.

While Kim reportedly is aware of the economic problems and their impact on soldiers and civilians, his legitimacy remains closely tied to his father's legacy. As a result, P'yongyang likely will avoid an avowedly reformist agenda and will try to package any reform experiments in traditional ideological terms. As such, significant improvements in the economy do not seem to be in the cards.

Its economic weaknesses notwithstanding, North Korea retains a military with the capability to inflict serious damage on South Korea and the 37,000 US troops deployed there.

The North's offensive posture along the demilitarized zone (DMZ) means that it could go to war with little additional preparation.

And North Korea's long-range artillery and surface-to-surface missiles near the DMZ, some of which could deliver chemical warfare agents, can hit forward defenses, US Military installations, airfields and seaports, and Seoul.

#### *Iraq*

Mr. Chairman, Iraq, under Saddam, continues to present a serious threat to US forces, interests and allies. Our principal aim must be to ensure that Saddam does not have weapons of mass destruction or the capacity to regain any he has lost.

As my statement for the record points out in greater detail, we assess that Iraq continues to hide critical WMD production equipment and material from UN inspectors.

Continued UN sanctions can keep pressure on his regime and cast uncertainty over Saddam's hold on power.

But, as you know Mr. Chairman, Saddam is pushing more aggressively than last year to erode the sanctions regime.

More than seven years of sanctions have had a devastating effect on Iraq's economy. Inflation is soaring, the civilian infrastructure is deteriorating, and the Iraqi population continues to suffer from high rates of malnutrition and inadequate services—in part because of Saddam's manipulation of relief supplies. Key regime officials and support organizations remain largely immune to the harsh living conditions facing the general population and even live off revenues generated through illicit trade—a fact that engenders resentment and poses an underlying threat to Saddam and his family.

While its military force continues to slowly deteriorate under UN sanctions and the arms embargo implemented after the Gulf War, Iraq remains an abiding threat to internal oppositionists and smaller regional neighbors.

## CHALLENGE IV: REGIONAL TROUBLE SPOTS

Mr. Chairman, I propose again this year to provide you a brief description of where we stand in several potential "hot spots." As I did last year, I will focus on the situation in the Middle East, South Asia, and Bosnia.

*Middle East*

With regard to the Middle East, Mr. Chairman, my bottom line message must be that the region is more volatile and more troubled than when I testified here last year. Many of the threats I have discussed today intersect in the Middle East, where the historic strife and distrust that mark the region are now aggravated by the spread of sophisticated weapons programs, an upsurge in terrorism, and demographic trends that point to heightened social tensions.

Against this backdrop, the peace process has foundered, with dangerous implications for all of the parties.

Iraq, as noted earlier, continues to defy the international community's effort to deny it the means to again commit aggression.

And some of the fixed points have begun to change, Iran in particular, but not so conclusively as to permit a dropping of our guard.

Meanwhile, world demand for imported energy will ensure the region's strategic importance, along with the active, and sometimes competitive, engagement of many nations.

In short, Mr. Chairman, the period ahead is one of enormous challenge for the United States as it seeks to ensure stability, prosperity, and peace in this most critical of regions.

*South Asia*

In South Asia, relations between India and Pakistan remain poor. The long-standing dispute over Kashmir remains a major sticking point. A modest India-Pakistan dialogue is underway, though progress is certain to be slow and subject to abrupt setbacks. We cannot be sure this tentative dialogue will continue when a new Indian government assumes office after national elections in March.

The stakes of conflict are high, because both countries have nuclear capabilities and have or are developing ballistic missile delivery systems. Although Indian and Pakistani officials say deterrence has worked for years, it would be at risk in a crisis.

*Bosnia and the Balkans*

Turning to Bosnia, Mr. Chairman, the story is progress but with significant remaining challenges. On the positive side, developments in recent months have somewhat improved the prospect for Dayton implementation.

The emergence in the Republika Srpska of a government backed by Muslim and Croat deputies is a breakthrough that—if sustained—could accelerate the pace of Dayton implementation.

At the same time, the High Representative is using his new authority to impose solutions on the parties to reinforce central institutions.

Bosnia's military forces remain demobilized with their heavy weapons stored in sites that are regularly inspected by SFOR. Furthermore, each army has significantly reduced its heavy weapons under the Dayton-mandated arms control agreement.

Iran has terminated its military aid and training in Bosnia and has focused its involvement on economic assistance.

Although Bosnians are a long way from regaining their pre-war standard of living, significant economic growth has resumed and unemployment is starting to decline.

Relatively little progress has been made, however, in implementing minority returns and other provisions of Dayton relating to freedom of movement and resettlement. The OSCE goal of 220,000 returns in 1997 was only about half met, and the bulk of those who did return went to majority areas.

Looking to the future, most Bosnians recognize that continued international engagement is essential for keeping the peace. Such involvement is required to continue weakening the hardline nationalists who are obstructing Dayton, and national elections in 1998 might increase the political clout of opponents of the nationalists who currently dominate the three communities.

In addition, a number of volatile issues could still disrupt the gradual process of reconciliation. These include the Brcko arbitration decision—postponed last year but expected in March and the UN's stated goal of returning 50,000 refugees to minority areas during the first six months of 1998. In addition, continuing mutual distrust

between Muslims and Croats will hamper the effort to create a functioning Federation.

I must also note the threat of instability in the southern Serbian province of Kosovo, where animosity remains high between the 90 percent Albanian majority and the local Serbian residents. There is increasing support for violence as a way to resolve the situation.

#### *The Aegean*

Turning to the Aegean, there is reason for increased concern about tensions between Greece and Turkey, particularly in the wake of the EU summit decision to proceed with membership negotiations with Cyprus—while rebuffing Turkey's application—and the expected arrival of SA-10 air defense batteries from Russia this summer. Ongoing disputes over air and sea delineations in the Aegean have also heightened long-standing Greek-Turkish animosity.

#### CHALLENGE V: HUMANITARIAN CHALLENGES

Mr. Chairman, last year I concluded my briefing by discussing with you the challenge posed to US citizens and interests by humanitarian crises whose origins often go back many years but which can escalate with dramatic suddenness. I regret to say that the dimension of this challenge remains unchanged.

The totality of the problem is similar to that I described last year 34 million people worldwide unable to return to their homes; more than 20 million internally displaced; 14.5 million refugees.

As it was last year, Africa is the region most troubled by these crises—with attendant calls on US and UN resources to assist relief operations and attendant risks to US citizens caught up in violence.

We have no reason to believe that 1998 in Africa will be any more stable than was 1997. The instability in central Africa that led to the overthrow of governments in Zaire and Congo (Brazzaville) last year lingers, and it is probably only a matter of time until serious problems erupt again in Burundi and Rwanda. Apart from ethnic and political conflict, for the coming months the impact of El Nino, particularly in southern and eastern Africa, will bear careful watching—especially water shortages and consequent food scarcity.

#### CONCLUDING COMMENTS

I hope these and the other challenges I have discussed with you today illustrate why I opened these remarks by referring to complexity, broad scope, and speed as the touchstones of this new era. These challenges will require the most sophisticated intelligence collection and analysis that we can produce. Only by continuing to invest in this kind of effort can the Intelligence Community play the role it must in protecting American lives, guarding American interests, and sustaining American leadership.

Thank you Mr. Chairman, I would welcome your questions at this time.

Director TENET. Mr. Chairman, thank you very much. I'm pleased to be joined today by my distinguished colleagues.

The world we face today poses a complexity and scope of problems that I believe is unprecedented for the United States. The speed of technological change in the world magnifies these threats.

I'm most concerned, Mr. Chairman, about the proliferation of weapons of mass destruction because of the direct threat this poses to the lives of Americans. Despite some successes for U.S. policy and U.S. intelligence, technologies related to this threat continue to be available and potentially hostile states are still developing and deploying WMD related systems. Efforts to halt proliferation continue to be complicated, moreover, by the fact that most WMD programs are based on technologies and materials that have civil as well as military applications.

Finally, a growing trend towards indigenous production of WMD-related equipment has decreased the effectiveness of sanctions and other national and multinational tools designed to counter proliferation.



Chinese and Russian assistance to proliferant countries requires particular attention despite signs of progress. My statement for the record provides the details, but some of the key points should be made here.

With regards to China, its defense industries are under increasing pressure to become profit making organizations, an imperative that can put them at odds with U.S. interests. Conventional arms sales have lagged in recent years, encouraging Chinese defense industries to look to WMD technology-related sales, primarily to Pakistan and Iran, in order to recoup. There is no question that China has contributed to the WMD advances in these countries.

On the positive side, there have recently been some signs of improvement in China's proliferation behavior. China has recently enacted its first comprehensive laws governing nuclear technology exports. It also appears to have tightened down on its most worrisome nuclear transfers. And it recently renewed its pledge to halt sales of anti-ship cruise missiles to Iran.

But China's relations with some proliferant countries are longstanding and deep, Mr. Chairman. The jury is still out on whether the recent changes are broad enough in scope and whether they will hold over the longer term.

As such, Chinese activities in this area will require continued close watching.

The Russian proliferation story is similar. On paper, Russia's export controls specifically regulate the transfer of missile-related technologies as well as missile components. But the system has not worked well and proliferant countries have taken advantage of its shortcomings.

Iran is one of those countries, Mr. Chairman. When I testified here a year ago, I said that Iran—which had received extensive missile assistance from North Korea—would probably have medium range missiles capable of hitting Saudi Arabia and Israel in less than 10 years. Since I testified, Iran's success in gaining technology and material from Russian companies, combined with recent indigenous Iranian advances, means that it could have a medium range missile much sooner than I assessed last year.

Following intense engagement with the United States, Russian officials have just taken some positive steps. Just last week, Prime Minister Chernomyrdin issued a broad decree prohibiting Russian companies from exporting items that would be used for developing WMD or their delivery systems—whether or not these items are on Russia's export control list. If enforced, this could be an important step in keeping Iran from getting the technology it needs to build missiles with much longer ranges.

Without minimizing the importance of Russia's response, Mr. Chairman, I must tell you that it is too soon to close the books on this matter. Russian action is what matters, and therefore monitoring Russian proliferation behavior will have to be a very high priority for some time to come.

Likewise, Mr. Chairman, in focusing on Iran's acquisition of WMD technology, as we should, since it is one of the most active countries seeking such materials, we cannot lose sight of other proliferants. My statement talks about Iraq, Syria and Libya.

Moving on to the very different transnational threat that Senator Baucus talked about, the recent financial troubles in Asia remind us that global markets are so interconnected and that economies and politics so intertwined that economic problems in one country can have far-reaching consequences for others. At the root of this crisis is a confluence of economic, social and political factors. Soaring growth and financial systems that lacked adequate regulation led to a speculative boom. Lending decisions by banks and finance companies ignored fundamental economic risks. And when export growth began to slow regionally in 1995, corporate borrowers had trouble repaying loans.

Faced with high levels of short-term debt and limited foreign exchange reserves, Thailand first, and then Indonesia and South Korea, were forced to devalue their currencies. Because of the high level of economic integration and reaction of investors, the currency crisis spread rapidly to other countries in the region.

The crisis has been difficult to resolve—in part because governments must take some politically risky steps like closing weak banks and shelving projects that will add to unemployment.

The current troubles in Asia will, of course, have economic costs for the United States. But the troubles also carry political risks. Social tensions—which we already see in Indonesia and other states in the region—are likely to increase as the prices go up for things like food, fuel and as unemployment rises.

Turning to terrorism, Mr. Chairman, I must stress that the threat to U.S. interests and citizens worldwide remains high. Even though the number of international terrorist incidents in 1997 was about the same as 1996, U.S. citizens and facilities suffered more than 30 percent of the total number of terrorist attacks—up 25 percent from last year.

Moreover, there has been a trend toward increasing the lethality of attacks, especially against civilian targets. The most recent examples, of course, are the suicide bombings in Israel in 1996 and 1997, and the attacks on tourists in Luxor, Egypt, last November. Perhaps most worrisome, Mr. Chairman, is the fact that we have seen in the last year growing indications of terrorist interest in acquiring chemical, biological and nuclear weapons.

In addition, a confluence of recent developments increases the risk that US individuals or groups will attack US interests. Terrorists' passions have probably been inflamed by events ranging from the US government's designation of 30 terrorist groups to the conviction and sentencing of Mir Aimal Kasi and Ramzi Ahmed Yousef, as well as the ongoing standoff with Iran and frustration with the Middle East peace process.

Turning to international narcotics, I must tell you, Mr. Chairman, that the illicit drug industry is adapting to the counterdrug successes that we and other governments have had in recent years. Most worrisome, the narcotics underworld is becoming more diverse and fragmented. In addition, traffickers are infusing their business with new technologies to enhance their operations, hide their illicit earnings and improve their security.

I do not mean to downplay the impressive progress that has been made against drug traffickers, especially those that deal in cocaine. You know that the arrests of the Cali kingpins in Colombia, which

has disrupted long-held smuggling patterns there and forced traffickers still at large into hiding. Drug interdiction efforts in Peru—once the world's leading producer of the leaf used to make cocaine—have seriously damaged the country's drug economy and led to 40 percent decline in cultivation over the last two years.

The cocaine trade, however, is still a formidable challenge thanks to the industry's ability to adapt. Our success against the Cali kingpins has nurtured smaller groups that now dominate trafficking through the Caribbean. The violent Mexican drug cartels are exploiting the Cali mafia's setbacks to wrestle away a greater share of the international drug business.

Despite declines in Peru and Bolivia, coca production continues to expand in southern Colombia where the new ingredient is the involvement of insurgents who tax drug profits to fund their war against the government.

I'm also concerned, Mr. Chairman, about developments in international heroin trafficking. Worldwide production of opium—the source of all refined heroin—continues at record levels. And heroin traffickers are exploiting weak enforcement institutions in the former Soviet Union and Eastern Europe to expand traditional heroin smuggling routes from the Golden Crescent and, to a lesser extent, the Golden Triangle regions.

As for international organized crime, the globalization of business and technology have given crime syndicates unprecedented opportunities for illicit activities. Yet law enforcement authorities often remain constrained by national sovereignty and jurisdictions.

Trends that cause us the greatest concern are an increasingly sophisticated financial system that includes emerging financial secrecy havens stretching from the islands in the Caribbean, to the South Pacific; a broader array of seemingly legitimate businesses that serve as fronts for criminal enterprises and the increasing role of gray arms brokers in arming rogue states, terrorists and criminal groups. The activities of arms brokers make it even more difficult to judge when such actions are supported by governments and when they are not.

As you know, Mr. Chairman, all of this is occurring in what we call the information age. With that in mind, it is clear that foreign entities are aware that an increasing proportion of our civil and military activity depends on the secure and uninterrupted flow of digital information. In fact, we have identified several countries that have government sponsored information warfare programs well underway. It's clear that those developing these programs recognize the value of attacking a country's computer systems, both on the battlefield and in the civilian arena. In addition, I believe terrorists groups and other non-state actors will increasingly view information systems in the United States as a target.

Mr. Chairman, I want to talk about Russia and China and the transition they find themselves in.

With regard to Russia, today we see hopeful signs that the seeds of democracy and a free market economy sown in Russia just a few years ago have taken root. Moreover, Moscow cooperates with the United States and the West in ways that were unimaginable during Soviet times. But whether Russia succeeds as a stable democracy, reverts to the autocratic and expansionist impulses of its past

or degenerates into instability remains an open question. The answer will depend in large part on how Russia copes with several major challenges. Democratic political institutions, while developing, are not yet deeply rooted. The executive branch and communist dominated Duma often deadlock while crime and corruption threaten to undermine confidence in political and economic reform.

Russia has implemented many economic reforms and achieved a measure of economic stability. But long term steady growth, is still dependent on other reforms, namely ensuring that economic activities are governed by the rule of law. The Russian military, meanwhile, continues to suffer from serious social and economic difficulties. Find the wherewithal to pay the retirement costs of over 250,000 redundant military officers will be a particular challenge.

Despite these difficult times for the Russian military, Russia retains a major nuclear arsenal—some 6,000 deployed strategic warheads. As long as there is even the slightest doubt about the future political stability in Russia, those weapons must be a major preoccupation of US intelligence. We must also remain mindful that Russia continues a wide range of development programs for conventional and strategic forces.

Finally, while Russia continues to seek close cooperation with the United States on matters of mutual concern, it is increasingly strident in opposing as what it sees as US efforts to create a unipolar world. And Moscow continues to place a high priority on keeping others from gaining undue influence in the newly independent states, especially in the energy-rich Caucasus in Central Asia.

Turning to China, the leadership there has a clear goal—the transformation of their country into East Asia's major power and a leading world economy on a par with the United States by the middle of the 21st century. It is too soon to say what this portends, Mr. Chairman, whether China in the future will be an aggressive or benign power. What is clear, though, is that China will be an increasingly influential player, one that will have the capacity to, at a minimum, alter our security calculus in the Far East.

Hong Kong's 1997 reversion to Chinese rule was peaceful, but involved important changes in the political system. The Chinese government disbanded the existing legislative council and installed a hand-picked provisional legislature. The key question now is whether new legislative elections scheduled in May will be free and fair.

Cross-strait relations with Taiwan are still tense. China has not renounced the use of force and is placing its best new military equipment opposite Taiwan. Chinese military modernization remains a key leadership goal. China is increasing the size and survivability of its retaliatory nuclear missile force and is taking important steps toward building a modern navy capable of fighting beyond China's coastal waters.

Finally, Mr. Chairman, the post-Deng Xiaoping leadership shows no sign of abandoning communist political ideology, although it has committed itself to market-oriented economic reform. These are eroding state control over major sectors of the economy as well as over the daily life of many Chinese citizens.

Mr. Chairman, I want to talk about Iran, because you mentioned it in your opening statement. Among the countries, Iran in many

respects represents the greatest challenge we will face over the next year. It appears to us that a genuine struggle is now under way between hard-line conservatives and more moderate elements represented by Iran's new President Khatami. And so the challenge is how to cope with a still dangerous state in which some positive changes may be taking place, changes that could—and I stress could—lead to a less confrontational stance toward the United States. Khatami's strongest card is the electoral mandate, a 70 percent vote representing mostly youth and women, as well as ethnic and religious minorities in Iran.

Since assuming office in August, he has made limited but real progress toward fulfilling his campaign pledges for political and social reforms. He gained approval for a new cabinet that puts his people in key posts, such as the ministries of foreign affairs, interior and Islamic culture.

Censorship is now less oppressive with previously banned periodical reappearing and socially controversial films being screened. And against this backdrop, there is even renewed debate about a central tenet of the revolution—rule by a supreme religious leader.

Progress is likely to be fitful, however, and hard-line elements remain formidable obstacles. They still control the country's defense and security organizations, for example, and therefore exert heavy influence on issues most vital to the United States. Statements by Khatami and his foreign ministry suggest he is trying to play a more constructive role in the international community. It is simply too early to tell, however, whether this will lead to demonstrable changes in Iranian policies that matter most to the United States. We have seen no reduction in Iran's efforts to support Hizbollah, radical Palestinians and militant Islamic groups that engage in terrorism.

Moreover, even as it attempts to improve its international image, Tehran is continuing to bolster its military capabilities. Iran is improving its ability potentially to interdict the flow of oil through the Strait of Hormuz. It has acquired KILO-class submarines from Russia, and it is upgrading its anti-ship cruise missiles.

As I noted earlier, Iran continues its efforts to acquire the capability to produce and deliver weapons of mass destruction.

Turning to North Korea, Mr. Chairman, we also face a far more complex challenge than last year. Some progress, but in the face of a worsening economic and social situation and a continued real military threat, the North is still observing the terms of the agreed framework that directly relate to freezing its nuclear reactor program. The IAEA has maintained a continued presence at Yongbyon since the May 1994 refueling of the reactors, and Pyongyang and the IAEA continue to discuss steps the North needs to take to come into full compliance with its safeguard commitments.

Amidst these signs of progress, however, a combination of economic stagnation and social decay continue to raise doubts about North Korea stability. North Korea's spreading economic failure is eroding the stability of the regime of Kim Chong II. Industrial and agricultural output continue to drop. The North's most recent fall grain harvest was far less than the 4.5 million tons the North needs to meet even minimal rations. Crime, corruption and undiscipline—including in the security services and military—are

increasing, and people are more willing to blame Kim Chong II for their plight.

While Kim reportedly is aware of the economic problems and their impact on soldiers and civilians, his legitimacy remains closely tied to his father's legacy. As a result, Pyongyang likely will avoid an avowed reformist agenda and will try to package any reform experiments in traditional ideological terms. As such, significant improvements in the economy do not seem to be in the cards.

Its economic weaknesses notwithstanding, North Korea retains a military with a capability to inflict serious damage on South Korea and the 37,000 US troops deployed there. The North's offensive posture along the demilitarized zone means that it could go to war with little additional preparation. And North Korea's long-range artillery and surface-to-surface missiles near the DMZ, some of which could deliver chemical warfare agents, can hit forward defenses, US military installations, and airfields and seaports in Seoul.

Finally, Mr. Chairman, I'll talk about Iraq. Iraq under Saddam continues to present a serious threat to US forces, interests and allies. As my statement for the record points out in great detail, we assess that Iraq continues to hide critical weapons of mass destruction equipment and material from UN inspectors.

Continued UN sanctions can keep pressure on his regime and cast uncertainty over Saddam's hold on power. But as you know, Mr. Chairman, Saddam is pushing more aggressively than last year to erode the sanctions regime. More than seven years of sanctions have had a devastating effect on Iraq's economy. Inflation is soaring. The civilian infrastructure is deteriorating. And the Iraqi population continues to suffer from high rates of malnutrition and inadequate services—in part because of Saddam's manipulation of relief supplies. Key regime officials and support organizations remain largely immune to the harsh living conditions facing the general population and even live off revenues generated through illicit trade—a fact that engenders resentment and poses an underlying threat to Saddam and his family.

While its military forces continue to slowly deteriorate under UN sanctions and the arms embargo implemented after the Gulf War, Iraq remains an abiding threat to internal oppositionists and smaller regional neighbors.

Mr. Chairman, I'll stop there. I'll enter the rest of my statement into the record. There's much more ground to cover. Perhaps we would be best suited to do that in questions and answers.

Chairman SHELBY. Thank you, Director Tenet.

I'll ask the other witnesses to briefly sum up their testimony—take five minutes or less. As I said earlier, your written testimony will be made part of the record in its entirety.

Deputy Director Bryant of the FBI, we're glad to have you here. We understand that Judge Freeh, the director, is awaiting the imminent birth of his sixth son. Is that correct?

Mr. BRYANT. Yes, it is. He's at home with his family, and I think his sixth son is due at any moment now.

Chairman SHELBY. Well, we welcome you to the Committee.

**STATEMENT OF ROBERT BRYANT, DEPUTY DIRECTOR OF THE  
FEDERAL BUREAU OF INVESTIGATION**

Mr. BRYANT. I'll just take a few moments to summarize my statement. But I want to hit a few key points.

We've seen a lot of changes in the world in the last dozen years. Many of them have made a better world for us. But certainly we have great challenges ahead of us. And before I get into specific threats, I just want to hit one issue. I'm speaking of encryption.

This is a critical problem. It is here right now and is only going to get worse. Encryption has implications for our ability to combat every threat to national security that we see. Federal, state and local law enforcement officials unanimously agree that the widespread use of robust non-key recovery encryption will ultimately devastate our ability to fight crime and prevent terrorism. There are all kinds of views about this issue, but we see that this issue needs to be addressed very quickly because it's going to harm all of our abilities to do what is legal, ethical and for the best interests of the American People.

I guess I would just say on the summary of the national threats, from a law enforcement perspective—the drug issue that faces the United States is a significant issue. We see it in all the investigations that the FBI has; we see it in all corners of our investigations. And it's of grave concern. Whether it's methamphetamines, cocaine, heroin or whatever, there's just great concern for that issue and what we're going to do about it.

I guess the next issue I see is international terrorism. We certainly have, from the DCI's statement, an agreement. We have concerns over weapons of mass destruction and what they can do. The FBI currently has investigations directed toward these activities. Certainly, we've had help with legislation from this body and that has been tremendously helpful. But I consider this a priority that could have devastating consequences for this great nation.

The next issue that I would go to would be international terrorism organizations and terrorism generally. The FBI looks at domestic terrorism as groups of individuals that are American citizens using violence to commit \* \* \*—to change—for social or political change. The domestic side of it is an issue with us. Certainly, the international side, as Mr. Tenet said, the state sponsors, certainly the organized federations, such as Hizbollah, Gama'at al-Islamiyyah, Hamas are areas where we're very concerned.

I guess another issue I want to hit a little bit is this critical infrastructure protection. We have a society that's terribly dependent upon computers, and the service they perform for this nation. It's helped our economy. We're probably world leaders in computer technology. But it's also a vulnerability, and it could be used and is being used by criminals, by terrorists, by intelligence services and certainly by military services. And we have to basically put in the infrastructure and vehicles to protect this great nation from this type of attack.

I guess I would just close and just say that certainly the espionage issues. We've had—numerous cases have been prosecuted in the last year. This is ever a threat that's been here for—since the beginning of time. It's still here.

Chairman SHELBY. Not getting any better, though, is it?

Mr. BRYANT. It's probably as serious as ever.

Chairman SHELBY. Okay.

Mr. BRYANT. Just in passing, on economic espionage, the Congress passed the economic espionage statute last year. This statute has certainly brought about a change in the way business is done, because our technology—we now have a law to protect it. There are prosecutions going forward. And this has been a great benefit, and can discuss this more in the question and answer.

The only thing I would add, on the drug trafficking situation—there are foreign-based groups that are bringing vast amounts of drugs into this country. And ourself, the Intelligence Community, with the DEA and Customs and the whole government is trying to develop strategies to basically control this issue.

I guess I would just close and say, on July 26, 1998, the FBI will celebrate its 90th birthday. The FBI has been a remarkable institution for many reasons, but not the least of which its ability to change and evolve and face growing threats. And we serve—we serve you all, we serve the American people, but we see numerous threats that I've just enumerated and hope we're part of the solution.

Thank you.

[The prepared statement of Mr. Freeh follows:]

STATEMENT OF LOUIS J. FREEH, DIRECTOR, FEDERAL BUREAU OF INVESTIGATION

Good morning Mr. Chairman, Vice Chairman Kerrey and Members of the Committee. I welcome this opportunity to be part of this distinguished panel to discuss threats to U.S. National Security.

The overriding concern now facing law enforcement is how rapidly the threats from terrorists and criminals are changing, particularly in terms of technology, and the resulting challenge to law enforcement's ability to keep pace with those who wish to do harm to our nation and our nation's citizens. This is why the encryption issue is one of the most important issues confronting law enforcement and potentially has catastrophic implications for our ability to combat every threat to national security that I am about to address in my statement here today. Law enforcement remains in unanimous agreement that the widespread use of robust nonrecovery encryption ultimately will devastate our ability to fight crime and terrorism. Unrecoverable encryption is now and will continue, with ever increasing regularity, allow drug lords, terrorists and even violent gangs to communicate about their criminal intentions with impunity and to maintain electronically stored evidence of their crimes impervious to lawful search and seizure. Other than some type of key-recoverable system, there is currently no viable technical solution to this problem for law enforcement.

This is not a problem that will begin sometime in the future with theoretical implications. In many important investigations effective law enforcement is being frustrated by criminals and terrorists using non-recoverable encryption. For example:

Convicted spy Aldrich Ames was told by his Soviet handlers to encrypt computer file information that was to be passed to them.

Ramzi Yousef and other international terrorists were plotting to blow up 11 U.S.-owned commercial airliners in the far east. Yousef's laptop computer, which was seized in Manila, contained encrypted files concerning this terrorist plot.

A major international drug trafficking subject recently used a telephone encryption device to frustrate court-approved electronic surveillance.

Requests for cryptographic support pertaining to electronic surveillance interceptions from FBI field offices and other law enforcement agencies have steadily risen over the past several years. From 1995 to 1996, there was a two-fold increase (from 5 to 12) in the number of instances where the FBI's court-authorized electronic efforts were frustrated by the criminal's use of encryption that did not allow for law enforcement access.

Over the last two years, the FBI has also seen the number of computer related cases utilizing encryption and/or password protection increase from two (2) percent to seven (7) percent, to include the use of 56 bit Data Encryption Standard (DES) and 128 bit "Pretty Good Privacy" (PGP) encryption.



It is for this reason that the law enforcement community is urgently calling for our Nation's policy makers to adopt a balanced public policy on encryption. In our view, any legislative approach to the encryption issue that does not achieve such a balanced approach seriously jeopardizes the utility of some of our most important and effective investigative techniques upon which law enforcement must depend to ensure public safety and to maintain national security.

Several bills have been introduced in this Congress that address certain aspects of the encryption issue. Unfortunately, most of these legislative proposals would largely remove existing export controls on encryption products, and would promote the widespread availability and use of uncrackable encryption products regardless of the impact on public safety and national security.

It is important to note that S. 909, the "Secure Public Networks Act," introduced by Senators Kerrey, McCain, and Hollings, comes close to addressing law enforcement's public safety needs in the area of encryption. However, law enforcement believes that the bill does not contain sufficient legislative assurances to adequately address law enforcement's public safety needs regarding the use and availability of encryption products and service within the United States.

Conversely, the substitute bill adopted by the House Permanent Select Committee on Intelligence (HPSCI) on September 11, 1997, during their mark-up of H.R. 695 does effectively address all of law enforcement's public safety and national security concerns regarding encryption products and services manufactured for use in the United States or imported into the United States. The HPSCI substitute bill would require all such encryption products and services to contain features that would allow for the immediate access by law enforcement to the "plaintext" of encrypted criminal-related communications or electronically stored data pursuant to a court order.

We are now at an historic crossroad on this issue. If public policy makers act wisely, the safety of all Americans will be enhanced for decades to come. But if narrow interests prevail, law enforcement will be unable to provide the level of protection that people in a democracy properly expect and deserve. I do not believe it is too late to deal effectively with this issue and would encourage the Committee to look closely at the action taken by the HPSCI in their efforts to adopt a balanced encryption policy.

#### INTELLIGENCE THREAT

The counterintelligence mission of the FBI is to identify, penetrate and neutralize foreign intelligence and terrorist activities directed against the United States. This mission includes the investigation of espionage. At the outset, I want to emphasize that the "fall of communism" has not reduced the level or amount of espionage and other serious intelligence activity conducted against the United States.

In many cases, the targets have not changed at all: there is still a deadly serious foreign interest in "traditional" intelligence activities such as penetrating the U.S. intelligence community, collecting classified information on U.S. military defense systems, and purloining the latest advances in our country's science and technology sector.

In addition to these traditional intelligence operations, there have been at least three changes in foreign intelligence activity that have required the FBI to modify its counterintelligence programs.

The first change is intelligence activity by non-intelligence personnel. Today, national security issues go beyond the passage of classified military information. There have been many cases which show that individuals outside the intelligence service apparatus, but who are no less foreign sponsored, engage in clandestine activity that is inimical to the security and economic well-being of the United States.

A second area of change has been the intelligence environment, which includes the growing importance of maintaining the integrity of our country's information infrastructure. Our growing dependence on computer networks and telecommunications has made the U.S. increasingly vulnerable to possible cyber attacks against such targets as military war rooms, power plants, telephone networks, air traffic control centers and banks.

Third, many traditional and non-traditional adversaries today are technologically sophisticated and have modified their intelligence methodologies to use advanced technologies to commit espionage. In telecommunications, even some smaller intelligence adversaries now use equipment the FBI is unable to monitor.

To address these changes in intelligence activity, intelligence environment, and intelligence methodology, the FBI uses general investigative strategy we refer to as the national security threat list or NSTL. It is a concept adopted in 1992 to prioritize issues and countries at which to direct our efforts. Our counterintelligence

investigative techniques include the recruitment of human assets, double agents, undercover operations, various surveillance techniques, and analysis. NSTL has given the FBI additional flexibility to approach non-traditional intelligence problems from new perspectives.

In addition, the FBI also has created the Computer Investigations and Infrastructure Threat Assessment Center (CITAC), which draws on the technical expertise of a number of other U.S. agencies in order to bring more analytical power to bear defending our ability to peacefully and securely enjoy important recent advances in our country's information technology sphere.

Regarding the problem of monitoring advanced communications techniques used by some of our country's intelligence adversaries, I have already stressed that, the FBI supports pending legislative proposals to allow law-enforcement access to encryption-recovery information.

Let me summarize this general overview by stating that the simple truth is that there has been no "peace dividend" in the form of a reduced need for FBI counter-intelligence operations. On the contrary, foreign intelligence activities against the United States have grown in diversity and complexity in the past few years.

Press reports of recent espionage cases involving Russia, South Korea, and China are just the tip of a large and dangerous intelligence iceberg. In addition to these and other covert intelligence operations run by intelligence officers using standard intelligence methodologies, however, the FBI these days is just as likely to encounter covert activity on the part of non-intelligence people such as visiting scientists or foreign businessmen.

Although I believe the FBI is well positioned for the counterintelligence challenges before us, what some pundits have called the "end of history" is definitely not the end of dangerous intelligence attacks against the United States. Through our continuing efforts to develop effective intelligence and through dedicated, hard work, the FBI continues to strive to identify, penetrate and neutralize foreign intelligence and terrorist activity directed against the United States. We cannot accomplish this alone. Only with the continued cooperation of other U.S. government agencies, the Congress, state and local authorities, and the American public, can the FBI accomplish its mission.

#### INTERNATIONAL TERRORISM

The threat of international terrorism directed at Americans and U.S. national interests is following the general pattern we have identified in terrorist activity worldwide. Although the number of attacks directed at American interests remains comparatively low, the trend toward more large-scale incidents designed for maximum destruction, terror, and media impact actually places more Americans at risk. As you are aware, and as recent tragedies demonstrate, this threat confronts Americans both at home and abroad. America's democratic tradition and global presence make Americans a fast, and often all-too-easy, target for opportunists who are willing to kill innocent victims to further their extremist causes.

The international terrorist threat can be divided into three general categories. Each poses a serious and distinct threat, and each has a presence in the United States.

The first category, state-sponsored terrorism, violates every convention of international law. State sponsors of terrorism include Iran, Iraq, Syria, Sudan, Libya, Cuba, and North Korea. Put simply, these nations view terrorism as a tool of foreign policy. In recent years, the terrorist activities of Cuba and North Korea have declined as their economies have deteriorated. However, the activities of the other states I mentioned continued and, in some cases, have intensified during the past several years.

The second category of international terrorist threat is made up for formalized terrorist organizations. These autonomous, generally transnational organizations have their own infrastructures, personnel, financial arrangements, and training facilities. They are able to plan and mount terrorist campaigns on an international basis, and actively support terrorist activities in the United States.

Extremist groups such as Lebanese Hizballah, the Egyptian Al-Gamat Al-Islamiya, and the Palestinian Hamas have placed followers inside the United States who could be used to support an act of terrorism here.

The third category of international terrorist threat stems from loosely affiliated extremists—characterized by the World Trade Center bombers and rogue terrorists such as Ramzi Ahmed Yousef. These loosely affiliated extremists may pose the most urgent threat to the United States at this time because their membership is relatively unknown to law enforcement, and because they can exploit the mobility that emerging technology and a loose organizational structure offer.

The FBI believes that the threat posed by international terrorists in each of these three categories will continue for the foreseeable future.

In response to these threats, the United States has developed a strong response to international terrorism. Legislation and executive orders enacted during the past 15 years to expand the FBI's role in investigating international terrorism directed at American interests has strengthened the ability of the U.S. Government to protect its citizens.

As you are aware, recent Congressional appropriations have helped strengthen and expand the FBI's counterterrorism capabilities. To enhance its mission the FBI centralized many specialized operational and analytical functions in the Counterterrorism Center.

Established in 1996, the Counterterrorism Center combats terrorism on three fronts: International terrorism operations both within the United States and in support of extraterritorial investigations, domestic terrorism operations, and counterterrorism relating to both international and domestic terrorism.

Within the Center, the FBI has deployed over 50 new intelligence analysts since 1996. These highly skilled analysts work in every facet of the Bureau's National Security Program from counterterrorism to industrial security. This enhanced analytical ability helps to increase the efficiency of the Bureau's overall investigative efforts in these areas.

The Domestic Counterterrorism Center also represents a new direction in the FBI's response to terrorism. Eighteen federal agencies maintain a regular presence in the Center and participate in its daily operations. These agencies include the CIA, the Defense Intelligence Agency, and the United States Secret Service, among others. This multiagency arrangement provides an unprecedented opportunity for information-sharing and real-time intelligence analysis among the various components of the American intelligence community.

But the threat of international terrorism demands continued vigilance. Today's terrorists have learned from the successes and mistakes of terrorists who have gone before them. The terrorists of tomorrow will have an even more dangerous arsenal of weapons and technologies available to further their destructive ambitions. Compounding the enhanced capabilities of contemporary terrorists is another disturbing aspect of modern terrorism. As recent events have shown, this "web of terrorism" perpetuates violence upon violence and poses a particular challenge to nations that take a strong stand against terrorism.

The November 1997 attack on foreign tourists in Luxor, Egypt, was apparently carried out in an attempt to pressure the United States into releasing Sheik Omar Abdel Rahman. Sheik Rahman is serving a life sentence in a federal prison for his part in the plot to assassinate the President of Egypt and bomb several sites in New York City in 1994.

Since his imprisonment in 1995, followers of Sheik Rahman have issued several threats warning of violence in retaliation for his continued imprisonment.

Likewise, a series of letter bombs addressed to the Washington, DC, and New York offices of the Al-Hayat newspaper and the parole officer at the federal penitentiary in Leavenworth, Kansas, in December 1996 appear to be part of an effort to force the U.S. Government to release imprisoned fundamentalist terrorists. All of the bombs were rendered safe by law enforcement. Each of the 12 letter bombs bore an Alexandria, Egypt, postmark.

Circumstances surrounding the November 12, 1997, ambush of four American businessmen in Karachi, Pakistan, suggest a link to the conviction of Mir Aimal Kasi in a Virginia court for his 1995 attack on CIA workers outside the agency's headquarters. Although no clear motive has been established for the killings in Karachi, the attackers tracked the activities of the victims for several days and launched the attack within 36 hours of the verdict. Earlier, Kasi had predicted that "his people" would retaliate for his prosecution.

In the 15 years since President Reagan designated the FBI as the lead agency for countering terrorism in the United States, Congress and the executive branch have taken important steps to enhance the federal government's counterterrorism capabilities. The FBI's counterterrorism responsibilities were further expanded in 1984 and 1986, when Congress passed laws permitting the Bureau to exercise federal jurisdiction overseas when a U.S. national is murdered, assaulted, or taken hostage by terrorists, or when certain U.S. interests are attacked. Since the mid 1980's, the FBI has investigated more than 350 extraterritorial cases.

More recently, the Antiterrorism and Intelligence Authorization Acts and the Antiterrorism and Effective Death Penalty Act of 1996 (AEDPA) have broadened the FBI's ability to combat international terrorism. Enactment of the AEDPA will enhance the ability of the U.S. Government to respond to terrorist threats. Section 302 of the Act authorizes the Secretary of State, in conjunction with the Attorney Gen-

eral and Secretary of the Treasury, to designate as foreign terrorist organizations (FTOs) groups that meet certain specific criteria. This designation means that funds raised in the U.S. by an FTO can be confiscated by the federal government. In time, the Act could prove an invaluable tool to disrupt the fundraising capabilities of international terrorist organizations.

During the past 3 years, the United States has sent a clear signal to terrorists and potential terrorists. We will not tolerate attacks against Americans and will make every effort to apprehend those who perpetrate such acts. Thanks in large part to the expanded resources Congress has committed to the fight against terrorism, we have been successful in bringing to justice some of the most egregious terrorists plotters of the recent past: Ramzi Ahmed Yousef, mastermind of the 1993 World Trade Center bombing, was extradited by Pakistan and made to stand trial in the United States for his crime. In November 1997, he was found guilty of his crime and on January 8 of this year was sentenced to 240 years in federal prison.

On November 10, 1997, Mir Aimal Kasi was found guilty of capital murder in a Fairfax, VA, courtroom. His conviction culminated an intense 5 year investigation that began the day in 1993 when he opened fire outside CIA headquarters in Langley, VA killing two CIA employees and wounding several others. In June 1997, FBI agents had located Kasi in Pakistan and "rendered" him to the United States to stand trial. Because he had previously been convicted in absentia in an American court for the attack, the FBI had the authority to apprehend Kasi in Pakistan and return him to the United States to stand trial in person.

In 1995, Sheik Omar Rahman was sentenced to life in prison for his part in a conspiracy to bomb the Holland and Lincoln tunnels and several major landmarks throughout New York.

As satisfying as these and other recent convictions are, the battle against international terrorism leaves little time to relish past successes. The FBI and Saudi Arabian investigators continue to investigate the attack on the Al-Khobar housing complex in Dhahran, which left 19 Americans dead and wounded 500. Within hours of the truck bombing on June 25, 1996, the FBI dedicated vast resources to the investigation. In the immediate aftermath of the explosion, we sent 125 personnel to Dhahran, including a Special Agent in Charge, who directed the crisis response and investigative effort. During the first months of the investigation, personnel in Dhahran were supported by the FBI's Legal Attache office in Rome. However, in 1997, the FBI opened a Legal Attache office (or Legat) in Riyadh, Saudi Arabia, which now coordinates the joint investigation with Saudi investigators.

Terrorism is perpetrated by individuals with a strong commitment to the causes in which they believe. An action in one location can bring about a reaction somewhere else. The web-like nature of terrorism underscores the need for vigilance in counteracting terrorist groups. Unfortunately, American successes can spur reprisals. As the United States develops a stronger investigative and prosecutorial response to international terrorism, we may witness more attempts at reprisal both at home and abroad.

Also, reliance on computers and other amazing technologies has inadvertently created vulnerabilities that can be exploited from anywhere in the world. Modern transportation and modern technology give terrorists abilities unheard of only a few years ago.

#### DOMESTIC TERRORISM

Domestic terrorism investigations are among the highest priorities of the FBI's National Security Division.

Domestic terrorist groups are those which are based and which operate entirely within the United States, or its territories, and whose activities are directed at elements of the U.S. government or its civilian population. The threat posed by domestic terrorist groups has remained significant over the past several years. Domestic terrorist groups represent interests spanning the full political spectrum, as well as social issues and concerns. However, FBI investigations of domestic terrorist groups are not predicated upon social or political beliefs; rather, they are based upon planned or actual criminal activity.

The current domestic terrorist threat primarily comes from right-wing extremist groups, including radical paramilitary (militia) groups, Puerto Rican terrorist groups, and special interest groups.

#### *Right-wing extremist groups*

A basic philosophical tenet of many right-wing extremist groups is a belief in the superiority of the white race and that blacks, Jews, and other ethnic minorities are inferior racially, mentally, physically, and spiritually. Much of their philosophy flows from racist, anti-Semitic religious beliefs such as "Christian Identity." Chris-

tian Identity teaches that white Aryans are God's chosen race and that Jews are the offspring of Satan. Aryans who cooperate with Jews and darker races are considered "race-traitors."

Many right-wing extremist groups also espouse anti-government sentiments. In an attempt to live apart from "inferior people," some right-wing groups advocate creating a separate nation from the five states comprising the northwest region of the United States—Washington, Oregon, Idaho, Montana, and Wyoming.

Examples of right-wing extremist groups operating in the United States are the Aryan Nations, True Knights of the Ku Klux Klan, and the Republic of Texas. You may recall that in April, 1997, three members of the True Knights of the Ku Klux Klan were arrested and have been found guilty in Texas for planning to blow up a natural gas storage facility as a diversionary tactic prior to robbing an armored carrier. This was the FBI's "Sour Gas" investigation.

As another example, you may be familiar with the FBI's "Rapid Lighting" investigation. This investigation involved a series of criminal acts committed by individuals associated with a domestic terrorist organization known as the Phineas Priesthood. The subjects of the investigation were responsible for at least two bombing/bank robbery incidents in Spokane, Washington, in April and July, 1996. Three subjects were arrested in October, 1996, and a fourth in 1997. Since then, all four have been convicted of all eight felony counts for which they were charged and have received lengthy jail sentences.

#### *Militia groups*

Militia groups are often multi-racial, but they are predominately white. Their members often view themselves as "sovereign citizens" who are exempt from the laws and regulations of the U.S. government. Many militia members subscribe to the theory that the federal government is in a conspiracy with the United Nations that would result in the creation of a one-nation world government, or "New World Order." This one-world government would use foreign troops in the United States to seize all privately owned weapons and imprison and execute patriotic militia members.

Many militia groups advocate stockpiling weapons and explosives and conducting paramilitary training as part of their preparation for what they believe will be an inevitable armed conflict with the government and the impending U.N. invasion. Some militia groups openly advocate the overthrow of the federal government.

Since 1992, the United States has seen a growth of militia groups. While the majority of militia members are law abiding citizens, there is a small percentage of members within militia groups who advocate and conspire to commit violent criminal acts. Of particular concern to the FBI is the potential for militias to be infiltrated by extremists who seek to exploit militias and their members in order to further their own violent terrorist agendas.

Militia members who engage in criminal acts commit a wide variety of criminal activity, such as bombings, bank robberies, and destruction of government property. They also file spurious lawsuits and liens designed to harass law enforcement, elected officials, and others, as well as to disrupt the courts. Militia members have engaged in fraudulent financial schemes to raise funds.

As an example, I'd like to mention the FBI's investigation of the Mountaineer Militia. This investigation was initiated in August, 1995. The group had obtained the plans to the FBI Criminal Justice Information Services facility in Clarksburg, West Virginia, and they intended to destroy the facility as part of their war on the U.S. government. The FBI began an undercover investigation and arrested seven key members of the group in October, 1996. All seven have since been convicted and sentenced to lengthy jail sentences.

#### *Puerto Rican terrorist groups*

Although the last terrorist incident involving Puerto Rican terrorist groups was a bombing in Chicago in December, 1992, these groups continue to be of concern. Between 1982 and 1994, approximately 44 percent of the terrorist incident committed in the United States and its territories are attributed to Puerto Rican terrorist groups. Efforts are continuing to locate fugitives still at large from these incidents.

Puerto Rican terrorist groups believe the liberation of Puerto Rico from the United States justifies the use of violence to obtain that objective. These groups characterize their terrorism activities as "acts of war" against invading forces and, when arrested, they consider themselves to be "prisoners of war" who must be treated as such according to the Geneva Convention. Clandestine behavior and security are of utmost importance in these group's activities.

The EPB-Macheteros has been the most active and violent of the Puerto Rican-based terrorist groups it emerged in 1978. The FALN (Armed Forces for Puerto

Rican National Liberation) is a clandestine terrorist group based in Chicago which emerged in the 1970s. The MLN (Movement of National Liberation) is the "above ground" support group and political arm of the FALN. The MLN is the major fundraiser for the FALN.

#### *Special interest terrorist groups*

Special interest terrorist groups engage in criminal activity to bring about specific, narrowly-focused social or political changes. They differ from more traditional domestic terrorist groups which seek more wide-ranging political changes. It is their willingness to commit criminal acts that separate special interest terrorist groups from other law-abiding groups that often support the same popular issues. By committing criminal acts, these terrorists believe they can force various segments of society to change attitudes about issues considered important to them.

The existence of these types of groups often does not come to law enforcement attention until after an act is committed and the individual or group leaves a claim of responsibility. Membership in a group may be limited to a very small number of co-conspirators or associates. Consequently, acts committed by special interest terrorists present unique challenges to the FBI and other law enforcement agencies.

An example of special interest terrorist activity is the February 2, 1992, arson of the mink research facility at Michigan State University. Rodney Coronado, an animal rights activist, pled guilty to arson charges on July 3, 1995. Other acts of violence against animal enterprise have occurred recently and are under investigation.

#### WEAPONS OF MASS DESTRUCTION

The FBI views the proliferation of weapons of mass destruction (WMD) as a serious and growing threat to our national security. Pursuant to our terrorism mandate and statutory requirements, we are developing within the inter-agency setting broad-based, pro-active programs in support of our mission to detect, deter, or prevent the threat of nuclear, chemical and biological weapons, their delivery system, and WMD proliferation activities occurring in or directed at the United States.

Our programs cover the broad spectrum of Foreign Counterintelligence (FCI), criminal and counterterrorism investigations, focusing on persons or organizations involved in WMD proliferation activities.

During 1997, the FBI initiated over 100 criminal cases pertaining to nuclear, biological and chemical threats, incidents, or investigations (excluding Proliferation cases). Many of these threats were determined to be non-credible, however, this represents a three fold increase over 1996. Credible cases have resulted in arrests and prosecutions by the FBI, and state and local authorities. In support of this growing problem, legislative changes by Congress over the past three years have strengthened the FBI's powers to investigate and bring to prosecution those individuals involved in WMD proliferation.

The FBI has also investigated and responded to a number of threats which involved biological agents and are attributed to various types of groups or individuals. For example, there have been apocalyptic-type threats which actually advocate destruction of the world through the use of WMD. We have also been made aware of interest in biological agents by individuals espousing white-supremacist beliefs to achieve social change; individuals engaging in criminal activity, frequently arising from jealousy or interpersonal conflict; individuals and small anti-tax groups, and some cult interest. In most cases, threats have been limited in scope and have targeted individuals rather than groups, facilities, or critical infrastructure. Threats have surfaced which advocate dissemination of a chemical agent through air ventilation systems. Most have made little mention of the type of device or delivery system to be employed, and for this reason have been deemed technical not feasible. Some threats have been validated. As an example, during 1997, a group with white supremacist views pled guilty to planning to explode tanks containing the deadly industrial chemical hydrogen sulfide as a diversionary act to their primary activity, an armored car robbery.

The FBI has experienced an increase in the number of cases involving terrorist or criminal use of WMD. These cases frequently have been small in scale and committed primarily by individuals or smaller splinter/extremist elements of right wing groups which are unrelated to larger terrorist organizations.

For example: As most of you will remember, on April 24, 1997, B'nai B'rith headquarters in Washington D.C. received a package containing a petri dish labeled "Anthraxis Yersinia," a non-existent substance and a threat letter. Although testing failed to substantiate the perceived threat, the significant response mobilized to mitigate the situation highlights the disruption, fears, and complexity associated with these types of cases.

On September 17, 1997, an individual was indicted in violation of Title 18 U.S.C. Section 175(A)/Biological Weapons Anti-Terrorism Act for knowingly possessing a toxin (ricin and nicotin sulfate) for use as a weapon and knowingly possessing a delivery system designed to deliver or disseminate a toxin. On October 23, 1997, he pled guilty to manufacturing a toxin (ricin) for use as a weapon. On January 7 1998, he was sentenced to 12 years and 7 months in federal prison to be followed by 5 years of supervised release.

In what the FBI considers a significant prevention, the FBI arrested four members of a white supremacist organization in Dallas, Texas, who planned to bomb a natural gas refinery, which could have caused a release of a deadly cloud of Hydrogen Sulfide. This act was planned to divert law enforcement attention from the group's original objective of committing an armored car robbery. On video, the subjects discussed their complete disregard for the devastating consequences of their intended actions. The four were indicated on several charges to include Use of Weapons of Mass Destruction. The group pled guilty to several criminal charges and are awaiting sentencing.

The FBI's countermeasure initiatives, such as the Domestic Preparedness Program which is being worked jointly with the Department of Defense and other members of the federal interagency community to train local "first responders" and about which the FBI has previously provided testimony, is designed to address the potential widespread consequences associated with WMD.

As a result of increased funding from the Antiterrorism and Effective Death Penalty Act of 1996, the Director supported and the Attorney General approved an enhancement of 175 Special Agents to the WMD program throughout our 56 field offices. Additionally, \$21,200,000 from the 1998 FBI's Counterterrorism budget has been allocated to ensure that state and local agencies have basic equipment and training for responding to chemical or biological incidents and incidents involving improvised explosive devices. The FBI's National Security Division, Laboratory Division, and the Critical Incident Response Group (CIRG) have received total funding in the amount of \$8,000,000 from the FY 97 budget for equipment, training, and assistance to be provided to the FBI field offices to address this growing problem.

Notwithstanding that which we have already faced and continually plan for, the potential for WMD to damage our national security does exist and trends are troublesome. The ease of manufacturing or obtaining biological and chemical agents is disturbing. Available public source material makes our law enforcement mission a continuous challenge. Nevertheless, I can and will assure you that the FBI will remain vigilant to the threat and continue to strive to prevent and counter the use and proliferation of WMD.

#### CRITICAL INFRASTRUCTURE PROTECTION

In a few short months, on July 26, 1998, the FBI will celebrate its 90th birthday. The FBI has been a remarkable institution for many reasons, not the least of which has been its ability to remake itself to address new challenges to U.S. national security and criminal justice. In the beginning, FBI agents were not authorized to carry firearms. In response to the gang-era of the 1920s and 1930s, agents were first issued handguns, and then the storied Thompson submachine gun. In what is much more than a symbolic shift, today's agents are issued laptop computers. This important advancement is the direct result of an evolution in national security vulnerabilities.

As one consequence of technological innovation, deregulation, and economic imperatives, critical infrastructure systems have become more complex and interdependent. Digital control systems based on commercial off-the-shelf hardware and software are being used to streamline network operations and reduce personnel requirements. These control networks frequently are connected by publicly-accessible telecommunications systems and commercially available information technologies—the National Information Infrastructure (NII)—a trend that will accelerate as utility, transportation, and government activities eliminate antiquated, expensive private telecommunications networks. The result is a revolutionary and systemic improvement in industrial and commercial processes that has been widely recognized and exploited by both public and private sectors.

Public- and private-sector organizations that rely on information technologies are diverse. Within the government, information technologies provide leverage for performing traditional missions more efficiently, e.g., law enforcement, intelligence gathering and exploitation, and national defense. In the private sector information systems allow rapid, efficient transfers of information and capital, enable a new wave of electronic commerce, and enable far-flung, technically complex operations to exist over vast geographic distances.

However, as commercial information technologies create advantages, their increasingly indispensable nature transforms them into high-value targets. Moreover, in practice these developments have resulted in diminished systems redundancy and the consolidation of core assets, heightening the risk of catastrophic single-point failures. These vulnerabilities are accompanied by a more variegated threat picture. The range of potential adversaries that may seek to attack U.S. infrastructure systems is broad and growing. Disgruntled employees, disaffected individuals or groups, organized crime, domestic and international terrorists, and adversary nations are all potential sources of attack.

### *Vulnerabilities*

Hundreds of information system vulnerabilities are discovered every day—many directly related to US national security. Dozens of previously unknown computer system vulnerabilities are uncovered every day by the vast yet interconnected community of technical experts. Most of these vulnerabilities are subsequently posted publicly, usually on the Internet first. For example, Internet mailing lists routinely distribute vulnerability information and software that can be used to exploit vulnerabilities.

Vulnerability publicity usually follows through a succession of books, magazine and newspaper articles, electronic bulletin board messages, and a growing list of World Wide Web sites that are targeted at informing hackers, crackers, “phreakers,” and, potentially, members of terrorist organizations and foreign intelligence services, about the latest methodology for staging successful cyber attacks. List of Frequently Asked Questions (FAQs) outlining the specifics of system vulnerabilities are widespread. “The Unofficial Web Hack FAQ,” “The Hacker FAQ,” and “How to Hack a Website” are popular, accessible, and easily downloaded from the Web. These vulnerabilities are present in the same commercial, off-the-shelf computer hardware and software used by both private industry and government.

These developing phenomena are associated with another, perhaps even more worrisome development. As information technologies and the physical infrastructure systems they control become increasingly complex, our ability to reliably anticipate system-wide behavior diminishes. This is because as systems increase in complexity, the effect of manipulating, degrading, or eliminating a single component is difficult to predict. Accidents, even seemingly minor ones, can have catastrophic effects. This creates a growing increase in the likelihood of catastrophic, single-point failures—accidental or induced.

The details of the nation’s infrastructure vulnerabilities are clearly illustrated in both classified and unclassified arenas. For instance, the myriad of government studies and reports on the matter include one recently published by the President’s Commission on Critical Infrastructure Protection. The report was preceded by similar assessments by the Defense Science Board, the Office of Science and Technology Policy, and the Office of Management and Budget.

### *Threats*

With very few exceptions, attacks against the nation’s cyber assets can be aggregated into one of four categories: crime, terrorism, foreign intelligence, or war. Regardless of the category, any country or group can acquire the capability to conduct limited attacks against information systems from friendly nations, commercial vendors, arms dealers, hacker conferences, the Internet, and computer bulletin boards.

Software is one weapon of information-based attacks. Such software includes computer viruses, Trojan Horses, worms, logic bombs and eavesdropping sniffers. Advanced electronic hardware can also be useful in information attacks. Examples of such hardware are high-energy radio frequency (RF) weapons, electromagnetic pulse weapons, RF jamming equipment, or RF interception equipment. Such weapons can be used to destroy property and data; intercept communications or modify traffic; reduce productivity, degrade the integrity of data, communications, or navigation systems; and deny crucial services to users of information and telecommunications systems.

Where hackers formerly may have been motivated by the technical challenge of breaking into a computer system, the motivation may be shifting more toward hacking for profit. As more and more money is transferred through computer systems, as more fee-based computer services are introduced, as more sensitive proprietary economic and commercial information is exchanged electronically, and as the nation’s defense and intelligence communities increasingly rely on commercially-available information technology, the tendency toward information threats emerging as national security threats will increase.

Terrorists, transnational criminals, and intelligence services are quickly becoming aware of and exploiting the power of information tools and weapons. This has been



true in the past as new means of communication, transportation, and secrecy have been introduced to the public. For example, narcotics traffickers began using communications advances such as pagers and cellular phones soon after their introduction to the public.

Perhaps the most imminent threats today come from insiders. Insiders have the advantage of not needing to break into computer systems from the outside, but only to use, or abuse, their legitimate access. A large portion of the computer intrusion reports that the FBI and other law enforcement organizations receive have at their core an employee, or a former employee, who has exceeded his or her access, often in revenge for a perceived offense or wrong. These individuals have the knowledge of where the most sensitive information is stored, how to access the information, and, at times, how to steal or damage the data.

One such example involves a U.S. defense contractor firm that subcontracted with a foreign firm. The U.S. firm employed foreign contractors onsite, and allowed these employees access to certain areas of the premises that were necessary to their duties. However, the foreign contractors used their knowledge of the company's computer system to access other areas of the company's computer network that were off limits to non-U.S. employees. The foreign contractors were able to access proprietary and potentially classified information regarding the U.S. company's government contracts. Their activities jeopardized the competitiveness of the company and posed a potential threat to U.S. national security.

Another insider incident occurred in October 1997 when a former Pacific Gas & Electric Co. worker caused a widespread power outage in San Francisco. Moreover, security experts have repeatedly and publicly demonstrated the ease of compromising security at both private- and public-sector facilities through social engineering—posing as an insider to easily acquire information on internal security, passwords, and system configurations.

In terms of the maturity of the threat, the numbers tell the story. So far, in the month of January 1998 alone, there have been over forty reported hacked web sites according to *hacked.net*, a website that tracks such statistics. The FBI's load of computer intrusion-related cases is more than doubling every year. Because of the uncertainties associated with the evolutionary path of information technologies, the threat picture fifteen years hence is difficult to predict. However, some certainties apply: information technology is sure to proliferate, and those who would exploit these technologies for nefarious purposes are sure to multiply.

#### *The FBI response*

The FBI was among the first to recognize the importance of predicting information-based attacks on critical infrastructures, preventing their occurrence, and mitigating damage in the event such attacks did occur. Since the 1992 creation of the National Computer Crime Squad in the FBI's Washington Field Office, additional regional computer squads in New York, San Francisco, Boston, Atlanta, Dallas, and Los Angeles. In addition to regional squads, the FBI has created computer investigative teams in each of its 56 field offices that will respond to computer incidents within their geographical area of responsibility.

The expansion of the National Computer Crime Squad was accompanied by the creation of a new National Security Threat List (NSTL) issue within the FBI's FCI program: Targeting the National Information Infrastructure, which the Attorney General approved in September 1995. The addition of this issue to the NSTL makes it possible for the FBI, working within its FCI authority, to investigate information infrastructure-related incidents perpetrated or coordinated by foreign intelligence services. These attacks might be directed against the U.S. Government or U.S. corporations, establishments, or persons and could target physical facilities, personnel, information, or computer, cable, satellite, or telecommunications systems. With the new NSTL issue, these teams have responsibilities over both the criminal investigative and the potential national security implications of computer intrusions.

The FBI is responding to these novel threat and vulnerability combinations through a coordinated interagency effort that includes, among other important participants, the Department of Defense, the National Security Agency, the Central Intelligence Agency, and the President's Commission on Critical Infrastructure Protection.

#### THE INFRASTRUCTURE PROTECTION CENTER

One important interagency attempt to meet the emerging threat to the nation's critical infrastructures is the Infrastructure Protection Center (IPC). The IPC, a government-industry partnership hosted by the FBI, will provide a mechanism for assessing, warning, investigating, and responding to attacks on interconnected interdependent infrastructures. The IPC units will be staffed with representatives

from FBI and DOD, Intelligence Community, and agency detailees experienced in computer crimes and infrastructure protection. To build private confidence and information sharing, IPC will hire representatives of private industry or private sector computer emergency response teams (CERTs) making them an integral part of the center. Direct electronic connectivity is also being established with private industry and the CERTs.

Twenty-four-hour watch presence and connectivity maintained between the FBI, the National Security Agency, the Defense Intelligence Agency, and the Defense Information Systems Agency reinforce the respective strengths these parties bring to the infrastructure assurance mission. Future connectivity will include other government participants.

The IPC builds on and enhances close ties to the "first responders" to an attack on critical infrastructures—state and local law enforcement and government. Building on FBI's long standing relationships and state and local law enforcement (through mechanisms like the Joint Terrorism Task Forces), the IPC will conduct outreach, provide training, share information, and coordinate interagency efforts during an attack. The IPC would also establish direct electronic connectivity to state and local governments building on existing FBI programs such as the Law Enforcement On-line (LEO) and Awareness of National Security Issues and Response (ANSIR) systems.

Though the national security threat from cyber-related issues is of concern, the FBI, with its private- and public-sector partners, is building a firewall of protection between malevolent actors and critical U.S. infrastructure systems. The threat is real and growing, but an effective response is underway. The IPC will embody the collected interagency expertise in the infrastructure protection mission, and exemplifies the depth of commitment the FBI has made to this important law enforcement and national security issue.

#### ECONOMIC ESPIONAGE

Since I last appeared before this committee, the passage of the Economic Espionage Act of 1996 (EEA) has greatly assisted the FBI in its battle against Economic Espionage. Important partnerships have been formed with the Department of Defense and industry allowing for successful investigative efforts.

Through the use of the EEA and other tools, the FBI has developed significant information on the foreign economic espionage threat, to include: (1) identification of the perpetrators of economic espionage, (2) the economic targets of their spying and criminal activities, and (3) the methods used to steal clandestinely and illicitly U.S. trade secrets and technology.

The increasing value of trade secrets in the global and domestic marketplaces, and the corresponding spread of technology, have combined to significantly increase both the opportunities and methods for conducting economic espionage. The development and production of trade secret information is an integral part of virtually every aspect of US trade, commerce, and business. Consequently, the security of trade secrets is essential to maintaining the health and competitiveness of critical segments of the US economy.

The Economic Espionage Act has helped to protect valuable US trade secrets. The statute was the result of a Congressional mandate, coupled with a joint effort on the part of the FBI and industry, to provide law enforcement with a tool to deal effectively with trade secret theft. The EEA resolved many gaps and inadequacies in existing federal laws by creating two new felonies outlawing acts of economic espionage (Title 18, U.S.C. 1831) and commercial theft (Title 18, U.S.C. 1832), and by specifically addressing the national security aspect of these crimes.

The FBI National Security Division sponsored a series of six regional Economic Espionage Conferences. These conferences brought together elements of industry and U.S. federal government criminal and intelligence sectors which play a role in economic espionage matters. Traditional threat countries and a number of non-traditional threat countries continue their collection of US trade secrets. The US counterintelligence community has specifically identified the suspicious collection and acquisition activities of foreign entities from at least 23 countries. Analysis of updated information indicates that of those identified countries, 12 are assessed to be most actively targeting US proprietary economic information and critical technologies. This list has not changed since the 1996 *Annual Report on Foreign Economic Collection and Industrial Espionage*.

Foreign collection continues to focus on US trade secrets and S&T information products. Of particular interest to foreign collectors are dual-use technologies and technologies which provide high profitability.

The FBI National Security Division's Awareness of National Security Issues and Response (ANSIR) Program brings to the attention of U.S. corporations their potential vulnerability to classic and economic espionage, as well as other national security concerns. In each of the FBI's 56 field offices, there is a Special Agent assigned as the ANSIR coordinator who deals directly with the corporate security directors in their region.

Through ANSIR, the FBI has undertaken several initiatives. ANSIR-FAX is a facsimile transmission system for the dissemination of unclassified counterintelligence and terrorism threat warning information to approximately 25,000 corporate directors. ANSIR-FAX is used to provide corporate America with updates on economic espionage. Briefings have been provided to American corporations overseas. Corporate security directors and other personnel in Australia, Ireland, New Zealand, Panama, South Korea, and the United Kingdom have received briefings on economic espionage. Local and national government officials in the Czech Republic, Austria, the Slovak Republic, and Hungary were also briefed.

Examples of some recent Economic Espionage Cases are:

*Pittsburgh:* On December 7, 1996, the first arrest under the new law occurred in Pittsburgh, Pennsylvania. Patrick Worthing and his brother, Daniel, were arrested by FBI agents after agreeing to sell Pittsburgh Plate Glass (PPG) information for \$1,000 to a Pittsburgh agent posing as a representative of Owens-Corning, Toledo, Ohio. Both subjects were charged under Title 18 United States Code, Section 1832 (18 U.S.C. 1832; Theft of Trade Secrets). On April 18, 1997, due to his minimal involvement, Daniel Worthing was sentenced to six months of home confinement, five years probation, and 100 hours community service. In June 1997, Patrick Worthing was sentenced to 15 months in jail and three years probation.

*Philadelphia:* On June 14, 1997, Hsu Kai-lo and Chester H. Ho, naturalized U.S. citizens were arrested by the FBI and charged with attempting to steal the plant cell culture technology to Taxol, patented and licensed by the Bristol-Myers Squibb (BMS) Company. On July 10, 1997, a Federal Grand Jury for the Eastern District of Pennsylvania returned indictments, totaling eleven counts against Hsu, Ho, and Jessica Chou (a Taiwanese citizen who was actively involved with Hsu in attempting to obtain the Taxol formulas). Hsu and Chou are employed by the Yuen Foong Paper Manufacturing Company of Taiwan, a multinational conglomerate. Ho is a professor at the National Chiao Tung University and the Institute of Biological Science and Technology in Taiwan. Chou remains in Taiwan. Two of the eleven counts were violations of Title 18 U.S.C. 1832. Taxol is a billion dollar a year industry for BMS. The foreign market share is estimated to be \$200,000. Potential losses could have been in the billions of dollars over the ten year period BMS holds the patent for the plant cell culture technology.

*Cleveland:* On September 5, 1997, Pin Yen Yang, and his daughter Hwei Chen Yang (aka Sally Yang) were arrested on several charges, including Title 18 U.S.C. 1832. Also charged is the Four Pillars Company, which has offices in Taiwan, and a registered agent in El Campo, Texas. It is alleged that the Four Pillars Company, Pin Yen Yang, Sally Yang, and Dr. Ten Hong Lee were involved in a conspiracy to illegally transfer sensitive, valuable trade secrets and other proprietary information from the Avery Dennison Corporation, Pasadena, California, to Four Pillars in Taiwan. Dr. Lee, who is at present not charged and is cooperating with investigation, has been an Avery Dennison employee since 1986, at the company's Concord, Ohio facility. Dr. Lee allegedly received between \$150,000 and \$160,000 from Four Pillars/Pin Yen Yang for his involvement in the illegal transfer of Avery Dennison's proprietary manufacturing information and research data over a period of approximately eight years. Direct development costs of technology transferred during this time is estimated to be in the tens of millions of dollars.

On October 1, 1997, a Federal Grand Jury returned a 21 count indictment, charging Four Pillars, Pin Yen, and Sally Yang with attempted theft of trade secrets, mail fraud, wire fraud, money laundering, and receipt of stolen property. On the same date, Dr. Ten Hong Lee plead guilty to one count of wire fraud and promised continued cooperation with the investigation.

*Memphis:* On October 3, 1997, the Memphis Division arrested Steven Louis Davis, who was indicted in the Middle District of Tennessee on five counts of fraud by wire and theft of trade secrets. Wright Industries, the victim company and a sub-contractor of Gillette, had fully cooperated with the FBI's investigation. Although the FBI knows that Davis reached out to one foreign owned company (BIC), it is unclear if he was successful in disseminating trade secrets overseas. The FBI, however, has learned that a competitor in Sweden had seen the drawings of the new Gillette razor. The case is pending.

*Buffalo:* Harold C. Worden was a 30-year employee of the Eastman Kodak Corporation who established his own consulting firm upon retiring from Kodak. Worden

subsequently hired many former Kodak employees and stole a considerable amount of Kodak trade secret and proprietary information for use at his firm. The market share at risk could have been in the billions of dollars. As a result of investigation, Worden signed a plea agreement with the U.S. Attorney's Office for the Western District of New York in which he pled guilty to one felony count of violating Title 18, U.S.C., Section 2314 (the Interstate Transportation of Stolen Property). Worden was sentenced to one year imprisonment, three months of home confinement with monitoring bracelet, three years of supervised probation and a fine of \$30,000. Investigation is continuing in this matter. For additional information concerning the Harold Worden case, see attached press release and judge's remarks at sentencing.

*Boston:* This case involved unauthorized intrusion into a voice-mail system by a disgruntled former employee. The victim was Standard Duplicating Machines Corporation (Standard), whose main competitor was the U.S. affiliate, Duplo Manufacturing Corporation of Japan (Duplo). John Hebel was employed by Standard as a field sales manager from 1990 to 1992, when he was terminated. Through an unsolicited phone call from a customer, Standard discovered Hebel had accessed Standard's phone mail system and had used the information to compete against Standard. Hebel was employed by Duplo at the time of the intrusions.

A civil suit was brought against Duplo by Standard with a final settlement of close to one million dollars. On November 6, 1996, Hebel was charged with one count of violating Title 18, U.S.C., Section 1343 (Wire Fraud). On March 14, 1997, Hebel was sentenced to two years probation.

Recent press accounts have highlighted the high financial risk of economic espionage to American businesses, communities and jobs. The American Society of Industrial Security (ASIS) reported this month to the FBI that over \$30 billion in American intellectual property were "placed at risk" from attempted theft in 1996 alone. Over 270 separate incidents were confirmed in the ASIS study. ASIS presently is finalizing its results for publication this year.

#### INTERNATIONAL DRUG TRAFFICKING

The President has stated in PDD-42 that international organized crime and drug trafficking are a threat to national security. A Presidential Directive, however, is not required to convince law enforcement and the citizens of the United States that the trafficking in illicit drugs is a serious threat to all aspects of our daily lives and consequently to our National Security.

Unlike traditional threats to national security, the drug threat is not the result of the political agenda of a terrorist group or foreign government. Instead, it is perpetuated by criminal enterprises that conduct a myriad of egregious acts of violence, corruption, fraud, murder and extortion, all generated by personal greed and a quest for power. Extremist groups or foreign powers have yet to cause the level of devastation to our communities and affect the fabric of our society as that due to illicit drug trafficking.

The rippling effects of the political and/or economic destabilization of other countries by drug trafficking organizations indirectly impacts on our nation's security. Drug trafficking and international organized crime groups often attempt to thwart enforcement action by bribing or threatening foreign government officials. In some instances, entire governments or sectors of governments operate as criminal enterprises, using the appurtenances of the state for illicit purposes. The United States is not immune to the political, moral and societal debilitation that has occurred in other countries due to the distribution of criminally obtained assets to buy assistance or ensure ignorance from corrupt government officials.

The goal of the FBI's drug program is to identify, disrupt and dismantle core trafficking organizations by attacking their command and control structures. This is most effectively accomplished by using the Enterprise Theory of Investigation, wherein the FBI conducts long-term, sustained investigations targeting and exploiting all criminal activities being conducted by the organization in furtherance of their drug trafficking enterprise. Drug trafficking organizations do not limit their criminal activity to Title-21 violations. They also commit crimes of violence such as drive by shootings to eliminate rival traffickers and kidnapping for ransom to settle unpaid drug debts. They engage in concerted efforts to corrupt public officials and they commit financial crimes to launder the illegal gains of their criminal activity. The Enterprise Theory promotes a coordinated, multi agency environment which allows law enforcement to attack criminal organizations on multiple fronts, identifying and exploiting vulnerabilities throughout the command and control structures of the organization. The Enterprise approach also enables Federal Prosecutors to utilize the Federal Racketeering Influenced and Corrupt Organizations (RICO) Act and the

Continuing Criminal Enterprise (CCE) statutes. These prosecutorial tools carry maximum sentences for the leaders of these enterprises.

The FBI has demonstrated the effectiveness of this drug strategy through the dismantlement of the major drug trafficking Organization of Juan Garcia Abrego (JGAO) which is a drug trafficking group based in Matamoros, Mexico. The JGAO was headed by Juan Garcia Abrego, who is presently incarcerated serving eleven life sentences in the U.S. for drug trafficking, conspiracy, money laundering and operating a continuing criminal enterprise. Before his arrest Abrego had an estimated net worth of \$300 to \$400 million, and was described as "the owner of Matamoros, Tamaulipas, Mexico."

The FBI's drug program is structured to investigate and prosecute illegal drug manufacturers and distributors, provide assistance to other law enforcement agencies and strengthen international cooperation. By concentrating resources on major areas of drug trafficking the FBI is also able to enhance its intelligence base and make informed projections of the future of the drug threat.

#### *Southwest border*

The FBI is currently focusing on the Southwest Border, Caribbean Basin and emerging Asian, Russian and Nigerian Organized Crime groups which we believe present the most significant drug threats to our country. I will briefly summarize the situation in each area and describe the ongoing FBI initiatives in place to address each threat:

Mexican Drug Trafficking Organizations are among the most numerous and pose the most significant crime threats facing the United States today, due to their domination of polydrug trafficking across our Southwest Border. The pervasive corruption of Mexican law enforcement institutions and the increased threat of corruption of U.S. law enforcement coupled with violent acts in furtherance of drugs and weapons trafficking drug related gang violence and the overall effect that drugs have on our economy and banking institutions effectively constitute a threat to our national security. The FBI has identified seven major Mexican drug trafficking organizations that pose the greatest threat to the Southwest Border of the United States. Needless to say there are numerous lesser known organizations which pose problems for law enforcement at all levels. These Mexican drug/criminal enterprises import the majority of the cocaine, heroin, marijuana, and a growing portion of the methamphetamine entering the United States. The activities of Mexican Drug Trafficking Organizations present pervasive crime problems which impact upon virtually every region of the U.S.

The FBI plays an, integral role in the Southwest Border Project, which is a comprehensive investigative and prosecutive strategy targeting the major Mexican drug trafficking organizations. It features the FBI, DEA, DOJ, USCS, and U.S. Attorney's Offices, as well as state and local law enforcement agencies working in concert to attack the complex organizations on a multi-disciplined level. This initiative continues to have significant successes in identifying and disrupting core organizations, as well as secondary organizations providing transportation, distribution, and money laundering services throughout the United States. As a part of this project, the FBI leads several Corruption and Violent Gang Task Forces along the Southwest Border. Our case successes are typified in the total dismantlement of the Surenos 13 Street Gang in Albuquerque, NM and the Logan Street Gang in San Diego, CA, both of which feature youths capable of the most vicious murders and violence.

Most recently, the FBI indicted Ramon Arellano Felix one of the leaders of a major Mexican drug organization known as the Arellano Felix Organization. The FBI Southwest Border Project, in coordination with the FBI's Safe Streets Initiative, conducted an investigation which spanned several years and resulted in an arrest warrant for Ramon Arellano Felix for conspiracy to import cocaine and marijuana. On September 11, 1997, Arellano Felix became the 451st person placed in the FBI's "Top Ten Most Wanted" fugitive list. Intelligence indicates that this action by the U.S. Government has adversely impacted Ramon Arellano Felix's ability to move freely in Mexico and other countries. It is a matter of time before he is brought to justice.

Another success was "Operation Reciprocity", a multi-jurisdictional, multi-agency drug investigation conducted by the FBI, DEA, and U.S. Customs Service which targeted various cells of the Amado Carrillo-Fuentes Organization (AFCO) in ten U.S. cities. The operation which was initiated in October, 1996, was based upon information received from an FBI source who identified a money laundering cell of the AFCO operating in New York. As a result of the evidence developed in this matter, 53 high-level operatives of the AFCO were arrested on various charges including conspiracy, distribution, money laundering and importation. During this case, 7.4

tons of cocaine was seized along with 2,794 pounds of marijuana and over \$11 million in U.S. currency.

The FBI is a major contributor to other international counter narcotics initiatives including the U.S. Mexico Bilateral Task Forces vetting and operations, High Level Contact Group on Mexico, Mexican Organized Crime Unit vetting and training Mexico's Sensitive Investigative Unit and Resolution Six which assigns FBI agents to DEA foreign offices.

### *The Caribbean*

U.S. law enforcement agencies estimate that up to one third of all U.S. bound cocaine is smuggled through the Caribbean basin. As many as nineteen Caribbean drug trafficking organizations have been identified by United States law enforcement as significant drug trafficking threats. Puerto Rico is the gateway to the mainland as a U.S. territory and is used as the major transshipment point for narcotics destined for New York City and other East Coast destinations. The significant drug trafficking organizations operating in the Caribbean are predominantly Dominican, Jamaican and Colombian groups. These groups maintain contacts with both the South American suppliers and the U.S. based distributors of the drugs. Caribbean Criminal Enterprises have emerged as a significant threat to the United States because of their ability to transport large quantities of cocaine and Colombian heroin; their emergence as both wholesale and retail drug distributors along the eastern seaboard; and their propensity to use violent criminal activity such as murder, extortion and kidnaping to further their criminal activity. They also move enormous sums of money through "customer friendly" Caribbean banks.

The scope and magnitude of emerging Caribbean criminal activity was recognized by Attorney General Janet Reno two years ago when she ordered that a comprehensive crime survey be conducted and the implementation of a coordinated comprehensive inter-agency investigative strategy be constructed to address all aspects of Caribbean based criminal activity. A key feature of the Caribbean plan is the establishment of the FBI managed Information Coordination Center (ICC) under the HIDTA structure to fully exploit tactical and strategic criminal intelligence which is developed and shared on an inter-agency basis and intended to focus on major organizations operating in the region. The ICC also serves as a clearing house for tactical information which triggers deployment of enforcement assets. There have been several notable successes attributed to the ICC this year. On 2/10/97, an ICC source provided information which led to the interdiction of 823 kilos of cocaine off the coast of Cabo Rojo, PR. On 11/10/97, a different ICC source furnished information which led to the interdiction of approximately 1,140 kilograms of cocaine. Several federal fugitives have been located and apprehended as a result of information disseminated by the ICC. An ICC source has contributed significantly to a major DEA drug trafficking investigation, which led to the seizure of property valued at over one million dollars and the arrests of 15 individuals.

The FBI, the Drug Enforcement Administration, United States Customs Service and other U.S. and foreign law enforcement agencies are committed to a coordinated effort under HIDTA and have dedicated additional field office resources to Caribbean matters which have enormously improved investigative support in the Caribbean. For example in 1997 and 1998, the FBI has assigned forty-nine additional Special Agents and additional support personnel, formed three additional Resident Agencies on the island of Puerto Rico and dedicated significant additional resources to address the growing Caribbean crime problem. The new Resident Agencies are designed to be joint operations of the FBI, Police of Puerto Rico, DEA, Immigration and Naturalization Service, and Bureau of Alcohol, Tobacco and Firearms, which will address violent crime, gangs and drug traffickers. Joint drug squads between the DEA and the FBI have been created and already proven to be highly effective.

Other FBI counter drug efforts have been focused in the area of emerging crime groups, such as Asian Criminal Enterprises, Nigerian Criminal Enterprises, and Russian/Eastern European Organized Crime, all of which pose an increased threat to the nation. These organized crime groups and other emerging criminal enterprises represent an increasing economic, criminal, and public safety threat. They are involved in a myriad of crimes including heroin smuggling, money laundering, loan sharking, murder and fraudulent financial schemes. As a result of these emerging crime groups, the FBI has established specific initiatives to address these new, yet significant, crime problems. To address the Nigerian Criminal Enterprises (NCE), efforts are underway to: establish task forces in U.S. cities which have been identified as having ongoing NCE crime problems, to establish a joint U.S./United Kingdom (U.K.) working group to exchange information regarding NCEs, and to coordinate FBI participation in the Combined Agency Border Intelligence Network. We

have also adopted measures to acquire greater linguistic capability in the African dialects to support investigations of these groups.

Although disrupting and dismantling major trafficking organizations continues to be among our top priorities, the increase in drug related violence and the emergence of violent, drug trafficking street gangs in the early 1990's led to the initiation of the FBI's Safe Streets Initiative in 1992. Under the Safe Streets Initiative, the FBI is successfully targeting violent, drug trafficking street gangs through the establishment of long-term, proactive task forces.

#### INTERNATIONAL ORGANIZED CRIME

I would like now to turn my attention to the area of International Organized Crime (IOC). The FBI defines an organized crime group or enterprise as a continuing, self-perpetuating criminal conspiracy, having an organized structure, fed by fear and corruption, and motivated by greed. These groups have established hierarchies, are criminally diverse, organizationally mature, and multi-jurisdictional in their operations and influence.

IOC is an immediate and increasing concern not only for U.S. law enforcement, but also for the worldwide law enforcement community. IOC 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 IOC 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 IOC groups to adapt to these changes has hindered law enforcement efforts against them.

The FBI's approach to combating IOC includes: (1) aggressive investigations targeting IOC groups operating in the U.S.; (2) general and specialized law enforcement training for foreign law enforcement agencies; (3) the development of working group relationships with selected foreign police agencies in an effort to address the increasing threat of international organized crime; and (4) the operation of a sound Legal Attache Program.

The FBI places IOC groups into three categories: (1) Russian/Eastern European/Eurasian (R/EE/E) Organized Crime Groups; (2) Italian Organized Crime Groups; and (3) Asian Criminal Enterprises.

R/EE/E 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 (OCCD) officials report the existence of over 8,000 R/EE/E criminal groups. There are allegedly over 150 ethnic-oriented criminal groups, including the Chechens, Georgians, Armenians and Russian ethnic Koreans. Russian authorities also report the existence of some 750-800 Russian so-called "Thieves-in-law", the "Godfathers" of the Russian Mafia.

To date, R/EE/E criminal groups in the U.S. have shown an ability to work closely with established American criminal elements, including the American La Cosa Nostra, Italian OC groups, and drug trafficking organizations. In addition, as law enforcement efforts against established OC groups in the U.S. become increasingly successful, it is possible that the R/EE/E criminal elements will move to fill the voids left by the other criminal groups.

Unlike some of the other ethnically-oriented OC groups that arrived in this country, the R/EE/E 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 the R/EE/E criminal groups could be on the way to becoming significant criminal elements in the U.S.

R/EE/E 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 this criminal group have aligned themselves with the New York LCN 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 the only high level Russian organized crime leader known to have taken up residence in the U.S. Ivankov arrived in the U.S. in March 1992, reportedly to establish control of and direct Russian/Eurasian orga-

nized crime activities in the U.S. 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.

The threat to the U.S. posed by Italian OC groups centers around their drug trafficking and money laundering activities. The four Italian Organized Crime (OC) groups currently active in the United States are the Sicilian Mafia, Camorra, 'Ndrangheta and Sacra Corona Unita (United Sacred Crown). Italian OC groups regularly cooperate with other international organized crime groups in the trafficking of drugs and other criminal activities. Their influence extends to parts of Europe, Asia, North America, South America, the Caribbean and Australia.

Italian OC members and associates in the United States are presumed to be involved in criminal activities, both on an independent basis and in conjunction with members of the American La Cosa Nostra (LCN). Most of the Italian OC affiliates in the United States are concentrated in the northeast; however, there is also significant Italian OC presence in Florida, Southern California, and selected areas of the Midwest and mid-Atlantic regions.

Italian OC enterprises have been involved in heroin trafficking for decades and were the primary importers of heroin into the U.S. prior to the Pizza Connection case in the early 1980s. In addition, investigations have documented Italian OC involvement in cocaine trafficking, often in collaboration with Colombian drug cartels.

The FBI works closely with international law enforcement agencies to address Italian OC. For example, in 1991 the FBI initiated a joint investigation with Italian police services, the Royal Canadian Mounted Police and Colombian judicial authorities. This investigation targeted members of the Sicilian Mafia, Camorra, and 'Ndrangheta who were collaborating with Colombian drug cartels in the shipment of cocaine to Italy and heroin to the U.S. This successful investigation resulted in the arrest of 89 people in the U.S., Italy, Canada and Colombia. Thirty people have been convicted in the U.S. alone and 50 individuals are currently on trial in Italy. As recently as November, 1997, several FBI agents traveled to Italy and testified at this trial.

The term Asian Criminal Enterprises (ACE) incorporates the definitions used by the FBI to refer to Asian Organized Crime and Asian Drug Trafficking Organizations. ACEs include Chinese Triads, criminally influenced Tongs, the Japanese Boryokudan, Vietnamese criminal groups and Korean criminal groups.

ACEs have emerged as a significant criminal force in the U.S. and have displayed a considerable degree of violence in perpetrating crimes such as murder, extortion, drug trafficking, kidnaping, gambling, prostitution, weapons smuggling, money laundering and armed home invasions.

ACEs are involved in a wide range of criminal activities that transcend national and international boundaries. Many of these enterprises bear allegiance to parent organizations in Asian countries, necessitating a close working by the FBI relationship with foreign law enforcement agencies where these groups are based.

The first priority of the law enforcement community pertaining to IOC operations is the dismantling of these groups through coordinated international and domestic investigations. With the growing international nature of organized crime, law enforcement agencies must continue to find innovative ways to develop a concerted, cooperative, and global attack on the spread of organized crime.

#### CONCLUSION

On July 26, 1998, the FBI will celebrate its 90th birthday. The FBI has been a remarkable institution for many reasons, not the least of which has been its ability to remake itself to address new challenges to U.S. national security and criminal justice. On behalf of the men and women of the FBI who work tirelessly toward protecting the American people against the threats we are discussing here today, I wish to thank this Committee for its support. I am certain that our efforts will justify your commitment and confidence in this important area of the FBI's responsibility.

Chairman SHELBY. Our next witness will be Assistant Secretary of State for Intelligence and Research, Phyllis Oakley.

Secretary Oakley.

Mrs. OAKLEY. Thank you, Chairman Shelby, Senator Kerrey, Members of the Committee. I appreciate this opportunity to



present the views of the State Department's Bureau of Intelligence and Research, I&R. And I will certainly shorten my already short remarks.

Let me just begin by saying that thanks to the effectiveness of American diplomacy, military readiness and intelligence capabilities, the dangers of nuclear attack, large-scale conventional military attack and other threats to our national existence are low. Most of our citizens are quite safe most of the time and in most places around the globe. Our world has become safer, but it certainly is not yet safe enough.

We just ensure that we do our utmost to preserve that safety, and in the State Department, of course, our focus is providing information as quickly and as efficiently as we can to support all of our diplomatic operations overseas.

The Committee's call for an annual review and ranking of threats to our national security serves, as I'm sure you intended, as a useful prod to reconsider how best to deploy our intelligence resources.

This year's fresh look at the array of threats we face produced the following observations:

First, although we could and did rank the threats and priority order, we continued to believe that all of the threats listed, from the proliferation of weapons of mass destruction to international terrorism, the behavior and intentions of specific countries, are sufficiently important to warrant attention from both the intelligence and policy communities.

Second, we concluded that progress in certain areas made it appropriate to rank threats differently than we had in 1997. Accordingly, the danger of proliferation of weapons of mass destruction joins terrorism at the top of our list. Iraq has moved up in the ranking of problem states, and North Korea has been accorded a lower, but still dangerous, ranking.

Let me just make a few brief comments. Certainly we believe the spread of weapons of mass destruction continues to pose a serious threat to US national interests at home and abroad. Iraq's obstruction of UN Special Commission inspectors underscores the need for continued vigilance. Political incentives and opportunities for WMD proliferation are greatest in the Persian Gulf and South Asia. North Korea, China and Russia are the principal targets of acquisition efforts by countries seeking WMD capabilities. The latter are also the most active purveyors of WMD-related equipment and technology.

I think I don't need to dwell in Iraq, and I'll certainly be happy to answer any questions that you have about that later.

We agree that Russia continues to pose special problems, and we cannot underestimate Russia's continuing capabilities. And I think for us the greatest concern is this porosity of Russia's military-industrial infrastructure and the prospect for unauthorized transfers of materiel, equipment, know-how and technologies.

For China, we certainly viewed that there had been positive steps regarding China as a producer of nuclear, chemical and missile related equipment. However, we have—there has not been equivalent progress in other areas, particularly in the ballistic missile field.

Terrorism, we remain deeply concerned about it. Terrorism originating in the Middle East continues to pose the greatest danger to US citizens and interests. The region remains home to four of the seven officially designated state sponsors of terrorism—Iran, Iraq, Syria and Libya. It's also the locus of violent opposition groups which regularly employ indiscriminate terrorism as part of their campaigns to overturn policies and regimes.

I think the last point I want to make is about the Asian financial crisis. It has—I think we're all aware of the advantages to the United States of globalization. But the current financial crisis in Asia has highlighted a number of vulnerabilities that while not on a par with traditional threats to the security of our nation, have a direct or indirect impact on American interests, though I certainly would say that it's too soon to know exactly how various sectors will be affected.

As I said at the outset, the world has become safer, but it is not yet safe enough. Potential threats to the security of our nation and to individual Americans remain unacceptably high, and require our continued vigilance, intellectual rigor and working together to reduce them.

Thank you.

[The prepared statements of Mrs. Oakley and General Hughes follow:]

STATEMENT BY ASSISTANT SECRETARY OF STATE FOR INTELLIGENCE AND RESEARCH  
PHYLLIS E. OAKLEY

Chairman Shelby, Senator Kerrey, Members of the Committee. I appreciate this opportunity to present the views of the State Department's Bureau of Intelligence and Research (INR) on current and projected threats to our national interests. Happily—and thanks to the effectiveness of American diplomacy, military readiness, and intelligence capabilities—the danger of nuclear attack, large-scale conventional military attack, and other threats to our national existence is low. Most of our citizens are quite safe, most of the time, and in most places around the globe. Compared with threats in our own recent past and with those currently facing many nations, the threats we face today are less direct and more diffuse.

Our world has become safer, but it is not yet safe enough. Individual Americans are vulnerable to terrorism, international crime and criminal acts in other countries the perils associated with narcotics and other illicit drugs, and to diseases transmitted over long distances by tourists, migrants, and business travelers. On any given day, millions of our fellow citizens are living or traveling outside the United States many of them are in regions subject to ethnic or religious tensions, political instability, and environmental risk. We cannot protect all Americans from all dangers but we most remain vigilant and aggressive in our efforts to identify and eliminate threats to our safety as well as our security. This work involves more than just gathering intelligence on potential adversaries and buttressing our defensive and deterrent capabilities; it requires vigorous effort to anticipate and ameliorate threats to all of the national interests and goals articulated and in the administration's Strategic Plan for International Affairs.

I recognize that the primary purpose of this hearing is to define and prioritize direct threats to the national security of our country, but before doing so I want to note the contribution that intelligence can and must make to the attainment of our national objectives. Failure to attain these objectives may be caused as much by what we do to ourselves—by failing to act or overlooking opportunities—as by foreign efforts to thwart or threaten us. History tells us that a vacuum of power invites aggression or mischief Intelligence must identify not just the threats we face, but the hidden opportunities, the weaknesses of allies, and the strengthening or crumbling of foreign powers. Thus, threats and opportunities, critically linked to each other, must be considered in the context of our international objectives.

The International Affairs Strategic Plan published by the Department of State last September lists the following foreign policy goals:

- Secure peace, deter aggression, prevent, defuse, and manage crises; halt the proliferation of weapons of mass destruction; and advance arms control and disarmament;
- Expand exports, open markets, assist American business, foster economic growth, and promote sustainable development;
- Protect American citizens abroad and safeguard the borders of the United States;
- Combat international terrorism, crime, and narcotics trafficking;
- Support the establishment and consolidation of democracies, and uphold human rights;
- Provide humanitarian assistance to victims of crisis and disaster, and
- Improve the global environment, stabilize world population growth, and protect human health.

The first, third, and fourth of these goals address traditional threats to the security of our country and our citizens and will be discussed further in the pages that follow, but there is an important sense in which failure to advance any and all of these objectives entails dangers for the United States. To achieve these goals, decisionmakers, diplomats, the military services, and the law enforcement community must have timely, accurate, and correctly interpreted intelligence. That is why the Department has made Support for Diplomatic Operations a priority.

We must ensure that our diplomats have access to intelligence when they need it and where they need it. Diplomacy is moving increasingly fast and is increasingly mobile—intelligence must keep pace. The Department of State has been working with the Intelligence Community to identify innovative ways to harness technology to provide intelligence support to our Chiefs of Mission, diplomats, and negotiators, both on the road and at fixed locations. Intelligence is often called a “force multiplier” with respect to the military; the same is true for diplomats. Timely, tailored, all-source intelligence can increase our diplomatic readiness and allow our diplomats to face challenges, seize advantages, and identify opportunities in our complex global environment.

The Committee’s call for an annual review and ranking of the threats to our national security serves, as I’m sure you intend, as a useful prod to reconsider how best to deploy our intelligence resources. This year’s fresh look at the array of threats, challenges, and opportunities we face produced the following observations. First, although we could and did rank the traditional (and some nontraditional) threats in priority order, we continue to believe that all those noted below—from the proliferation of Weapons of Mass Destruction to international terrorism, and from the behavior and intentions of specific countries to environmental degradation and eco-migration—are sufficiently important to warrant attention from both the intelligence and the policy communities.

Second, we concluded that progress in certain areas (e.g., the start of Four Party Talks on the Korean Peninsula and the decline in the number of terrorist incidents directed at Americans) made it appropriate to rank threats differently than we had in 1997. Accordingly, the danger of proliferation of weapons of mass destruction joins terrorism at the top of our test, Iraq has moved up in the ranking of problem states, and North Korea has been accorded a lower—but still dangerous—ranking.

Third, INR’s position on the frontline of Support to Diplomatic Operations and the Secretary of State’s mandate to deal simultaneously with challenges and opportunities in every corner of the globe continue to require that we deploy our resources to ensure both global coverage and attention to the entire array of international affairs strategic goals. The net result is that, although we have assigned relatively more people—albeit still very small numbers—to coverage of the highest priority threats, our small size—I have only 170 analysts to cover all countries and issues—means that in INR the difference between the number of people covering high- and low-priority topics is small.

With that as prologue, I will now turn to the discussion of threats to US national security.

#### PROLIFERATION CONCERNS

The spread of weapons of mass destruction (WMD) continues to pose a serious threat to US national interests at home and abroad. We have seen some encouraging signs over the past year, but Iraq’s obstruction of UN Special Commission (UNSCOM) inspectors underscores the need for continued vigilance. Effective diplomatic intervention, informed by targeted and timely intelligence, is the key to limiting the transfer of critical technologies and equipment.

To halt the spread of WMD, the United States and its partners must both alleviate underlying regional tensions and instabilities and address the motives and

mechanisms of potential suppliers. Political incentives and opportunities for WMD proliferation are greatest in the Persian Gulf and South Asia. Entities in North Korea, China, and Russia are the principal targets of acquisition efforts by countries seeking WMD capabilities. Entities in these three countries are also the most active purveyors of WMD-related equipment and technology.

#### *Iraq*

Saddam Hussein continues to defy United Nations Security Council (UNSC) resolutions and to test the resolve of the international community in general and the United States in particular. As UNSCOM and the International Atomic Energy Agency (IAEA) indicated in their respective October 1997 reports, substantial gaps remain in Iraq's WMD declarations. We do not yet have a complete understanding of Iraq's past WMD programs and remaining capabilities.

There should be no doubt that Saddam will try to rebuild his WMD programs at the earliest possible opportunity. There should also be no doubt that Saddam will attempt to capitalize on perceived differences of opinion among our allies on this issue. His recent efforts to exploit French and Russian diplomatic initiatives to loosen the sanctions regime are only the latest examples of such behavior.

#### *Russia*

Half a decade into the post-Cold War era, Russia continues to pose special challenges to US national security interests. The good news is that the dramatic political transformation of the former Soviet Union and the development of a cooperative relationship between the US and Russia have made it extremely unlikely that the Russian government would attack the United States or our allies; detargeting has reduced the danger of accidental launch, and existing command and control safeguards make unauthorized launches both difficult and unlikely. Budgetary problems and the difficulties inherent in reforming the Russian military establishment also have reduced Russia's capability to endanger US interests. Bilateral strategic arms control agreements are gradually reducing the numbers of nuclear weapons in both our countries' arsenals.

Nevertheless, we should not underestimate Russia's continuing capabilities. Russia maintains significant nuclear strike capability. Largely owing to the same budgetary problems that have reduced the overall Russian threat to US interests, Russia has abandoned its policy of "no-first-use" and is relying more than ever before on nuclear deterrence to compensate for its diminished conventional capabilities. START II remains unratified, and though Russia ratified the Chemical Weapons Convention (CWC) last year, its CW stockpiles are enormous and their destruction poses staggering ecological and economic challenges.

Moreover, very real concerns persist about the porosity of Russia's military-industrial infrastructure and the prospect for unauthorized transfers of materials, equipment, know-how, and technologies. The leakage of missile technology and expertise from Russia's industries to Iran has underscored this serious proliferation concern. Events over the past year have demonstrated the ability of would-be proliferators, notably Iran, to exploit Russia's missile development infrastructure. If allowed to continue, access to Russian technology and expertise will enable the Iranians to develop and field intermediate range ballistic missiles faster than if they were left to their own devices.

The President last summer appointed Ambassador Frank Wisner as his special envoy for this issue. Ambassador Wisner has met with Russian counterparts several times since then, most recently on January 12-13. The Russian government has taken initial steps—and made commitments to take substantial additional steps—to crack down on Russian entities supplying missile technology to Iran.

#### *Fissile material in the former Soviet Union*

Although we are heartened by reports of enhanced security at several Russian nuclear installations, and by the decline since 1994 in known smuggling incidents, we are by no means at a point where we can speak of the inherent dangers in the past tense. We continue to regard the possible acquisition of fissile materials and technology by aspiring proliferators as a very real threat with potentially catastrophic consequences.

Russia's nuclear weapons control system remains equal to the task. We have no evidence that any Russian nuclear weapon is unaccounted for. Russia's security system for fissile material suffers from a lack of funds, modern equipment, and trained personnel. Joint US/Russian efforts to strengthen Russia's nuclear material security and accountability system, such as those being pursued under DOE and DOD assistance programs, continue to play an important part in efforts to rectify the most serious shortcomings, and significant progress has been made. Initiative and persistence

will be essential to ensuring Russia and the other NIS live up to their commitments to illicit trafficking before it starts.

#### *Chemical and biological weapons technology in the former Soviet Union*

Russia's remaining chemical and biological warfare capabilities pose an additional set of concerns. With losses in government funding on the civilian side of the programs, many of the institutes which developed and produced the Soviet Union's chemical and biological weapons have faced serious problems and shortages of paying contracts. As in the aerospace industry, some face temptations offered by would be proliferators. Even seemingly innocuous ties between Russian chemical and biological institutes and their counterparts in other countries could hold the potential for conveying expertise in weapons of mass destruction. This is particularly true in the biological sciences, where medical and other scientific research can easily—and without detection—veer off into research on biological warfare agents. The US has a number of programs designed to help these institutes and their employees convert these skills to production in civilian work. These programs have had a positive impact on the Russian scientific community.

#### *China*

As a major producer of nuclear, chemical, and missile-related equipment and technology, China has a responsibility to subscribe to internationally accepted non-proliferation standards. Successive administrations have worked to bring China's behavior into line with international norms. We have made significant progress with China in the nuclear area over the past few years. China took steps in 1997 to develop more effective administrative oversight of its nuclear industry by promulgating nuclear export control legislation. China joined the Nuclear Non-Proliferation Treaty (NPT) exporter committee. China also started the process for adoption of comprehensive dual-use export controls.

China appears to be living up to its commitment—publicly offered in May 1996—not to provide assistance to any unsafeguarded nuclear facilities. This commitment is especially important because of China's past assistance to Pakistan's nuclear weapons program. China also has significantly curtailed its nuclear cooperation with Iran. While this cooperation was fully consistent with China's Nuclear Non-Proliferation Treaty (NPT) undertakings and subject to international safeguards, we nevertheless have found the cooperation troubling because of its ability to support a nuclear infrastructure and contribute indirectly to Iran's effort to acquire nuclear weapons.

Unfortunately, China has not made equivalent progress in other areas. At least until mid-1997 Chinese entities have been the main source of supply for Iran's CW program. In May 1997, the United States imposed trade sanctions on seven Chinese entities for knowingly and materially contributing to Iran's CW program. Over the past year, China has made some progress in addressing the gaps in its export-control policies, but some key loopholes remain. Specifically, we have urged China to control the 20 Australia Group (AG) precursors not on the CWC schedules, and AG-controlled chemical production equipment, regardless of its end-use, and to adopt catch-all controls.

China has agreed to abide by the "guidelines and parameters" of the Missile Technology Control Regime (MTCR) and has committed not to transfer ground-to-ground MTCR-class missiles. But China does not appear to interpret its responsibilities under the MTCR guidelines as strictly as the US and other MTCR members. By all indications China has taken itself out of the business of exporting complete ballistic missiles. This is an important step—one that has slowed the process of military destabilization in South Asia and the Middle East. But it is not enough. We would like to see China upgrade its commitments to current MTCR levels and implement effective export controls.

Last year, Beijing created within the Ministry of Foreign Affairs a separate division to address all arms control and proliferation issues. We hope this development marks a turning point by introducing an arms control and global security perspective into the export oversight process. The Chinese have agreed to conduct regular dialogues at the senior level on arms control, global security, and nonproliferation. This dialogue will provide continuing opportunities to press our case, to review Chinese commitments, and to address specific problems as they arise.

Transfers of modern Chinese anti-ship missiles to Iran are particularly troubling. China last fall agreed to end sales of anti-ship missiles to Iran and reiterated this commitment during Secretary Cohen's recent visit. The administration is reviewing, but has not yet decided, whether the number and type of transfers to date trigger sanctions under the Iran-Iraq Non-Proliferation Act.

### *North Korea*

The North Korean nuclear program remains frozen under continuous IAEA monitoring in accordance with the 1994 US-DPRK Agreed Framework. However, we continue to have concerns about the North's missile program. North Korea has been a leading supplier of missile technology since the mid-1980s and is developing longer-range missiles. Of greatest immediate concern is the North's 1,300-kilometer-range No Dong missile. Though not capable of reaching the US, this system permits the North to target Japan and the entire southern half of the Korean Peninsula from deep within North Korean territory. But we must not be complacent about the current low threat posed directly to the continental United States—North Korean engineers are developing other, more capable systems. The Intelligence Community will continue to monitor the potential North Korean ballistic missile threat to the US and report on any significant changes.

Unlike Russia and China, both of which have agreed to abide by MTCR guidelines and parameters, North Korea has yet to accept any constraints on its willingness and proven ability to sell missiles and missile technology. US diplomats met with the North Koreans in 1996 and 1997 to discuss our concerns about their missile program and exports, and we hope to meet with them again soon. Unless and until Pyongyang agrees to restrict sales, it must be regarded as a dangerous proliferator, not least because missile sales generate badly needed foreign exchange and constitute one of the few significant bargaining chips available to a regime determined to do whatever it takes to survive in a world it perceives as hostile.

### *Iran*

Iran's efforts to acquire weapons of mass destruction and their delivery systems have continued during the past year. Iran has made some progress in its missile and chemical weapons programs, but it apparently has yet to realize significant and tangible advances in its nuclear program.

Iran's missile development work has captured global attention and raised significant international concerns. Tehran has had Scud-type, short-range missiles since the mid-1980s. Now there are clear indications that Iran is developing a medium-range missile that eventually will permit Tehran to project military power far beyond its borders and to hold targets—including US troops and allies—at risk throughout the Middle East. Iranian attainment of enhanced missile capabilities will introduce a new element of instability into an already troubled region. As noted above, Iran has received assistance from Russian aerospace firms and enterprises.

### *South Asia*

South Asia remains one of the few places in the world where potential adversaries have the capability of using nuclear weapons against each other, although the possibility of war currently is remote. Neither India nor Pakistan is prepared to subscribe to international regimes such as the NPT or the Comprehensive Test Ban Treaty (CTBT), preferring to maintain a deterrent by keeping open the "option" of using nuclear weapons. Both countries have continued increasingly public efforts to develop ballistic missiles. India is producing the short-range Prithvi and continuing to develop the longer-range Agni. Pakistani officials have vowed to have the capability to respond to such systems; the Pakistani press recently noted efforts to develop and deploy a 1,500-km missile to counter the Agni.

The United States has made control and eventual resolution of the proliferation problem in South Asia one of its highest priorities for the region. Attaining our goals in this regard will not be easy—strong support exists in both countries, and Indian and Pakistani governments historically have been reluctant to take steps necessary to address US concerns. India and Pakistan's intense rivalry, and Indian suspicions about China, cause both to pursue aggressive indigenous development and foreign acquisition programs.

### *Threat posed by proliferation of advanced conventional weapons*

We also are concerned about the spread of Advanced Conventional Weapons (ACW), particularly to the seven state sponsors of terrorism (Iran, Iraq, Syria, Libya, Sudan, North Korea, and Cuba). Although such weapons are unlikely to be used directly against the US, they have the potential to threaten US allies and US forces deployed abroad. For this reason, and because such transfers have the potential to destabilize regional balances, we monitor efforts to sell or acquire ACW, consult regularly with other governments and implement relevant sanctions laws as part of the effort to control exports of advanced weapons and technology.

## TERRORISM

We remain deeply concerned over the threat that international terrorism poses to US officials, citizens, and property, both abroad and at home. The most serious anti-US attack last year occurred in November when four US businessmen were gunned down in Karachi by unknown assailants shortly after the guilty verdict was handed down against Mir Kasi for his 1993 attack at CIA headquarters. Even when terrorism is not aimed directly at us, it can have a devastating impact on our broader political objectives, particularly efforts to resolve the Arab-Israeli conflict.

Terrorism originating in the Middle East continues to pose the greatest danger to US citizens and interests. The region remains home to four of the seven officially-designated state sponsors of terrorism (Iran, Iraq, Syria, and Libya). It is also the locus of violent opposition groups which regularly employ indiscriminate terrorism as part of their campaigns to overturn policies or regimes. It was a matter of luck that no Americans were killed or injured in the November random massacre of more than 60 tourists at Luxor, Egypt. The apparently growing willingness of extremists to inflict large numbers of casualties reinforces fears that terrorists in the Middle East may be tempted to acquire and use weapons of mass destruction.

Tensions that feed terrorism remain high in the region, especially in the Persian Gulf and over the stalled Middle East peace process. Hamas last year claimed responsibility for three suicide bombings in Jerusalem that killed 24—including two American citizen bystanders—and wounded several hundred. Renegade Saudi terrorism financier Usama bin Ladin has issued more public threats against the United States. He remains in Afghanistan in areas controlled by the Taleban. Terrorism is rampant in Algeria's internal struggle.

Iran remained the most active state sponsor of terrorism in 1997. In April, a German judge found an Iranian and three Lebanese guilty of the 1992 murders of Iranian Kurdish dissidents in Berlin's "Mykonos" restaurant, declaring that the killings had been approved at the most senior levels of the Iranian government. Last year Tehran assassinated at least 12 dissidents outside Iran, all in northern Iraq. Despite the recent conciliatory comments of new Iranian President Khatemi, Iran has continued to provide support—money, weapons, and training—for a variety of Middle East terrorist groups, including Lebanese Hizballah, Hamas, and Palestine Islamic Jihad (PIJ). Tehran has encouraged violent rejection of the Middle East peace process. In September the new government reaffirmed the 1989 "fatwa" against author Salman Rushdie.

American interests also are at risk in regions outside the Middle East. In Colombia leftist guerrillas are increasingly active, in 1997 they conducted the most attacks ever against oil pipelines, partly owned by US corporations. The guerrillas also facilitate coca and opium cultivation and the production of cocaine and heroin much of which is subsequently smuggled to the US by traditional traffickers. The risk of terrorist attack remains a prime concern to SFOR elements securing the peace in Bosnia.

## THE DRUG TRADE AND INTERNATIONAL ORGANIZED CRIME

The illicit international drug trade and the powerful international crime syndicates that control it and myriad other illegal activities pose serious threats to US security. In addition to having many adverse effects on American society, the drug business corrupts foreign governments at the highest levels, undermines judicial systems, and distorts economies. Greater ease of travel and telecommunications makes it easier for international criminals to expand and conceal their empires.

The key drug threat to the US remains the Latin American cocaine trade. Coca grown in Bolivia, Peru, and Colombia is processed into cocaine largely in Colombian laboratories and reaches the US market via a number of smuggling routes, still principally through Mexico. In addition to cocaine, heroin from Colombia and methamphetamines from Mexico are gaining prominence in the drug threat from Latin America. When traveling abroad, Americans are at risk from violence associated with narcotrafficking. For example, Colombia was plagued by increased violence from guerrilla and rightist paramilitary groups that exploit the drug trade for money, and Mexico has seen a surge of narcotics-related violence by traffickers, particularly in northern states that serve as drug corridors to the United States.

The other major locus of the drug threat is Asia. Opium and heroin production is concentrated in Burma and Afghanistan, where US influence is extremely limited. Regimes in both countries appear to be tolerating the drug business to shore up local political support and to prop up their economies.

The expansion of international organized crime increases the threat of physical violence to US citizens and businesses both at home and abroad. American companies are disadvantaged when companies linked to international organized crime se-

cure contracts, export licenses and customs exemptions, often through payoffs to corrupt officials. Additionally, international organized crime has a destabilizing influence on countries that are important to US national security. It robs emerging democracies of badly-needed revenues, taints their reform process, and undermines popular confidence in government at all levels.

Organized crime is also heavily involved in financial fraud schemes and money laundering, as well as the international trafficking of narcotics, aliens, and weapons, including to the United States. The smuggling of weaponry to regional trouble spots further contributes to instability in these areas. Growing ties among foreign criminal groups further facilitates illegal activities. The underworld contacts, clandestine networks, and extensive finances of international organized crime organizations also raises the possibility that they could obtain and sell nuclear weapons or their components.

#### THREATS AGAINST OUR ECONOMIC INTERESTS

##### *Dangers inherent in the global economy*

The United States benefits greatly from participation in the global economy, but globalism entails risks as well as rewards. The current financial crisis in Asia has highlighted a number of vulnerabilities that, while not on a par with traditional threats to the security of our nation, have a direct or indirect impact on American interests. Increasing dependence on foreign markets makes American firms and workers vulnerable to economic difficulties far beyond our borders. It is too soon to know precisely which crops, products, firms, and regions of the United States will suffer most from greater budgetary discipline in Thailand, Indonesia, South Korea, and other affected economies, but that some will be seriously disadvantaged is certain. American mutual funds (many with a large component of pension funds) invested in Asian markets have already taken a big hit, as have American sales to companies no longer able to obtain the necessary financing. Likely consequences for the United States include slower growth, constraints on the creation of new jobs, and lower wages.

Covertly-obtained intelligence is not a particularly helpful source of information for understanding the psychology of markets. The Intelligence Community has no role in providing assessments and insights to the private sector actors who make most of the key decisions shaping the course of events. Policymakers, like business leaders, want and need analytical judgments and informed predictions on such questions as whether the contagion has been contained, what impact economic difficulties will have on societies and political systems, who else might be vulnerable, and what impact cutbacks in military budgets will have on the military capabilities of allies and regional balances. It would be easy to extend the list of questions, but my point here is simply to note that economic—like environmental—vulnerabilities and threats are far more numerous, complex, and difficult to anticipate than are traditional threats to our national interests. The threats and their impact are real and obvious. Less apparent is what role, if any, the Intelligence Community should play in addressing such dangers.

##### *Economic espionage*

The overseas operations of US corporations are increasingly vital to this country's prosperity. US proprietary secrets are vulnerable to targeting by domestic corporate spies and overseas intelligence agents, either performing classic private industrial espionage or linked to foreign government attempts to boost national technical knowledge. The increasing value of trade secret information and technology in the global marketplace has increased and motivated foreign firms and some governments to conduct economic espionage and information collection against the United States. During the past year, the US Intelligence Community has identified suspicious collection and acquisition activities of foreign entities associated with at least 23 countries.

##### *Unfair foreign competition*

Unfair foreign competition is another threat to US interests. The profits involved in large infrastructure, military, and aircraft contracts lead to cut-throat and sometimes unfair competition. In December, the 29 members of the Organization for Economic Cooperation and Development (OECD) and five additional countries signed an anti-bribery convention. If the convention is ratified and enforced, this now-recognized threat to American competitiveness will be alleviated, but we foresee a continuing role for the Intelligence community in monitoring compliance.



## COUNTRIES WITH GLOBAL IMPACT: RUSSIA AND CHINA

Russia and China are each undergoing dramatic social transitions that complicate our efforts to assess trends and anticipate their future roles. We have had successes in building constructive relations with both countries, but many actual and potential problems require continuing attention.

*Russia*

Russia's evolution remains uncertain. New institutions, personalities, and habits of behavior continue to take hold, even as others looking more to the past remain strong in some areas, such as the Duma and the defense industrial establishment. Early in the year a revitalized Yeltsin brought new impetus to reform by the appointment of young reformers to positions of authority in the government. By the end of the year, however, the Russian political scene became increasingly dominated by infighting among factions and competition for access to privatized state property. Yeltsin's intermittent absences from the helm because of illness accentuated the sense of policy drift. The coalition of political and financial leaders that worked to bring about President Yeltsin's reelection in 1996 splintered. This falling out was accompanied by a slowing of progress toward social and economic reform.

Among the reform programs identified by the new Russian team in spring 1997—land, tax, legal, and military reforms as well as repayment of back wages and pensions and adjustment of center-regional relations—military reform has progressed the most, with reorganizations of military commands already under way. But military reform continues to face bureaucratic resistance. The tax code, sent to the Duma in the spring of 1997, has been returned for further work; land reform was discussed at a high-level meeting in December but continues to be hobbled by Duma resistance; legal reform has made little progress; the government claims that it paid back wages and pensions in 1997, largely by forcing some big tax debtors to pay their arrears, but continued grumbling suggests that problems remain. Center-regional relations continue to be marked by unilateral initiatives by a number of provincial governments. Although negotiation has replaced violence as the principal mechanism for resolving the differences between Moscow and Grozny, differences over Chechnya's status continue to divide the two parties. They have agreed to settle the question of Chechnya's status by 2001.

Economic stabilization brought declining inflation, a stable ruble, and the end to a decade-long decline in economic output. For now, Russia appears to have weathered the potential crisis in confidence that accompanied Asian financial instability, but reserves have fallen and government predictions for 1998 indicate little or no growth. Inconsistent direction on government policy in 1997 meant that Russia spent another year in its slump. Only a revitalized, engaged president can make 1998 a better year than the past six.

President Yeltsin's and Foreign Minister Primakov's year-end interviews indicated the Yeltsin government continues to see Russian interests better served by engagement and cooperation than by isolation or confrontation. The best example of this over the last year was Moscow's decision to sign the Founding Act with NATO. This fall the Russian parliament ratified the Chemical Weapons Convention, and Russia continues to adhere to START I and CFE. The Russians also continue to play an active role in SFOR in Bosnia.

However Primakov has highlighted Russia's support for the notion of a multipolar world, which is intended to counter what many Russians profess to see as US unilateralism. START II, CTBT, and Open Skies still await ratification by the Russian parliament. While the Yeltsin government continues to support the sanctions regime against Iraq and the need for UNSCOM inspections, it has argued the need to show Baghdad "a light at the end of the tunnel." On the nonproliferation front, we are actively engaged in discussions to prevent any export of materials or know-how associated with WMD and ballistic missiles. Though Russia is now far less able to project power beyond its borders and to challenge Western interests, economic realities are such that Russia perceives the need to export arms in order to maintain its arms industry, and Moscow continues to try to expand sales to old and new customers alike. If done indiscriminately, such sales have the potential of fueling regional tensions or exacerbating regional arms races.

We remain both concerned and encouraged with the state of Russia's strategic nuclear forces. Moscow continues to maintain a significant strategic nuclear force. But it has become increasingly clear that the Russian strategic nuclear force will continue to shrink in size as Moscow finds it cannot afford to maintain the kind of ballistic missile force the Soviet Union once had, and other strategic modernization programs, such as the next-generation submarine-launched ballistic missile, continue to suffer delays owing to wage shortages and R&D test failures.

Further, while the Russian strategic command and control and early warning system is functioning adequately, it is clearly showing its age. Equipment breakdowns in this system could force Moscow to rely on less reliable long-range strategic warning indicators that, without clear and transparent political-military signals from the US, would be likely to increase Moscow's uncertainties during an escalating crisis.

Despite these problems, nuclear forces are playing a larger role in Russian security as military reform muddles along and defense budgets are cut. Statements by senior national security officials seem to confirm that Russia continues to look toward its nuclear weapons as a deterrent against a variety of conventional and nuclear military threats, including formally dropping the Soviet "no first use" declaration in 1993. This emphasized reliance on nuclear weapons to deter even conventional threats is a graphic symbol of the weakness in Russia's conventional military forces. Given the anticipated time required to complete its military reform plans, Moscow probably will continue to rely heavily on its nuclear forces for years to come.

### *China*

Constructive partnership between the US and China is central to the peace and prosperity of the Asia-Pacific region. Over the past year, we have revitalized our dialogue with high-level Chinese leaders, highlighted by the visit to the US in late October of President Jiang Zemin. We still have many unresolved issues and continue to hold sharply different views on important matters, including human rights, religious freedom, political expression, and freedom of association. We plan to expand cooperation where possible and to work seriously on areas where we have differences. Among the unresolved issues in our relationship is that of nonproliferation. Through intensive dialogue, we have reached a mutual understanding on a number of nonproliferation issues, but disagreements continue over Chinese sales and technological cooperation on potentially destabilizing weapons systems in sensitive regions.

China continues to have the largest standing army in the world and is steadily modernizing its ground, air, and naval weapons and tactics. We must be attentive to China's growing military capabilities, as demonstrated in the 1996 combined-forces exercises in and around the Taiwan Strait.

China's military modernization continues at a steady pace, and Beijing during the past year strengthened its arms-import relationship with Russia. China is replacing its aging naval fleet with new domestically-produced ships and submarines, and recently took delivery of a third Kilo-class submarine and finalized a deal to purchase two Russian naval destroyers that could be armed with modern SS-N-22 SUNBURN anti-ship missiles. While this growth in naval capability bears watching, the gradual pace of Chinese modernization is having only a marginal impact on the current naval balance in the region.

Though military and civilian leaders both agree that economic modernization has priority over military development, China is embarked on a ballistic missile modernization program. Although China's ICBM force will remain considerably smaller and less capable than those of Russia and the United States, Beijing views this modernization effort as essential to maintaining a credible deterrent force.

China is expected to remain primarily a land-based ballistic missile power, but continues to look at sea-based platforms and land-attack cruise missiles as additional means of delivery. In the next 20 years, the number of Chinese ballistic missiles capable of reaching the continental United States will increase marginally. The greatest growth, both in numbers and capabilities, is expected to be in China's short-range SRBM force—the M-9 and M-11.

We anticipate that the many transformations under way in China for the past two decades will continue into the next century. The cumulative effect of economic, political, societal, technological, and military change will produce a China that is more powerful and, if we are successful, more tightly integrated into global systems. We are likely to see positive results from the impact of participation in the global economy, exposure to information and ideas from around the world, and the proliferation of shared interests which is intrinsic to modernization everywhere.

### MIDDLE EAST STATES: IRAQ, IRAN, LIBYA, SYRIA

Several Middle Eastern states threaten us by maintaining programs for weapons of mass destruction, sponsoring terrorism often targeted specifically at Americans, and by their hostility toward and active opposition to our political and social systems and those of our friends and allies. Assurance of energy security is critical to the political, economic, and strategic interests of the US and its allies.

### *Iraq*

As dramatically seen over the past several months, with Saddam Hussein in power, Iraq continues to threaten regional stability and pursue aims contrary to our national security interests. Iraq's refusal fully to disclose its WMD capabilities, retention of a potent conventional military, and support for terrorism against dissidents threaten countries and peoples in the region and jeopardize a wide array of US objectives. The 1994 movement of troops toward Kuwait and the 1996 offensive in Irbil, violations of no-fly zones in September–November 1997, the ongoing confrontation with UNSCON, and blatant threats to the UNSCOM U-2 all attest to Saddam Hussein's continued disregard for the will of the international community.

Baghdad threatens US interests not only with its military forces and blatant defiance of UN Security Council resolutions, but also through its attempts to manipulate broader Arab opinion against the US in a variety of ways. This could greatly complicate and jeopardize the attainment of US objectives in the region. It is no accident that much of his propaganda during his recent challenge against UNSCOM has been directed against the United States. In northern Iraq, Saddam wishes to exclude the international community's involvement, and at the UN he has sought to undermine every effort to ensure UN enforcement of, and Iraqi compliance with, various aspects of UNSCR 687.

### *Iran*

We are encouraged by the election of President Khatami, who promises a more relaxed atmosphere at home and espouses the implementation of international law and cooperation abroad, but we remain concerned about several aspects of Iran's behavior that pose threats to US interests. Moreover, we are not yet able to determine how much Khatami is able or willing to address priority US concerns, foremost of which is Iran's support for terrorist groups opposed to the Middle East peace process. These include Hizballah in southern Lebanon, and Hamas and the PIJ, whose terrorist attacks in Israel have taken many lives, including those of some Americans. We also are concerned about Iranian support for Islamic extremists in other parts of the Muslim world, and activities such as Iranian surveillance of US entities abroad. Finally, Iran has considerable WMD capabilities, particularly extended-range missiles and chemical weapons, and is continuing its efforts to enhance those capabilities, which already pose a substantial threat to neighboring states and to US installations in the region.

### *Libya*

Despite repeated disclaimers and deceptions, the Qadhafi regime continues to support terrorist groups—including support for the PIJ and the Abu Nidal Organization (ANO). It continues to develop WMD, particularly CW and missiles. Libya opposes the Middle East peace process. Libya also seeks to exploit differences between Washington and allied capitals on how to bring to trial those implicated in the destruction of Pan Am 103.

### *Syria*

Syria has been engaged in the Arab-Israeli peace process since the 1991 Madrid conference and has not been directly involved in planning or executing international terrorist attacks since 1986. Nevertheless, Syria continues to support international terrorism by allowing terrorist groups to maintain a presence in Damascus and operate from Syria-controlled areas of Lebanon. Some of these groups include fundamentalist and secular Palestinian organizations, such as Hamas, the PIJ, and the Popular Front for the Liberation of Palestine-General Command (PFL-GC), as well as non-Palestinian groups, such as the Kurdistan Workers' Party (PKK). Syria acquired from the former Soviet Union standard SCUD-B missiles, with a range of 300 kilometers, and a smaller number of 500 kilometer SCUD-Cs from North Korea, it has had a CW program since the mid-1980s. While there is no indication Syria is planning to initiate a conflict with Israel, there is always a danger that Syrian-Israeli tensions could lead to hostilities through miscalculation by either side, particularly over the fighting in southern Lebanon.

HOT SPOTS AND UNCERTAINTIES: BOSNIA/BALKANS; AFRICA; NORTH KOREA; SOUTH ASIA; THE AEGEAN; CUBA

### *Bosnia/Balkans*

NATO and SFOR have proven their value in carrying out the successful international military intervention ending the military conflict in Bosnia and enabling implementation of the Dayton Peace Agreement. The main threat to peace now stems not primarily from a resumption of conflict among the three formerly warring

armies, but from the obstruction by Bosnia's leaders of certain aspects of civilian implementation of the peace agreement, especially the return of displaced persons and refugees to minority areas, apprehension of fugitive war criminal suspects, economic rehabilitation, and establishment of fully functional, truly democratic institutions. Bringing intelligence to bear on these issues has been difficult, but novel structures and processes to ensure its proper application have been devised, and the need for it remains critical if the US and its partners are to establish a stable, enduring peace in Bosnia.

The situation in Serbia (especially in Kosovo and increasingly in Montenegro) remains volatile. The potential for conflict between ethnic Serbs and Albanians in Kosovo is considerable, oppressed Kosovars increasingly resort to violent resistance to Serbian abuses of human and civil rights. A Kosovo eruption could still ignite international conflict, spilling potential refugees into The F.Y.R.O.M. and/or Albania—which has pulled back only slightly from the edge of the precipice of economic and social disintegration. Democracy remains to be realized in Serbia, Croatia, and Bosnia, and is still in transition in Bulgaria and Romania. In the former three, political pluralism, peaceful and effective transfer of power, and more responsive political leaderships remain to be established.

### *Africa*

Patterns of behavior stemming from the regional and civil conflicts which dominated important parts of Africa in 1997 make the continent a dangerous and unpredictable arena in 1998. Cross-border interventions, touted by many Africans as legitimate defensive behavior, seemingly have superseded the OAU principle of non-intervention and increased the prospect of additional inter-state conflict.

African leaders are now both more willing and more able to project force across national borders in pursuit of national interests. A coalition of African states supported Kabila's ouster of Mobutu. Kabila's government in Congo (Kinshasa) has not yet demonstrated that it can draw together the many disparate elements of the country which borders on none others, some of which are competing for dominant influence. The stability of Nigeria, Africa's most populous state, is increasingly shaky as its military leader maneuvers to transform himself into an elected civilian president by next October. In Liberia, the election last July of Charles Taylor as president has not stilled concerns about the former warlord's inclinations toward repression at home and adventurism in neighboring states.

Tensions also are increasing in southern Africa, particularly Angola, which is finding it difficult to tie down the loose ends of a peace accord ending the long struggle with UNITA. To undercut regional support to UNITA, Luanda has intervened in Congo (Brazzaville) to return Sassou to power, and is pressing democratically elected officials in shaky Zambia to cut off aid to Savimbi.

The civil war in Sudan is now in its 14th year, having taken the lives of 1.5 million people and forced 2 million more from their homes. The regime in Khartoum continues to provide haven and support to terrorists while sponsoring insurgent groups intent on destabilizing neighboring regimes.

Ethnic and civil wars have caused millions of people to flee for refuge and helped to further erode the sanctity of national borders. Interconnected insurgencies in Rwanda and Burundi and related unrest in eastern Congo (Kinshasa) define a large area in the center of Africa where regimes seem powerless to stem the bloodshed or are inclined to engage in unacceptable behavior toward certain groups. As a consequence, there is a continuing likelihood of resurgent genocide.

### *North Korea*

North Korea's military continues to be a threat to US and South Korean forces, although the steady deterioration of the North Korean economy and crumbling infrastructure, as well as another year of critical food shortages, have further undercut Pyongyang's ability to wage a sustained conflict. Despite reports of executions of some ranking officials, the political situation appears stable, with Kim Jong II fully in charge. Late last year, Kim assumed the title of general secretary of the Korean Workers' Party. Diplomatically, the situation has improved marginally. The North Koreans have entered four-party talks with South Korea, China, and the US; are moving to improve relations with Japan; and appear prepared to re-engage Seoul under the new administration of Kim Dae Jung.

### *South Asia*

South Asia is an area of multiple and growing US interests. Tension between India and Pakistan, centered on their dispute over Kashmir, contributes to concerns over regional instability. The proximity of two populous, mutually suspicious states, each seemingly convinced that nuclear weapons are an essential attribute of major power status, makes this one of the world's more troubling regions. The original mo-

tive for India's acquisition of a nuclear weapons capacity—a perceived threat from China—remains salient to Delhi. Pakistan continues its own nuclear program because of its security fears of a larger India.

India continues to charge that Pakistan supports Kashmiri Muslim secessionists, while Islamabad contends it provides only moral support. Though the Kashmir dispute remains a possible flashpoint for regional war with the potential to escalate into a nuclear exchange, tensions in the region have eased somewhat in recent years.

Fighting continues in Afghanistan, a country riven by ethnic, tribal, ideological, and regional differences. International mediation efforts have not yet resulted in a political settlement; the United States continues to support the ongoing UN-led effort to help the Afghans establish a broadly representative government. Afghanistan remains a focus for meddling by neighbor states, a narcotics trafficking center, a source for international terrorist training and equipment, and hence a major source of regional instability.

#### *The Aegean*

Tensions between Greece and Turkey have almost led to open conflict in the recent past and could easily do so again, whether over the installation of air defense missiles on Cyprus by the Greek Cypriots, competing claims involving tiny islets, or accidental clashes and hair-trigger military exercises. Failure to find a real, long-term solution on Cyprus and in the Aegean could raise tensions, undermine both NATO and EU expansion (because of Turkish and Greek vetoes), and cause serious problems in the Middle East peace process and in US relations with Russia, which is becoming a major arms supplier to Cyprus.

#### *Cuba*

The threat that Cuba poses to US interests stems primarily from the potential consequences of its own political and economic rigidities rather than its past promotion of subversion or its faded attraction as a model for other states and movements. An aging—and possibly ailing—Fidel Castro refuses to make any concessions toward a more open political system, and Cuba's overall human rights record remains the worst in the hemisphere. Cuba's economy continues to founder, with a dismal performance in the vital sugar sector largely nullifying gains in tourism and nickel exports, and there is no sign of significant reform in the domestic economic structure. With no real provision for succession (beyond much of the same, only with Raul Castro at the helm), the departure of Fidel could usher in a period of serious instability under an inevitably less charismatic leader, possibly leading to further mass migration and internal violence.

### TREATS TO DEMOCRACY AND HUMAN RIGHTS

The United States seeks to increase governments' adherence to democratic practices and respect for human rights, not only because we seek to promote these values, but also because they contribute to regional stability. Bosnia is a current example of where democracy promotion, human rights protection, and prospects for regional stability are closely linked. While the Dayton Peace Agreement goals of a re-integrated and viable Bosnian state have yet to be realized, 1997 did see a modest decline in short-term instability and the staging of peaceful elections. Although the main instigators of the Bosnian genocide remain at large and continue to pose a long-term stability concern, their political power base has been eroded. Moreover the War Crimes Tribunal has increased the number of Balkan war criminals it has under detention and has several trials under way—a clear sign of international interest in implementing justice against those responsible for mass killings and regional instability.

### HUMANITARIAN ASSISTANCE AND FORCED MIGRATION

Ethnic tensions, social inequity, lack of access to farmland and water, poverty, and political disfranchisement often lead to violent civil unrest, if not warfare. As cities in poor countries increase in population and poverty, social instability could intensify. US efforts to promote sustainable development are based on recognition of the link between poverty and political instability, and the responsibility of international lending and development agencies to reduce this threat.

Effective humanitarian assistance in response to complex emergencies may help to stem forced migrations within and across international boundaries—itsself a destabilizing force as witnessed over the last several years in the border region of Rwanda and eastern Congo (Kinshasa). Early warning and preventive measures could minimize the deployment of peacekeeping troops, including US forces, to manage the consequences of a war-induced humanitarian crisis.

THREATS TO THE ENVIRONMENT, STABILIZED WORLD POPULATION GROWTH, HUMAN HEALTH

*Environment*

A key goal of US foreign policy is to protect the United States and its citizens from environmental degradation. Under the UN Framework Convention on Climate Change agreed to in December 1997 in Kyoto, Japan, developed countries committed themselves to legally binding action to lower the threat of global warming through proposed cuts in greenhouse gases, as measured against 1990 levels. In contrast, most developing countries did not commit to any targets. There is broad scientific agreement that, left unchecked, global warming over the next century would have such adverse impacts on the United States as coastal flooding from sea level rise, volatile weather fluctuations with both costly droughts and flash floods, and loss of sensitive habitats, particularly the Everglades.

*World population growth*

From a mid-1997 population of about 5.8 billion, the world total is expected to rise to about 8 billion by 2002—an increase of over 2 billion that takes into account already declining birth rates. Almost all of this increase will be found in developing countries, where about 85% of the world's population will live. Many of these countries currently fail to meet even minimum needs of their populations, requiring annual food donations and other international assistance merely to subsist. In addition to producing the tragedy of growing numbers without adequate health care and education and with poor job prospects, rapid population growth is likely to lead to substantial increases in the number of frustrated young people able to move across boundaries. Many born in rural areas will move to cities; many living in poor countries will attempt to move to wealthier countries, including the United States. With few opportunities, many could well contribute to ethnic tensions, civil unrest, crime, and violence.

*Reducing disease worldwide*

The plight of Hong Kong's chickens at the end of December provides a lesson in the problems of managing the ever-present threat of infectious diseases that can affect all parts of the globe. Hong Kong's "bird flu" may have been imported along with poultry from China, just as the United States imports many of its foodstuffs from countries where food-borne disease monitoring is woefully inadequate. Hong Kong's dense population provides a congenial urban environment for disease transmission—as do most cities in the world. Finally, Hong Kong is a "global city" with international transportation connection—including direct connections to many US cities—that ensure rapid worldwide diffusion of any disease. Bacterial and viral diseases are both durable and mutative ensuring they will never be completely eradicated. Improved monitoring and rapid response is essential to curb this threat to the health of Americans.

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STATEMENT OF LIEUTENANT GENERAL PATRICK M. HUGHES, USA, DIRECTOR, DEFENSE INTELLIGENCE AGENCY-GLOBAL THREATS AND CHALLENGES: THE DECADES AHEAD

Mr. Chairman, I am again pleased to have the opportunity to provide the Defense Intelligence Agency's perspective on the threats and challenges confronting the United States now and in the decades ahead.

The testimony I provided before the Committee last February reflected the extensive analysis done by the Defense Intelligence Community in support of the Joint Strategy Review and the Quadrennial Defense Review. The conclusions drawn from that effort were based on our understanding of the most important trends and factors shaping the international security environment over the long term. Much of what I testified to last year remains valid. The "headline" events of the past year—confrontation with Uraq, developments in Bosnia, NATO expansion, unrest in Central Africa, the troubled Middle East peace process, rogue state efforts to acquire advanced weapons, and the economic crisis in Asia—reinforce the central themes from that testimony:

The turmoil and uncertainty that have characterized international affairs since the end of the Cold War will last at least another decade. During this transition period, the United States will continue to face a dynamic, complex, and uncertain security environment.

The "bi-polar" (Cold War) security framework has given way to a more generalized global set of partners, potential competitors, and adversaries, the troubling proliferation of "negative" technologies, and the advent of numerous persistent small-

conflict circumstances. US security policy planners and operators must reexamine their viewpoints and re-think the circumstances in order to understand this new and evolving global paradigm.

Despite our tremendous power and influence, threats and threatening conditions exist today. Others will emerge over time. The most important of these involve challenges posed by competing regional powers, including a host of very complex and demanding local, regional, and transnational circumstances and conditions.

The combined impact of rapidly advancing technology and human ingenuity will continue to alter the nature of warfare and the characteristics and capabilities of future threats. This change could be very positive given the right circumstances, but the potential, indeed the trend, for continued proliferation of missile technology weapons of mass destruction, and related capabilities, is negative and of growing concern.

#### CRITICAL ASSUMPTIONS

In attempting to analyze this uncertain environment, we make two basic assumptions:

The United States will remain the dominant global power—politically, economically, and militarily—and will continue its active engagement in world affairs. It either our power or our willingness to remain globally engaged diminish significantly, then the overview outlined here would change accordingly.

The future unfolds along discernible (linear) lines, as reflected in current trends and conditions. History tell us that this will not occur—at least not in all of the dimensions addressed here. Thus, our “best estimate” will no doubt prove partially wrong. In order to deal with this dynamic, we in Defense Intelligence will continue to consider and analyze alternative (nonlinear) futures.

#### *Prolonged turmoil and uncertainty*

The objective global conditions that have driven the turmoil and instability of the post-Cold War era remain largely in effect. The most important include:

Uneven economic and demographic growth—population in the developed world remains relatively stable, but the number of people in the developing world will increase some 25% over the coming two decades. Rapid urbanization continues throughout Asia, Africa, and Latin America. Meanwhile, although we expect global economic growth to continue over the long term (despite recent events in Asia) progress will be sporadic particularly throughout the so called 3rd World. These conditions will strain the leadership, resources, and infrastructure of the developing states. Many will struggle to cope. Some will undoubtedly fail.

Disparities in wealth and resource distribution—the developed (mostly northern) world accounts for some three-quarters of global wealth and consumes the lion's share of the world's resources, with less than a quarter of global population. Local or regional shortages of fresh water, arable land, food, fisheries, and energy are already causing tensions. Resource shortages will be a source of regional conflict and will retard environmental, health, and economic progress. These general conditions will not “improve significantly over the next decade or so, exacerbating north-south and inter-regional tensions and contributing to regional instability.

Ethnic, religious, cultural strife—political and cultural entities will continue to align along ethnocentric, theocratic, and linguistic lines. Tensions between and among various ethnic groups, and between them and established governments, will continue. As evidenced by the genocide in Bosnia, the Great Lakes region of Africa and the former Zaire, ethnic-based conflict is often brutal and intractable.

Broad technology advances and proliferation—the rapid pace of technological change is straining the social order in both developed and developing nations. Technological competition is an increasingly important aspect of relations between advanced states. The gap between information and technology “haves and have-nots” will become a key issue for future international relations. Meanwhile, the proliferation of weapons and other military technologies will alter regional arms balances and, in many cases, undermine stability.

Uncertain regional and global security structures—the dramatic and complex changes underway in many regions continue to tax “Cold War” security structures precepts, and organizations. Many of these are ill suited to the new era. As evidenced by the problems and tensions associated with NATO expansion, the process of adapting old and developing new structures is proving complex and sometimes confrontational

International criminal activity—terrorism, drug trafficking, and other forms for transnational crime will continue as criminal groups and individuals take advantage of advances in global communications, transportation, finance, and other favorable circumstances. The potential for such groups to have access to and to use weapons

that can cause large numbers of casualties will increase Countering international crime will become an increasingly important dimension of US security policy.

Rogues, renegades, and outlaws—"isolated" individuals, sub-national groups, and states—for instance Iraq, Iran, and Libya—will continue to exist. These "rogues" will frequently engage in behavior outside commonly accepted international norms—violent extremism, terror, and unacceptable use of military force—as they struggle to improve their position while undermining the established order.

Western cultural expansion—the global expansion and perceived dominance of "western" (and particularly American) values, ideals, culture, and institutions is very threatening to some individuals, groups, and states. Efforts to slow, halt, prevent, or undo this phenomenon, though generally futile, will give rise to "anti-American" behavior of all kinds. While there is not at present an ideology that is both inimical to our interests and widely appealing, one could conceivably arise under the rhetoric of providing a counterpoint to western culture.

Natural disasters and environmental issues—natural disasters of all types will continue to occur, often with little or no warning. Global awareness of the human consequences will keep pressure on governments and leaders to respond. Meanwhile, mankind's global activities particularly population growth, resource consumption pollution, urbanization, industrialization, "desertification," and deforestation—will increasingly impact climate and weather patterns, strain fragile ecosystems, and put more pressure on health and social support systems. All of these issues will take on increased national security import.

Other critical uncertainties—Russia and China in transition, Korea's evolution the viability of the nation-state, the outcome of the Middle East peace process, the future of Bosnia, internecine conflict in Africa, and an array of upcoming leadership changes, are but a few of the many key uncertainties which add to the general turmoil in the global condition.

No condition, circumstance, or power is likely to emerge over the next decade or two, which is capable of transcending these sources of uncertainty and instability and establishing a more stable global order. The international security environment will remain dynamic, complex, and challenging for US security policy planners and operators.

#### *The new global threat paradigm*

During the Cold War, the predominance of the Soviet threat, and the bi-polar nature of superpower competition, allowed for substantial continuity in US defense planning and force development. Defending the 'western way of life' against Soviet expansion provided the basic context for US security policy decisionmaking. Meanwhile, Soviet doctrine, warfighting concepts, and equipment—combined with Warsaw Pact-NATO force ratios and mobilization potential, and the unique terrain and geographic features of Central Europe—provided the basis for our doctrine, strategy tactics and materiel development, our force sizing criteria, our equipment, operational, and organizational requirements, and our functional characteristics. Within this broad "Soviet threat" paradigm, other force requirements were generally considered lesser-included cases, on the assumption that if the US could handle the Soviets in Central Europe, we could also handle everything else.

One of the more intriguing aspects of the post Cold War era is that while the global strategic threat to US interests has diminished greatly in comparison to the Soviet era, the residual regional and transnational threats are much more complex and diverse and much harder to plan for. For instance, Iraq and North Korea, currently our most likely opponents in a major theater conflict, pose significantly different challenges in terms of their tactics, equipment, and capabilities, and the theater terrain and locale. Neither state presents a pacing technology threat, although it is likely that North Korea has a limited nuclear capability and the capability to engage in chemical warfare. Meanwhile, Russia and our European and Asian allies represent our most important military technological "competitors," but we are not likely to face any of these states in a direct military conflict during the next ten-to-twenty years. Similarly, our most pressing current challenges terrorism, narcotics trafficking, and other criminal activity with national security implications—and the biggest emerging threats—weapons of mass destruction (WMD) and missile proliferation—have limited utility as the basis for sizing and defining future force requirements.

This complexity and diversity presents a unique challenge for Defense Intelligence: to discern from the general mix of global political, economic, military, technological, and social conditions, a specific characterization of extant, emerging, and potential threats and circumstances. Our efforts to address this challenge and establish a new threat paradigm center on three general factors:



A recognition of conditions that would threaten US interests—for instance, the rise of an ideology inimical to US ideals, concepts, and values, denial of access to key resources and markets; regional or local instability in areas of US vital interest; and the emergence of foreign economic, technological, or military capabilities that undermine our general economic position, or our deterrent and warfighting superiority.

An understanding of the reasons why peoples, leaders, and states engage in warfare—to include competition grounded in antiquity, internal or external pressures on leaders, governments, and states; competition over access to or control of markets and resources; and dissatisfaction with present conditions or the perceived “likely” future.

An understanding of the interaction between a potential enemy’s capability which we are generally very good at determining; intentions—which are difficult to anticipate and understand without indwelling or invasive sources and will . . . which is a function of evolving conditions, as well as the emotions and perceptions of leaders and citizens. Will is transient, ephemeral, and nearly impossible to know with certainty.

Using this general analytic framework, and our assessment of the key factors shaping the global security environment, we can outline the three central features of the new global paradigm.

First, it is clear that the bipolar world has given way to a more generalized multipolar, global set of partners, competitors, adversaries, and conflict circumstances some of which do not conform to traditional nation-state or alliance definitions but rather transcend political boundaries and territorial limitations. We classify these entities as follows:

Cooperative partners—who generally share US values and usually can be considered allies (particularly in the military field).

Uncooperative partners—who generally share our values but may at times be inclined to frustrate our policies to further their own interests.

Competitors—who are generally neutral regarding our values and interests, will compete with us in a variety of fora, but are not military adversaries.

Benign adversaries—who generally conform to contrary values and interests, but lack the economic or military wherewithal to actively oppose us.

Renegade adversaries—who engage in unacceptable behavior frequently involving military force and violence, are current or potential enemies of the US, and against whom we must consider the active use of military force.

It is important to note that, circumstantially, a nation-state or non-state entity can be a cooperative partner, and uncooperative partner, and even a competitor, concurrently, depending on the issue and conditions extant.

And finally—Emergency conditions—usually involving humanitarian disasters, attempts at “deconfliction” of warring groups, and/or the restoration of civil control—which could require the commitment of our military forces, often in threatening and sometimes lethal conditions.

Second, the “traditional conflict spectrum”—ranging from conflict short of war at the low end, through conventional (both local and regional) war, to global nuclear war at the high end—remains valid in that the US military could conceivably engage in operations along the entire spectrum. However, within the broad spectrum, some conditions and circumstances are more likely than others:

Operations at the lower end of the spectrum—military assistance various peacekeeping contingencies, operations other than war, etc.—are most likely.

Limited local or regional conflict is likely to occur.

Large-scale regional war or global nuclear war is unlikely to occur.

Chemical and biological warfare will probably occur, generally within the context of very limited use and very restricted kinds of conflict.

Terrorism will remain a transnational problem but will mainly be a factor at the lower end of the conflict spectrum.

New (or innovative modifications of old) forms of warfare, many of which transcend the entire conflict spectrum, are emerging and will likely be employed (these will be discussed in more detail in the Future Warfare Trends section).

Informabon warfare—actions taken to degrade or manipulate an adversary’s information systems while defending one’s own.

Cybernetic warfare—a form of information warfare involving operations to disrupt, deny, corrupt, or destroy information resident in computers and computer networks.

Transnational Infrastructure warfar—attacking a nation’s key industries and utilities—telecommunications, energy and power, transportation, governmental operations and services, emergency services, financial, manufacturing, etc.

Asymmetric warfare—attacking an adversary's weaknesses, avoiding his strengths, while preventing him from doing the same to you, using asymmetric means such as terrorism.

Asynchronous warfare—a pre-selected or delayed attack on an adversary taking advantage of the passage of time to develop a strategic opportunity or exploit a future vulnerability.

Third, the likelihood that several separate events or conditions will occur simultaneously, or concurrently, over time, thereby amplifying and compounding their impact. One related aspect of this phenomenon is that the daily global engagement posture of the US military will limit the forces and resources available to respond immediately to multiple crises. Anticipating a threat environment in which more than one situation will require a direct military response at the same time is critical to contingency and operational planning.

Beyond this general description of the new global threat paradigm, we are also able to identify a number of specific threats and potentially threatening conditions.

The most important of these are outlined below.

#### *Extant, emerging, and potential threats*

No state has the potential to match the worldwide strength and influence of the United States—in terms of combined political, economic, technological, military, and cultural power—over the next two decades. However, a select group of states—Russia, China, Japan, Europe (collectively or a coalition of key European nations), and India—will likely possess capabilities that are an echelon above other regional powers and nations. These major powers will routinely exert influence within their own regions, and in some cases or dimensions, will also exert influence on a global scale. They will retain unique capabilities to either assist or frustrate US interests and policies. Each nation will also continue to compete for regional and global influence and for access to or control of resources, markets, and technology. Relations between and among these major powers and the US—particularly the nature and extent of their competition—will be a primary factor shaping the future global security environment. In this regard, there are two potential—though unlikely—developments that would be especially troubling for the US:

The formation of an anti-US alliance involving two or more of the major powers or a similar regional alliance led by a single major power.

An expansion of major power competition from the political-economic to the military sphere.

Beyond this interaction between the major powers, there are a wide variety of conditions, circumstances, and individuals who either now do, or could in the future threaten the vital interests of the United States. We generally classify these current and potential threats as either transnational or regional.

#### KEY TRANSNATIONAL THREATS AND ISSUES

##### *Proliferation*

The proliferation of nuclear, chemical, and biological weapons, missiles, and other key technologies remains the greatest direct threat to US interests worldwide. More than 20 states are actively pursuing weapons of mass destruction (WMD), motivated either by regional competition or the desire to develop a deterrent or counter to the concomitant superiority of others, including the US.

Nuclear proliferation—both weapons and technology—presents a continuing significant threat. While nuclear weapons are generally difficult and expensive to obtain, and counter-proliferation efforts have been successful to date, we expect the number of nuclear states to slowly increase into the next century. We are also concerned with the threat posed by “peaceful nuclear technology”—due to unsafe or faulty technical designs, aging facilities, inadequate safeguards and security, improper handling, etc.—which will grow as more nuclear technology is used over the coming decades.

Chemical and biological weapons—being generally easier to develop, hide and deploy than nuclear weapons—will be more widely proliferated and have a high probability of being used over the next two decades. The technology and materials to produce relatively sophisticated chemical weapons are readily available, often as dual-use commercial items. Many states see chemical weapons as a cost-effective alternative to developing large conventional capabilities. Biological agents are more difficult to weaponize, handle and store, but the information and technology to do so is available. We are particularly concerned about the increasing potential for chemical and biological weapons use by sub-national groups or individuals—that are very difficult to identify and to deter.

Ballistic and cruise missile proliferation presents a growing challenge to deployed US forces worldwide. While the types of missiles most likely to be proliferated will be a generation or two behind the global state of the art, states that acquire them will have increased (and in some cases unprecedented) capabilities for delivering WMD or conventional payloads inter-regionally against fixed targets. We are particularly concerned about two trends:

The significant increase we expect over the next two decades in the numbers of ballistic missiles with ranges between 300 and 1,500 kilometers.

The potential for land attack cruise missiles to be more widely proliferated.

Certain key technologies, such as nanotechnology—which allows advanced functions to be achieved in very small and lightweight form—are important to the development and effective delivery of WMD. Information-related technology including encryption, high volume data handling, complex computational capability and offensive and defensive information warfare capabilities, are also critical proliferation concerns.

### *Terrorism*

Terrorism will continue as a global challenge so long as groups and individuals oppose established political, economic, and social processes due to perceived ethnic, religious, nationalist, political, and other forms of discrimination. In some cases, the use of extreme violence for some identifiable goal will be more criminal and less political than in the past, blurring the line between terrorism and common crime. The characteristics of the most effective “terrorist groups”—highly compartmented operations planning, good cover and security, extreme suspicion of outsiders, and ruthlessness—make them very challenging intelligence targets. The following emerging trends are particularly noteworthy:

The terrorist threat to the US will increase—both abroad and here at home—as groups exploit technological advances in communications and transportation, counterfeiting/forgery, cover and concealment, weapons, and explosives.

Middle East-based terrorism, which remains the primary politically-motivated terrorist threat to US interests, will increase over the next two decades, in part because of growing demographic and resource tensions.

Many state sponsors will be less active than in the past, but Iran and private entities (such as Usama Bin Ladin) will continue to sponsor a wide range of terrorist activities.

In some cases, such as in Algeria, internal terrorism will threaten the viability of the national government and will lead to spiraling violence.

Terrorists groups are becoming increasingly multinational, more associated with criminal activity, and less responsive to external influences.

Counterterrorism successes will lead to more “unknown and new name” groups that are less likely to claim responsibility for their actions.

Advanced and exotic weapons (including WMD) will be increasingly available and will and intent of terrorists groups to use them will likely increase. But terrorist capabilities to use such weapons will remain limited for a number of technological, operational, and other reasons.

Chemical or biological agents would likely be the choice if WMD were employed. The Aum Shin-Rykyo chemical attacks are harbingers of future possibilities.

### *Narcotics*

International drug cultivation, production transport, and use will remain a major source of instability, both within drug producing, transit, and target countries, and between trafficking and consumer nations. The connection between drug cartels, corruption, and antigovernment activities (terrorism and insurgency) will increase as the narcotics trade provides an important funding source for criminal and antigovernment groups. States with weak democratic traditions and poor economic performance and prospect will be particularly susceptible. Counternarcotic activities will become more complex and difficult to discern as new areas of cultivation and transit emerge and traffickers exploit advances in technology, communications, transportation and finance. Illicit synthetic drug production in urban areas is a significant and growing threat.

### OTHER INTERNATIONAL CRIME

International organized crime will pose an increasing threat to US interests. Criminal cartels are becoming more sophisticated at exploiting technology, developing or taking control of “legitimate” commercial activities, and seeking to directly influence—through infiltration, manipulation, and bribery—local, state, and national governments, legitimate transnational organizations, and business. Increased cooperation between independent criminal groups, including terrorist organizations,

is likely. We expect that greater interaction between the US military and federal agencies will be required to counter this growing threat.

#### KEY REGIONAL THREATS AND ISSUES

##### *North Korea—a failing state*

North Korea remains in crisis. As the pressure builds on the economy, society, and military, the potential for internal collapse, instability, and leadership change is rising. Some form of significant—perhaps violent—change is likely in the next five years. There are four basic alternatives: leadership change, government collapse, negotiated accommodation with the South, or major economic reform. Any of these scenarios will have significant security challenges for the US.

In the meantime, North Korea's overall military readiness continues to erode in line with its worsening economic situation. However, because the North retains significant, forward-deployed strike systems—artillery, missiles, rocket launchers, and aircraft—it will maintain its capability to inflict enormous damage on heavily populated northern areas of South Korea with little or no warning. In fact, over the next several years Pyongyang's WMD, missile, artillery, and special operations force capabilities will likely improve, despite the dire economic situation. Continued vigilance and readiness, for both "implosion and explosion" scenarios, is required.

##### *China—another transition/transformation*

China's top priorities will continue to be economic development, modernization, and domestic political stability. The Chinese regime is likely to become more responsive to the desires and needs of its people, but not significantly more democratic or pro-Western. Beijing's foreign policy will seek to avoid conflict and sustain the trade, investment, and access to technology that are essential to economic development. Within this cooperative framework, however, several points of friction will persist:

The Taiwan issues remains the major potential flashpoint. US policy supports peaceful evolution in cross-straits relations, but Beijing believes US policy encourages the independence movement of Taiwan, deliberately or inadvertently.

Beijing believes the US is bent on containing, dividing, and westernizing China and will continue to pursue policies designed to counter perceived US efforts toward that end.

China perceives Japan as its principal Asian regional rival, and views US-Japanese defense cooperation as helpful only if it limits the emergence of a long-term Japanese military threat.

Other regional territorial disputes may flare into period crisis.

China's ethnic separatist movements are another potential point of conflict, especially in Tibet and northwest China.

China's military strategy will continue to emphasize the development of a survivable nuclear retaliatory capability as a deterrent against the use of nuclear weapons by the United States, Russia, or India. There is no indication that China will field the much larger number of missiles necessary to shift from a minimalist, retaliation strategy to a first-strike strategy.

China's conventional force modernization will continue at a measured pace, with emphasis on developing a more credible military threat against Taiwan (though not the large amphibious capability necessary for invasion), and protecting claims in the South China Sea against Southeast Asia rivals. China is not likely to build the capability to project large conventional forces beyond its immediate borders or nearby seas.

The Chinese military will decrease in size during the next two decades to conserve funds for military modernization. Absent a major resurgence of Russian military power, the air and naval threat from the east is seen as much greater than the ground threat from the north. China's top military priority will therefore remain modernizing its air, air defense, and naval forces. With the exception of several select units, the ground forces will continue to receive relatively low priority.

Beijing emphasis on defense requires the PLA Navy in particular to expand its operating area further out from the mainland. The Navy's emphasis is on offensive strike capability against surface ships, including more modern fighters, aerial refueling, and anti-ship cruise missiles launched from surface, sub-surface, and aerial platforms.

China will continue to actively seek advanced technology, including a much-improved knowledge base from "overseas" students, and from cooperative nations and commercial partners, and will proliferate some technical capabilities as it sells selected weapons systems to other countries.

*Russia—perplexing evolution*

Russia will remain focused on internal political, economic, and social imperatives for at least the next decade. The periodic turmoil that has plagued Moscow since the late 1980s will continue. Immature political institutions, economic weakness, organized crime, and corruption will heighten the potential for political instability, particularly during periods of leadership transition.

As with the other components of Russia's social order, economic progress is the key to the future of Russia's military. Over the next several years, Moscow will be hard pressed to maintain the modicum of conventional military capability it now has. Barring a significant increase in Russia's external threat perception, non-military issues will continue to receive priority in terms of national leadership attention, resources, and popular concern. Moreover, other para-military and internal security forces will continue to compete with the Ministry of Defense for scarce security resources.

There is little chance that Russia will reemerge as a global military peer competitor to the US over the next two decades. During this period, Russia's strategic nuclear forces will remain the backbone of Moscow's military might, preserving Russia's perception of great power status and protecting its vital security interests.

The size, characteristics, and capabilities of Russia's conventional forces could vary widely over the next 20 years, depending on the outcome of numerous unsettled issues. Among the most important of these are: the timing, pace, and extent of Russia's economic recovery; the "urgency" embodied in Russian external threat perceptions; the ability to achieve political and cultural stability; the size of Russia's defense investments; whether or not the national leadership achieves consensus on a blueprint for Military Reform (including restructuring and "recapitalizing" the defense industry); and Moscow's success at restoring the "intangible" components of military operational effectiveness (effective leadership, readiness, morale, sustainment, etc.). There are two basic alternatives:

Military reform fails—due to continued underfunding, indecision, and leadership indifference—and Russia's future conventional forces present about the same (or even a reduced) level of threat to US interests as does the Russian military today. This alternative becomes more likely the longer Russia's economic problems persist, defense budgets decline or remain relatively stagnant, there is no consensus on the direction for defense reform, and the national leadership continues to neglect the needs of the military.

Military reform succeeds and the Russian armed forces emerge smaller, but more modern and capable. The keys to this future are that the Russian economy achieves sustained, steady growth, Russia's defense burden stabilizes, a national consensus on military reform emerges, and the General Staff is "put back in charge" of the reform process. These developments would allow the military to sustain adequate levels of research and development, improve training, and complete the restructuring of forces over the near term, to begin moderate rates of series production of a new generation of combat systems around 2005, and reemerge beyond then with greatly improved capabilities for regional military operations.

*Bosnia—progress with permanence*

International Peacekeeping forces in Bosnia continue to operate in a complex inter-ethnic environment that poses significant challenges to the establishment of a stable and enduring peace. We believe the Bosnian factions will continue to generally comply with the military aspects of the Dayton Accords and Stabilization Force directives, and will not engage in widespread fighting between themselves, so long as Peacekeeping forces remain credible. However, if civil implementation of Dayton lags, the prospects for renewed fighting would increase significantly following the withdrawal of stabilizing forces, due to the unrealized aims of the Bosnian factions. The threat to US and allied forces from, organized indigenous military and police forces will remain low. Nonetheless, the Stabilization Force continues to face a threat from mines and various forms of low-level, sporadic and random violence, which could include high profile attacks by rogue elements or terrorists. Pervasive international engagement—both political and economic—will be necessary to prevent de facto or even permanent division of Bosnia along ethnic lines.

*Iraq—continued belligerence*

Iraq will remain capable of limited incursions against its neighbors but incapable of holding against a determined "western" counterattack. Saddam retains the goal of dominating Kuwait, but his options to destabilize the Gulf region and the GCC will remain limited so long as UN sanctions are in place and effective.

Iraq's military capability continues to erode. Saddam's forces have significant weaknesses—in leadership, morale, readiness, logistics, and training—that would limit their effectiveness in combat.

Iraq continues limited efforts to preserve and expand its missile and WMD capabilities and to hide that activity from the international community. If sanctions are removed these efforts will receive increased emphasis, along with efforts to improve Baghdad's air defense and ground forces capabilities.

Iraq will remain a threat to US regional policies and interests and to the safety and security of Iraqi opposition groups, so long as Saddam remains in power. His presence demands the continued enforcement of UN sanctions to limit Iraq's military expansion, and the continued commitment of US power to deter Iraqi aggression.

While predicting the nature of a post-Saddam government is highly speculative, Iraq is likely to maintain its regional ambitions, and will continue to place a high premium on military power, well into the future. The perceived threat from neighboring nations will also motivate any future Iraqi government to sustain and enhance Baghdad's military capability.

#### *Iran—a chance for change*

Iran is deliberately building up its military and developing new capabilities, motivated by its desire to provide a means to intimidate its Gulf Arab neighbors, to limit the regional influence of the west—particularly the United States—and to deter a resurgent Iraq or any other potential aggressor. Tehran will gradually overcome its near term economic difficulties, although progress will be slowed by the dual challenges of a rapidly growing population and uncertainties over the pace and extent of internal reform. Over the longer term, Iran will probably eschew some of its more visible unacceptable practices abroad and seek better relations with the US—although its early moves in this direction are likely to be tactical expedients. However, Tehran will not abandon its drive for regional hegemony and circumstantial domination or for increased WMD capabilities.

Iran recognizes that it cannot hope to match US military power directly and therefore seeks asymmetric and asynchronous means to challenge the US indirectly; through subversion and terrorism directed against US and western interests; the development of air, air defense, missile, mine warfare, and naval capabilities to interdict maritime access in the Gulf and through the Strait of Hormuz; and the pursuit of WMD designed to deter the US and intimidate Tehran's neighbors. These efforts reflect a clear intent to build an offensive capability well beyond Iran's defensive needs. Iran will continue to seek more effective ways to use its single best defense asset—the geography and terrain of the country.

Given its internal difficulties, Iran's rearmament will proceed gradually. Over the next decade, Tehran will likely develop and deploy additional WMD and missile capabilities, make moderate progress in its ability to interdict shipping in and around the Strait of Hormuz and the Gulf, and limited progress in its air defense programs. Thereafter depending on the pace of Iraq's military modernization, Iran will likely devote additional resources to develop its ground forces, which are its principal means of deterring and defending against Baghdad, as well as a significant internal and regional control mechanism for Tehran to use in its version of the future.

Despite these gradual force improvements, the Iranian military will retain many of its current conventional force shortcomings—particularly command and control maintenance, training, and equipment—which will limit its effectiveness against Iraq and the west.

#### *India—Pakistan—dangerous circumstances*

The tense rivalry between India and Pakistan remains an important security concern. India's economic growth is likely to continue at a brisk pace, while Pakistan's problems—including weak infrastructure, high illiteracy, weak political institutions, and the slow pace of reform—will temper economic growth. As a result, India's considerable military advantage is likely to increase, leaving Pakistan felling more vulnerable, and more dependent on international moderating influences and its WMD, especially nuclear, deterrent. Both countries will remain beset by numerous internal challenges to national unity. While India will continue to pursue improved ties to other Asian states and the west, proliferation concerns will remain a source of friction.

In the military sphere, India and Pakistan both continue to view their security relationship in zero-sum terms, possess sufficient material to assemble a limited number of nuclear weapons, have short range ballistic missiles, and maintain large standing forces in close proximity across a tense line of control. In short, although the prospect for major war between India and Pakistan is low at present, we remain

concern about the potential, particularly over the near term, for one of their occasional military clashes to escalate into a wider conflict. Over the longer term, however, the threat of large-scale war should diminish.

#### *Latin America—hopeful progress*

The outlook for democracy in Latin America is good. The acceptance of military subordination to civil control will expand and should be commonplace over the next two decades. Nevertheless, there will be a continuing susceptibility to setbacks and stresses rooted in the persistent political, social, and economic problems of many countries. The scourge of narco-trafficking, related money laundering, weapons and contraband smuggling, illegal migration, and insurgency will remain the principal obstacles to stability and democratic progress.

The prospect for interstate warfare in Latin America will remain low. Historic, unresolved border issues—such as the dispute between Peru and Ecuador—have the potential to erupt abruptly into armed conflict, but these conflicts will generally be limited in scope and duration.

With some notable exceptions, relations between Latin America states and the US will remain positive and friendly. There is virtually no threat of armed conflict with the US. However, the US military is likely to deploy to Latin America for operations at the lower end of conflict spectrum—natural disaster requiring humanitarian assistance, counterdrug operations, military assistance, etc. Evolving conditions in Cuba, Haiti, and several drug producing and transit countries may lead to some greater concern.

#### *Greece-Turkey—flashpoint*

The situation in the Aegean will continue to be fragile. Though diplomacy has helped contain tensions, the potential for conflict remains. Ongoing disputes over territorial claims and Cyprus, advanced weapons proliferation into the region, and contentious economic issues have furthered tensions between the two NATO members.

Ankara's failure to obtain European Union membership has raised the sense of isolation from Turks, while others have been "vindicated" in their anti-western rhetoric. Security assistance and economic cooperation with the US will help alleviate Turkish concerns, but any withdrawal of US interests in the next few years will exacerbate Turkish fears and frustration. These conditions could foster more extreme nationalism, and could undermine the government's efforts to sustain secular stability.

#### *Sub-Saharan Africa—tribal and cultural confrontation*

Perhaps the greatest challenge for the future of Africa is the need for good governance, the rule of law, and respect for human rights. Protracted tribal competition and conflict will continue to destabilize the Sub-Saharan region, exacerbated by population growth, poverty, and poor humanitarian conditions.

Despite these festering problems, there are productive efforts by many Sub-Saharan countries to move toward more representative government and the pursuit of political pluralism. Some are addressing security concerns through greater regional cooperation and collective participation. Other African states have pursued security arrangements through private firms in lieu of state-to-state assistance.

Black and gray arms markets will continue to be the primary venue for military forces to acquire new equipment. Small arms and light weapons—which are cheaper, easier to transfer, and require minimal maintenance—will be emphasized.

Relations between Sub-Saharan countries and the US will generally be friendly and positive as these nations seek increased US trade and economic investment.

#### *Central Asia and the Caucasus—future challenge*

The Caspian Macro region will be attractive as a relatively new global market for energy resources and infrastructure projects. International interest and investment in the oil and gas fields of this region will continue to grow in concert with the global demand for energy. Russia will likely acquiesce to both western and Asian investments as long as Russian entrepreneurs are included in the concessions. Turkey, Iran, and China will pursue greater economic and political involvement.

The region will continue to experience ethnic, tribal, and other forms of inter-ethnic conflict and it is probable that Central Asian problems and Central Asian involvement in ethnic issues will "spillover" into both China and Russia. Relations between the US and the various states of the region should remain "fair-to-good" as many explore economic ties to the west.

## THE IMPACT OF TECHNOLOGY—TECHNOWAR

The rapid pace of military technology advancement—particularly in the areas of precision weapons, information and communications will continue. Major technological breakthroughs are likely in the next two decades. Some aspects of our technological dominance—especially those with commercial and industrial applications—will be difficult to maintain because the transfer of these capabilities will initially appear as purely civilian events. Perhaps our greatest challenge is that a rogue nation or sub-national group might acquire key technologies, which would lead to some form of strategic technical surprise.

Overall, the impact of applied automation and computers, electromagnetic warfare, brilliant sensors, and the other technologies listed below will lead to the rise of a military-techno culture in which time, space, speed, and other fundamental conditions are radically changed. These developments have the potential to dramatically alter the nature of warfare and the characteristics of future threats.

Nuclearization and the proliferation of WMD capabilities;  
 precision munitions;  
 electrodynamic weapons;  
 “conventional” weapons of mass destruction;  
 non-lethal weapons;  
 information technology and cybernetic warfare;  
 camouflage, cover, concealment, denial, and deception (C3D2);  
 techno-terrorism;  
 nanotechnology; and  
 applied biotechnologies.

To date the development and integrated application of the most important military technologies and concepts has been limited to the advanced western militaries—particularly the United States. One key reason is economic. In general, these technologies are very expensive to develop and maintain and most nations have emphasized other priorities since the end of the Cold War. In fact, non-US global defense spending has dropped some 40 percent since the late 1980s, and the “military modernization accounts”—research and development, and procurement—have been hit even harder. Moreover, during the same period, the global arms market has decreased by more than 50 percent. With reduced domestic procurement, declining foreign consumption, and other spending imperatives, many nations have had neither the motivation, the resources, nor the capability to pursue high technology military endeavors. Over the next decade, however, as post Cold War defense reorganizations are completed, defense industries stabilize, and funding (potentially) increases, these areas could see additional, albeit still limited, emphasis.

## NEW (MODIFIED) FORMS OF WARFARE

Technology, combined with the creative genius of military thinkers around the world, is leading to the development and application of new forms of warfare, and the innovative modification of traditional military practices. While the US and its allies are the source of much of this innovation, others are motivated by the dominant military position of the US, and our demonstrated commitment to maintaining our military lead. This basic reality is forcing many of our adversaries (current and potential) to seek other means to attack our interests. Some of the more important are listed below:

Information Warfare (IW) involves actions taken to degrade or manipulate an adversary's information systems while actively defending one's own. Over the next two decades, the threat to US information systems will increase as a number of foreign states and sub-national entities emphasize offensive and defensive information warfare strategies, doctrine, and capabilities. Current information on our vulnerabilities, and foreign intelligence initiatives in general, point to the following threats:

Trusted insiders who use their direct access to destroy or manipulate the information or communications system from within.

Modification of equipment during transport or storage.

Physical attack of key systems or nodes, including the insertion of modified or altered hardware.

Network penetration to include hacking, exploitation, data manipulation, or the insertion of various forms of malicious code.

Electronic attack of various interconnecting links, sensors that provide data to the system, or other system components.

Empowered agents including “sponsored” or individual hackers, cyber-terrorists criminals, or other individuals who degrade, destroy, or otherwise corrupt the system. In the most advanced case, empowered robotic agents, embedded in the system,



could be used to take autonomous (timed) actions against the host or remote systems or networks (cyber war).

Cybernetic warfare (CYW) is a distinct form of information warfare involving operations to disrupt, deny, corrupt, or destroy information resident in computers and computer networks. One particularly troubling form of "war in cyberspace" is the covert modification of an adversary's data and information systems. This form of warfare will grow in importance as technology makes new methods of attack possible. Cybernetic warfare defies traditional rules of time and distance, speed and tempo, and the conventional or traditional military capabilities of the opposing elements.

Transnational Infrastructure Warfare (TIW) involves attacking a nation's or sub-national entity's key industries and utilities—to include telecommunications, banking and finance, transportation, water, government operations, emergency services, energy and power, and manufacturing. These industries normally have key linkages and interdependencies, which could significantly increase the impact of an attack on a single component. Threats to critical infrastructure include those from nation-states, state-sponsored sub-national groups, international and domestic terrorists, criminal elements, computer hackers, and insiders.

Asymmetric warfare—attacking an adversary's weaknesses with unexpected or innovative means while avoiding his strengths—is as old as warfare itself. In the modern era, many forms of asymmetric attack are possible—to include the forms of warfare outlined above, terrorism, guerilla operations, and the use of WMD. Because of our dominant military position, we are very likely to be the focus of numerous asymmetric strategies as weaker adversaries attempt to advance their interests while avoiding a direct engagement with the US military on our terms. If forced into a direct conflict with the US, those same adversaries are likely to seek ways of "leveling the playing field."

Asynchronous warfare involves a preselected, or delayed (timed) attack on an adversary, taking advantage of the passage of time to develop a strategic opportunity or to exploit a future vulnerability. In a preselected attack, the operation has a latent effect on the adversary. Human or technical assets are strategically placed well before—sometimes years before—the actual confrontation. In a delayed attack—often carried out as an act of reprisal months or even years later—the operation is conducted after an opponent has lowered his guard.

#### OTHER WARFARE TRENDS

##### *Ground Forces*

Many ground forces throughout the world are being reduced due to diminished threat perceptions and other, mostly economic, imperatives. Many developing nations—who still see ground forces as the essential force component—are saddled with outdated equipment that is either non-operational or in serious disrepair. These states hope to "modernize"—within economic limits—with surplus Cold War stocks. For many, however, overall combat effectiveness will remain limited due to persistent shortfalls in training, maintenance, leadership, operational concepts, and morale.

The developed states are in various stages of modernization, but ground forces are a low priority for many of these countries. In terms of doctrine, few states have either the inclination or the capability for anything other than old western or Soviet-era equipment and practices. Training and logistics are generally in tandem with modernization and doctrinal advancement. Most nations do little beyond battalion level training and few have any proficiency at joint or combined arms operations.

To balance the demands of responding rapidly to local or regional contingencies, while maintaining the capacity to mobilize for large scale war, many states are adopting a two-tiered readiness structure consisting of a few "ready" units (smaller, more mobile, better-equipped, trained, and manned), and a larger component of "not-ready" units (usually large units, with older equipment, manned at pre-mobilization or cadre status).

Those nations with the motivation and resources to upgrade their armies will generally be able to acquire improved tanks and fighting vehicles (primarily with western fire controls, night-vision devices, add-on passive or reactive armor, threat warning and obscurant systems, and, in the more distant future, active protective systems).

##### *Naval Forces*

The foreign naval threat in the next 20 years will consist of both larger numbers of older weapons systems and a smaller yet more diverse set of modern systems.

Naval warfare will become more complex, with a wide variety of potential adversaries, situations, and forces capable of confronting the US during the execution of overseas presence and warfighting missions. This is especially true in littoral regions.

The majority of the world's fleets will consist of ships not larger than destroyers and frigates, although a select few will retain or build aircraft carriers. New ship designs will emphasize improved multi-mission capability, endurance, reduced signatures, and increased system automation and firepower.

The submarine threat will remain significant especially in coastal or contiguous waters where many smaller navies are confined in operate. Russian submarines, sensors, and weapons will continue to pose the pacing undersea technology challenge for the US.

Mine warfare threats will increase as maritime nations continue to see mines as cheap and effective weapons against ships and submarines, and more sophisticated mine systems become widely available.

Anti-ship cruise missiles will be more widely proliferated, posing an increasing threat to naval and civilian maritime traffic.

#### *Air and Air Defense Forces*

Global combat aircraft inventories will decline over the next two decades, but residual aircraft will be more technologically capable and lethal (extended ranges, multirole mission capability and multiple engagement capability). The proliferation of advanced air-to-air missiles precision-guided munitions, land attack cruise missiles, and "smart weapons" will increase the defensive and strike capabilities of air forces globally. Most countries will focus on modified and upgraded versions of proven airframes.

Overall, however, resource shortfalls, qualitative training deficiencies, and limited C3I, electronic warfare, logistics, and maintenance capabilities will limit the combat effectiveness of most air forces.

Cognizant of the advantages afforded those nations possessing superior air warfare capabilities, and unwilling or unable to bear the high cost of advanced air superiority aircraft, many nations will place a high premium on improving their groundbased air defenses. Across-the-board upgrades in missiles and sensor capabilities—improved seekers, propulsion, guidance, and control—will occur. However, most states will lack the resources and technological sophistication necessary to acquire and field integrated air defense networks and systems. As a result, the operational effectiveness of these advanced weapons systems will remain limited, albeit challenging.

#### *Space Warfare*

While the US will remain the world's dominant space power, over the next two decades, increased foreign military and civilian space capabilities will erode the relative US advantage in satellite reconnaissance, communications, mapping, and navigation. The space systems of 2018 will be much more capable and more widely used than those of today. By that time, nearly 40 countries will have their own satellites (compared with about two dozen today), and more than a dozen commercial consortia will provide satellite services (imagery, geo-spatial data, communications) to the rest of the world. As part of this general commercialization of space, the number of countries capable of using space-based platforms or capabilities for military purposes will increase. We must also consider the increased potential for future adversaries to employ a wide variety of means to disrupt, degrade, or defeat portions of the US space support system.

#### CONCLUSION

As the protracted transition from the Cold War order to an uncertain future continues the United States will remain the world's dominant power. Beyond the enduring challenge posed by the strategic nuclear forces of Russia and China, the global threats facing the United States are diminished in magnitude when compared to the Cold War era. This relative "strategic hiatus provides the opportunity for a breathing space in which the US gains time at reduced risk.

However, the world remains a very dangerous and complex place and there is no relief from the high tempo of operational activity short of war at US forces respond to a broad spectrum of challenges resulting from the general global turmoil. A wide variety of operations—peacekeeping, peace enforcement, counternarcotics, humanitarian emergencies, non-combatant evacuations, military assistance, and limited conflict when necessary—will continue to place our military personnel at risk. Operational environments in these contingencies range from relatively benign, to non-permissive, to hostile.

A number of nations, especially rogue states like North Korea and Iraq, retain capabilities to directly threaten US interests. This condition demands constant US vigilance and the retention of demonstrable warfighting capabilities.

Various transnational threats—weapons smuggling, terrorism, drug trafficking and other forms of criminal activity—continue to plague the international environment and pose the most direct daily threat to US citizens, forces, property, and interests. Some aspects of these threats have national security implications and will continue to involve US military forces and capabilities in the future.

The changing nature of future warfare—including the application of new technologies and innovative doctrinal concepts, and the development of new forms of warfare—presents a constant challenge for US strategy, doctrine, force structure, and materiel development.

The continuing proliferation of weapons of mass destruction, missiles, and related technologies, will result in a broadly increasing threat to stability and a specific direct threat to US military forces.

The global presence of the United States—our tremendous power, influence, and willingness to remain engaged—is the key factor affecting the future shape of the international security environment. We in the Defense Intelligence Community remain committed to providing the best possible military intelligence support to US and allied leaders engaged in planning for and acting in any contingency or crisis.

A final thought—we are trying to maintain military superiority and to use military capability in positive and constructive ways in an environment in which espionage and the selective public disclosure of US classified information is commonplace. Unless we make progress in preventing espionage and stopping the unauthorized public disclosure of classified information, we should anticipate a steady erosion of confidence in our abilities and the real loss of advantage to our adversaries.

Chairman SHELBY. Our next witness is Lieutenant General Patrick Hughes, Director of the Defense Intelligence Agency.

General Hughes.

**STATEMENT OF LIEUTENANT GENERAL PATRICK HUGHES,  
DIRECTOR, DEFENSE INTELLIGENCE AGENCY**

General HUGHES. Thank you very much for the opportunity to address you this morning, Mr. Chairman and Members of the Committee.

I remain convinced that the turmoil and uncertainty that have characterized the post-Cold War world will last at least another decade. I say this because most of the underlying factors remain in place: uneven economic and demographic development; disparities in wealth and resource distribution; continued ethnic, religious and cultural strife; broad, rapid technology advances and attendant proliferation of advanced weapons; certain regional and global security structures, international criminal activity with national security overtones; the continued existence of rogue, renegade and outlaw states, resistance to the rapid expansion of Western ideas and culture; natural disasters and environmental issues; and numerous other critical uncertainties. These factors all bring great stress to the international order. No condition, circumstance or power is likely to emerge over the next 10 to 20 years which will somehow transcend them and lead to a more stable global order.

In fact, one of the more intriguing aspects of the post-Cold War period is that while the global strategic threat to US interests has greatly diminished in comparison to the Soviet era, the residual transnational and the regional threats are in many ways more complex and diverse, and much more difficult to plan for.

This brings me to my next theme—a new security paradigm is evolving, one in which the United States faces a generalized global set of competitors and potential adversaries, the troubling pro-

liferation of negative technologies and the existence and emergence of numerous persistent small conflict situations and conditions.

US security policy planners and operators must carefully study these emerging circumstances in order to understand this evolving paradigm. The new global condition affects every aspect of the US military, including the planning and execution of current operations, and the development of the strategy, organization and equipment that will shape and define our future forces.

The most important challenge facing defense intelligence is to discern from the general mix of global conditions, more specific and useful characterizations of extant, emerging and potential threats and circumstances. We are doing this now.

That sort of threat identification forms the basis for my next theme. The United States is likely to remain the world's only superpower in terms of combined political, economic, technological, military and cultural strength for the next two decades. Despite our tremendous power and influence, however, threats and threatening conditions exist today, and others will emerge over time.

We generally group these extant potential and emerging threats into either trans-national or regional categories.

Regarding trans-national threats, I am most concerned with the proliferation of nuclear, chemical and biological weapons, missiles and other key technologies which can be applied in decidedly negative ways. Two aspects of this trend are particularly troubling. Activities that would provide our adversaries with increased or enhanced capabilities for delivering weapons of mass destruction or conventional payloads interregionally. And those that will allow a rouge nation, or sub-national group to surprise us with a covertly acquired or innovatively applied new technology.

Terrorism, narcotics trafficking, illicit weapons transfers and other international criminal activity, with national security overtones, pose direct daily threats to US citizens, property, resources and interests worldwide. The terrorist threat to the US will probably increase both abroad and here at home as various groups exploit technological advances in communications and transportation, forgery and counterfeiting, cover and concealment, and weapons and explosives.

International drug cultivation, production, transport and use will remain a major source of instability and tension within producing, transit and target countries, and between trafficking and consumer nations. Of particular concern is the connection between drug trafficking and insurgency.

Regarding the most pressing regional threats, North Korea, Iraq and Iran remain generally hostile. Each retains the capability to directly attack US and allied interests with relatively little advance warning. These conditions require continued vigilance and the retention of demonstrable warfighting and deterrent capabilities.

Russia and China, two major powers undergoing lengthy and generally positive but challenging transitions, will continue to demand our attention. While neither state is likely to pose a dramatically increased military threat over the next decade, both have significant military capabilities and the potential to threaten our vital interests.

Other regional issues and hot spots, to include the uncertain situation in Bosnia; tensions in the Aegean; ethnic, tribal and religious conflict throughout many parts of Africa; continued hostility between India and Pakistan; ongoing border disputes between several nations; and ethnic and political conflict in resource rich Central Asia, all have the potential to erupt abruptly into larger conflicts that could result in the requirements for US military involvement.

Finally, it is important to note that the rapid pace of military technology advancement, particularly in the areas of information and communications, will continue. Major technological breakthroughs in military capability are likely in the next two decades. Some aspects of our technological dominance, especially those with commercial and industrial applications, will be difficult to maintain. We can expect our adversaries to develop and apply new or innovative forms of asymmetric and asynchronous warfare as they seek to advance their interests while avoiding direct military engagement with the United States on our terms.

A final thought. We are trying to maintain military superiority and to use military capacity in positive and constructive ways in an environment in which espionage and the selective public disclosure of US classified information is commonplace. Unless we make progress in preventing espionage and stopping the unauthorized public disclosure of classified information, we should anticipate a steady erosion of confidence in our abilities and the real loss of advantage to our adversaries.

Thank you very much, Mr. Chairman.

Chairman SHELBY. Thank you, General Hughes.

Director Tenet, Saddam Hussein continues to defy the United Nations Security Council's resolutions requiring the dismantlement of his capability to produce weapons of mass destruction. Once again, we find ourselves in a confrontation with serious implications for the security and the stability of the vital Persian Gulf region.

First, would you please describe for the Committee today the current status of Iraq's missile, chemical, biological and nuclear programs. And even if full inspections were resumed today, how confident could we be that we could find and we could eradicate all of Saddam Hussein's weapons programs, especially his chemical weapons and biological weapons programs?

Director TENET. Well, Mr. Chairman, I think it's fair to say that the UN inspection regime has been absolutely critical in keeping those programs in a box. We have destroyed a lot of his Scud capability. We have destroyed much of his chemical weapons capability. We are, quite frankly, still worried about his biological weapons capability, because as you know, much of that information came to us through the defection of his son-in-law in 1995.

Chairman SHELBY. We're also getting very close to sensitive, probably critical areas, and hence the defiance, right?

Director TENET. Yes, sir. But the fact is—the fact is, is that he understands very well that unfettered access is what is required of him. We understand that someone with his track record of aggression—he's used aggression against his Arab brothers, he's used aggression against his own people, he's launched Scuds against

Israel, he's used chemical weapons against the Kurds: He has a track record.

We understand what he's about and what he would do if he were unfettered from UN sanctions and relevant resolutions. He understands he has to comply.

Now, we are at an enormously sensitive stage in thinking through all this. Diplomacy is being used. We've moved forces into the region. We are taking this very seriously. And at any moment in time—and I'm always interested in newspaper stories about whether he's better off or worse off—at any moment in time, it should come as no surprise to anybody, that he is trying to exploit the current diplomatic situation for his benefit.

At the end of the day, he's a desperate man, in terrible shape. I wouldn't want to play his deck of cards in a card game when he's dealing with the international community that I believe the United States has kept united throughout this period.

Chairman SHELBY. Director Tenet, how quickly could these programs be expanded, the programs that he has—chemical weapons, biological weapons and so forth—or revived if sanctions were removed?

Director TENET. Well, I don't think sanctions are going to be removed anytime soon, Mr. Chairman. But I will make the distinctions and ask my colleagues to comment on this as well.

Look at this in a continuum. Biological weapons, biological capability I think could be reconstituted very, very quickly in a matter of weeks. Chemicals in the continuum take some time of a—some kind of a longer time period, but I believe six months is not unreasonable. Ballistic missile capability is something that takes much, much longer to reconstitute.

Chairman SHELBY. Director Tenet, in recent months, as we all know, Saddam Hussein has successfully, up to now, defied the United Nations, widened the split within the UN Security Council, and dealt his old benefactor, Russia, back into the Middle East as a major player. Seven years after the Gulf War, he retains significant portions of his weapons programs and a significant capability to threaten the Persian Gulf region, if not immediately, then on relatively short notice.

Do you agree that Saddam Hussein is better off today than he was before the showdown began?

Director TENET. No I do not, Senator, I think he's got less options.

Chairman SHELBY. Do You think he's more desperate today?

Director TENET. Senator, there's substantial force in the region. Operation Northern Watch. Operation Southern Watch. No-fly zones. No-drive zones. We have this man in a box. And he's going to stay in a box. And at this moment in time, that's exactly what we should be saying to him. No other statement would be fair to our men and women who may have to go do something about this guy.

Chairman SHELBY. What are the key factors, Director Tenet, that you believe have encouraged Saddam Hussein to pursue his path of confrontation and defiance? Is it desperation? Or is it a hopeful split of the UN Security Council?

Director TENET. Well, Senator, I don't know him, never met him, haven't talked to him, and don't know what's in his mind. But I think he's someone who's—people often say he makes mistakes. I think he's also very adroit and clever at seeking the split the international coalition, taking advantage of different partners at various points in time. And he will continue to do that.

But the fact is that we have maintained the integrity of the Security Council and the UNSCOM process, and unfettered access remains the goal of the UN Security Council today. I think as long as that position is maintained and is firm, I don't think he'll be able to exploit our position.

And I'd welcome Mrs. Oakley's and General Hughes' comments.  
Chairman SHELBY. Secretary Oakley.

Mrs. OAKLEY. Well, I would certainly agree with this. I think it's important to understand that in all the years of the UNSCOM inspections that have gone on, Iraq has never really come clean. And they have never really given us the complete information on the baseline for their activities on biological, chemical, nuclear and ballistic missiles.

So that there are a lot of things we don't know. We had to surmise various things, and therefore it's very difficult to say how long it would take to restart all these things. And it's not just that we want to prevent any future development, which we would agree he will try immediately if sanctions are lifted. But we need to really understand where he was starting from, how long it will take, what are the key factors in his projects.

And I think that is very important to understand—that not only do we need to keep him from moving ahead, but we really do need to find out what he was doing.

Chairman SHELBY. What some people have talked about—a lot of the pundits, a lot of people that make policy in this country said, basically, this Administration has only a reactive policy to Saddam Hussein. Do you agree with that?

Mrs. OAKLEY. No, I don't.

Chairman SHELBY. Well, tell me why you don't.

Mrs. OAKLEY. Well, I don't agree with it because I think the thrust of everything that we have been doing is to keep the pressure on Saddam Hussein and to keep him in the box that George Tenet has talked about.

It is Saddam Hussein who keeps pushing the envelope to see what he can get away with.

Chairman SHELBY. But then we react to that, do we not?

Mrs. OAKLEY. Well, of course we do.

Chairman SHELBY. Isn't that a reactive policy?

Mrs. OAKLEY. Well, it is reactive if you look at it one way. We can also say it is a warning to him not to go any further.

Chairman SHELBY. For how long can we continue to warn him if he continues to defy us? And we hear it over and over. Shouldn't we have a definite policy to decide where we're going to go at the end of the day? And I'm not sure we have that policy today—at least, it's certainly debatable.

Mrs. OAKLEY. Well, let me just say we're getting into policy issues that certainly the Department of State's INR branch is very

close to. But I think some of those policy questions are more properly directed at other places.

What we have done is to present the facts. These are the gaps in our knowledge. This is what we think he's trying to do. And with the evaluation that we think he will—that there's no way to stop him without pressure on him to stop trying to push the envelope.

Chairman SHELBY. But when you're dealing with what a lot of people would term an international scoundrel—you know, someone you have no reason to really believe the integrity of his—his regime has not been known anywhere for truth and veracity. We have got to be very careful and very cynical in dealing with him, or we should say very realistic.

Mrs. OAKLEY. I would say that we are very realistic in dealing with Saddam Hussein. I think that none of the people with whom I work have any illusions that he is going to have a conversion or will not pursue these issues.

The question of what we do about it and how we approach is, I think, in the policy realm. But let me just reiterate that there are no differences in the Intelligence Community on the dangers from Saddam Hussein.

Chairman SHELBY. I know I'm running out of time, but I will be generous with anyone else's including your's, Senator Kerrey.

But Director Tenet, is your current statement about Saddam Hussein's position consistent with current intelligence, or is it a policy wish? Is there new intelligence which is reflected in your statement that maybe perhaps I didn't pick up? And if yes, can we discuss it or should we discuss it in a closed session?

Director TENET. Well, I think a more fulsome discussion can occur this afternoon. But I'm not expressing any policy wishes. You know, at any moment in time, anybody can make a judgment about whether somebody is better off or worse off if you—on the left hand side of the column, if you rack it all up—look at his military, look at his economy, look at his people, look at how he terrorizes them—these are not the actions of a man who is in control of his own destiny in the way that I understand it, in any event. And while at any moment in time the diplomacy gets rough and your partners may move in different directions, that has nothing to do with his strength or weakness. That has everything to do about how we lead this coalition and bring them to the right conclusion.

And there are sensitive deliberations going on, and I think the Congress and your leadership at some point will bring into everything that's being thought about. But the fact is, I think there is a course, and the course is to use diplomacy and to use force and to bring the carrot and stick together to try and resolve this outcome in a way that satisfies US national interests.

Chairman SHELBY. Do you believe that he has, in fact, made certain accommodations with his neighbors? I wouldn't say friends, but neighbors. And a lot of neighbors believe that he is going to be there perhaps after we're gone and are evaluating it from a long-term perspective.

Director TENET. I've seen no evidence that he's made any accommodation with any of his neighbors, Senator.

Chairman SHELBY. Well, have they made some with him out of fear—



Director TENET. I've seen none, I see no—  
Chairman SHELBY [continuing]. Not respect?  
Director TENET. I see no evidence of that.

Chairman SHELBY. Secretary Oakley, you want to comment?

Mrs. OAKLEY. I would like to comment on that, because I think that there has been a certain amount of attention to that in the press. Back to the comments that you made earlier that certain people have said that he has scored successes and that he has done various things.

I think that in regard to Iran, we can say that his relationship there is marginally better, that certain arrangements have been made—

Chairman SHELBY. Define marginally.

Mrs. OAKLEY. Well, there have been a visit during the OIC conference. They have been able to work out some arrangements for pilgrims coming to shrines and things like that. But I don't think our analysis would lead us to think in any way that that's a great improvement in relations. As I say, I think those issues are on the margins. They've eased it.

There's no doubt that Saddam Hussein has made a great play for better relations in the area. And I would agree that he is very skillful and he does this. He has certainly played on the issue of the suffering of the Iraqi people, and there is no doubt that the neighborhood is tense. It is tense over what he is trying to do from the instability that his continuing defiance of the United Nations Security Council resolutions has produced.

But I would agree that when you look at the hard facts, away from what people say, that he is not better off, and if you will, is in a desperate situation where he has faced strong US resolve. That doesn't make him less dangerous, because I think we all know, as has been said, that he's capable of making mistakes. But I think you really have to look at that almost country-by-country and issue-by-issue.

Chairman SHELBY. But we have to agree, and assuming that he's still there—I think he is; I hadn't heard anything—so that's a problem.

Is it, Director Tenet, the Intelligence Community's view that the only way Iraq will destroy its weapons of mass destruction and rejoin the world community is under a leader other than Saddam Hussein? And what would an Iraqi leader other than Saddam Hussein look like in your opinion, not that we think it's imminent, but is it always a possibility?

Director TENET. Let's talk about that in closed session.

Chairman SHELBY. Closed session.

Senator Kerrey, you've been very patient.

Vice Chairman KERREY. Thank you, Mr. Chairman. I just look like I've been patient.

Chairman SHELBY. Well, I was charitable, you know. [General laughter.]

Vice Chairman KERREY. I appreciate that, too.

Well, Mr. Tenet, your answer qualifies you to be Secretary of Defense.

Director TENET. I don't want to be Secretary of Defense.

Vice Chairman KERREY. I want to ask you about the secrecy legislation, but I would feel compelled to comment on Iraq. I do think that the—it must be said that our current policy is a dual-containment policy. Contain Iraq, contain Iran. Prior to that, our policy was to support Iraq. And one of the problems we have got with Iraq right now is we didn't voice much opposition to their use of chemical weapons when they were using it against the Iranians. And so our previous policy was not containment. Our previous policy was support.

And I think one of the difficulties that we are having is I think as long as we have a policy of containment of a dictatorship in Iraq we're going to struggle. And I hope at some point, we can begin to discuss a change of that policy to replace the dictatorship with democracy, because I think it's possible and clearly desirable.

I said earlier that the best war we fight is the one we avoid, and the ones that we have avoided are the ones where there has been a transition from dictatorship to democracy. That's why the trend lines are good in Russia today. I mean, that's why I am encouraged even in the face of doom and gloom coming out of Asia, we have a liberal constitution now in Thailand. There was a military coup in the early 1990s. I mean this—democracy brings stability. Democracy decreases the threat.

And I know that we have fear, well, it can't be done; the risk is high and so forth. But remember all the fears that we had going into Bosnia or the fears that a lot of us had going into Desert Storm. I mean, we typically underestimate our ability to do good and wonderful things. We have great power. We have diplomatic skills. We have, I think, the intelligence and the force to accomplish this miracle. And we ought to put that as the goal, not containment. I say it with great respect. I know it's difficult. I know it's not an easy change to make. I have great respect for you and your answers that you have given. But I do see the opening of the border with Syria, the problems that Jordan is having. I mean there's been some—the Pope has made a statement during the recess in opposition to the impact of the sanctions, that we can see in the Security Council the deterioration of support of a policy of containment.

And it seems to me that we need to change direction. We are not the Foreign Relations Committee. We are not the Armed Services Committee. We're the Intelligence Committee. But I felt compelled to make once again a comment on that particular situation.

Could you comment, Mr. Tenet, on S. 712? We have had some discussion about that. I know you're concerned about the—this is the bill that Senator Helms and Senator Moynihan have introduced. And I would appreciate very much if you would include in your answer, if you could, some of the concerns very eloquently raised by General Hughes at the end of his testimony having to do with the giving up of secrets that put us at risk. Could you talk a little bit about this secrecy legislation?

Director TENET. Senator, you know that—you and I've talked about this, and we're trying to work our way through. I want to sit down with Senator Moynihan. We're working through the Administration in terms of a final position.

What matters to me the most is that we are more open, we do more on the openness front, but I have the ability to control and protect sources and methods.

Vice Chairman KERREY. Can you talk—Mr. Tenet, one of the values of an open session, it gives us a chance to have a conversation with the American people about this. Can you—and General Hughes at the end expressed with great passion the concern that he's got with the deterioration of our ability to acquire things that enable us to keep our soldiers, sailors, airmen and Marines, as well as the people that are doing operations that are out there trying to keep the American people safe.

Director TENET. Yes, sir.

Vice Chairman KERREY. The giving up of a secret is a crime, and it's a crime because it puts our people at risk, it risks lives. You know, the loose lips sinks ships line has real practical application even today.

And I just want you to talk a little bit about the importance of secrecy, why do we have it, what's the purpose, what do we accomplish as a consequence, and why do you think it's important for you to retain primacy of classification.

Director TENET. Well, Senator, the fact is, is that if you look at the leaking that's gone on in the last couple of years, it is unprecedented in our history, from my perspective. And it may make interesting reading for people, and there are people in this government who think it's in their interest to provide secrets that compromise sources and methods. We know what we know about what goes on in the world because of our ability to collect information. And embedded—

Vice Chairman KERREY. Mr. Tenet, can I just get you to—with great respect, and I apologize for interrupting; I know It's not polite to do so—but when you use the phrase, sources and methods, I mean, in closed session we all understand that. But in an open session, put it in human terms. I mean, when you say source and method, aren't we talking about men and women who are out there doing things to help us keep this country safe? And aren't you talking about the possibility that they could die as a consequence of being compromised as well as not being willing to cooperate with us and provide the intelligence necessary to keep America safe?

Director TENET. I think we should switch places. You're doing a better job of this than I am.

Chairman SHELBY. Senator Kerrey is right, Director Tenet, on this. When we talk about sources and methods, we know what we're talking about basically. But do the American people understand? And I think it's very important that they understand where we're going.

Director TENET. Well, they need to understand that when I talk about terrorism, and weapons of mass destruction, and Iranians and Iraqis, that we have men and women all over the world who are putting their lives at risk every night to try and collect information to provide to the President that makes a difference to our security. They need to understand that technologically we have the means to collect intelligence that make a difference as to whether the men and women in uniform prevail when they go into conflict. All of those capabilities are put at risk when people freely and

without regards for the consequences throw real secrets out into the public domain and jeopardize our nation's interests. They shut down our ability to do our job. They make it impossible for us to protect Americans. And I think they undermine the national security of the United States. And it's become a free good in this country. Everybody believes they have a right to a secret, and it's got to stop. And we're doing the best we can with the FBI to find people who are doing this. And when we do, we will fire them. I don't necessarily have to prosecute them. But firing them and making a public example—

Chairman SHELBY. Why not fire them?

Director TENET. Well, I'll settle for firing them, Senator, and humiliating them for what they've done to the country. Prosecution at times is a difficult standard.

Chairman SHELBY. But is that enough, though?

Director TENET. No, it's not enough, it's not enough.

Chairman SHELBY. That's not enough. So why give them a tap on the wrist when they put people in harm's way, and perhaps cause people to lose their lives?

Director TENET. Senator, we're not going to tap anybody on the wrist.

Chairman SHELBY. Okay.

Vice Chairman KERREY. Will you give—just in a minute response, and I'll let the other Members ask questions.

Director TENET. Yes, sir.

Vice Chairman KERREY. In the legislation there is a national declassification center. And you've at least privately expressed some concerns about that. And again, I don't think you're going to be undercutting your authority or your capacity to work with either Senator Helms or Moynihan to talk openly about this. But you have some concern about what the center would cost and the way that it could undercut your capacity to do your job, do you not?

Director TENET. I have the ability to ultimately—since I originate—we originate, under my authority, so much classified information, I have to have the ability to be in the debate about something that is or isn't classified, and meets the public interest tests or doesn't meet the public interest test. We need more checks and balances into this system to ensure that I can have the confidence that I need to protect sources and methods.

Now, I have a whole declassification factor that we've built out at CIA to start churning more and more material out about our historical record. We have a commitment to do that. But we need to do it with the proper checks and balances. We have an obligation to the America people to talk to them about our history and things that have gone in our history that where intelligence has played a vital role. But at the same time, we have a responsibility to protect real secrets. And I think Senator Moynihan's heart's in this place. He wants to protect real secrets. He wants—

Vice Chairman KERREY. And Senator Helms.

Director TENET. And Senator Helms.

He wants to remove impediments that lumps everything into that real secret category, and I want to sit down with him and look at the cost, because it costs a lot of money, it's labor-intensive. A lot of people are involved. We have 25 percent fewer people than

we've had. We're being asked to do many, many difficult things that requires the time and energy of people. Technology may or may not help. But I think there's a balance that we can meet here with Senator Moynihan and with Senator Helms and with this Committee in moving a piece of legislation that satisfies what I believe are competing and legitimate requirements. And I've heard nothing from the Secrecy Commission or Senator Moynihan that would indicate he's opposed to any of that. And I want to sit down and work with him.

Vice Chairman KERREY. Well, they are competing and they are legitimate in both cases. And I think it's terribly important, both from the standpoint of being able to maintain our ability to keep secrets, to keep the American people safe, and also from a standpoint of keeping their confidence that we aren't unnecessarily classifying just to protect ourselves.

So I appreciate not only your testimony but General Hughes' comments earlier, because I think they're very constructive and it will make it more likely that we'll change the law and be able to resolve those two conflicts.

Thank you, Mr. Chairman.

Chairman SHELBY. Secretary Oakley, did you have a comment?

Mrs. OAKLEY. Let me just add a footnote on that. I cannot underline enough the importance of confidentiality in diplomatic exchanges. It's not quite the same thing as information to DIA or CIA. But without that, diplomats cannot do their job. And I would simply say that you've got to remember that. And if we do think of diplomacy as our first line of defense, not secrecy, but confidentiality has to be kept in mind.

Chairman SHELBY. Senator Glenn.

Director TENET. Senator—

Senator GLENN. Thank you, Mr. Chairman.

Director TENET. Senator Glenn. Mr. Bryant's getting lonely here. He'd like some questions.

Senator GLENN. I'll do my best.

Chairman SHELBY. He's going to get some.

Senator GLENN. I'll do my best. Let me just comment on about the security breaches here. You know, we crawl all over you, George, out there at CIA every time there's a problem that comes up and somebody leaks something or purportedly has leaked something. But I think one of the biggest problems is right here on the Hill. More leaks come out of here for political reasons and I know you—I'm not asking you to comment on this, but you were up here long enough to know that we need action right here, too, and we ought to tighten up our own operation here on the Hill. That's just a comment.

Director TENET. Senator, can I comment on that for a minute?

Senator GLENN. At your own peril, yes. Go ahead.

Director TENET. I must tell you that this is—I'm not trying to ingratiate myself to you, but the Executive branch leaks like a sieve. I'm here to tell you that right now. And there's no doubt about that. And you look at it carefully, and there's guilt everywhere here. But the Executive branch and everybody sitting behind me knows it all too well, and it's a major frustration. And there are people all over this Executive branch who are violating a trust. So

it's not one side or the other. There's plenty of blame to go on our side.

Senator GLENN. I just didn't want anybody to think that all the leaks were in the Executive branch, at CIA, that's all.

Chairman SHELBY. Senator Glenn, if you would just yield for 10 seconds.

Senator Kerrey, the Vice Chairman, and I, as you know, Director Tenet, Mr. Bryant knows, Judge Freeh knows, we have asked the FBI on several occasions to do an extensive investigation regarding leaks. Everywhere, everybody, every source, because we want them to stop. I share Senator Glenn's concerns. I think it's widespread. I appreciate your acknowledgement because I know it to be true.

Thank you. Sorry, Senator.

Senator GLENN. No, thank you. That's all right. I probably should have used my opening—when everybody was making opening statements, I should have availed myself of that five minutes.

But I want to make sort of a general statement here and then get your response to it. We may be able to go into it in more detail this afternoon when we are in classified session.

I think we have new dimensions to our intelligence gathering and new dimensions to our security problem. These hearings are always titled National Security Threat, and I think that threat is changing, and changing rather dramatically. And I'm not at all sure that we're keeping up with it.

We're accustomed to going through these things nation by nation—who's developing weapons, who's doing what. And we go nation by nation—China and all the rest of them. And in the past that's okay, but I think what's happening is over the past few years we've seen the availability of technology go to nations that are tiny little nations in the big scheme of things, or to terrorist groups or small groups, where these groups can have a firepower available to them or a mass destruction capability available to them that was only available to major nations in times past, 15 or 20 years ago, just that recently. In other words, they carry a big stick now. And this is tough to keep up with.

Now, it's in two areas. In the WMD area. I—this sounds a little crazy maybe, but I'm not that much concerned about the nuclear matter now as much as I am about the BW and CW, but BW in particular, because we can keep up with satellites and everything else, we keep up with what's going on with regards to the huge industrial complex necessary for nuclear weapons. We can't keep up with stuff like—I asked Judge Webster once when he was here, when he was out at the CIA, I asked him in another hearing over in Governmental Affairs one day, what size room would be necessary for a valid chemical or biological weapons plant? He turned around and consulted one of the people on the first row and said, an area about the size of this hearing room.

Now you folks can't—that's difficult to keep up with all over the world on every group that might have a BW plant that any graduate chemist can set up. And that's the tough part. And so this is now spreading to where it's—you know, we can—we say, well, but they can bring in nuclear weapons in suitcase size. But it still takes a very, very high degree of sophistication of nuclear knowledge and development capability to make the smaller weapons.

And we have these 70- to 80-pound chest pack-types that are available in the military, and we're aware of those. But it still takes a very high degree of sophistication to make these things. So—but the BW, you think a BW brought in a suitcase, not monitorable, going through airports, things like that, brought in and then sprayed out of the back of a cab driving around Wall Street in New York and people start dropping dead, and you've done the same damage as far as casualties go over a period of five days or six days. You probably have the same number of people die as if you'd nuked the place. And that's not an exaggeration. It's true. That's the kind of threat that I think we have to think a lot more about.

And we still tend to think of the—you know, we tend to think in terms of big nuclear weapons and all this, and I'm concerned about those. But I think we have a new dimension to the threat that we really haven't dealt with yet.

Now, that's one area. The second area—and you've alluded to this several times through this morning already—we have an international, a worldwide dependence on computers now that is unbelievable. The President mentioned last night in his speech the cyberspace thing that we're into here, that just in a few years things that used to be available only to the most skilled scientists in the computer area are now available to everybody.

And what does this mean? Well, it means, for instance, a hearing I conducted over there also some years ago was on the six electrical nodes, control centers, that we have in the Northeast United States, controls the whole electrical grid for that area. And they're computer-controlled now. And you have hackers getting into that thing. You just dump the whole electrical grid for the Northeast if somebody wants to get in there and do it. And you have Defense hackers trying to get in the Pentagon. We've had hearings on that. We have economic hackers. We had one Russian a couple of years ago that we're all aware of that dumped some of the accounts out of New York into his accounts in LA and another account in Zurich. And this is what's going on right now with the—we are becoming more computer-dependent around the world and yet more computer-vulnerable than I think most of us realize.

The purpose of war is to bring the enemy to its economic knees. We've usually done that by bombing and knocking the devil out them until we could march in and take over. We can bring a nation to its economic knees right now if you had the right trained computer hackers to get into the Defense Department. But not only that, but you get into Wall Street. You transfer some funds out of the Fed to George Tenet, George Tenet to me, and I get rich. And it's all over the place. You've got things all criss-crossed. And a few hundred hackers trained to do this could just wreak havoc. It could be—the results could be like war without the bombs. And I think it's that serious that we have to plan for.

Now I don't know how we keep up with all this. It's the international flow of money. It's the transfer of accounts. It's economic hackers. It's—I've gone out to NSA and been briefed several times on this. They're very concerned about all this, as we—all you are very much aware also.

So my question or comment that maybe we'll get into more this afternoon—but how do we keep up with this thing? Do we need double our HUMINT people that are out dealing with these things? Do we need a whole new emphasis on HUMINT or SIGINT or a combination thereof? What resources do you need? How do we keep up with what these threats are? Are we cooperating with other nation's intelligence, because other nations are concerned about this, too? It can hit them as hard as it hits us.

You can imagine in this recent economic crisis in the Far East if we had suddenly dumped some computer hacker problems into Hong Kong and screwed things up there royally, that would have reverberated around the world immediately. So it's not a small item.

What I'd ask you all is, what's our status now? What do you see? What—where—are we able to keep up with what the secret groups are or what nations might be developing this kind of a capability? You folks have a very tough job. It's—intelligence is always vital, first as a warning, and second as a force multiplier. But now we have all these new problems, and it's a very tough one. And we expect you to be clairvoyant and all-knowing when you're not in areas like this. But how are we set up to handle these things of technology advances that give WMD capability to almost anybody that really wants it and gives it—and computer vulnerability that I don't think we're even beginning to learn how to deal with yet?

That's a very long question, but if you could comment briefly on that, and maybe we can get into more of it this afternoon.

Mr. Bryant, I will call on you.

Thank you.

Mr. BRYANT. Thank you.

I just want to comment first on the key to the best defense to these two issues—WMD and the computer intrusions issues—is number one, cooperation. The people that are sitting at this table in the law enforcement community have to have a strong partnership of exchange of candid information about what's going on, not only information from the international scene, from the Agency and DIA and other sources of information, but that information has to come in and we have to deal with it.

From a law enforcement and a counterintelligence and terrorism perspective, the FBI set up in 1992 a computer intrusion squad in the Washington field office. Currently, we have a group of individuals where we're proposing basically to have a partnership with the Intelligence Community—DOD, the Agency, et al., and state and local law enforcement where this information would come in. And one, there would be an analytical look at what the issue is, what's coming in, what the threat is. And two, there would be an investigations branch, where we're running right now about 500 computer intrusion cases in the FBI. Those are coordinated with various entities in the Intelligence Community or working with state and local law enforcement.

This is a start. But this issue is going to do nothing but get much bigger, and it's got to be a partnership. There's just responsibilities in a lot of different places. But we're trying to put together an Infrastructure Protection Center that would basically would answer some of your questions.



As I said, the current state of the threat is increasing daily. And as far as the Weapons of Mass Destruction, with help of the Nunn-Lugar money for Defense and FEMA and the FBI and a lot of agencies, there's a lot of training going on, first-responder training. But once again, it comes back to prevention, which is our core issue here. It goes to your Intelligence Community, our ability to stop these issues before they occur.

Senator GLENN. Do you need more resources? The FBI?

Mr. BRYANT. Oh, I think yes.

Senator GLENN. Okay. Good answer. [General laughter.]

Who else wants to address this?

General HUGHES. Well, from a defense standpoint, sir, I'll mention that I think we understand these new threat conditions that you outlined quite well. We have been working on them for some time. We do know with regard to intelligence gathering that they pose new challenges in collection of information. And it's technical as well as human.

I think you hit on the issues of human intelligence being a critical factor here, but the technical intelligence gathering to give us information about these new circumstances is very important.

Senator GLENN. Let me ask, is HUMINT, is that the most important factor, or is HUMINT minimal compared to SIGINT, or do these groups all have contact with each other so you can intercept what they're doing or both?

General HUGHES. I'd prefer to address the details of that in closed session, sir.

Senator GLENN. Okay.

General HUGHES. I should also mention that new defensive mechanism are called for. The protection of our civil infrastructure and our attendant military infrastructure against the kind of threats that you mentioned, such as organized or nation-state or subgroup-sponsored intrusion is very important. We have to work on that in the future.

I'd also like to say with regard to weapons of mass destruction that new sensor technology is vital. We have to be able to sense the presence of these kind of weapons in proximity to not only our military forces, but our civilian infrastructure—ports, airfields, and cities. And that kind of sensor technology is being developed, but there are some technical hurdles to it right now, and we need to proceed with that on—in my view, on a national basis.

Senator GLENN. Who else? Mrs. Oakley, do you have any comment?

Mrs. OAKLEY. I think the State Department is also very concerned about this issue, particularly as it affects our relations with other countries. And I think that we have begun to focus on certain countries who may be developing an information warfare capability. I'd be glad to discuss this with you this afternoon in closed session. It's how you put that developing capability in the context of other concerns about terrorism, weapons of mass destruction, how we mount an effective diplomatic and law enforcement campaign to deal with that.

I would say that I think it's something that we're going to have to give a great deal more attention to, and I would certainly agree

that we've got to work together with all these agencies if we're going to get our hands around the problem.

Senator GLENN. Mr. Tenet, do you have adequate resources? Do you think it's HUMINT, SIGINT? Do you need to double the size of any of those or what do you need to really keep up in this area?

Director TENET. I don't have an answer on the resource front for you. My intuitive answer is it is probably yes, given all the other things we're trying to manage in the technology arena. But this is something we should work through together in our budget cycle, because there's a lot of room here for growth, but we need a strategy that's sound first before we start asking for money and people.

Senator GLENN. Yes. Well, my time is up, Mr. Chairman. But I think we need to spend a lot of time on this, because I think it's a real danger and a real hazard, and I want to set up to manage this as best we can. This is a very tough one. And when everybody has this kind of information available to them, some people are going to misuse it. And people that are willing to sacrifice their lives for whatever their misguided purpose may be, with this kind of technology are a real danger to us. It's a new way of making warfare.

Thank you.

Chairman SHELBY. Thank you, Senator Glenn.

Senator Allard.

Senator ALLARD. Thank you Mr. Chairman.

I want to bring up an area that I don't think anybody has talked too much about, but it's been in the news lately, and that's Cuba, with the Pope's visit down to Cuba. I'm curious to know just your interpretation of the current status as far as Cuba is concerned.

Do you think that there is some possibility that we can get a transition to democracy if—maybe the change of philosophy within the current administration there or perhaps maybe a successor that may follow up from behind Fidel Castro?

Director TENET. I don't have any raw facts to throw at you, Senator, that informs my judgment in that regard. I mean, we all hope that there is a transition. Certainly, the Pope's visit we would hope ends up strengthening the institution of the church and that that institution becomes more vibrant in the pursuing of themes that really lead to a transition on the island. But I have nothing that I could say that says I've got an estimate in place that say, he will be gone, or there will be an automatic transition there. We would all be hopeful of that fact, certainly.

But I don't—you know, there is—this is a place that's economically hasn't, you know, is not doing very, very well, and there are a lot of problems, But I have no—there is no opposition that I can point to. There is no ferment that I can point to at this point that leads me to tell you that—everything in my gut tells me that there will be a transition at some point. All the factors are in place. How, when, the pace, who is involved—I don't have answers.

Senator ALLARD. Now, strategically, they're certainly—would you agree that they're not as big a threat as they were a decade ago?

Director TENET. Yes, sir, I would agree with that.

Senator ALLARD. What is happening as far as drugs, you know. As I mentioned in my comments, I have a real interest in drugs and how they are coming into this country. And I know that there

has been a shift in some of the way that they have been coming back. And certainly, the Caribbean countries are part of that and sitting right in among those islands is Cuba. And do we have some overflight issues with Cuba in some of these ways that might be coming into Florida?

Director TENET. Senator, I have to—

Senator ALLARD. Or any other part of the continental United States?

Director TENET [continuing]. Take that one for the record. I'm not certain that I can take you and a drug connection to the Cuban mainland at this point. The transition to the Caribbean has been quite palpable. But I'd have to go get you a solid answer on that question.

Mrs. OAKLEY. I—

Senator ALLARD. Go ahead.

Mrs. OAKLEY. May I just put in something about that? I think that ail through the Caribbean, in the State Department we view that all airspace at some time or another has been used by drug traffickers and has evaded law enforcement activity. But in our view, the available information does not suggest that Cuba has been a major route for drugs en route to the United States. I think that their military capabilities have kept that to a minor degree. It is, or course, always a concern, and there are always possibilities for corruption of officials, particularly in a weakening economy.

Senator ALLARD. Let me ask the question just more directly. Are there narcotraffickers overflying Cuban airspace to bring drugs into the United States? And if they are, to what extent?

Mrs. OAKLEY. I think—I would agree that we'd have to take that question. I think my general statement that I can give you here in the unclassified session stands. But I would have to get back to you in a classified manner on specific instances.

Senator ALLARD. I would respect that.

General HUGHES. I'll just give you a short answer here, sir.

The monitoring of airspace over Cuba and in the surrounding area is a military issue. And it is inappropriate for us to discuss that in this setting. We can give you an answer later today.

Senator ALLARD. Okay, very good. I appreciate that.

Thank you.

Again, I'd like to follow up a little bit on what Senator Glenn was talking about in regards to the infrastructure. Are we prepared to deal with a sort of a major disinformation effort by some adversary as far as our computer systems in this country are concerned. I mean, there is that possibility with all the development on the Internet and what not. And there is a lot of information that comes out on the Internet. Some of it is bad and some of it is not so good. And obviously, there are enough people that are beginning to tune in and be conscious of what's happening on the Internet, including the media, is there a plan in action to deal with any kind of disinformation effort over the Internet?

Mr. BRYANT. Any type of disinformation campaign, wherever it is, once we know about it—and there's a lot of issues there as far as guidelines and what we can do and look at under our legal authorities—but if we're aware of a disinformation campaign from a counterintelligence view, or a criminal view, we're going to respond

to it with whatever resources in the government are necessary to prevent it from becoming a major damage to our national security.

And we do see—we have seen disinformation campaigns and we have frankly, stopped their effectiveness by basically notification and curtailing the damage.

Senator ALLARD. Is there an attempt to monitor what's coming on the—I don't understand why there would be legal restrictions on—

Mr. BRYANT. According to the Attorney General—

Senator ALLARD [continuing]. Just checking into the Internet and following it?

Mr. BRYANT. No. We cannot, as an investigative law enforcement agency, or counterintelligence, counterterrorism agency, under our guidelines, monitor the Internet. If we have a specific reason, certainly, we go look at it.

Senator ALLARD. Even though—this is a mixed audience. I mean, it's an international audience. It's not only Americans, but it's people in Europe, South America—

Mr. BRYANT. Right.

Senator ALLARD [continuing]. Africa, all the continents.

Mr. BRYANT. Right. But we have to have some specific cause or reason under an investigative authority to look at it. I mean, we just can't sit there and wholesalely, wholesale monitor that medium.

Senator ALLARD. Is that true with all the enforcement agencies?

Mr. BRYANT. Well, it's true of the law enforcement agencies affected by the Attorney General guidelines—

Senator ALLARD. I see.

Mr. BRYANT [continuing]. Which is what we operate under.

Senator ALLARD. So this basically is a policy that was set up by the Attorney General?

Mr. BRYANT. Right. It's a guideline.

Senator ALLARD. And there wasn't any legislation that put that policy in place? She did that by herself?

Mr. BRYANT. Well, it's been in effect for many years.

Senator ALLARD. I see.

Mr. BRYANT. And it's come out of other issues where they thought that the FBI in particular was using techniques that were possibly intrusive. And so, as a matter of policy, we don't.

Senator ALLARD. But it's—I'm having a hard time understanding this concept because to sit down and read a paper is not intrusive. You can print off a paper on the Internet. What is the difference?

Mr. BRYANT. I, as an individual private citizen, can go to my home computer and do whatever I want to, but as an investigative agency, I cannot direct investigative resources to wholesalely go on a public medium and monitor it for criminal or counterintelligence or counterterrorism.

Senator ALLARD. So you can't even assign anybody according to the Attorney General's guidelines to read a paper on a regular basis, searching for some clue that might indicate that there's drugs being distributed in this country, for example?

Mr. BRYANT. I think if we have an indication of criminality or some area where we have jurisdiction, certainly we can monitor it. But as far as a wholesale review of the Internet, we don't do it.

Senator ALLARD. That's kind of an interesting area. Maybe we ought to check into that a little bit. I didn't realize we had that kind of constraints on something as public as the Internet.

Chairman SHELBY. Senator Allard, if you'd yield just for an observation. Mr. Bryant, you're not saying, are you, as I understand it, that the FBI, if they had reason to believe that the Internet was used directly and indirectly for heavy drug trafficking you wouldn't investigate that?

Mr. BRYANT. No, that's not what I'm saying.

Chairman SHELBY. What—

Mr. BRYANT. What I'm trying to make clear here—

Chairman SHELBY [continuing]. Are you saying?

Mr. BRYANT [continuing]. We as a practice do not have analysts sitting down in front of the Internet reviewing all material. If we have reasonable belief—

Chairman SHELBY. OK.

Mr. BRYANT [continuing]. That there's some criminal or counter-intelligence or counterterrorism activity that we can go to that medium and certainly use it. But we have to have basically an investigative interest to go to this medium.

As I said, I as a private citizen can do whatever I want to do. But we have to have an investigative interest, namely a case.

Senator ALLARD. Well, have you ever considered the possibility of maybe checking out the Internet from time to time for clues as to whether you have a problem or not?

Mr. BRYANT. Certainly, if we have an investigation. We do it.

Senator ALLARD. OK.

Mr. BRYANT. But we have to have the investigation.

Senator ALLARD. Thank you.

Chairman SHELBY. Mr. Bryant, are the guidelines required by the Executive Order, a certain Executive Order, is that correct?

Mr. BRYANT. Yes.

Chairman SHELBY. OK. Do you know who first brought out that Executive Order? Was this this Administration or was it a prior Administration?

Mr. BRYANT. No, I think it was a prior—Senator, I think it came out of some issues regarding issues many years ago regarding, I think, the CISPES investigation.

Chairman SHELBY. OK.

Senator DeWine.

Senator DEWINE. Thank you, Mr. Chairman.

George, let me turn, again, to Iraq. And I'm sure we'll get into this in more detail in the closed hearing this afternoon. But it's been pointed out these open public hearings do have a real purpose. And I think that is to help not only educate us but to educate the American people. But you talked about and some of the other members of the panel talked about the sanctions and what that has been able to do and what would happen if the sanctions were removed, and how quickly they would be able to get some of these production capabilities up.

The other variable, though, is inspection. And that's what the American people keep reading about in the paper is the inspection problem. Describe for us what the problem is. Describe for us what the UN should be able to do. And compare where we are today ver-

sus where we were a year ago or two years ago. I mean, Saddam has not exactly been cooperative during the entire post-Gulf War era. He's never been, you know, totally cooperative. So what's the difference today? What's going on today that was—anybody? Ms. Oakley?

Mrs. OAKLEY. Let me just say that—

Senator DEWINE. Let me just say, just, you know, put this into terms that the average American can understand. What's the problem? What's different today?

Mrs. OAKLEY. I think what we're seeing—and again, I go back to what I said earlier—there are two basic problems in Iraq that we don't know what they were doing before, and we're not confident that we know where they are—what has been destroyed, what it would take to get back to their production and development of all of these weapons of mass destruction.

What the inspections have enabled people to do is to find out a lot of information, but we also know that that information is incomplete, and so the inspections that continue help us fill in those gaps of our knowledge. The inspections also prevent further development from going forward. People in the inspections have gone in and they put seals and tapes on various machines and various facilities. And so they know when they go back to inspect that people have not been in those places because the seals have not been broken. And I'll be able to get into more detail about what we do know.

What has happened now is that Saddam Hussein has said, all right, some of these sites that you've been visiting, you can no longer see. So we don't know what they've moved in those sites of their past activity, and we don't know what they're doing now for the future in those sites.

Senator DEWINE. So, excuse me.

Some sites that we did have access—the UN did have access to, now no longer have access. That's one change.

Mrs. OAKLEY. Well, that is one change. And there has been some discussion about the number of sites that would now be off-limits to UNSCOM inspectors. That number has been whittled down. But the physical dimensions of those sites are large enough that we don't know what they've moved into those sites and, if we can't get at them, we won't know what they're doing with them now. That's the major problem.

Senator DEWINE. And how do you know—speaking to the whole universe, how do you know what the universe is? I mean, how do you know that you've already in previous times identified all the sites?

Mrs. OAKLEY. Well, you're—

Senator DEWINE. How do you know you know the universe to begin with, let alone—

Mrs. OAKLEY. That's what we know we don't know. We don't know what the universe was. Saddam Hussein's government and officials and technicians, in our view, have never come clean on the extent of what they were doing before. It would certainly make it easier for future inspections if we knew what they had had before.

But when we talk about information that you can put it on a disk, you put formulas, you can put production techniques, things like that, it makes it very difficult. The people who've gone in—and

I would like to reiterate, what we have learned from the UNSCOM inspections is an incredible amount. But there are enormous gaps in what we know about where they were on the development of these weapons of mass destruction.

Senator DEWINE. Anybody else?

General?

General HUGHES. If I could just make a comment to try to put this into the context that you asked for. Much of what Saddam Hussein has done in the past and perhaps in part what he's doing now is done to create perceptions that will be favorable to his goals. And as you know, he's brought us to the brink on two or three occasions in the past since the Gulf War, probably to generate some support inside his own country and to create a favorable climate in the surrounding nations and in the Arab world.

This time, it's a little different because the adversarial nature of his belligerence is so difficult for us to accept and understand. We do have essential control of Iraq's external capabilities. They are not able to attack anyone or to project a military force or to undertake aggressive conflict against a neighboring nation. Even a small event would be met with immediate retaliation and resistance by not only us, but our allies.

What we lack is the control of the internal circumstances inside Iraq so that we can prevent this kind of generation of crisis and this belligerent attitude that is resistant to the inspection regime and the sanctions regime.

My personal view—and I hope it's somewhat reflected in intelligence—is that we probably are faced with some kind of a decision point here in the next few weeks and months, where we have to decide what it is we want to do with Iraq in the future. I agree that the circumstances that have developed over time have got us to a point where continuing everything that's happened in the past is very difficult. This is once again a policy issue that someone else will have to decide.

From a military and from an intelligence standpoint, this is the context we're now in. Saddam Hussein has the capability to generate a crisis, and there's not much we can do about that right now except respond to the crisis.

Senator DEWINE. With the chair's indulgence, I just want to make sure again, in very simplistic terms, making it clear what you're saying, or I understand what you're saying. We have the ability to stop them from projecting, is what you said, external.

General HUGHES. That is correct.

Senator DEWINE. We do not have the ability to stop them doing this internally?

General HUGHES. Essentially, that is correct.

Senator DEWINE. A simplistic question would be then, what is—define then the danger to the neighboring countries and the danger to the United States.

General HUGHES. Well, in—

Senator DEWINE. What's the danger?

General HUGHES [continuing]. A narrow band of danger—there may be other dangerous conditions that could result—but the unfettered or continued development of weapons of mass destruction

is a critical issue for all of us, and certainly for the surrounding nations.

Now we—my personal belief is that he has somehow protected the essential knowledge and some few capabilities that he still has at his command to continue with weapons of mass destruction capabilities at some later time. And that's why he's being so difficult with us now—to protect that core capability he's managed to conceal from us.

But much of what he had has been taken or destroyed by us, and that's very appropriate. And the countries that surround Iraq know that, and I believe appreciate it, on a national level.

Senator DEWINE. Thank you.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Roberts.

Senator ROBERTS. Thank you, Mr. Chairman. And I thank the panel for your patience. I note with interest that our five-minute question and answer timeframe is very comparable to the President's 20 minute State of the Union speech last night.

I have several observations, and then a question. Senator DeWine and myself, along with the majority leader, Senator Lott, went to five countries in six days in Central America. And then later on I went with CODEL Stevens to Australia and New Zealand. And I want to acknowledge the comments by Director Tenet and General Hughes and others in relation to the drug interdiction programs. The briefings we received in the field are certainly commensurate with your observations. The same is true in regards to the briefing we received from Admiral Prueher in regards to the Asian flu, what the temperature is, what we can do as an antidote, more especially with Indonesia.

And I would feel remiss if I did not make a personal comment, being a former Marine and always interested in the esprit de corps business, I think without question our intelligence agencies, more particularly the CIA, have been on a moral roller coaster for the past several years. It was my experience, I think Senator DeWine would back me up, I know the Chairman would, that in terms of renewed commitment and purpose and morale, thank you George for the job you're doing. We can, in the Committee, feel very strongly—I know the Chairman does, I know the Vice Chairman does—that we want to be of all possible help in regards to the regular work that has to be done. They're doing it and I certainly applaud your efforts

I have a little bit different view in regards to the situation in Iraq. I wonder who has whom in the box? The Chairman asked whether or not we were proactive or reactionary. I was in Paris as part of the Trans-Atlantic partnership meeting and had to give a response to M. Hubert Vedrine who is the Paris, pardon me, the French Foreign Minister, who had more sharp elbows to say about the United States than an NBA forward.

It seems to me that obviously Russia wants their Iraq arrearages paid, China wants the oil and certainly, France wants to sell it. And so, we have a—just a remarkable change, a significant change in the Security Council in that part of the world. All three countries are saying no to economic sanctions. All three countries are saying not to any kind of military contingencies although we are



working on that. The Arab-Israeli situation is changed vastly because of the leadership changes since Desert Storm. The Arab states are sort of like, you know, asking them in fact to say, will you give testimony against the Mafia without a witness protection program, and they're not going to do that.

So, I think it is markedly different. And I think Senator DeWine's questions are right on the money. And in terms of practical effect, it affects our Security Council, it affects the whole balance of power in the Mideast. I don't know who has who in the box in this regards, and I'm not going to go into it. But I think the Chairman was right on the money in his remarks.

NATO expansion. Do we have—I'm going to quote General Hughes. "During this period, Russia's strategic nuclear forces will remain the backbone of Moscow's military might, preserving Russia's perception of great power status and protecting its vital national security interests."

And George, you've indicated, "Finally, while Russia continues to seek close cooperation with the United States on matters of mutual concern, it is increasingly strident in opposing what it seems as US efforts to create an unipolar world."

I understand in regards to NATO expansion that we planted the flag. I understand it's probably going to happen. I understand we want the historical rewrite of Europe. I understand in terms of Hungary and Poland and the Czech Republic, that they want their self determination and they want entree to the European Common Market. I understand the President wants to make a speech on the 50 year anniversary of NATO. And I understand that we want to cage and tame the Russian bear. But the Russians don't see it that way.

And in all of my discussions with the members of the Russian Duma, staff members, others, Mr. Primakov is off the reservation they're going to play the nuclear card to keep on the world stage. I don't think we have any chance for START II. I think it is fodder for the hard liners. And I think it's in our vital national security interests to take a hard look at this. What's the trade off?

I notice that we had some paragraphs or some short sentences in regards to that. Could you respond, from an intelligence standpoint, about the trade off on what I consider to be vital national interests, START II and control of the nuclear capability of Russia vis-a-vis in regards to NATO expansion.

Director TENET. Well, Senator, you've asked a lot of questions. The point I was making in the testimony is that it's clear to me that the Russians have a sense of their own national interest and they're going to pursue it. And it's going to conflict with our's in some way, shape or form, and we have to be enormously mindful of it.

This whole crisis in the Middle East is illustrative of it. They have economic interests. They have regional interests. They have an ability to maintain their own sense of who they are as a great power and they're about doing that. My only suggestion is, is we have to open our eyes and understand that that's what they're about.

We went through a number of different periods in our relations with the Russians immediately after the Wall fell. I think they

were falling all over themselves to do whatever we asked them to do. We're now at a period where this pragmatic nationalism has set in. They have national interests that they are going to pursue because they think they still remain a great power, and they're going to do things that benefit their own national interests and we have to just have our eyes wide open and understand what that's all about. Because, it will be a relationship that's both collaborative and competitive, and they will do things that we don't like and we're going to do things that they don't like, and we just have to accept that fact. And that's simply where we are with the Russians at this point in time.

But we are—we have our interests and we are pursuing them and I don't think anybody is backing down from doing that. But we have a Russian entity that is evolving, that is working itself through who they think they are and what their interests are, and what they stand for. And managing that relationship will become more difficult than it has been in the past.

Senator ROBERTS. And in terms of the contingency involvements that may take place, you are advising the President and others in regards to NATO expansion in regards to some of these hurdles and the law of unintended effects?

Director TENET. Yes, sir.

Senator ROBERTS. Anybody else have any comment?

One final question. If we lifted the economic sanctions is that going to hasten the transition in Cuba in regards to Fidel Castro? From an intelligence standpoint?

Director TENET. I don't know the answer to that question, Senator. I'll take that for the record. I don't know the answer to that.

Senator ROBERTS. Now the Library of Congress can show you in terms of economic sanctions, they're very usually counter-productive unless it's in our national security interests. When Senator DeWine and I were in Central America, the Southern Command indicated 31 out of 32 countries now, they are experiencing some form of democracy except one, and that's Cuba. And they are not exporting revolution now.

It seems to me we would put Mr. Castro in a real pickle if we simply lifted the economic sanctions. I say that obviously without Senator Helms being here.

Director TENET. Well, we may, Senator. That may also be true. I'm no great lover of Fidel Castro and I would never want to do anything that he could take advantage of to extend his power as well. So, I understand all the academic discussions here, and maybe someone should look at this. But we'll get you a thoughtful answer from our community.

Senator ROBERTS. Thank you.

Chairman SHELBY. Senator Robb, Senator Kerrey is going to have to leave to go to a luncheon. He's got one quick question, I believe. Is that correct, Senator?

Vice Chairman KERREY. Mr. Bryant was starting to yawn and nod off there, so I want to bring him back into this conversation.

Chairman SHELBY. Oh, the FBI never nods off. [General laughter.]

Mr. BRYANT. We're always alert.

Vice Chairman KERREY. Mr. Bryant, how do Director Freeh and you and Mr. Tenet—I mean, how do you plan to break this logjam that we've got right now on encryption legislation? We know—I mean, industry and you believe the status quo is unacceptable. The current law doesn't work. How do we bridge the differences? I mean that's what we have to do. We have to bridge the differences between where you are and where industry is and where privacy people are. I mean, we're not going to get—we're never going to get extremes on all sides.

But this legislation—this law needs to be changed, both for the development of the market and for the development of our capacity to keep the American people safe and secure. If you could tell me what you think—what is the intent of the Administration to organize this effort in 1998?

Mr. BRYANT. Just a couple of statements. Just—

Vice Chairman KERREY. You have to answer, don't you, Bob?

Mr. BRYANT. Just to restate a couple of issues here.

The law enforcement community, in particular, believes that the market-based solutions probably won't work, and we are pretty concerned that we have to have—I don't want to tell some—some father that we've lost a child because we couldn't break the telephone conversation or we couldn't get to a storage on a disk or something like that. And that's all we're saying. We have to have—all we want are the authorities that we have now. In other words, we want to be able to get a court order to do electronic surveillance or to do a search and be able to get into encrypted areas such as telephone conversations or computers and do what we do now.

To break this deadline, we see the national—we're concerned about it because the way this is going is we're all aware that there's going to be a time and period that we're basically not going to be able to use investigative tools that are critical to national security and to law enforcement. And—

Vice Chairman KERREY. But you also know that—I mean, I can write out a code on a piece of paper and haul it out of the country. This is not a difficult thing to prevent me from exporting, and we know this thing is slipping away from us. So, from your standpoint, the current law is not acceptable. From a market standpoint, it's not acceptable. So what are we going to do to break—what does the administration intend to do to break this?

Mr. BRYANT. Well, I will speak for the FBI.

Vice Chairman KERREY. Okay, good.

Mr. BRYANT. The thing I see is that we have to have some ability to have—to have a key recovery so that we can have access to plain text information so we can use it for law enforcement purposes and national security purposes. And I think there are several bills floating around. I think you—I think you sponsored one, and I think there's one that's come out of HPSCI, and I think some of those bills that we're just going to have to look at very carefully because I think it's a critical national interest. And I think it's a very thoughtful discussion because there's a lot of market forces here. But we would like to see on U.S. manufactured devices and encryption, that there be some kind of key recovery system or anything exported in.

Vice Chairman KERREY. Yes, and let me just say to suggest some language changes and ways to bridge the gap. I mean, I think we can use the market to solve this problem. I don't think the market all by itself is going to. We're going to have to have law to intervene in the market in order to be able to keep people safe. But I think we can use market solutions. I mean, that's basically what we're doing. We're trying to set up a mechanism where a market can develop for key recovery. I mean, that's because key recovery is only being used by the marketplace. If it wasn't being used by the marketplace, it would be a much more difficult transaction to accomplish. I mean, the language on both sides of this argument is so provocative, it seems to me that what we need to do is get a list of differences and try to resolve the ones we can.

Chairman SHELBY. Senator Kerrey, can I—

Vice Chairman KERREY. Just go down the list. I mean, I've met with industry. I've met with the privacy groups. I've met with you and NSA on a number of occasions. And it seems to me that the differences are nowhere near as great as the rhetoric would lead one to believe.

Chairman SHELBY. Are you saying, Senator Kerrey, or are you not saying that the marketplace will do it all? I doubt very seriously that the marketplace will do it all. I have some of the concerns that the FBI has.

Vice Chairman KERREY. No, I am not saying that at all. I'm not saying that at all. What we're trying to do is write legislation that would enable the market to develop the solution. We're going to use the power of market-based solutions. I mean, you've basically got private sector people out there, whether it's a banking institution or a power company or a small business of any kind, saying I'm communicating. I'm going to talk. You give me an individual.

I mean the goal of the McCain legislation is to develop a secure public network for the purpose of developing commerce, and for the purpose of enabling us to continue in national security and law enforcement to do the business the American people want us to do. So what I'm saying is that I think we can bridge the rhetorical gap. What's needed is to make a list of where there's differences and try, where possible, to bridge them. But the current status quo leads me to have a very low level of confidence that the current law's going to be changed. That's bad for the American people from the standpoint of domestic and international security. It's also bad from the marketplace. Everybody loses if the current law's not changed.

Chairman SHELBY. Senator Kerrey, I have one quick observation just for the record here.

As part of the marketplace, as I understand it and have witnessed it all my life, you're going to have a lot of illegal activity in any marketplace that I believe that the law enforcement people should have an opportunity to put a handle on in some way.

Vice Chairman KERREY. Well, in fact, one of the things that very often is not discussed—I mean, there's an article on the 12th of January 1998 and Jack Nelson from the Los Angeles Times talking about U.S. firms estimating \$300 billion of losses in 1997 coming as a consequence of espionage against them. So I mean, there's an interest in the marketplace to develop security that I think is con-

sistent with your own goals and objectives. I mean, what you're trying to do is help them accomplish this job. You want to help them become more secure. I think there are parallel interests here that don't seem obvious because the rhetoric sounds so different. You listen to one side describe it and you would think it was completely different and there's no possibility of compromise because they're very often presuming. I mean, the bill that came out of Senator McCain's Committee contains some concessions in there to the business community that I've talked to people on the business side, they're completely unaware of it. They're unaware of some of the things that were done, and I just—I'm very fearful, sitting here in the early part of the session, that we're going to end up in the last part of the session having done nothing because we're presuming the differences are enormous. And I think we need a process. And personally, I think it's going to have to be led by the President in some fashion, saying, okay, it's time to resolve the conflicts. It's time to make a list of the differences and resolve as many as we can, and if you can't resolve them, get it to the Floor and get the law changed.

You know, we never get 100 percent of what we want. But we know that the current law is not acceptable. We're experiencing losses on the commercial side. We're experiencing loss of our ability to be able to protect the American people. I mean, if we drift on this one, I think that we're going to have very, very unhappy outcomes.

Chairman SHELBY. Senator Robb.

Thanks for your patience.

Senator ROBB. Thank you, Mr. Chairman.

I apologize that I could not be here for the earlier part of the hearing. We're having a full Armed Services Committee hearing at this time, and several Members serve on both Committees, so we're moving between them. And so as not to repeat any of the areas that have already been covered with this panel, I asked Mr. Grant, a member of the professional staff, "What hasn't been covered so far?" He said, "Well, encryption hasn't been covered." I said, "Well, I'll just, I'll take that one up very quickly." It's one that I have an interest in, and my views are not necessarily entirely in sync with the Vice Chairman's. And when he asked his question, I thought, well, what else hasn't been covered? And Mr. Grant said, "Well, economic issues haven't been covered in any detail." So let me take a quick shot at those. If they have been covered, somebody was out of the room when they did. I'm sure they have at least been alluded to.

And I might say, first of all, I was walking here with the Chairman of the Australian Foreign Relations Committee and visiting with him. He was observing some parallels between some of the things they do and the way we do business here.

I might add—not for the benefit of any of the Committee Members who are, at the moment, not here—that I hope that the number of open hearings this Committee holds is very limited. I think this threat assessment hearing and the confirmation of DCIs are about the limit of what we ought to discuss in an open hearing. There are other Committees for policy questions, and both the Armed Services Committee and the Foreign Relations Committee

the appropriate venue for many of the matters to be discussed. We've been having some internal discussions here on that particular point.

But I think this hearing is important, and I only raise the subject because when talking about key recovery in the encryption area, we quickly get into areas that we would not be able to discuss in public. I think economic analysis, however, is one of the few subjects that lends itself relatively easily and appropriately to public discussion.

There have been very severe problems recently in East Asia, affecting most of the financial markets in Asia, around the world, and in this country, many of the real experts are very much concerned about what is happening. I had occasion to have dinner with Hank Greenberg of AIG a few nights ago. It was an off-the-record dinner, so I won't quote anything he said. He gave a very succinct and important insight as a major financial player in that area of discussion.

But I wonder what Mr. Tenet and others could tell us at this point about your view of where things stand and what actions—well, I won't get into the issue of our policy response. Provide us an analysis of where things stand at this point with respect to Indonesia and Korea and the possible impact on Japan and China regarding the whole question of economic security and financial markets.

Director TENET. Well, Senator, in my opening statement, I went through some of the factors that affect this crisis. I'm going to say just a very few things, because I want to be careful about what we say about this financial crisis. And the less we say as an Intelligence Community, I think the better in some respects in open session. I think one of the things that we worry about

Senator ROBB. I was searching for something that I could in good conscience discuss in open session, and I thought this was appropriate for open discussion. And I will accept your admonition that—

Director TENET. No. The concern I have—

Senator ROBB [continuing]. Comments on this area

Director TENET. The concern I have is people speak about these crises, and then 20 minutes later the stock market plunges by 50 points, and we're not economists, and I'm certainly not an economist. But from the political stability—

Senator ROBB. Don't clear your throat, whatever you do.

Director TENET [continuing]. Perspective, these countries are now being asked to do rather dramatic things internally that will have political consequences and consequences for their stability.

All of that matters a great deal to us. We have been deeply engaged here. We see them as strategic partners. They have been part of an emerging market boom. They believe that they've been playing by the rules, and all of this capital has been infused into their countries and they've been great consumers. And now they see a way of life start to erode on them. And the political turbulence it creates as they implement austerity measures, as they're asked to clamp down, have consequences for how they view us, what the long-term engagement of the United States is in the region, and quite candidly, what the long-term influence of the Chi-

nese may be in taking advantage of this crisis. Big, stable power with lots of hard currency reserves.

So those are the things we have to watch. I don't want to opine on how it all turns out. But I think engagement on the part of the United States in this region is absolutely critical for our long-term security interests. So while people are focusing on Wall Street's reactions and interest rates and bond trading, we have, from a geopolitical perspective, invested a lot here, and we have to help these countries work through this. Because it has serious consequences for us.

I don't know if General Hughes wants to say anything or not.

General HUGHES. No. I don't wish to make any comment on this topic in open session, sir.

Senator ROBB. All right. Let me just ask one other question that may be answerable in open session. I'll begin with an observation that last night the President, in his State of the Union message, covered a number of topics. One of the few that seemed to have a relatively clear-cut delineation in terms of response from the two sides of the aisle had to do with a potential IMF bail-out.

Again, I won't ask you to go into the specific implications there. But I would like you to discuss the relationship among economic security and related conditions, political security and related conditions, and military security and related conditions as you see them, to the extent you think you can do so in open session.

General HUGHES. Well, I think it's very clear that there are connections between the societal conditions brought about by economic change and the security conditions attendant to the society. That's probably obvious to everyone.

The nature of those conditions and how they evolve over time is something that we need to keep our eye on and clearly understand. Our involvement in those conditions is an entire another matter. It requires very careful policy decisionmaking and very careful activity.

What we can or cannot do in the military sphere to help stabilize conditions or to help control circumstances is a topic for discussion at another time.

But there are issues that we should examine from the standpoint of our assistance to other nations, our work with allies, and our approach to understanding their internal security requirements and assisting them where we can. And the U.S. military is well aware of that.

Senator ROBB. All right, this one last question, Mr. Chairman, if I may, to just follow up in this area.

Is it your sense at this point that our intelligence institutions are capable of gathering most, if not all, of the relevant information for economic analysis from open sources—economic only.

Director TENET. Well, let me turn the question around a little bit. I mean, certainly from open sources, we can collect everything that's out there. There's a more fundamental question about whether we're positioned over the long haul to do this kind of work in terms of people, capability and collection profile. And I would—I would say to you that I think the record is mixed in that regard, and this is something that I'm paying a lot of attention to right now.

Senator ROBB. Senator Moynihan had some pretty specific views at one point in terms of past efforts in that area. But—

Director TENET. Well, the question, Senator—this is an important question. We don't want to do economic espionage. We have no interest in any of that. The question is where—

Senator ROBB. Well, let me just interrupt then. What if we've been targeted for economic espionage, do you feel that we have adequate resources in place to effectively counter targeting our efforts?

Director TENET. Let me—I'll turn that over to Mr. Bryant, who can talk about how we counter those efforts. The point I was making is how our community covers economic issues has to be thought through more carefully than we have. We have to identify the areas where we could really add value. There's very little I can tell Secretary Rubin about what the markets are doing today. I shouldn't try and recreate that capability. But there are discrete issues where we may, on a macroeconomic basis and a warning function, provide real insights to our policymakers. And we need to carve that turf up and build it over the course of the next 20 or 30 years, and be very, very attentive to this area. That's what I would say.

Now on the economic espionage side, I'd ask Mr. Bryant in terms of how you counter it. But on—in terms I'll categorically state, we don't do it offensively, we won't do it. It's not in our interest to do so. It makes no sense.

It's been one of the red herrings hanging around our neck for years. It's not the kind of thing an Intelligence Community should do for our private sector.

Senator ROBB. Thank you.

Would you like to comment just briefly on our capability of countering anything that might be targeted against us? Without going into—

Mr. BRYANT. Yes, just very briefly.

The passage of the economic espionage statute in 1996 was a major step forward. And basically what that does is says—it tells the world that we're going to protect our economic and technological research and development. That's been a major step forward.

There's a lot of other issues which I'll go into this afternoon that I can talk then.

Senator ROBB. Thank you.

Please.

Mrs. OAKLEY. Let me just make one comment on this. I think that your remarks and what we've heard from my other colleagues underlines one of the basic facts of the modern world—that so much information is out there through open sources on markets, the psychology of the market. What we really haven't talked about is the handmaiden of intelligence, which is analysis. And I think what all this has brought forward is the need to make sense of all this information and to understand it and to provide just not the raw data, but the analysis of what is happening, why it happened, and what's going to happen in the future. And this is an area where I think the Intelligence Community, perhaps, needs to sharpen its tools to look to this other side of analysis.

Senator ROBB. Amen.



With that, I think that's a good place to leave it.

Thank you, Mr. Chairman. I appreciate your patience.

Chairman SHELBY. I know it's lunch time for a lot of people. But I've got a couple of more areas I'd like to get into and I'll try to be brief.

Director Bryant, for some time now, the FBI has been investigating reports that the Chinese government attempted to influence the American political process by illegally funneling campaign contributions into our electoral process. If these reports are true, they go to the very heart of our system of government. So far, the American people have had to read about this investigation through leaks in the newspapers, television, and so forth. I'm well aware of the sensitivity of the intelligence in question and the fact that a number of counter-intelligence and criminal investigations are ongoing.

But is there anything this afternoon that you can share with the American people at this time? If not, when do you expect to announce the results of these investigations?

Mr. BRYANT. On that question, I do not feel free to comment in this forum at this time. All I can—

Chairman SHELBY. But you do acknowledge there is an ongoing investigation that we all know.

Mr. BRYANT. There is an ongoing criminal investigation.

Chairman SHELBY. And there will be closure on that, hopefully.

Mr. BRYANT. There is an ongoing criminal investigation, which I'm not free to comment on.

Chairman SHELBY. We understand that.

Mr. BRYANT. And the counterintelligence aspects, there's been briefings made periodically to the Oversight Committees as to the progress and what's going on as far as the counterintelligence side.

Chairman SHELBY. But there's nothing you can add to tell the American people today at this point in time?

Mr. BRYANT. No, there's not. There's nothing I can add at this time.

Chairman SHELBY. Director Tenet, I know that as head of the CIA you're not charged with conducting a criminal investigation. Is there anything that you could add today, from a purely intelligence or counterintelligence view point to the American people or will you await the outcome of the complete investigation?

Director TENET. Yes, sir, there is not anything I can add.

Chairman SHELBY. Members of this Committee are very aware of China's record of reckless proliferation of the most dangerous and threatening weapons and technologies, which reportedly includes helping Pakistan develop a nuclear weapons capability, providing Pakistan with M-11 missiles and a factory to build more such missiles. Selling Iran anti-ship cruise missiles that threaten US naval ships and personnel in the Persian Gulf, as well as the flow of oil from the region. Selling Iran chemical and biological weapon related and missile related materials and equipment. Assisting Iran's nuclear program and other destabilizing actions.

In your discussion of China, I'm surprised that you do not mention any of these matters, which are hard facts, things that have happened and that have damaged and continue to damage US interests in your testimony. Instead, you go into considerable depth

on all of the things that the Chinese are reportedly ready to do or about to do to respond to our concerns about past behavior.

I'd like to turn to the issue of China's proliferation activities. Both Secretary Oakley and General Hughes identify the weapons of mass destruction as most critical threats to US national security.

Secretary Oakley, I won't summarize all the points that's been here. But I think it's fair to say that this litany consists primarily of things that have not happened yet. And is generally phrased in terms of what China has, as I have alluded, agreed to do, or committed to do. Of course, China has committed to do, or not to do a lot of things in the past with respect to the proliferation of weapons. And our experience with these commitments has not been a positive one yet.

Many of the transfers that I have described have violated international treaties and agreements. Many of these actions appear to have triggered the requirements for sanctions under US law.

Secretary Oakley, you concede that even though China appears to be—that's your phrase—living up to it's May, 1996 pledge not to provide assistance to unsafeguarded nuclear facilities, it, quote, "has not made equivalent progress in other areas." While in another area, your words, "key loopholes remain."

You also note correctly that while China has apparently taken itself out of the business of exporting ballistic missiles, that this is not enough. The reason, I understand, that it's not enough is that China has reportedly sold an entire missile plant to Pakistan and so forth.

In short, I believe that your statement is long on hope, with all due respect, but ignores a bitter experience, a long experience. This seems to be, to me and other Members of the Intelligence Committee, the Administration's position with most of the issues relating to China.

It's especially problematic today when the Congress has been asked to assent to the implementation of the 1985 US-China Nuclear Cooperation Agreement, which is based on the Administration's conclusion that China has now—has now, Secretary Oakley—decided to be a responsible world power and cease nuclear weapons-related assistance to any state other than the five declared nuclear states. This conclusion is in turn based largely on the Chinese commitments made at the recent summit and its record of apparent but not unambiguous compliance with the May '96 pledge.

I hope, I certainly hope, that China has changed its views on the desirability of proliferation of weapons of mass destruction. And I know you do. I have not yet had the opportunity to read all of the agreements and the materials in support of the Administration's decision that I understand have been submitted to Congress for its review.

But I do know myself that the record to date, and therefore I tend to agree with Director Tenet's statement, quote, "that the jury is still out on whether the changes in Chinese proliferation behavior are broad enough in scope and whether they will hold over the long term."

Secretary Oakley, you're a very important member of that jury, so I'd like to ask you this. Given the long history that you're familiar with of Chinese proliferation activity, China's poor record in

keeping previous commitments, the grudging, last-minute nature of China's most recent promises, and a lack of a meaningful track record on most of these recent pledges, do you feel that the record supports a finding that China has changed its policies sufficiently to support implementation of the '85 agreement? And if so, why?

Mrs. OAKLEY. I think you've raised—

Chairman SHELBY. I know that's a long—

Mrs. OAKLEY. Yes, it is. And it's a very important question. We have submitted various views in my written statement. I think that one has to understand the role of INR in a question like this. We worked very closely with the rest of the Intelligence Community to prepare what we call a statement of facts or to present the facts on a situation.

I think you've put your finger on it, that often these are not as clear-cut as we would like, that there is ambiguity. Certainly the direction that China has taken—

Chairman SHELBY. Ambiguity plus a history, has it not?

Mrs. OAKLEY. Ambiguity and a history and what they've said and various things like that. All those factors, in the end, have to be weighed by the people who make the decisions on whether they have abided by these agreements.

If I may, I would like to discuss some of this very—

Chairman SHELBY. In closed session?

Mrs. OAKLEY [continuing]. Very important question in closed session this afternoon.

Chairman SHELBY. That would be fine.

Director Tenet, when you say in your words, quote, "the jury is still out," what do you mean? What specific Chinese activities do you have in mind? What would you like to see before the jury? Would you like to discuss that later?

Director TENET. Yes, well, Senator, I've submitted the classified testimony which I think goes through all of the facts in greater detail.

But I think the point I make—the lead sentence is the Chinese have enjoyed very deep relations with proliferant countries for a long time.

Chairman SHELBY. Like Pakistan.

Director TENET. And that's something you have to weigh. So these relationships have to be watched very, very carefully. And as you'll see from the classified statement of facts, there is a mixed record. There are some positive things and there are some negative things. And we can go through that this afternoon, and I think—

Chairman SHELBY. But when any nation signs an agreement, agrees to something—

Director TENET. It doesn't mean anything until they act, Senator.

Chairman SHELBY. Absolutely. But it should mean something, shouldn't it?

Director TENET. When you sign an agreement, you must abide by the agreement. And our job is then to prove to you that either one or the other is happening.

Chairman SHELBY. Absolutely.

Getting into my last area of inquiry here and concern, ballistic missile threat, the most critical threat that I understand faces the US today is the threat of attack by ballistic missiles bearing nu-

clear, biological or chemical weapons. The Intelligence Community has no more serious responsibility than to monitor this threat. Today, with more and more nations—many hostile to the US that are seeking to develop ballistic missiles to deliver weapons of mass destruction, I believe it's very important that the community faces this to identify and to monitor these new threats and to alert and support policymakers in their efforts to eliminate or counter those threats.

The Intelligence Community is in the process of completing an update to the '95 National Intelligence Estimate of Emergine Missile Threats to North America during the next 15 years. As we all know, the previous National Intelligence Estimate was the subject of a number of criticisms, many of which were, in my view, justified.

Some of the most important deficiencies of that—especially critical when the consequences of mistaken analysis are potentially so enormous—were a failure to explore possible alternative futures, a failure to identify key assumptions, and a failure to quantify the level of certainty of the judgments reached, and a failure to fully address all of the strategic, political and psychological aspects of this complicated problem—for example, by excluding Alaska and Hawaii from certain key judgments or by simplistic assumption as to the motives and likely courses of actions of hostile actors.

We have talked about this in open session before, and closed. We've talked about it in the Appropriations Committee, Subcommittee on Defense, on which I serve, which Senator Stevens chairs and which Senator Inouye—formerly the Chairman—is the ranking Democrat. They voiced their concerns before.

Director Tenet, would you describe for the Committee today how the Intelligence Community has addressed these and other deficiencies in preparing the current National Intelligence Estimate?

DIRECTOR TENET. What I'd like to say to you, Senator, is—one, I've seen a draft. It has incorporated many of the challenges that you and Bob Gates laid down to us in reviewing our last draft. I believe it meets all those challenges. We're still working on it. We'll be here early with it. It won't take until March to finish it and I think you will see a document that reflects all of the concerns that were raised with it, and it's very, very thorough, and very, very deep in terms of this subject.

I think the thing that will jump out at you is, if there's a headline out of it for me was the growing concern about the introduction and proliferation of medium-range ballistic missiles. Everybody focuses on longer-range missiles, but the proliferation of medium-range ballistic missiles and their impact on US security, I think, is something that is heightened and you will get a keen sense of that in this estimate. And I think it's something that you—when you see the product, I think you will agree that it's been very well done.

CHAIRMAN SHELBY. The history of ballistic missiles is largely, as everybody on this panel knows, is a history of unpleasant surprises. For example, Soviet missiles in Cuba, the Soviet ICBM buildup; Iraq's use of extended-range SCUDs during the Iran-Iraq war; and the acceleration of Iran's missile program with extensive, obvious Russian assistance.

Have your analysts addressed the uncertainties and potential alternative futures inherent in analyzing this difficult intelligence target?

For example, by the use of red teams, how have they addressed potential variations, such as the transfer of missile know-how and equipment from third countries? The substitution of lighter biological warheads for heavy first-generation nuclear devices? The effects of improvisation, corner cutting and alternate technical paths? And the willingness of some leaders to do what we call the unexpected, including things that analysts with an American cultural background may find very illogical or even crazy? Or to marshal a nation's resources for high priority military goals?

General Hughes, I first want you to comment on that, if you would.

General HUGHES. Well, I can look you in the eye and tell you that we have taken virtually all of the issues that you've mentioned into account. I do think that—

Chairman SHELBY. And these are issues that should be taken into account.

General HUGHES. They should be taken into account.

However, there are gaps in our knowledge base that we have to continue to work on. That is particularly true in what I would call the key technology referred to generally as nanotechnology the ability to put very complex objects in very small form and very reduced weight in operational capabilities like missiles. And that challenge that technical challenge, that is coming to us is something we don't fully understand or have control over right now. We have a lot of work to do in the future and we need to maintain constant vigilance.

The last issue is I'd like to characterize the three components of threat that we work with—capability, intent and will. I think we have a good understanding of the capability now and in the future that most countries who seek medium and long-range ballistic missiles have. What we do need a better understanding of is their intent to use them and their will to use them in a given context.

That's where most of the surprise actually has come from. We were not technically surprised about the capability in the past. We were surprised about the way in which or the circumstances in which this capability was put to use. We need to focus on that.

And speaking for the military side of the Intelligence Community—and if Director Tenet will allow me, because I know my colleagues in the CIA on this issue very well; we work closely together—we are well aware of the need to understand intent and will.

Chairman SHELBY. Secretary Oakley, do you have any comments?

Mrs. OAKLEY. I don't have any further comments. We, of course, will be cooperating with this estimate as we do with others. We are not equipped to really assess the capability. We feel that our contribution is much stronger on the intent and will chapters and we'll be working with them.

Chairman SHELBY. Director Tenet, how—how important is it that this estimate be well done? In other words be as comprehensive as analysts can make it?

Director TENET. It's extremely important to me, sir, as it is to you.

Chairman SHELBY. We thank the panel for being here. We look forward to the closed hearing this afternoon.

The Committee is adjourned.

[Thereupon, at 12:35 o'clock p.m., the Committee was adjourned.]

U.S. SENATE,  
SELECT COMMITTEE ON INTELLIGENCE,  
Washington, DC, March 12, 1998.

Hon. GEORGE J. TENET,  
*Director of Central Intelligence,  
Central Intelligence Agency, Washington, DC.*

DEAR DIRECTOR TENET: We appreciate your participation in our January 28 hearing on the current and projected national security threats to the United States. Your willingness to address this important issue in open session was appreciated and made an important contribution, not only to the work of our Committee, but to the American public's awareness of U.S. national security interests.

We are submitting the attached questions for the record to you. The unclassified responses to these questions will be an important part of our hearing transcript which we hope to release as expeditiously as possible. Accordingly, we would appreciate it if you would respond in writing to these questions no later than June 1, 1998.

If there are any questions, please have your staff contact Don Mitchell of our Committee. We appreciate your cooperation in this matter.

Sincerely,

RICHARD C. SHELBY,  
*Chairman.*  
J. ROBERT KERREY,  
*Vice Chairman.*

Enclosure.

#### QUESTIONS FOR THE RECORD

##### RUSSIA'S BALLISTIC MISSILE DEFENSE PROGRAM

(1) Please describe the nature and extent of Russia's ballistic missile defense effort. Where do you see Russia's ballistic missile defense program heading over the course of the next 15 years?

##### RUSSIA'S SAFEGUARDING OF NUCLEAR MATERIALS

(2) What is the Intelligence Community's assessment of the adequacy of Russia's safeguard of nuclear weapons and missile material?

(a) What about missile systems, components and technology? What is the status of Russian nuclear command and control systems?

(b) Has there been any change in the last year regarding Russian capabilities and programs in chemical or biological weapons? Does Russia persist in unacknowledged CW programs and illegal BW programs?

##### TRANSFER OF TECHNOLOGY FROM THE FORMER SOVIET UNION

(3) What general trends has the Intelligence Community detected in the flow of scientists, technology, and conventional and unconventional military equipment to other nations? What evidence have you detected that Soviet nuclear materials, BW, CW, or ballistic missile-related materials or technology, have found their way to the international black market?

##### CHINESE PROLIFERATION

(4) Please describe all significant transfers over the past 5 years of WMD-related technology or information from China to Iran, Pakistan or other countries, to include advanced conventional weapons and technology. Do you believe that this assistance could raise compliance concerns with China's commitments to the Non-proliferation Treaty (NPT) and the Missile Technology Control Regime (MTCR)? How likely is it that China will comply with the Chemical Weapons Convention (CWC)?

## NORTH KOREA AS A CONTINUING THREAT

(5)(a) In this prepared testimony, General Hughes stated that “[s]ome significant—perhaps violent—change is likely in the next five years. There are four basic alternatives: leadership change, government collapse, negotiated accommodation with the South, or major economic reform.” In your opinion, what is the likeliest scenario? Why?

(b) How widely is this view shared in the Intelligence Community? What do you view as the most likely scenario?

## CHANGES IN SOUTH KOREA

(6) Talks on peace on the Korean peninsula involving North and South Korea, China and the U.S., began in Geneva last December. Long-time opposition leader Kim Dae Jung won last December’s presidential election in South Korea. What do these developments bode for change in South Korea as well as prospects for normalized relations between or reunification of North and South Korea?

## SADDAM’S HOLD ON POWER

(7)(a) Do you believe that Saddam’s hold on power is stronger today than it was one year ago? What is the likelihood that Saddam will be in power one year from now? What would be the characteristics and policies of likely successors to Saddam? What are the chances that a successor regime to Saddam will be worse?

(b) Will Saddam’s fall lead necessarily to Iraq’s disintegration? If not, why?

(c) Has Saddam effectively regained control of northern Iraq?

## SUPPORT FOR IRAQ IN THE MIDDLE EAST

(8) Currently, how much support exists for Saddam in the region? If military action were taken against Iraq, what would be the likely reaction of other nations in the region? What, if any, governments in the Middle East would be publicly supportive of military action against Iraq?

## THE IMPACT OF SANCTIONS ON IRAQ

(9) Iraq has argued that the continued ban on oil exports are causing mass suffering in Iraq, including unaffordable prices for food and unavailability of medicine. What is your assessment of the nature and extent of the suffering to the Iraqi people as a result of economic sanctions?

## IRAQ’S WEAPONS OF MASS DESTRUCTION

(10) What is the current status of Iraq’s BW, CW, nuclear weapon and missile programs? How much activity has there been in each of these areas since the conclusion of the Persian Gulf War? Do we have any evidence that the Iraqi regime has tested CW or BW agents on humans since the Persian Gulf War?

## THE NEW REGIME IN IRAN

(11) Do you see President Khatami’s election and reform agenda as a watershed that could change the nature of the Iranian regime? What is the possibility that Khatami’s conservative critics will sidetrack him? What is the likelihood that the Khatami government will still be in power 3 years from now? Does his election signify a change in Iran’s support for terrorism and its acquisition of weapons of mass destruction? Is there any evidence of such a change?

## THE IMPACT OF SANCTIONS ON IRAN

(12) Are sanctions likely to influence Iran’s behavior over the next 3 years? Why or why not? Late last September, Iran and France confirmed the award of a \$2 billion deal to develop Iran’s South Pars gas field to Total SA, and its minority partners Gazprom (Russia) and Petronas (Malaysia). What does this deal say about the effectiveness of the U.S. economic sanctions against Iran?

## IRANIAN FORCES IN BOSNIA

(13) How large an Iranian presence currently exists in Bosnia? Is this presence growing or diminishing? What is the extent of Iranian influence on or penetration of the Bosnian government?

## THE PALESTINIAN AUTHORITY

(14)(a) Please assess both the willingness and the ability of the Palestinian Authority to control terrorist violence in Gaza and the areas of the West Bank under its control.

(b) To what extent is Hamas receiving outside support, and from whom is that support coming?

(c) Please assess Chairman Arafat's health, comment on his likely successor and describe the impact his departure would have on the peace process.

## THE STABILITY OF THE ISRAELI GOVERNMENT

(15)(a) Please give us your assessment of Prime Minister Netanyahu's commitment to abiding by the Oslo Accords. Is he committed to a land-for-peace formula, or does he want to kill the peace process as currently formulated?

(b) How do you assess the longevity of the current Likud government? How do you assess Labor's ability to win an election at this point?

(c) Please assess Israeli Defense Minister Mordechai's recent statements in support of United Nation's Resolution 425, which calls for Israel's unilateral withdrawal from southern Lebanon. Does this represent a significant change in Israeli policy? What has been the response of the Lebanese and Syrians to Mordechai's statement?

## THE ISRAELI PRESENCE IN LEBANON

(16) Please comment on the losses the Israelis have suffered in Lebanon in the past year and the impact of those losses on Israeli public opinion and the likelihood that Israel will initiate a unilateral withdrawal from the Southern Lebanon. Do those losses indicate that the Hizballah is becoming a more effective force? Please comment on the military effectiveness of Israel's allies, the Southern Lebanese Army (SLA) and describe the current military cooperation between the Israeli Defense Force and the SLA.

## EGYPT

(17)(a) What impact would a reduction in U.S. military aid to Egypt have on U.S. Egypt relations, particularly if such a reduction is not matched by a comparable reduction of U.S. military aid to Israel?

(b) Please assess the current strength of the Mubarak government and its ability to prevail over terrorist internal opposition. To what degree is that internal opposition receiving outside support, and from whom?

## POLITICAL KILLINGS IN HAITI

(18) What is the status of investigations into the various high profile political murder cases that have occurred in Haiti during the last several years? Has any evidence of government complicity in those murders been uncovered? In this regard, please provide an assessment of the performance of the Haitian National Police's Investigative Unit and Haitian Judiciary in solving these crimes.

## MEXICO

(19) President Clinton's February 1997 certification of Mexico as fully cooperative in drug control efforts prompted considerable criticism in Congress. What is your current assessment of the nature and extent of Mexico's drug control efforts? To what extent does Mexican government corruption hamper these efforts?

## MONITORING COMPLIANCE WITH A COMPREHENSIVE NUCLEAR TEST BAN

(20) How high is the Intelligence Community's confidence that it can effectively monitor the Comprehensive Test Ban Treaty? What are the notable shortcomings? Is U.S. intelligence doing everything possible to improve U.S. monitoring capabilities in this area? If not, why not?

## NUCLEAR TEST AT NOVAYA ZEMLYA?

(21) There was concern that Russia may have conducted a low-yield nuclear test on August 16, 1997 at Novaya Zemlya. Is there any reason to believe that the August 16 event was a nuclear explosion? Is this a view that is commonly held through the Intelligence Community?



## THE CHEMICAL WEAPONS CONVENTION

(22)(a) Over one hundred of the 168 signatories have ratified the Chemical Weapons Convention (CWC). (Last November, both Iran and Russia completed their CWC ratification.) Do you have any intelligence that any of the signatories of the CWC have engaged in activities that raise compliance concerns?

(b) The Intelligence Community has conceded that its ability to monitor compliance with the CWC is limited. Has that capability improved since U.S. ratification of the CWC?

## NORTH KOREA'S TAEPO DONG MISSILES

(23) North Korean Taepo Dong II missile (which is under development) will have an estimated range of 4,000 to 6,000 kilometers, and therefore qualifies as an intercontinental ballistic missile (ICBM). How confident are you in these range estimates? What U.S. states or territories could the Taepo Dong hit? How soon could the Taepo Dong I and Taepo Dong II become operational, and how firm is that estimate? How has this assessment changed in the last year?

## MISSILE THREATS TO THE U.S.

(24) The proliferation of missile-delivered weapons is an issue directly confronting the strategic interest of the United States and its traditional allies. When will the updated National Intelligence Estimate (NIE) on this subject be completed? What are the current strategic missile threats to the United States and theater missile threats to deployed U.S. forces? How have these threats changed in the last year? What are the projected threats for the next decade? Is this assessment shared by all components of the Intelligence Community? In the wake of the criticism of the previous NIE on this subject, what improvements have been made in the NIE process?

## TRENDS IN ECONOMIC ESPIONAGE

(25) A recent survey by the American Society for Industrial Security estimates that intellectual property losses from foreign and domestic espionage may have reached \$300 billion in 1997 alone. Does this estimate seem plausible to you? A January 12 Los Angeles Times article dealing with this issue states that currently pending before the FBI "are more than 700 foreign counterintelligence investigations involving economic espionage." Is that an accurate number? Please comment on trends in economic espionage directed against the U.S. How effectively are you able to measure the level of economic espionage against the U.S.? Has U.S. business reporting of economic espionage improved over the last year? What other measures would help to stop industrial espionage?

## ECONOMIC ESPIONAGE LAW

(26) In last year's response to this Committee's question regarding the effectiveness of the Economic Espionage Act of 1996, the CIA stated that the law clearly has attracted the attention of many of our key economic competitors, but that it is "perhaps too early to assess whether the law has had an appreciable effect on the level of economic espionage directed against the United States." Over the past year, have you seen any results from the Economic Espionage Act? Do you have information that the law has deterred economic espionage activity by foreign governments of foreign corporations?

## ESPIONAGE BY FOREIGN CORPORATIONS

(27) Last year, in response to a question by this Committee, the definition of economic espionage was given as "government-directed or orchestrated clandestine effort to collect U.S. economic secrets or proprietary information." To what extent are U.S. corporations threatened by the theft of trade secrets by foreign entities that are not "government directed or orchestrated"? How do you distinguish whether espionage government directed or not, especially if the foreign corporation involved receives extensive government subsidies?

## ECONOMIC ANALYSIS

(28) Over the past several years, the CIA has emphasized an increasing interaction with academic experts and an increasing use of open source information in its economic analysis products. As the CIA increasingly reports information based on open and public sources, does this lessen the significance of the classified infor-

mation in CIA economic reporting? Does the CIA create analysis products that are based entirely on open source or public information?

#### SOUTH KOREA ECONOMIC CRISIS

(29) How well can the political institutions in South Korea manage the socio-economic repercussions of the economic crisis? What is the likelihood of civil disorder—in South Korea as a result of layoffs, high inflation, and other consequences of the economy's downturn? How will the economic turmoil in South Korea affect their relationship with North Korea? Do you believe that South Korea's economic problems make conflict with North Korea more or less likely?

#### POTENTIAL IMPACT OF ASIAN ECONOMIC CRISIS ON CHINA

(30) How will China react to the growing economic instability in the region. Will the Chinese leadership view the crisis as an opportunity to gain influence with other Asian nations? How do you judge the likelihood that China will "competitively devalue" its currency, the yuan, in order to ensure that its companies maintain export market share? Will the "Asian contagion" spread to mainland China? If so, how will economic problems affect the policies of China's President Jiang Zemin and his government? With unemployment already rising in China's state-owned industrial sectors, will slower or negative economic growth lead to civil strife in China?

#### THE PHILIPPINES' ECONOMIC SITUATION

(31) How will the economic crisis affect the upcoming Philippine elections? Are that nation's democratic institutions strong enough to withstand economic and financial turmoil? How likely is a return to martial law in the Philippines?

#### POTENTIAL BW/CW ATTACKS ON THE U.S.

(32) What is the likelihood that the U.S. will be subjected to a biological or chemical attack within the next 2-5 years? 5-10 years? How is this attack likely to be carried out? Do you consider a BW/CW attack against the U.S. as more likely than a ballistic missile attack against the U.S.? How difficult is it for a group to construct and deliver an effective chemical weapon? A biological or radiological weapon? A nuclear device? What existing groups now have or are seeking such a capability?

#### THREAT OF INFORMATION WARFARE BY TERRORISTS

(33) Our traditional definition of terrorism does not include such things as computer attack intended to damage our telecommunications or transportation infrastructure. Are we prepared to deal with "virtual terrorism?" What steps do we need to take to focus Intelligence Community counterterrorism efforts on this new threat?

#### THREAT TO U.S. DEPLOYED FORCES IN BOSNIA

(34)(a) What are the shortfalls in Intelligence Community support to the Bosnia operation and what is being done to rectify these problem areas?

(b) In recent months, SFOR troops (including U.S. soldiers) have acted in support of Republika Srpska President Biljana Plavsic by seizing radio and television transmitters, police stations and other government installations controlled by her hardline opponents. Does the participation of U.S. troops in such operations expose them to increase risk of attack from hard-line supporters? Would hard-line response be limited to stone-throwing civilian mobs, or could it escalate into sniper attacks and other forms of armed conflict?

(c) What is the prospect and key action required for establishing long-term stability in Bosnia?

(d) How many foreign Islamic fundamentalist fighters still reside in Bosnia? What countries do they come from? Who supports them? Do they pose a threat to U.S. troops?

(e) Would more active participation by SFOR in civil implementation tasks such as refugee resettlement increase the risk to U.S. Forces?

(f) What is the possibility that current low-level violence in Kosovo in Serbia could escalate into major conflict, spreading into Macedonia and endangering the security of U.S. troops there?

(g) Are you satisfied that the U.S. has sufficient HUMINT assets in Bosnia to provide early warning of possible threat to U.S. forces?

(h) How do you deconflict your HUMINT collection assets for force protection with those already deployed by DOD to prevent duplication?

## COUNTERINTELLIGENCE THREAT TO NATIONAL LABORATORIES

(35) A September 1997 GAO report regarding DOE's security controls over foreign visitors to the National Laboratories noted that "DOE's procedures for obtaining background checks and controlling the dissemination of sensitive information are not fully effective" and that as a result, "sensitive subjects may have been discussed with foreign nationals without DOE's knowledge and approval." In your opinion, how significant is the counterintelligence threat to DOE in general and the National Laboratories in particular? What is being done to rectify this problem?

## INTERNATIONAL CRIME

(36) How critical do you assess the current and future threat to U.S. interests from international crime activities and networks? Is there room for improvement in the FBI-CIA relationship in dealing with international crime?

## NATO EXPANSION

(37) What are the risks, if any, to U.S. intelligence personnel and the Intelligence Community in general, in allowing Poland, the Czech Republic and Hungary to join NATO?

## INFORMATION OPERATIONS

(38) The Defense Science Board and the President's Commission on Critical Infrastructure Protection both issued reports during 1997 which identified our nation's vulnerability to both physical and computer attacks on our nation's information infrastructure. These reports noted that such an attack could come from a foreign government, a non-state actor, a criminal organization, or an individual hacker. How significant is the threat to our critical information infrastructure in the short-run? In the long-run? How do you judge the Intelligence Community's ability to collect intelligence on this threat?

## THE THREAT POSED BY HIV

(39) To what extent has HIV had an impact on the health and economies of foreign countries? How has HIV impacted foreign militaries?

## ACTIONABLE INTELLIGENCE

(40) Some analysts say that the increased emphasis on action-oriented intelligence has come at the expense of other important—but more mundane—work, like maintaining data bases and conducting in-depth analyses on foreign militaries and political groups. Do you share this concern? If so, how do you intend to deal with these competing needs?

## INTELLIGENCE COMMUNITY'S ROLE IN THE POW/MIA ISSUE

(41)(a) National Security Advisor Sandy Berger wrote to the Senate Majority Leader last year and indicated that he had directed the Intelligence Community to produce a Special National Intelligence Estimate (SNIE) regarding POW/MIA issues with Vietnam. After consulting with this Committee, the terms of reference were settled. When do you expect to have this Estimate completed? Mr. Berger also indicated that he would ask for an updated Intelligence Community assessment on the so-call "735" and "1205" documents found in the Russian archives. What efforts has the Intelligence Community made to acquire additional information about these documents either in Russia or in Vietnam? As per the Committee's request, have the 574 classified CIA documents on the POW/MIA subject matter been reviewed and summarized? Do they shed any light on the SNIE?

(b) In his letter, Mr. Berger offers assurances that "collection requirements pertaining to the POW/MIA issue [will] remain as a high priority" after administrative officials conceded that it had mistakenly left off the POW/MIA issues from PDD-35—the document that sets our intelligence collection priorities. Has this oversight been corrected?

(c) In July 1993, the Secretary of Defense consolidated four DoD offices charged with different functions of the POW/MIA issue. The Intelligence Community's only POW/MIA analytical element, the Defense Intelligence Agency's Office of POW/MIAs Affairs, was then transferred out from the oversight of both the DCI and the responsible Congressional committees. Do you now have oversight of the Defense Prisoner of War/Missing persons Office (DPMO) analytical section? If not, who is responsible for oversight of this capability? Why is this intelligence capability not reflected in

the Congressional Justification Books (National Foreign, Joint Military and Tactical intelligence accounts) provided to the congressional oversight committees?

A DECLINING MILITARY THREAT

(42) In your testimony before the committee, you indicated that the military threat to the U.S. was declining, and General Hughes concurred with this assessment. Please elaborate on this critical issue and discuss the impact it will have on the Intelligence Community.

U.S. SENATE,  
SELECT COMMITTEE ON INTELLIGENCE,  
Washington, DC, March 12, 1998.

Hon. LOUIS J. FREEH,  
Director, Federal Bureau of Investigation,  
J. Edgar Hoover Building, Washington, DC.

DEAR DIRECTOR FREEH: We appreciate the participation of Deputy Director Robert Bryant in our January 28 hearing on the current and projected national security threats to the United States. His willingness to address this important issue in open session was appreciated and made an important contribution, not only to the work of our Committee, but to the American public's awareness of U.S. national security interests.

We are submitting the attached questions for the record to you. The unclassified responses to these questions will be an important part of our hearing transcript which we hope to release as expeditiously as possible. Accordingly, we would appreciate it if you would respond in writing to these questions no later than June 1, 1998.

If there are any questions, please have your staff contact Don Mitchell of our Committee. We appreciate your cooperation in this matter.

Sincerely,

RICHARD C. SHELBY,  
Chairman.  
J. ROBERT KERREY,  
Vice Chairman.

Enclosure.

QUESTIONS FOR THE RECORD

RUSSIAN ORGANIZED CRIME

(1) What general trends do we see in Russian organized crime? How is organized crime impacting the Russian economy and the Russian political system? To what extent is Russian organized crime involved in the trafficking of weapons of mass destruction? What is your prognosis for Russian efforts to combat this problem? How active is Russian organized crime in the U.S.?

TRENDS IN ECONOMIC ESPIONAGE

(2) A recent survey of the American Society for Industrial Security estimates that intellectual property losses from foreign and domestic espionage may have exceeded \$30 billion in 1997 alone. Does this estimate seem plausible to you? A January 12 Los Angeles Times article dealing with this issue states that currently pending before the FBI "are more than 700 foreign counterintelligence investigations involving economic espionage." Is that an accurate number? Please comment on trends in economic espionage directed against the U.S. How effectively are you able to measure the level of economic espionage against the U.S.? Has U.S. business reporting of economic espionage improved over the last year? What other measures would help to stop industrial espionage?

ECONOMIC ESPIONAGE LAW

(3) In last year's response to this Committee's question regarding the effectiveness of the Economic Espionage Act of 1996, the CIA stated that the law clearly has attracted the attention of many of our key economic competitors, but that it is "perhaps too early to assess whether the law has had an appreciable effect on the level of economic espionage directed against the United States."

(a) Over the past year, have you seen any results from the Economic Espionage Act? Do you have information that the law has deterred economic espionage activity by foreign governments or foreign corporations?

(b) To what extent have you been able to use the Economic Espionage Act of 1996 as a tool against foreign economic spying?

#### ESPIONAGE BY FOREIGN CORPORATION

(4) Last year, in response to a question by this Committee, the definition of economic espionage was given as "government-directed or orchestrated clandestine effort to collect U.S. economic secrets or proprietary information."

(a) To what extent are U.S. corporations threatened by the theft of trade secrets by foreign entities that are not "government directed or orchestrated"? How do you distinguish whether espionage is government directed or not, especially if the foreign corporation involved receives extensive government subsidies?

(b) What steps are you taking to prevent corporate espionage that is not directed by a foreign government?

#### WORKING WITH U.S. CORPORATIONS

(5) If you find evidence that a U.S. company is being targeted for economic espionage or is the subject of unfair competition with a foreign firm, what mechanisms are in place to remedy the situation? How often does this situation occur?

#### ECONOMIC ESPIONAGE AGAINST THE U.S.

(6) How do you distinguish between economic espionage and aggressive but legitimate information gathering by a foreign government or foreign corporation? Please describe the type of economic espionage you see as the greatest threat to U.S. economic competitiveness. To what extent is economic espionage against the U.S. supported and coordinated by foreign governments?

#### POTENTIAL BW/CW ATTACKS ON THE U.S.

(7) What is the likelihood that the U.S. will be subjected to biological or chemical attack within the next 2-7 years? 5-10 years? How is this attack likely to be carried out? Do you consider BW/CW attack against the U.S. as more likely than a ballistic missile attack against the U.S.? How difficult is it for a group to construct and deliver an effective chemical weapon? A biological or radiological weapon? A nuclear device? What existing groups now have or are seeking such capability?

#### POSSIBLE RETALIATION FOR KASI SENTENCING?

(8) Mir Aimal Kasi has recently been sentenced to death for the killing of CIA employees outside CIA Headquarters. What is the likelihood that there will be acts of terrorism against the U.S. as a result of this?

#### ECONOMIC TERRORISM

(9) Do you have any evidence that foreign governments, corporations or individuals are targeting U.S. economic interests using technology (such as a virus, computer hacking, etc.)? Do you see this as a near-term threat, or more long-term?

#### TERRORISTS' USE OF ADVANCED INFRASTRUCTURE

(10) Terrorists are making more use of advanced computing and telecommunications technology, their own communications and intelligence gathering, and establishing a worldwide network of contacts and support. Does this easy access to information, communication and transportation make the job of intelligence gathering more difficult or does it provide opportunities which you can exploit? Are there steps that we can take to deny terrorists the ease of movement and communication they now enjoy?

#### THREAT OF INFORMATION WARFARE BY TERRORISTS

(11) Our traditional definition of terrorism does not include such things as computer attack intended to damage our telecommunications or transportation infrastructure. Are we prepared to deal with "virtual terrorism"? What steps do we need to take to focus Intelligence Community counterterrorism efforts on this new threat?

## EXECUTIVE BRANCH ORGANIZATION ON THE COUNTERTERRORISM ISSUE

(12) How well is the Executive Branch organized to deal with counterterrorism? Is there room for improvement in the CIA-FBI relationship on counterterrorism matters? Should the FBI be given primacy over both domestic and foreign counterterrorism intelligence gathering?

## COUNTERINTELLIGENCE THREAT TO NATIONAL LABORATORIES

(13) A September 1997 GAO report regarding DOE's security controls over foreign visitors to the National Laboratories noted that "DOE's procedures for obtaining background checks and controlling the dissemination of sensitive information are not fully effective" and that as a result, "sensitive subject may have been discussed with foreign nationals without DOE's knowledge and approval." In your opinion, how significant is the counterintelligence threat to DOE in general and the National Laboratories in particular? What is being done to rectify this problem?

## INTERNATIONAL CRIME

(14) How critical do you assess the current and future threat to U.S. interests from international crime activities and networks? Is there room for improvement in the FBI-CIA relationship in dealing with international crime?

## ENCRYPTION ISSUES

(15) For a number of year, the United States Government and the computer industry have wrestled over our nation's policy towards encryption technology. While domestically there are no restrictions on the use, sale or importation of encryption products, the U.S. still maintains export restrictions on the sale of stronger encryption products overseas. The computer industry argues that export restrictions unnecessarily hinder the sale of American encryption products abroad, which in turn adversely affects the global competitiveness of the U.S. computer industry. However, the Administration has argued that export restrictions are necessary to protect law enforcement and intelligence equities. Otherwise, the widespread use of unbreakable encryption products would enhance the ability of narcotics traffickers, terrorists, international criminals, and purveyors of child pornography to escape detection by the agencies to which we entrust our national and domestic security. How has the commercial availability of strong encryption products here and abroad hindered the FBI's ability to perform its counterintelligence and counterterrorist duties? What changes would you like to see in the United States government's policy on encryption? Why do you believe these changes are necessary?

## INFORMATION OPERATIONS

(16) The Defense Science Board and the President's Commission on Critical Infrastructure Protection both issued reports during 1997 which identified our nation's vulnerability to both physical and computer attacks on our nation's information infrastructure. These reports noted that such an attack could come from a foreign government, a non-state actor, a criminal organization, or an individual hacker. How significant is the threat to our critical information infrastructure in the short-run? In the long-run? How do you judge the Intelligence Community's ability to collect intelligence on this threat?

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U.S. SENATE,  
SELECT COMMITTEE ON INTELLIGENCE,  
*Washington, DC, March 12, 1998.*

Lt. Gen. PATRICK M. HUGHES,  
*Director, Defense Intelligence Agency,  
The Pentagon, Washington, DC.*

DEAR GENERAL HUGHES: We appreciate your participation in our January 28 hearing on the current and projected national security threats to the United States. Your willingness to address this important issue in open session was appreciated and made an important contribution, not only to the work of our Committee, but to the American public's awareness of U.S. national security interests.

We are submitting the attached questions for the record to you. The unclassified responses to these questions will be an important part of our hearing transcript which we hope to release as expeditiously as possible. Accordingly, we would appreciate it if you would respond in writing to these questions no later than June 1, 1998.

If there are any questions, please have your staff contact Don Mitchell of our Committee. We appreciate your cooperation in this matter.

Sincerely,

RICHARD C. SHELBY,  
*Chairman.*

J. ROBERT KERREY,  
*Vice Chairman.*

Enclosure.

#### QUESTIONS FOR THE RECORD

##### RUSSIAN MILITARY CAPABILITIES

(1) In your prepared testimony, you state that “[t]here is little chance that Russia will reemerge as a global military peer competitor to the U.S. over the next two decades. During this period, Russia’s strategic nuclear forces will remain the backbone of Moscow’s military might, preserving Russia’s perception of great power status and protecting its vital security interests.”

(a) Does the fact that Russia’s strategic nuclear forces “will remain the backbone of Moscow’s military might” for the next 20 years raises the likelihood that Russia might be more inclined to use nuclear weapons if it feels that its interests are being threatened?

(b) What vital interests would Moscow perceive beyond its periphery that would warrant its commitment of military force, including the threat or use of nuclear weapons?

(c) If present trends continue, what will be the Russian military’s capability to conduct operations 5 years from now? Do these trends indicate the possibility that Russia may soon have insufficient military force to retain order within Russia?

(d) What is your assessment of the likelihood that military reform will succeed in Russia?

##### RUSSIA’S BALLISTIC MISSILE DEFENSE PROGRAM

(2) Please describe the nature and extent of Russia’s ballistic missile defense effort. Where do you see Russia’s ballistic missile defense program heading over the course of the next 15 years?

##### RUSSIA’S SAFEGUARDING OF NUCLEAR MATERIALS

(3) What is the Intelligence Community’s assessment of the adequacy of Russia’s safeguard of nuclear weapons and fissile material?

(a) What about missile systems, components and technology? What is the status of nuclear weapons and fissile material?

(b) Has there been any age in the last year regarding Russian capabilities and programs in chemical or biological weapons? Does Russia persist in unacknowledged CW programs and illegal BW programs?

##### TRANSFER OF TECHNOLOGY FROM THE FORMER SOVIET UNION

(4) What general trends has the Intelligence Community detected in the flow of scientists, technology, and conventional and unconventional military equipment to other nations? What evidence have you detected that Soviet nuclear materials, BW, CW, or ballistic missile-related materials or technology, have found their way to the international black market?

##### CHINA’S MILITARY STRATEGY

(5)(a) In your prepared testimony, you state that “China’s military strategy will continue to emphasize the development of a survivable nuclear retaliatory capability as a deterrent against the use of nuclear weapons by the United States, Russia or India. There is no indication that China will field the much larger number of missiles necessary to shift from a minimalist, retaliation strategy to a first-strike strategy.” How confident are you of this assessment? What trends do you perceive in the quantity and quality of Chinese ballistic missiles capable of reaching the U.S.? Are these views shared by the remainder of the Intelligence Community?

(b) Do you believe that China views its nuclear forces as a deterrent to other non-nuclear, military or political actions by the U.S. or other countries?

## CHINA AND TAIWAN

(6) In your prepared testimony, you state that “[t]he Taiwan issue remains the major potential flashpoint. Beijing believes U.S. policy encourages the independence movement of Taiwan, deliberately or inadvertently.” Please elaborate. What is the potential for armed conflict between China and Taiwan? What would be the likely outcome of such a conflict? Has the threat of a confrontation between the PRC and Taiwan replaced North Korea as the number one security issue in Asia?

## INDIA AND PAKISTAN

(7) In your prepared testimony, you state that “India and Pakistan both continue to view their security relationship in zero-sum terms, possess sufficient material to assemble a limited number of nuclear weapons, have short range ballistic missiles, and maintain large standing forces in close proximity across a tense line of control. In short, although the prospect for major war between India and Pakistan is low at present, we remain concerned about the potential, particularly over the near term, for one of their occasional military clashes to escalate into a wider conflict. Over the longer term, however, the threat of large-scale war should diminish.” Why do you consider a large scale conflict between India and Pakistan likelier in the short term than in the long term? Is this assessment shared by other components of the Intelligence Community?

## NORTH KOREA AS A CONTINUING THREAT

(8)(a) In your prepared testimony, you state that “[s]ome significant—perhaps violent—change is likely in the next five years. There are four basic alternatives; leadership change, government collapse, negotiated accommodation with the South, or major economic reform.” In your opinion, what is the likeliest scenario? Why?

(b) You also stated in your testimony that “[o]ver the next several years Pyongyang’s WMD, missile, artillery, and special operations force capabilities will likely improve, despite the dire economic situation.” How do you account for this?

## CHANGES IN SOUTH KOREA

(9) Talks on peace on the Korean peninsula involving North and South Korea, China and the U.S., began in Geneva last December. Long time opposition leader Kim Dae Jung won last December’s presidential election in South Korea. What do these developments bode for change in South Korea as well as prospects for normalized relations between or reunification of North and South Korea?

## SUPPORT FOR IRAQ IN THE MIDDLE EAST

(10) Currently, how much support exists for Saddam in the region? If military action were taken against Iraq, what would be the likely reaction of other nations in the region? What, if any, governments in the Middle East would be publicly supportive of military action against Iraq?

## IRAQ’S WEAPONS OF MASS DESTRUCTION

(11) What is the current status of Iraq’s BW, CW, nuclear weapon and missile programs? How much activity has there been in each of these areas since the conclusion of the Persian Gulf War? Do we have any evidence that the Iraqi regime has tested CW and BW agents on humans since the Persian Gulf War?

## IRANIAN FORCES IN BOSNIA

(12) How large an Iranian presence currently exists in Bosnia? Is this presence growing or diminishing? What is the extent of Iranian influence on or penetration of the Bosnian government?

## THE ISRAELI PRESENCE IN LEBANON

(13) Please comment on the losses the Israelis have suffered in Lebanon in the past year and the impact of those losses on Israeli public opinion and the likelihood that Israel will initiate a unilateral withdrawal from the Southern Lebanon. Do those losses indicate that the Hizballah is becoming a more effective force? Please comment on the military effectiveness of Israel’s allies, the Southern Lebanese Army (SLA) and describe the current military cooperation between the Israeli Defense Force and the SLA.



## SYRIA

(14) Please assess the current military strategic threat Syria poses for Israel and Syrian military capabilities in general. What is the possibility Syria will exercise the military option to regain the Golan? How do you interpret the Syrian military movement toward the Golan within the last year?

## LIBYA'S CHEMICAL WEAPONS PROGRAM

(15) What is the status of Libya's CW activities? What is the status of their overall CW program? Is Libya making progress toward obtaining any other weapons of mass destruction for their delivery systems?

## CUBAN MILITARY CAPABILITIES

(16)(a) Does Cuba, in any way, pose a strategic threat to the United States at this time? Will Cuba pose a strategic threat to the U.S. at any time in the next two to five years? What, if anything, might change that assessment?

(b) Is Cuba currently attempting to undermine democratically-elected governments in the Western Hemisphere? What support, if any, is it providing opposition movements in Colombia and Peru?

## CUBA AND NARCOTICS TRAFFICKING

(17) Are Cuban government officials implicated in narcotics trafficking? To what extent are narcotraffickers overflying Cuban airspace to bring drugs into the U.S.? Do these overflights require Cuban government complicity of any kind?

## TRENDS IN ILLEGAL NARCOTICS

(18) In your prepared testimony, you state that "[i]llicit synthetic drug production in urban areas is a significant and growing threat." Please elaborate. Have we detected any change in the world-wide supply or demand for illegal drugs? Are our efforts having any effect on the drug trafficking organizations?

## MONITORING COMPLIANCE WITH A COMPREHENSIVE NUCLEAR TEST BAN

(19) How high is the Intelligence Community's confidence that it can effectively monitor the Comprehensive Test Ban Treaty? What are the notable shortcomings? Is U.S. intelligence doing everything possible to improve U.S. monitoring capabilities in this area? If not, why not?

## NUCLEAR TEST AT NOVAYA ZEMLYA?

(20) There was concern that Russia may have conducted a low-yield nuclear test on August 16, 1997 at Novaya Zemlya. Is there any reason to believe that the August 16 event was nuclear explosion? Is this a view that is commonly held throughout the Intelligence Community?

## THE CHEMICAL WEAPONS CONVENTION

(21)(a) Over one hundred of the 168 signatories have ratified the Chemical Weapons Convention (CWC). (Last November, both Iran and Russia completed their CWC ratification.) Do you have any intelligence that any of the signatories of the CWC have engaged in activities that raise compliance concerns?

(b) The Intelligence Community has conceded that its ability to monitor compliance with the CWC is limited. Has that capability improved since U.S. ratification of the CWC?

## NORTH KOREA'S TAEPO DONG MISSILES

(22) North Korean Taepo Dong II missile (which is under development) will have an estimated range of 4,000 to 6,000 kilometers, and therefore qualifies as an intercontinental ballistic missile (ICBM). How confident are you in these range estimates? What U.S. states or territories could the Taepo Dong hit? How soon could the Taepo Dong I and Taepo Dong II become operational, and how firm is that estimate? How has this assessment changed in the last year?

## THE PROLIFERATION OF BALLISTIC MISSILES

(23) In your prepared testimony, you state that "[w]e are particularly concerned about two trends: the significant increase we expect over the next two decades in the numbers of ballistic missiles with ranges between 300 and 1,500 kilometers; the potential for land attack cruise missiles to be more widely proliferated." Please

elaborate. What countries' ballistic missile and cruise missile programs are you most concerned about?

#### THREAT TO U.S. DEPLOYED FORCES IN BOSNIA

(24)(a) What are the prospects and key actions required for establishing long-term stability in Bosnia? While the goal of the international military presence is to make it possible for the three factions to coexist peacefully, a threat against foreign forces remains. What is the threat facing U.S. forces deployed in Bosnia?

(b) What are the shortfalls in Intelligence Community support to the Bosnia operation and what is being done to rectify these problem areas?

(c) In recent months, SFOR troops (including U.S. soldiers) have acted in support of Republika Srpska President Biljana Plavsic by seizing radio and television transmitters, police stations and other government installations controlled by her hardline opponents. Does the participation of U.S. troops in such operations expose them to increase risk of attack from hard-line supporters? Would hard-line response be limited to stone-throwing civilian mobs, or could it escalate into sniper attacks and other forms of armed conflict?

(f) Would more active participation by SFOR in civil implementation tasks such as refugee resettlement increase the risk to U.S. forces?

(g) What is the current status of efforts to remove land mines in Bosnia? Do land mines still pose a significant threat to U.S. troops in Bosnia?

(i) Are you satisfied that the U.S. has sufficient HUMINT assets in Bosnia to provide early warning of possible threats to U.S. forces?

(j) How do you determine the extent of personnel required for HUMINT collection operations for force protection?

#### NATO EXPANSION

(25) What are the risks, if any, to U.S. intelligence personnel and the Intelligence Community in general, in allowing Poland, the Czech Republic and Hungary to join NATO?

#### THE THREAT POSED BY DISEASE

(26) To what extent has HIV had an impact on the health and economies of foreign countries? How has HIV impacted foreign militaries?

#### THE ROLE OF DOD INTELLIGENCE ANALYSIS

(27) As senior military intelligence advisor to the Secretary of Defense and the Chairman of the Joint Chiefs of Staff, your production units and activities around the world have been the producer of action-oriented intelligence—the moment-to-moment reporting that enables policy makers and military commanders to make tactical decisions with timely information. How do you evaluate the Defense Intelligence Community's performance in the production of threat assessments. What contributions have been provided by the Reserve component?

#### ACTIONABLE INTELLIGENCE

(28) Some analysts say that the increased emphasis on action-oriented intelligence has come at the expense of other important—but more mundane—work, like maintaining data bases and conducting in-depth analyses on foreign militaries and political groups. Do you share this concern? If so, how do you intend to deal with these competing needs?

#### INTELLIGENCE COMMUNITY'S ROLE IN THE POW/MIA ISSUE

(29)(a) In July 1993, the Secretary of Defense consolidated four DOD offices charged with different functions of the POW/MIA issue. The Intelligence Community's only POW/MIA analytical element, the Defense Intelligence Agency's Office of POW/MIAs Affairs, was then transferred out from the oversight of both the DCI and the responsible Congressional committees. Do you now have oversight of the Defense Prisoner of War/Missing Persons Office (DPMO) analytical section? If not, who is responsible for oversight of this capability? Why is this intelligence capability not reflected in the Congressional Justification Books (National Foreign, Joint Military and Tactical intelligence accounts) provided to the congressional oversight committees?

(b) This Committee is looking into intelligence information on the January 1991 loss of a Persian Gulf F-18 aircraft and its pilot, Lieutenant Commander Michael Scott Speicher. It has requested a report that documents the chronology of the intel-

ligence community's activities. Will you share with us, what evidence exists that Speicher was killed in action? What evidence exists to support the classification "missing in action?" What specific collection actions, by discipline, are underway by the Intelligence Community and by whom? If not, why not? What office has the responsibility to keep intelligence collection requirements on the books? At what point did the Intelligence Community reduce its collection effort? Why? Who is responsible for dedicated all-source analysis on the MIA topic in the Intelligence Community? How is the current structure working?

U.S. SENATE,  
SELECT COMMITTEE ON INTELLIGENCE,  
*Washington, DC, March 12, 1998.*

Hon. PHYLLIS E. OAKLEY,  
*Assistant Secretary of State for Intelligence and Research,  
Department of State, Washington, DC.*

DEAR MS. OAKLEY: We appreciate your participation in our January 28 hearing on the current and projected national security threats to the United States. Your willingness to address this important issue in open session was appreciated and made an important contribution, not only to the work of our Committee, but to the American public's awareness of U.S. national security interests.

We are submitting the attached questions for the record to you. The unclassified responses to these questions will be an important part of our hearing transcript which we hope to release as expeditiously as possible. Accordingly, we would appreciate it if you would respond in writing to these questions no later than June 1, 1998.

If there are questions, please have your staff contact Don Mitchell of our Committee. We appreciate your cooperation in this matter.

Sincerely,

RICHARD C. SHELBY,  
*Chairman.*

J. ROBERT KERREY,  
*Vice Chairman.*

Enclosure.

#### QUESTIONS FOR THE RECORD

##### RUSSIAN MILITARY CAPABILITIES

(1) What is your assessment of the likelihood that military reform will succeed in Russia?

##### RUSSIA-IRAN MISSILE RELATIONSHIP

(2) In your prepared testimony, you state that "[e]vents over the past year have demonstrated the ability of world-be proliferators, notably Iran, to exploit Russia's missile development infrastructure. If allowed to continue, access to Russian technology and expertise will enable the Iranians to develop and field intermediate range ballistic missiles faster than if they were left to their own devices?" How has Russian assistance enhanced the capabilities of Iranian ballistic missiles? What are current projections about the range capabilities of Iranian missiles over the next 15 years? What are the implications for U.S. national security?

##### CHINESE PROLIFERATION

(3) Please describe all significant transfers over the past 5 years of WMD-related technology or information from China to Iran, Pakistan or other countries, to include advanced conventional weapons and technology. Do you believe that this assistance could raise compliance concerns with China's commitments to the Non-proliferation Treaty (NPT) and the Missile Technology Control Regime (MTCR)? How likely is it that China will comply with the Chemical Weapons Convention (CWC)?

##### THE FUTURE OF HONG KONG

(4) On July 1 of last year, Hong Kong reverted from British to Chinese sovereignty. What is your long-term assessment of the likelihood that Hong Kong will continue to have strong economic growth, foster a friendly and supportive business

environment and provide an atmosphere allowing significant scope for individual freedom? What are the economic implications of this for the U.S.?

#### NORTH KOREA AS A CONTINUING THREAT

(5) In his prepared testimony, General Hughes stated that “[s]ome significant—perhaps violent—change is likely in the next five years. There are four basic alternatives: leadership change, government collapse, negotiated accommodation with the South, or major economic reform.” In your opinion, what is the likeliest scenario? Why? How widely is this view shared in the Intelligence Community? What do you view as the most likely scenario?

#### MONITORING THE NORTH KOREAN FRAMEWORK AGREEMENT

(6) In 1994, North Korea signed the nuclear framework agreement and promised to forgo further development of nuclear weapons in return for assistance from the U.S. and others. Has North Korea been living up to its commitments under the framework agreement? Do we expect continued compliance? Does the economic situation in North Korea make compliance more or less likely? How high is your confidence that the U.S. Intelligence Community can adequately monitor North Korea's compliance with the U.S.-North Korean Framework Agreement?

#### CHANGES IN SOUTH KOREA

(7) Talks on peace on the Korean peninsula involving North and South Korea, China and the U.S., began in Geneva last December. Long time opposition leader Kim Dae Jung won last December's presidential election in South Korea. What do these developments bode for change in South Korea as well as prospects for normalized relations between or reunification of North and South Korea?

#### IRAQ AND U.N. INSPECTIONS

(8) Iraq has recently barred a U.S.-led team from conducting inspections in Iraq, claiming that the team composition was “unbalanced” and the U.S. team chief was a spy. Saddam Hussein has vowed to suspend cooperation with U.N. weapons inspectors if they do not finish their work by May 20. What is your assessment of the likelihood that Saddam is serious about his threat to suspend cooperation with the inspectors? What is the likelihood that military action against Iraq will alter Saddam's behavior?

#### THE IMPACT OF SANCTIONS ON IRAQ

(9) Iraq has argued that the continued ban on oil exports are causing mass suffering in Iraq, including unaffordable prices for food and unavailability of medicine. What is your assessment of the nature and extent of the suffering to the Iraqi people as a result of economic sanctions?

#### THE NEW REGIME IN IRAN

(10) Do you see President Khatami's election and reform agenda as a watershed that could change the nature of the Iranian regime? What is the possibility that Khatami's conservative critics will sidetrack him? What is the likelihood that the Khatami government will still be in power 3 years from now? Does his election signify a change in Iran's support for terrorism and its acquisition of weapons of mass destruction? Is there any evidence of such a change?

#### THE IMPACT OF SANCTIONS ON IRAN

(11) Are sanctions likely to influence Iran's behavior over the next 3 years? Why or why not? Late last September, Iran and France confirmed the award of a \$2 billion deal to develop Iran's South Pars gas field to Total SA, and its minority partners Gazprom (Russia) and Petronas (Malaysia). Will the U.S. impose sanctions on these countries? What does this deal say about the effectiveness of the U.S. economic sanctions against Iran?

#### THE PALESTINIAN AUTHORITY

(12)(a) Please assess both the willingness and the ability of the Palestinian Authority to control terrorist violence in Gaza and the areas of the West Bank under its control.

(b) To what extent is Hamas receiving outside support, and from whom is that support coming?

(c) Please assess Chairman Arafat's health, comment on his likely successor and describe the impact his departure would have on the peace process.

#### THE STABILITY OF THE ISRAELI GOVERNMENT

(13)(a) Please give us your assessment of Prime Minister Netanyahu's commitment to abiding by the Oslo Accords. Is he committed to a land-for-peace formula, or does he want to kill the peace process as currently formulated?

(b) How do you assess the longevity of the current Likud government? How do you assess Labor's ability to win an election at this point?

(c) Please assess Israeli Defense Minister Mordechai's recent statements in support of United Nation's Resolution 425, which calls for Israel's unilateral withdrawal from southern Lebanon. Does this represent a significant change in Israeli policy? What has been the response of the Lebanese and Syrians to Mordechai's statement?

#### THE ISRAELI PRESENCE IN LEBANON

(14) Please comment on the losses the Israelis have suffered in Lebanon in the past year and the impact of those losses on Israeli public opinion and the likelihood that Israel will initiate a unilateral withdrawal from the Southern Lebanon. Do those losses indicate that the Hizballah is becoming a more effective force? Please comment on the military effectiveness of Israel's allies, the Southern Lebanese Army (SLA) and describe the current military cooperation between the Israeli Defense Force and the SLA.

#### SYRIA

(15) Under what conditions will Syria withdraw from Lebanon? Do you see those conditions being met in the near future?

#### THE SECURITY ENVIRONMENT IN LEBANON

(16) Please comment on the general security environment in Lebanon and the safety of Americans who travel there, now that the U.S. travel ban has been partially lifted. If the Israelis should withdraw their forces from southern Lebanon, are the Lebanese Armed Forces capable of controlling southern Lebanon and preventing Hizballah attacks against Israel?

#### EGYPT

(17)(a) What impact would a reduction in U.S. military aid to Egypt have on U.S.-Egypt relations, particularly if such a reduction is not matched by a comparable reduction of U.S. military aid to Israel?

(b) Please assess the current strength of the Mubarak government and its ability to prevail over terrorist internal opposition. To what degree is that internal opposition receiving outside support, and from whom?

#### THE TALIBAN MILITIA IN AFGHANISTAN

(18) The Taliban militia has overtaken significant portions of Afghanistan. What is the likelihood that the Taliban will come to dominate Afghanistan over the long-term? If the Taliban sustain their dominance over Afghanistan, what are the likely implications for Iran-Afghanistan relations?

#### CASTRO'S HOLD ON POWER AND SUCCESSION

(19)(a) What is the state of Fidel Castro's health and the prospects for a peaceful transition of democracy in Cuba within the next two to five years? Who is a likely successor?

(b) Please comment on the short, medium and long-term impact of Pope John Paul's recent visit to Cuba. Will the Catholic Church in Cuba begin to play a more aggressive oppositionist role in Cuba as a result of the visit?

(c) Please characterize the strength of the current opposition to the Castro government. Does the opposition pose a serious challenge to the regime? If not, do you anticipate that it will within the next 2-5 years?

#### CUBA'S ECONOMY

(20) How would you characterize Cuba's current economic health? What impact has the Helms Burton legislation had on foreign investment in Cuba?

## POLITICAL KILLINGS IN HAITI

(21) What is the status of investigations into the various high profile political murder cases that have occurred in Haiti during the last several years? Has any evidence of government complicity in those murders been uncovered? In this regard, please provide an assessment of the performance of the Haitian National Police's investigative Unit and Haitian Judiciary in solving these crimes.

## COLOMBIA

(22) Please assess the strength of the Colombian guerrilla movement and its chances for military success against the government of Colombia. To what extent have the various guerrilla movements in Colombia become involved in narcotrafficking? What role do they play in drug trafficking and have they in effect become one with the country's narcotraffickers? Please assess the current human rights situation and the relative involvement of both government and guerrilla forces in committing such abuses.

## MEXICO

(23) President Clinton's February 1997 certification of Mexico as fully cooperative in drug control efforts prompted considerable criticism in Congress. What is your current assessment of the nature and extent of Mexico's drug control efforts? To what extent does Mexican government corruption hamper these efforts?

## MONITORING COMPLIANCE WITH A COMPREHENSIVE NUCLEAR TEST BAN

(24) How high is the Intelligence Community's confidence that it can effectively monitor the Comprehensive Test Ban Treaty? What are the notable shortcomings? Is U.S. intelligence doing everything possible to improve U.S. monitoring capabilities in this area? If not, why not?

## THE CHEMICAL WEAPONS CONVENTION

(25)(a) Over one hundred of the 168 signatories have ratified the Chemical Weapons Convention (CWC). (Last November, both Iran and Russia completed their CWC ratification.) Do you have any intelligence that any of the signatories of the CWC have engaged in activities that raise compliance concerns?

(b) The Intelligence Community has conceded that its ability to monitor compliance with the CWC is limited. Has that capability improved since U.S. ratification of the CWC?

## THE SITUATION IN INDONESIA

(26) How will Indonesia's economic problems affect the security situation in that nation? How do you assess President Suharto's ability to prevent civil strife that may arise as a result of slower if not negative economic growth, and likely higher unemployment and inflation? If Suharto is not re-elected or not able to fulfill his seventh term as president, is there a credible successor available that could lead Indonesia through this economic downturn in the coming years? How likely is the Indonesian military to intercede in the political process?

## THREAT TO U.S. DEPLOYED FORCES IN BOSNIA

(27) What are the shortfalls in Intelligence Community support to the Bosnia operation and what is being done to rectify these problem areas?

## INTELLIGENCE SUPPORT TO THE WAR CRIMES TRIBUNAL

(28) How is the U.S. Intelligence Community supporting the War Crimes Tribunal?

## NATO EXPANSION

(29) What are the risks, if any, to U.S. intelligence personnel and the Intelligence Community in general, in allowing Poland, the Czech Republic and Hungary to join NATO?

## THE THREAT POSED BY DISEASE

(30) In your prepared testimony in which you discuss the implications of Hong Kong's "bird flu," you note that "[b]acterial and viral diseases are both durable and mutative, ensuring they will never be completely eradicated. Improved monitoring

and rapid response is essential to curb this threat to the health of Americans." What diseases pose the greatest threat to the U.S.?

U.S. DEPARTMENT OF STATE,  
Washington, DC, June 15, 1998.

Hon. RICHARD C. SHELBY,  
Chairman, Select Committee on Intelligence, U.S. Senate.

DEAR MR. CHAIRMAN: Enclosed are responses to the questions posed in your March 12, 1998 letter to Assistant Secretary Oakley. Please let us know if we can be of further assistance.

Sincerely,

BARBARA LARKIN,  
Assistant Secretary, Legislative Affairs.

Enclosures: As stated.

#### 1. RUSSIAN MILITARY CAPABILITIES

*Question 1.* What is your assessment of the likelihood that military reform will succeed in Russia?

*Answer:* The Russian military continues to be short of funds and afflicted with a series of problems that have sharply lowered morale. Efforts at reform, begun in earnest last year by the new minister of defense, have led to the consolidation of some commands and now await approval of a comprehensive program to revamp the services. Yeltsin has stated that he wants to reduce the military to no more than 1.2 million men by the end of the decade. The main problems of money and will-power remain, however, and, as in the case of the economy, entrenched interests are proving difficult to dislodge.

#### 2. THE RUSSIA-IRAN MISSILE RELATIONSHIP

*Question 2.* In your prepared testimony, you state that "[e]vents over the past year have demonstrated the ability of would-be proliferators, notably Iran, to exploit Russia's missile development infrastructure. If allowed to continue, access to Russian technology and expertise will enable the Iranians to develop and field intermediate range ballistic missiles faster than if they were left to their own devices." How has Russian assistance enhanced the capabilities of Iranian ballistic missiles? What are current projections about the range capabilities of Iranian missiles over the next 15 years? What are the implications for U.S. National security?

*Answer.* The Administration wants to prevent Russian assistance to Iran's long-range missile program. This is why the President appointed a special envoy for the issue in 1997 and why the U.S. continues to urge Russia to take steps to ensure that Iran does not obtain equipment, technology, training, or materials from the Russian aerospace industry.

Assistance from Russian experts has saved Iran time and improved the quality of the missile program, but we do not know exactly how much time Russian assistance has saved Iran.

Iran's missile program was not starting from scratch when it began recruiting Russian experts. Iran has an active Scud program and has been looking at developing medium-range missiles for some time, at least since the early 1990s when it negotiated to purchase North Korea's No Dong system.

#### 3. CHINESE PROLIFERATION

*Question 3.* Please describe all significant transfers over the past 5 years of WMD-related technology or information from China to Iran, Pakistan or other countries, to include advanced conventional weapons and technology. Do you believe that this assistance could raise compliance concerns with China's commitments to the Non-proliferation Treaty (NPT) and the Missile Technology Control Regime (MTCR)? How likely is it that China will comply with the Chemical Weapons Convention (CWC)?

*Answer.* (NPT/Iran) In late 1997 China announced it would phase out existing, and not engage in any new, nuclear cooperation with Iran. In the past, Chinese sales of nuclear facilities to Iran have been made pursuant to IAEA safeguards. We do not believe China would knowingly assist Iran to acquire nuclear weapons.

(NPT/Pakistan) China is providing assistance to Pakistan's civilian nuclear program through construction of a nuclear power reactor that will be subject to IAEA safeguards. But China also has cooperated with Pakistan's unsafeguarded nuclear program in areas that raise concerns. Prior to China's NPT accession in March

1992, the U.S. had concluded that China had assisted Pakistan in developing nuclear explosives. In May 1996, China stated publicly that it will not provide assistance to unsafeguarded nuclear facilities. Our current information does not provide a basis for concluding that China has acted inconsistently with that statement.

(Missiles) The Department continues to be concerned about reports of Chinese-supplied M-11's in Pakistan, and about reports of missile-related assistance to countries such as Iran and Pakistan. In October 1994, China reaffirmed its 1992 commitment to abide by the original guidelines and parameters of the MTCR. Beijing also committed to ban all exports of MTCR-class ground-to-ground missiles. We have no reason to believe China has done anything inconsistent with that commitment.

(Chemical Weapons Convention) The U.S. for some time has been concerned that various Chinese companies have been transferring chemical weapon-related dual-use chemicals, production equipment, and technology to Iran, which we believe Iran is using in its chemical weapons program. In May 1997, the U.S. government imposed trade sanctions on five Chinese individuals, two Chinese companies, and one Hong Kong company for knowingly and materially contributing to Iran's CW program. We have no evidence that the Chinese or Hong Kong governments were involved in the specific transfers that provoked these sanctions. Beijing has said on many occasions that it is committed to and is abiding by the CWC, and that it is opposed to the development of chemical weapons by any nation.

#### 4. THE FUTURE OF HONG KONG

*Question 4.* On July 1 of last year, Hong Kong reverted from British to Chinese sovereignty. What is your long-term assessment of the likelihood that Hong Kong will continue to have strong economic growth, foster a friendly and supportive business environment and provide an atmosphere allowing significant scope for individual freedom? What are the economic implications of this for the U.S.?

*Answer.* Less than a year after reversion, Hong Kong continues to play an important role as a regional finance center, actively participating in efforts to address the Asian financial crisis. As a member of the World Trade Organization and the Asia Pacific Economic Cooperation Forum, Hong Kong has pressed for further trade and investment liberalization.

Beijing continues to take pains not to be seen as interfering in Hong Kong's affairs. Mainland Chinese companies in Hong Kong are subject to Hong Kong laws and supervision. The rule of law and the independent judiciary remain in place.

China also has shown restraint and offered support in dealing with Hong Kong during the Asian financial crisis. Last fall, while the Hong Kong dollar was under enormous pressure, Beijing did not second guess the SAR's decision to hold fast to the peg—and it noted that it too had considerable reserves that could be made available for the defense of the exchange rate.

The defense of the peg has required Hong Kong to deflate its economy. As a speculative pressure on the exchange rate has diminished, interest rates have retreated to close to where they were before the crisis began. The banks appear to have withstood well the fall off in property prices and other assets. Growth forecasts for this year range from about 2 percent to 3.5 percent, significantly lower than in recent years, and unemployment likely will rise slightly as demand for services eases. The export services sector remains more buoyant than anticipated because China's trade has not yet encountered sharply increased competition from southeast Asian countries where exchange rates tumbled.

The Hong Kong press remains free and continues to comment critically on the PRC and its leaders, though some self-censorship has been reported. Demonstrations—often critical of the PRC—continue to be held. Western journalists and media focus on legislative elections scheduled for May and adoption of laws on sedition, subversion, and secession that might undermine fundamental human rights.

Reversion has not dimmed Hong Kong's attractions as an operational base for U.S. companies because of its unduplicated regional strengths in finance, shipping services, and communications. Hong Kong's longer-term economic prospects are too bound up with China's to separate, but as long as China's economy can sustain robust growth, Hong Kong's economy will remain vibrant.

#### 5. NORTH KOREA AS A CONTINUING THREAT

*Question 5.* In his prepared testimony, General Hughes stated that “[s]ome significant—perhaps violent—change is likely in the next five years. There are four basic alternatives: leadership change, government collapse, negotiated accommodation with the South, or major economic reform.” In your opinion, what is the likeliest scenario? Why? How widely is this view shared in the intelligence community? What do you view as the most likely scenario?



Answer. INR believes that there is a good chance that the North will make enough economic adjustments and receive sufficient external assistance to sustain a strategy of engagement and economic regeneration over the next five years. We think the DPRK is most likely to continue on its present path of:

Implementing the agreed framework and seeking broader engagement with the United States.

Seeking foreign aid, trade, and investment to foster economic growth without undermining political control.

Relying on and rewarding the military to ensure Kim Jong Il's position.

Reinforcing internal control and deterring challenges to the regime.

As long as the DPRK stays on this course, the probability of war or military conflict short of war on the peninsula should remain relatively low.

#### 6. MONITORING THE NORTH KOREAN FRAMEWORK AGREEMENT

*Question 6.* In 1994, North Korea signed the Nuclear Framework Agreement and promised to forgo further development of nuclear weapons in return for assistance from the U.S. and others. Has North Korea been living up to its commitments under the Framework Agreement? Do we expect continued compliance? Does the economic situation in North Korea make compliance more or less likely? How high is your confidence that the U.S. intelligence community can adequately monitor North Korea's compliance with the U.S.-North Korean Framework Agreement?

Answer. At this stage of the Agreed Framework's implementation, the specific nuclear-related commitments which the North has undertaken are the freezing of the nuclear production facilities at Yongbyon, a halt to construction on two uncompleted graphite-moderated nuclear reactors, and the canning of the approximately 8,000 spent fuel rods that were unloaded in 1994. We are satisfied that the North is living up to each of these commitments. The facilities are frozen, construction has stopped, and canning has been completed.

In another area we are not yet so satisfied. Although the North is not obligated to come into full compliance with its safeguards agreement with the IAEA until a "significant portion" of the LWR project is completed, the IAEA feels it needs to take preliminary steps to be able to deal with the question of verifying the accuracy and completeness of the DPRK's initial inventory expeditiously when the time comes. At the moment, there are differences between the North and the IAEA on how to proceed on this question. We believe that, in the spirit of the Agreed Framework, the North Koreans can and should be more cooperative with IAEA requests.

We expect continued compliance from the North in areas where they have already fulfilled their commitments, and we are constantly focusing their attention on the need to be as cooperative as possible with the IAEA, now and in the future. The Agreed Framework is constructed to let us take one step at a time, and that is how we will deal with future North Korean obligations.

One could imagine scenarios under which the North's desperate economic situation might lead to circumstances where it would decide to break the Agreed Framework. However, our view is that it is much more likely that the North's economic situation will keep it focused on efforts to improve relations with the United States, and that it fully realizes that this goal would be unattainable if it were to stop complying with its Agreed Framework obligations.

We have high confidence that the U.S. intelligence community can adequately monitor the North's compliance with its specific commitments under the Agreed Framework, freezing production of nuclear materials at—as well as halting construction and eventually dismantling—the designated facilities.

#### 7. CHANGES IN SOUTH KOREA

*Question 7.* Talks on peace on the Korean peninsula involving North and South Korea, China and the U.S., began in Geneva last December. Long time opposition leader Kim Dae Jung won last December's presidential election in South Korea. What do these developments bode for change in South Korea as well as prospects for normalized relations between or reunification of North and South Korea?

Answer. President Kim Dae Jung has said that he wants to make a number of reforms. He aims to make the current financial situation and IMF program an opportunity for Korea to achieve a more balanced economic development.

He also has said that he is open to a North-South Korean summit, and he believes in increased economic intercourse between the North and South. The North Koreans have recently proposed resumption of government-to-government talks at the vice-ministerial level, possibly a first step in a broader reengagement with the south. Public North Korean comment on the new South Korean administration has avoided

harsh criticism, leaving the door open to exploring progress in inter-Korean relations.

#### 8. IRAQ AND U.N. INSPECTIONS

*Question 8.* Iraq has meekly barred a U.S.-led team from conducting inspections in Iraq, claiming that the team composition was "unbalanced" and the U.S. team chief was a spy. Saddam Hussein has vowed to suspend cooperation with U.N. weapons inspectors if they do not finish their work by May 20. What is your assessment of the likelihood that Saddam is serious about his threat to suspend cooperation with the inspectors? What is the likelihood that military action against Iraq will alter Saddam's behavior?

*Answer.* The crisis has been resolved for now and UNSCOM inspectors, including Americans, have inspected facilities previously off limits. Nevertheless, significant gaps remain regarding Iraq's WMD programs, especially in the biological weapons area. Additionally, Saddam's track record suggests strongly that we need to remain vigilant and prepare for additional challenges from his regime. This latest crisis was resolved peacefully in large part because Saddam faced a credible military threat.

#### 9. THE IMPACT OF SANCTIONS ON IRAQ

*Question 9.* Iraq has argued that the continued ban on oil exports is causing mass suffering in Iraq, including unaffordable prices for food and unavailability of medicine. What is your assessment of the nature and extent of the suffering to the Iraqi people as a result of economic sanctions?

*Answer.* The U.N. oil-for-food program initiated in 1996 has done much to alleviate the suffering of the Iraqi people, and we are prepared to look favorably on expanding the program. The Baghdad regime finally accepted terms of the oil-for-food arrangement, which had been available to Baghdad in one form or another since 1991. The arrangement has noticeably improved Iraqi nutrition and medical care though the overall economy remains hamstrung by shortages of imported raw materials and spare parts, by inferior public services, and by a dilapidated infrastructure. The Baghdad regime bears the onus for the humanitarian costs of economic sanctions. The Iraqi government's repeated flouting of U.N. Security Council resolutions precludes easing of the sanctions regime. Moreover, the U.N. oil-for-food arrangement, which was developed specifically to address the humanitarian issue, lay dormant for six years because of Baghdad's unwillingness to allow the U.N. to ensure equitable distribution of food and medicine.

#### 10. THE NEW REGIME IN IRAN

*Question 10.* Do you see President Khatami's election and reform agenda as a watershed that could change the nature of the Iranian regime? What is the possibility that Khatami's conservative critics will sidetrack him? What is the likelihood that the Khatami government will still be in power 3 years from now? Does his election signify a change in Iran's support for terrorism and its acquisition of weapons of mass destruction? Is there any evidence of such a change?

*Answer.* Under Khatami, a number of changes are increasing prospects for a more democratic and less ideological Iran. For example, many press restrictions have been lifted and numerous new publications have been started. Some fundamental ideological taboos have been broken, most notably when Khatami praised American civilization and culture.

Khatami's conservative opponents have been able to slow the pace of some of his reforms, but so far they have not stopped him. In April, for example, he overcame an indirect conservative attack on him when he won the release from prison of his ally, the mayor of Tehran, whose arrest was ordered by the conservative-dominated judiciary.

Khatami appears to have worked out a modus vivendi with other key leaders we expect him to complete his four-year term.

We do not know what Khatami's policies on terrorism and WMD are. He has brought in a new intelligence minister, but so far we lack sufficient evidence that would demonstrate reforms on terrorism.

#### 11. THE IMPACT OF SANCTIONS ON IRAN

*Question 11.* Are sanctions likely to influence Iran's behavior over the next 3 years? Why or why not? Late last September, Iran and France confirmed the award of a \$2 billion deal to develop Iran's South Pars gas field to Total SA, and its minority partners Gazprom (Russia) and Petronas (Malaysia). Will the U.S. impose sanc-

tions on these countries? What does this deal say about the effectiveness of the U.S. economic sanctions against Iran?

Answer. We lack hard evidence that unilateral US sanctions have had significant positive effects in changing objectionable Iranian behavior. Tehran says the sanctions policy proves Washington's hostility and its insincerity in calling for a reduction in tensions with Iran. Even where the sanctions have had some effect, as in increasing Tehran's costs in securing international financing, we lack evidence that such costs affect Iranian policy on terrorism and weapons of mass destruction. Multilateral controls to deny Iran sensitive military and dual-use technology, however, have hampered Tehran's efforts to develop its WMD program.

After extensive review, the Secretary on May 18 determined that the Total-Gazprom-Petronas investment in the South Pars gas field was sanctionable activity under the Iran and Libya Sanctions Act (the Act). At the same time, the Secretary under authority of Section 9(c) of the Act, determined it is important to the national interest to waive sanctions against Total, Gazprom, and Petronas. The Administration does not support the Total-Gazprom-Petronas investment and undertook vigorous efforts to stop it, including representations to the highest levels of the governments involved. All three companies, for varying reasons, are insulated from any practical negative impact of the imposition of sanctions, and were prepared to proceed with their investment projects in Iran even in the wave of U.S. sanctions. The administration concluded the Act's sanctions would not stop the South Pars deal.

In reaching a decision, the Secretary took into account the Act's objective of building an effective multilateral regime to deny Iran the ability to acquire weapons of mass destruction (WMD) and their delivery systems and to support acts of international terrorism. In the areas of WMD and terrorism, the Administration has achieved significant enhanced cooperation with the European Union, with whom cooperation was already at a high level, and with Russia, which has undertaken some important commitments and initiatives on non-proliferation, whose implementation we will monitor for effectiveness. Malaysia has not been actively engaged with us on nonproliferation issues, nor has it been a source of proliferation concern, and it has acted as a force of moderation in Islamic circles. The Administration fully recognizes the dangers to Israel posed by the potential threat of development of WMD by its adversaries in the region and we will continue to engage with Israel to assure our cooperation supports Israel's ability to resist such threats.

In reaching a decision, the Secretary also took into consideration additional factors relating to our national interest. The waivers will enhance our ability to work with the European Union, Russia, and Malaysia on a host of bilateral and multilateral issues. Inter alia, these include:

Russia's ratification of START II, further cooperation on nonproliferation, and progress on internal economic reform;

Resolution of differences over Helms-Burton, including a new discipline to deter investment in illegally expropriated property worldwide, including in Cuba, and further EU support for democratic change and human rights in Cuba, and creation of a new US-EU initiative to further liberalize world trade;

Multilateral cooperation on Iraq to maintain the isolation of Saddam Hussein and to bring about Iraqi compliance with UN Security Council resolution, including cooperation with the UNSCOM/IAEA inspections;

Progress on peaceful solutions to the issues of Kosovo and Bosnia where the cooperation of our NATO allies is essential, and on other European security issues;

Cooperation with European and Asian governments, including Malaysia, in addressing the Asian financial crisis and the rapidly unfolding events in Indonesia.

## 12. THE PALESTINIAN AUTHORITY

*Question 12.* (A) Please assess both the willingness and the ability of the Palestinian Authority to control terrorist violence in Gaza and the areas of the West Bank under its control.

(B) To what extent is Hamas receiving outside support, and from whom is that support coming.

(C) Please assess Chairman Arafat's health, comment on his likely successor and describe the impact his departure would have on the peace process.

Answer. (A) (Control Over Terrorism) The Palestinian Authority (PA) recognizes that it must fight terrorism and has taken steps to prevent terrorist attacks. We believe that the PA must make a total effort to fight terrorist groups. The President the Secretary, and other USG officials have publicly and privately made this point to the PA. We will continue to monitor the PA's efforts in this regard.

(B) (Outside Support of Hamas) Hamas receives a substantial portion of its financing from private Palestinian and Islamist supporters around the globe, espe-

cially in the Gulf states but also in the U.S. and Europe. Most of this money is intended and used for Hamas charitable activities, though some is siphoned off to Hamas' military wing. The group also receives financial and training assistance from Iran and at least some terrorist training from other terrorist groups in the region, especially in Lebanon.

(C) (Arafat's Health and Successor) We have heard reports that Chairman Arafat's health is deteriorating, however, U.S. officials who meet with him often report that he seems vigorous and fully engaged.

Yasser Arafat holds two positions: "ra'es" (chairman or president) of the Palestinian Executive Authority (elected in 1996), and Chairman of the Palestinian Liberation Organization (PLO). Arafat is also head of Fatah, the dominant faction in the PLO. In the event he vacates his posts due to death, resignation, or loss of legal capacity, the Speaker of the Palestinian Legislative Council, currently Ahmed Quray (Abu Alaa), takes over as head of the Palestinian Authority for no more than 60 days, within which time elections must be held to elect a new "ra'es."

There is no clear line of succession for Arafat in his capacity as Chairman of the PLO Executive Committee, although its Secretary General Mahmoud Abbas (Abu Mazen) is considered a likely candidate to assume this position. A successor would likely be from Fatah, the PLO's dominant faction, a meeting of the Palestine National Committee (PNC) might be called to confirm the new Chairman. Arafat himself remains, for most Palestinians, the symbol of their cause. It is likely that after a period of consolidation, Arafat's successor would continue to negotiate the outstanding issues on the Palestinian-Israeli peace track.

### 13. THE STABILITY OF THE ISRAELI GOVERNMENT

*Question 13.* (A) Please give us your assessment of Prime Minister Netanyahu's commitment to abiding by the Oslo accords. Is he committed to a land-for-peace formula, or does he want to kill the peace process as currently formulated?

(B) How do you assess the longevity of the current Likud government? How do you assess labor's ability to win an election at this point?

(C) Please assess Israeli Defense Minister Mordechai's recent statements in support of United Nation's Resolution 425, which calls for Israel's unilateral withdrawal from southern Lebanon. Does this represent a significant change in Israeli policy? What has been the response of the Lebanese and Syrians to Mordechai's statement?

*Answer.* (A) (Netanyahu and the Oslo Accords) Prime Minister Netanyahu has stated publicly he is committed to the Oslo accords, and concluded an agreement with PA chairman Arafat in January 1997, which led to the Israeli army's redeployment from Hebron.

(B) (Longevity of Likud Government) The government was elected to serve a four-year term in accordance with Israel's electoral law.

(C) (Mordechai's Statement on Lebanon Withdrawal) Mordechai's statement earlier this year led the Israeli cabinet, in a major policy shift, on April 2 to endorse UNSC Resolution 425. Syrian and Lebanese leaders have reacted negatively in public, calling the statement a maneuver designed to reach a separate peace with Lebanon and an Israeli tactic aimed at avoiding giving back the Golan Heights as part of a peace settlement with Syria.

### 14. THE ISRAELI PRESENCE IN LEBANON

*Question 14.* Please comment on the losses the Israelis have suffered in Lebanon in the past year and the impact of those losses on Israeli public opinion and the likelihood that Israel will initiate a unilateral withdrawal from southern Lebanon. Do those losses indicate that the Hizballah is becoming a more effective force? Please comment on the military effectiveness of Israel's allies, the Southern Lebanese Army (SLA) and describe the current military cooperation between the Israeli Defense Force and the SLA.

*Answer.* Israel's losses in south Lebanon have generated increasing public calls for a troop withdrawal. Some Israelis support a unilateral pullout; others, a pullout conditioned on security arrangements worked out with Lebanon and Syria prior to Israeli withdrawal.

The government has stated that UNSC Resolution 425 provides for negotiating security arrangements prior to an Israeli pullout.

Though most of the Israeli casualties last year were due to accidents, Hizballah's military tactics have grown steadily more sophisticated. Hizballah now regularly mounts coordinated operations involving multiple units.

Israeli troops fight alongside the SLA, and Israel trains, equips, and pays the SLA. There are indications of poor morale within the SLA due to repeated Hizballah attacks and uncertainty about the militia's future. The Lebanese government has

indicted several SLA commanders on charges of treason. The prospect of an Israeli withdrawal from Lebanon could only have a negative effect on SLA morale.

## 15. SYRIA

*Question 15.* Under what conditions will Syria withdraw from Lebanon? Do you see those conditions being met in the near future?

Answer. Syria relies on its forces in Lebanon to prevent inter-factional strife and to ensure that the Lebanese government does not act contrary to Syrian security and foreign policy interests. The Syrian troop presence also provides a first line of defense against an Israeli military move toward Damascus via the Bekaa valley. Lastly, it facilitates Syrian support for Hizballah's guerrilla resistance activities against the Israeli military presence in Lebanon.

The Taif Accord, which ended the Lebanese civil war, calls on Syria to redeploy its troops to the Bekaa valley, but it does not call for a Syrian withdrawal from Lebanon. Syria has refused to redeploy, claiming provisions of the Accord calling for curbing sectarianism and Israeli withdrawal from southern Lebanon have not been implemented.

A comprehensive Arab-Israeli peace settlement could result in conditions more conducive to a Syrian withdrawal.

## 16. THE SECURITY ENVIRONMENT IN LEBANON

*Question 16.* Please comment on the general security environment in Lebanon and the safety of Americans who travel there, now that the U.S. travel ban has been partially lifted. If the Israelis should withdraw their forces from southern Lebanon, are the Lebanese armed forces capable of controlling southern Lebanon and preventing Hizballah attacks against Israel?

Answer. Though the security situation in Lebanon has improved in recent years the intelligence community continues to rate the terrorist threat to U.S. interests—especially the official U.S. presence—in Lebanon as high. The State Department strongly advises U.S. citizens not to travel to Lebanon, but recognizes that some Americans may have compelling reasons to accept the risks.

We believe the LAF has the potential to maintain security in all parts of Lebanon, though it is not clear that it would be able to prevent Hizballah or other groups from attacking Israel.

## 17. EGYPT

*Question 17.* (A) What impact would a reduction in U.S. military aid to Egypt have on U.S.-Egypt relations, particularly if such a reduction is not matched by a comparable reduction of U.S. military aid to Israel?

(B) Please assess the current strength of the Mubarak government and its ability to prevail over terrorist internal opposition. To what degree is that internal opposition receiving outside support, and from whom?

Answer. (A) (Reduction of Military Aid) Reducing U.S. military aid to Egypt without a concomitant reduction of U.S. military aid to Israel would be badly received in Egypt and could make the Egyptians less cooperative on a host of strategic issues, including the Gulf, Africa, peace-keeping activities and the Middle East peace process. Egypt has long bristled at the fact that the U.S. has worked to ensure that Israel maintains a qualitative military edge over all its neighbors. A unilateral cut in U.S. military aid would make the Egyptians feel even less secure about their regional military standing (despite their many years of peace with Israel) and apprehensive that they were losing U.S. political support.

(B) (Strength of Mubarak Government) Though Egyptian Islamist extremists, including the Egyptian al-Gama'at al-Islamiyya and the Egyptian al-Jihad, pose no immediate threat to the stability of the Egyptian government, both groups have a proven ability to attack government and civilian targets in Egypt. Following the November 17, 1997 Luxor massacre, which killed 58 foreign tourists, Egyptian officials charged Iran and terrorist financier Usama bin Ladin with supporting Egyptian Islamist extremists. Egypt also accused a number of western governments, including the UK, the Netherlands and Switzerland, with providing haven to Egyptian terrorists.

## 18. THE TALIBAN MILITIA IN AFGHANISTAN

*Question 18.* The Taliban militia has overtaken significant portions of Afghanistan. What is the likelihood that the Taliban will come to dominate Afghanistan over the long-term? If the Taliban sustain their dominance over Afghanistan, what are the likely implications for Iran-Afghanistan relations?

Answer. The Taliban are unlikely to dominate Afghanistan permanently by military means. The two sides have reached approximate parity in military strength, neither capable of making major permanent gains against or defeating the other. Both seem to be growing weary of the fight. While the northern opposition has always been fractious, the Taliban has also experienced rising internal dissension. The southern populace is increasingly concerned about Taliban failure to govern fairly or effectively.

If the Taliban does succeed in dominating the country, relations between Afghanistan and Iran would be tense. The Taliban have accused Iran of being the chief supplier of war material to anti-Taliban opposition forces and have threatened to reciprocate by supporting Iranian opposition groups.

#### 19. CASTRO'S HOLD ON POWER AND SUCCESSION

*Question 19.* (A) What is the state of Fidel Castro's health and the prospects for a peaceful transition to democracy in Cuba within the next two to five years? Who is a likely successor?

(B) Please comment on the short, medium and long-term impact of Pope John Paul's recent visit to Cuba. Will the catholic church in Cuba begin to play a more aggressive oppositionist role in Cuba as a result of the visit?

(C) Please characterize the strength of the current opposition to the Castro government. Does the opposition pose a serious challenge to the regime? If not, do you anticipate that it will within the next 2-5 years?

Answer. (A) (Health and Succession) A number of foreign observers over the last few months have reported that Castro has lost considerable weight and appears to be in very poor health. Other observers, his recent delivery of a seven-hour speech, and his appearance during the just concluded papal visit do not support the conclusion that he is in failing health.

Should Castro die or become disabled due to natural causes—the most likely scenario for his departure from power—the Communist Party, bureaucracy and military would likely continue running the country in the short run, probably with Castro's brother and armed forces chief Raul at least nominally at the helm. Over time Fidel Castro's departure would open the door for reform, but instability and a migration crisis could occur.

(B) (Papal Visit) The Cuban government, in preparation for the papal visit, gave the church more space, but may withdraw some of it—such as permission for outdoor religious events—and has shown no inclination to undertake systemic change. The Pope's challenge to the Cuban government to allow freedom of religion and to respect fundamental freedoms and human rights will be difficult for Castro to ignore. Castro's response—so far limited to small concessions to the Church and the release of some prisoners—is likely to fall short of the expectations raised by the Pope's visit. Whether the people of Cuba, long accustomed to bending to the government's will and fearful of its repressive security apparatus, will press for change is more difficult to judge. The Cuban Catholic Church will likely continue to focus its efforts in increasing space for its evangelical activities. It now has the Pope's very public endorsement, making renewed obstructionism by the Cuban government more difficult.

(C) (Opposition) The internal opposition remains small in number, factionalized, isolated, and infiltrated by government security operatives. Dissidents are subject to harassment and arbitrary arrest on a variety of pretexts at virtually any time, and regime tactics have prevented the formation of an effective opposition organization. At present, the opposition does not pose a serious challenge to the regime, and there is little indication that it is growing in strength. Barring unforeseeable events that would change the basic political environment in Cuba, it is difficult to envision the internal opposition emerging into a force capable of mounting a serious challenge to the regime within the next few years.

#### 20. CUBA'S ECONOMY

*Question 20.* How would you characterize Cuba's current economic health? What impact has the Helms-Burton legislation had on foreign investment in Cuba?

Answer. After rising 7.8 percent in 1996, Cuba's economic growth has slowed considerably, though the likelihood for economic collapse such as occurred after the end of Soviet aid remains low. The Cuban government reports GDP grew 2.5 percent in 1997 and predicts 1998 GDP growth of between 2.5 and 3.0 percent. We have found Cuban economic statistics unreliable and there is the possibility that real economic growth will be lower.

Cuba's current prospects have been hindered by a sharp drop in nickel prices linked to the Asia crisis and the slowdown in the world economic growth. At the

same time, the crisis has cut Cuba's import bill by lowering oil prices. Sugar prices have also dropped recently, compounding Havana's continued problems in falling sugar harvests.

Helms-Burton has deterred some potential investment and has caused the withdrawal of limited amounts of existing investment. The legislation has also sharpened Cuba's financing difficulties, delaying purchases of inputs to the crucial sugar sector and raising already high lending rates to around 20 percent.

#### 21. POLITICAL KILLINGS IN HAITI

*Question 21.* What is the status of investigations into the various high profile political murder cases that have occurred in Haiti during the last several years? Has any evidence of government complicity in those murders been uncovered? In this regard, please provide an assessment of the performance of the Haitian national police's investigative unit and Haitian judiciary in solving these crimes.

*Answer.* The special investigative unit (SIU) continues to actively pursue investigations, but has not resolved any of the 80-plus cases assigned to it. Major obstructions to resolution include insufficient expertise of members of the SIU, reluctance of potential witnesses to talk to the police, organizational rivalries between the SIU and other security elements, and the ineffectiveness of the Haitian judiciary.

The SIU has not yet sought indictments in any of the cases it is investigating. We do not know whether it has uncovered evidence that is credible to support a charge of complicity against any past or present government official.

#### 22. COLOMBIA

*Question 22.* Please assess the strength of the Colombian guerrilla movement and its chances for military success against the government of Colombia. To what extent have the various guerrilla movements in Colombia become involved in narco-trafficking? What role do they play in drug trafficking and have they in effect become one with the country's narco-traffickers? Please assess the current human rights situation and the relative involvement of both government and guerrilla forces in committing such abuses.

*Answer (A) (Strength of Guerrilla Movement)* Both the Colombian Armed Revolutionary Force (FARC) and the National Liberation Army (ELN) are robust guerrilla movements having grown in strength since 1990, and presently numbering approximately 10-15,000 combatants. Both groups also have expanded their areas of operation. Guerrillas are estimated to control some 13 percent of Colombian territory, and have a presence in about 67 percent of the country. FARC operates primarily in southern and eastern Colombia though its presence extends beyond these areas. The FARC is capable of denying the government a civil or military presence in large areas of the countryside. The ELN, which operates throughout the northern half of the country, is able to attack the canolimon oil pipeline (owned by a consortium of U.S. firms and the Colombian government) with relative impunity.

The guerrillas are not likely to overthrow the Colombian government in the near future. Neither the FARC nor the ELN has made significant operational inroads into Colombia's major cities, although increased guerrilla attacks in urban areas remain a possibility. The guerrillas can, however, deny government presence in large areas of the countryside and carry out various attacks with relative impunity.

The government has been able to protect the cities—where 75 percent of the population lives—and vital economic areas like oil and coal fields. While security forces will likely retain the overall advantage in urban areas, their commitment there could result in additional ground lost to the guerrillas in rural areas. The oil pipeline bombings, while costly and annoying, are impossible to completely prevent, and have not generally stopped production. The pipeline attacks last summer, however, were exceptional because they did, for the first time, successfully halt production.

The guerrillas have increased the boldness and sophistication of their attacks and can coordinate successful operations involving hundreds of widely scattered fighters. Moreover, the army lacks the necessary training, resources and strategy to effectively combat the guerrillas in the countryside.

*(B) (Narco-trafficking)* Over the past several years, the FARC, ELN, and EPL guerrillas appear to have become increasingly involved in coca cultivation, performing a security role for coca growers. In addition to providing physical protection to coca crops, the guerrillas also "tax" coca growers, requiring a percentage of the revenue from narcotics produced in a given area in exchange for permitting the activity to occur. Guerrillas also require pay-offs for some narcotics logistics operations, including the use of airstrips and the movement of precursor chemicals. In some cases, the guerrillas have operated their own cocaine production laboratories. The guerrillas, however, do not constitute a new cartel, and we have not picked up any

signs of significant guerrillas trafficking, export or distribution of cocaine. Still, the narcotics industry—along with kidnapping and extortion—is a major source of guerrilla financing.

We believe guerrilla involvement in the narcotics industry has increased because coca cultivation itself has increased in areas traditionally under guerrilla influence.

(C) (Human Rights) Colombia's human rights situation continues to deteriorate due to the long-simmering guerrilla war, uncontrolled actions by numerous paramilitary groups, and an inefficient and easily corrupted judiciary.

While the number of politically motivated extra judicial killings went up in 1997, the percentage attributed to government security forces continued to decline, from 54 percent in 1993 to 7.5 percent in 1997. Paramilitary groups committed 69 percent of 1997 killings, continuing an upward trend, while guerrillas committed 23.5 percent.

Although the government and the military officially treat paramilitaries as criminals, they have done little to disband them and prosecute human rights violators. Some military officers turn a blind eye to paramilitary actions or even actively collaborate with them.

Colombia has the world's highest kidnapping rate, over 50 percent committed by the guerrillas. Other problems include disappearances, torture, arbitrary arrest, prolonged Pretrial detention, and internal displacement.

#### 23. MEXICO

*Question 23.* President Clinton's February 1997 certification of Mexico as fully cooperative in drug control efforts prompted criticism in Congress. What is your current assessment of the nature and extent of Mexico's drug control efforts? To what extent does Mexican government corruption hamper these efforts?

*Answer:* In general Mexico has stepped up its counternarcotics performance. Cocaine seizures are at the highest level since 1993. President Zedillo appears committed to forging a closer drug control relationship with the United States.

President Zedillo has achieved mixed results in his ongoing campaign to root out officials engaged in graft or drug-related corruption. The arrest of former drug czar General Gutierrez and the establishment of a new counternarcotics unit with personnel who are more carefully selected are positive steps.

However, traffickers continue to suborn security officials to facilitate the movement of large cocaine loads to the United States. More disturbing, press reports of traffickers' in-roads to the military hierarchy suggest corruption is probably more extensive than President Zedillo initially believed.

#### 24. MONITORING COMPLIANCE WITH A COMPREHENSIVE NUCLEAR TEST BAN

*Question 24.* How high is the intelligence community's confidence that it can effectively monitor the Comprehensive Test Ban Treaty? What are the notable shortcomings? Is U.S. intelligence doing everything possible to improve U.S. monitoring capabilities in this area? If not, why not?

*Answer.* The intelligence community will use a combination of dedicated technical systems and national intelligence means to monitor the treaty.

The U.S. intelligence community established specific yield thresholds in various testing environments (underground, underwater, atmosphere and space). Last year's national intelligence estimate reviewed our technical monitoring capabilities and concluded that our technical systems will generally monitor evasively tested explosions down to required levels in areas of high interest with high confidence. With lesser but still significant confidence, we can detect and identify explosions at even lower levels.

The CTBT enhancement program, to be in place by 2005, is aimed at improving our monitoring capabilities. Elements of this program include: additional or upgraded seismic, hydro-acoustic, radionuclide, and infrasound monitoring stations; establishment of a national data center, replacement of existing satellite sensors; research into a replacement airborne sampler; and research to optimize the use of monitoring data from the above U.S. monitoring enhancements.

Enhancements to the U.S. Atomic Energy Detection System (USAEDS) and contributions from the CTBT's International Monitoring System (IMS) will increase the amount of data, thus improving the U.S. monitoring capability ten-fold.

The CTBT provides the U.S. with access to additional monitoring stations that it would not otherwise have. With the planned improvements in U.S. national technical capabilities and the addition of the international sensors mandated by the treaty, the U.S. will have more resources with which to monitor nuclear testing.



## 25. THE CHEMICAL WEAPONS CONVENTION

*Question 25.* (A) Over one hundred of the 168 signatories have ratified the Chemical Weapons Convention (CWC). (Last November, both Iran and Russia completed their CWC ratification.) Do you have any intelligence that any of the signatories of the CWC have engaged in activities that raise compliance concerns?

(B) The intelligence community has conceded that its ability to monitor compliance with the CWC is limited. Has that capability improved since U.S. ratification of the CWC?

*Answer.* (A) (Concerns) In many cases, we are still in the process of analyzing declarations, so any compliance judgment would be premature. In some cases, members' failure to provide the necessary declaration information has complicated analysis of treaty compliance.

(B) (Monitoring Capability) CW production capabilities are inherently dual-use, which further complicates the process of assessing whether a country is in compliance with the convention.

We expect to gain additional insights into global CW programs as implementation of the CWC matures, although some countries of concern are not party to the treaty. The implementation of the CWC has already revealed some new information on CW programs. We continue to monitor activities of potential concern

## 26. THE SITUATION IN INDONESIA

*Question 26.* How will Indonesia's economic problems affect the security situation in that nation? How do you assess President Suharto's ability to prevent civil strife that may arise as a result of slower if not negative economic growth, and the likely higher unemployment and inflation? If Suharto is not re-elected or not able to fulfill his seventh term as President, is there a credible successor available that could lead Indonesia through this economic downturn in the coming years? How likely is the Indonesian military to intercede in the political process?

*Answer.* As you are aware, Suharto resigned as President on May 21 and immediately had Vice President Habibie installed as his successor. Habibie, who initially believed he would serve out a term that lasted until 2003, quickly became aware that political and economic reform would have to be at the top of his agenda if he is to survive in office even as a transitional figure. Some formula for change must be found to satisfy the demands of the students, who are now protesting Habibie's presidency, for example through the calling of new elections or a special session of the People's Consultative Assembly to change election and party laws.

The military plays a major role in Indonesia and has a strong commitment to and tradition of providing stability and security. There is no history of military coups, but the military is fully understood to be a key political player, and will continue to play a significant background role as the situation develops.

## 27. THREAT TO U.S. DEPLOYED FORCES IN BOSNIA

*Question 27.* What are the shortfalls in intelligence community support to the Bosnia operation and what is being done to rectify these problem areas?

*Answer.* The intelligence community has done a very good job in both force protection and Dayton implementation coverage. Intelligence on military developments and strengths among the former warring parties remains excellent, as does coverage of internal political developments in Bosnia and the Republika Srpska.

## 28. INTELLIGENCE SUPPORT TO THE WAR CRIMES TRIBUNAL

*Question 28.* How is the U.S. Intelligence community supporting the war crimes tribunal?

*Answer.* The U.S. Government provides information support to the International Criminal Tribunal for the Former Yugoslavia (ICTY) Office of the Prosecutor (OTP), primarily for lead purposes in war crimes investigations.

Thousands of USG documents have been made available to the ICTY prosecutor, including graphics, imagery and mapping materials, pursuant to an arrangement with the OTP which protects confidential information. Sensitive documents are stored in a secure area at the American Embassy in the Hague

The war crimes unit, located within the Department of State's Bureau of Intelligence and Research, serves as the interagency executive agent for the provision of USG-supplied information to the OTP.

## 29. NATO EXPANSION

*Question 29.* What are the risks if any, to U.S. intelligence personnel and the intelligence community in general, in allowing Poland, the Czech Republic and Hungary to join NATO?

*Answer.* This subject is discussed in the intelligence community assessment produced in March 1998 and referred to in the March 9, 1998 letter of Assistant Secretary of State for Legislative Affairs Larkin to the Chairman and Vice-Chairman. INR and the State Department hold no views at variance with the community judgments rendered in the report.

## 30. THE THREAT POSED BY DISEASE

*Question 30.* In your prepared testimony in which you discuss the implications of Hong Kong's "bird flu," you note that "[b]acterial and viral diseases are both durable and mutative, ensuring they will never be completely eradicated. Improved monitoring and rapid response is essential to curb this threat to the health of Americans." What diseases pose the greatest threat to the U.S.?

*Answer.* While this is a question more appropriately directed to the Centers for Disease Control and Prevention than to the Bureau of Intelligence and Research recent international public health research indicate a general resurgence of infectious diseases any one of which could adversely affect the health of Americans, either living overseas or in the United States. A recent report by the National Science and Technology Council's Committee on International Science, Engineering, and Technology Working Group on Emerging and Re-emerging Infectious Diseases, entitled *Global Microbial Threats in the 1990s*, lists a number of disease threats from well known ones like AIDS and TB to those that were once thought to be on the decline such as cholera, malaria, and yellow fever. The study also notes the widespread problem of stubborn bacterial resistance to antibiotics and the persistent global threats from mutating strains of influenza.

While we cannot confidently predict when or even where the next infectious disease outbreak will occur that will most affect Americans, we now understand better the factors behind resurgence, which include: population growth, particularly in already congested urban areas, worldwide transportation linkages that facilitate increases in food trade and international migration, inadequate public health programs in poor countries; and misuse of antibiotics. Our realization of how difficult it is to eliminate infectious diseases and our appreciation for how fast these diseases can now spread across international borders are behind our strong recommendation that we work with other governments and international health agencies to establish a much more vigorous and comprehensive monitoring and response network focused on infectious disease vectors.

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CENTRAL INTELLIGENCE AGENCY,  
Washington, DC, July 24, 1998.

Hon. RICHARD C. SHELBY,  
*Chairman, Select Committee on Intelligence,*  
*U.S. Senate, Washington, DC.*

DEAR MR. CHAIRMAN: Per your 12 March 1998 request, enclosed is our set of unclassified answers to the Committee's questions arising out of your 28 January 1998 hearing. Note that these answers are current and complete as of 15 June 1998.

An original of this letter is also being provided to Vice Chairman Kerrey.

Sincerely,

JOHN H. MOSEMAN,  
*Director of Congressional Affairs.*

Enclosure.

## RUSSIA'S BALLISTIC MISSILE DEFENSE PROGRAM

(1) Please describe the nature and extent of Russia's ballistic missile defense effort. Where do you see Russia's ballistic missile defense program heading over the course of the next 15 years?

Russia's ballistic missile defense (BMD) effort consists of both strategic and tactical (theater) systems. Its strategic anti-ballistic missile (ABM) complexes are located around Moscow and consist of both endo- and exoatmospheric interceptors as well as a large multifunction radar collocated at the ABM complex near Pushkino. These sites are fully operational and are in compliance with the 1972 ABM Treaty, which permits one ABM deployment location and a maximum of 100 total interceptors.

Russia's strategic ABM system is provided early warning data by a network of radars located along the periphery of the Former Soviet Union. As conceived, the network would have provided highly redundant coverage of the main US ICBM attack corridors. The break-up of the Soviet Union, however, has left this network incomplete and reliant on older-technology radars, while work on the newer radars—most located in non-Russian states—has slowed or halted altogether.

Russia's theater missile defense (TMD) consists of two surface-to-air missile systems, the SA-12 and SA-10, both of which are being heavily marketed in direct competition with the US Patriot system. The SA-12 (Russian designator S-300V) Russia's foremost anti-tactical ballistic missile (ATBM) system, was deployed in the mid-80's to counter US Pershing deployments in Europe. The SA-12 is a highly mobile tactical system—deployed with the Russian ground forces—and consists of several surveillance and long-range acquisition radars in addition to the battery level engagement radar and suite of six launchers. The SA-12 system employs two missile types, one for more traditional air defense targets, the other reserved for tactical ballistic missile targets having speeds up to 3000 meters per second. In early 1997 Russia debuted a new version of the SA-12, called Antey-2500. The system reportedly offers improved capabilities in both conventional air defense as well as tactical ballistic missile defense. It is not clear, however, if Moscow intends to upgrade domestic SA-12 deployment with the new version.

The SA-10 system is Russia's premier air defense system that boasts some inherent ATBM capability. The system consists of a long-range surveillance radar, and a dedicated low-altitude surveillance radar (primarily to look for low-altitude aircraft and cruise missile targets). At the fire unit level is a phased-array fire-control radar and as many as 12 launchers (8 is typical—each containing four missiles. Following Desert Storm the SA-10 was marketed as having "capabilities equal to the US Patriot" including the ability to engage Scud-class tactical ballistic missiles. A newer version of this system was debuted at the Moscow Airshow in 1997. Called S-300PMU2 or 'FAVORIT', the improvements to this SA-10 variant were described by Russian designers as intended to improve its ATBM role.

Restrictions in Russia's military R&D, including a marked slowdown of system testing programs, have resulted from severe funding problems across all forces. Russian planners appear to be prioritizing weapon development programs and keeping key developments alive with low-levels of funding at the sacrifice of procurement of many lower-priority systems that may be further along. Despite these efforts, however, the net result almost certainly will be significantly slower pace of improving existing systems and introducing new systems than was noted during the Soviet era, requiring concerted Russian efforts to extend the operational lifetime of existing hardware well beyond the originally planned period of use.

#### RUSSIA'S SAFEGUARDING OF NUCLEAR MATERIAL

(2) What is the intelligence Community's assessment of the adequacy of Russia's safeguard of nuclear weapons and fissile material?

Russian nuclear weapons-usable fissile material—plutonium and highly enriched uranium (HEU)—stocks are more vulnerable to theft than nuclear weapons or warheads. Since the breakup of the Soviet Union, we assess that all of the seizures in Russia and Europe of stolen nuclear weapons-usable fissile materials were from research and fuel fabrication facilities rather than from nuclear weapons manufacture or disassembly facilities. For several years the US Department of Energy has been carrying out cooperative programs at 39 sites in Russia and 10 sites in the Newly Independent States and the Baltics that are known to have nuclear weapons-usable fissile materials. The programs include assessing and improving nuclear material protection, control, and accounting (MPC&A), installing equipment and training operators, and providing instruction in safeguards and security. This effort has improved security and accountability by preventing misuses or diversions of materials at these sites. Nonetheless, these programs still have at least several years to go and DOE has not yet been given access to all of the facilities with nuclear weapons-usable fissile material to fully assess the need for—and to develop plans for—MPC&A upgrades.

Nuclear warheads in storage are relatively secure, but declining morale and discipline in the military, as well as economic conditions, raise our concerns about the potential for warhead theft:

Igor Valynkin, Chief, of the Defense Ministry's 12th Military Directorate responsible for nuclear security, stated last year that there have been no incidents of attempted theft, seizure, or unauthorized actions involving nuclear weapons.

(a) What about missile systems, components, and technology? What is the status of Russian nuclear command and control systems?

We regard the possibility of an unauthorized launch of strategic nuclear weapons as very low due to the many safeguards built into the system. An extreme political crisis, however, would raise our concerns about the possible circumvention of the system.

(b) Has there been any change in the last year regarding Russian capabilities and programs in chemical or biological weapons? Does Russia persist in unacknowledged CW programs and illegal BW programs?

The US continues to have questions on certain aspects of the Russian CW program. Russian scientists formerly involved in the research and development of CW have alleged that Moscow is hiding a program designed to ensure a continuing offensive CW capability despite arms control commitments. The "Whistleblowers" have also described an offensive program that is much more extensive than that describe in official declarations. These allegations when combined with other information give rise to concerns that at least some factions within the Russian government desire to circumvent the CWC.

In September and October 1992, Russian chemical weapons scientist Vil Mirzayanov stated in the Moscow press that the Russians were developing a new generation of binary chemical agents. This new chemical agent is reportedly 5-10 times more effective than VX, the most lethal agent in the US CW inventory. The managers of the development program, including retired General Anatoly Kuntsevich, were awarded the Lenin Prize in the spring of 1991 for their efforts by then-President Gorbachev.

Development of the new class of agents, known as Novichok—or Newcomer—continued into early 1992 at a test site known as Nukus in Uzbekistan—a site since closed down. Dr. Mirzayanov was employed at the State Scientific Research Institute for Organic Chemistry and Technology, the Moscow institute which pioneered the research on binary chemical agents in the 1970s.

With regard to the former Soviet offensive BW program, since 1992, there have been several decrees and pronouncements by President Yeltsin declaring offensive BW-related activities illegal.

In recent years, some research and development facilities have been deactivated and many have taken personnel and funding cuts.

Other facilities, however, may retain the ability to produce BW agents.

We cannot establish that Russia has given up this capability and remain concerned that some of the individuals involved in the old Soviet program may be trying to protect elements of it.

#### TRANSFER OF TECHNOLOGY FROM THE FORMER SOVIET UNION

(3) What general trends has the Intelligence Community detected in the flow of scientists, technology, and conventional and unconventional military equipment to other nations? What evidence have you detected that Soviet nuclear materials, BW, CW, or ballistic missile-related materials or technology, have found their way to the international black market?

The financial position of defense industries in the countries of the former Soviet Union continues to be shaky, prompting many entities to seek foreign contracts to keep operating. Government oversight of the activity of these firms appears to be spotty, allowing them considerable opportunities to transfer proscribed technology and equipment. The financial condition of defense-related firms in these countries is likely to remain difficult for several years, and many firms are likely to continue to look abroad for business opportunities.

Increasingly scientists from the former Soviet Union appear to be providing their expertise and know-how to solving weapons development problems for foreign countries. Almost all of these scientists are working in the countries of the former Soviet Union and are not emigrating.

Companies in the former Soviet Union have remained a major source of assistance for foreign military and WMD-related programs.

Export laws exist and, on paper, appear to provide an adequate basis to stop most proliferation-related transfers, but enforcement remains a major problem, given high levels of corruption, limited expertise, and resource shortages.

Economic conditions at laboratories, institutes, and factories are contributing to an increase of such sales. From 1992 through 1995, there were several seizures of stolen nuclear weapons-usable fissile material in Russia and Europe. The most notable seizure was 3 kilograms of weapons-grade highly enriched uranium (HEU) in St. Petersburg in June 1994. And, 2.7 kilograms of HEU were seized in Prague in December 1994. There have been no seizures of nuclear weapons-usable fissile material since 1995. Contrary to numerous press reports, we have no credible evidence

that large organized crime groups are involved in the proliferation of nuclear materials, although this remains a matter of concern.

We are concerned also about the efforts of other countries to acquire BW capabilities. Iran, for example, has been attempting to develop a biotechnical trade relationship with Russia in recent years, and we are concerned that some of the dual-use technology which the Iranians are seeking may be used to support their BW efforts.

#### CHINESE PROLIFERATION

(4) Please describe all significant transfers over the past 5 years of WMD-related technology or information from China to Iran, Pakistan, or other countries. Do you believe that this assistance could raise compliance concerns with China's commitments to the Nonproliferation Treaty (NPT), and the Missile Technology Control Regime (MTCR)? How likely is it that China will comply with the Chemical Weapons Convention?

China's defense industries are under increasing pressure to become profit-making organizations—an imperative that can put them at odds with US interests. Over the past five years, Chinese defense industries have looked to missile-, nuclear-, and chemical-related technology sales, primarily to Pakistan and Iran, and conventional weapons transfers in order to remain profitable. There is no question that Chinese firms have contributed to WMD advances in these countries.

On the positive side, there have recently been some signs of improvement in China's proliferation posture. China ratified the Chemical Weapons Convention (CWC) on April 25, 1997 and submitted its initial declaration on May 29, 1997 within the treaty mandated time requirement. The US is currently evaluating the Chinese CWC declaration to determine if China is in compliance with the treaty. China also has enacted its first comprehensive laws governing nuclear technology exports, and at the beginning of this year renewed its pledge to halt sales of C-801/C-802 anti-ship cruise missiles to Iran. China has also created a new arms control department in the Foreign Ministry to build a cadre of officials knowledgeable about international treaty and nonproliferation matters.

China's relations with some proliferating countries, however, are long-standing and deep. Moreover, in many cases, Chinese firms are selling dual-use technology, hardware, and expertise, which are not always explicitly controlled under the various multilateral control regimes. It remains to be seen whether recent positive developments are broad enough in scope and whether they will hold over the longer term.

#### NORTH KOREA AS A CONTINUING THREAT

(5) Is significant—possibly violent—change likely during the next five years?

No one can predict how or when the current North Korean regime will end or transform, but several factors suggest that fundamental change is inevitable:

The tide of history—symbolized by the failure of communism to serve as a viable alternative to capitalism in Russia, Eastern Europe, China, and Vietnam—is against Pyongyang.

Most of North Korea's economic problems are systemic. Foreign aid or tinkering with existing policies will not produce sustainable increases in agricultural or industrial output.

North Korean leaders are rigid policymakers who rely on strategies adopted in the 1950s—internal coercion and propaganda along with external threats and aid—to survive.

#### CHANGES IN SOUTH KOREA

(6) South Korea. What impact will the election of Kim Tae-chung have on South Korea and on prospects for normalized relations between the Koreas?

The election of Kim Tae-chung was an important test of democracy's strength in South Korea. He is the first opposition party candidate to win the presidency and U.S. diplomats say the election last December was the fairest in the country's history.

Kim is capitalizing on the financial crisis to end government-corporate collusion and reform economic policies based on strong government guidance, protectionism, and debt financing. Even before his inauguration in February, Kim was leading a reform charge that resulted in the creation of an independent bank supervisory agency, the opening of domestic financial markets to foreigners, and rules requiring transparent bookkeeping and limiting conglomerates' ability to subsidize unprofitable businesses.

Nevertheless, reform in the near term is contributing to bankruptcies, layoffs, and inflation, which in turn could sap public support for change and hamstring Kim's ability to govern effectively.

Kim is diverging from his predecessor's North Korea policy by pledging to separate politics from economics. Accordingly, the administration is raising the ceiling on private investment in the North and easing restrictions on business, humanitarian, and tourist travel, according to press. Kim also says he will disseminate North Korean propaganda in the South and be patient in seeking improved inter-Korean ties.

#### SADDAM'S HOLD ON POWER

(7)(a) Do you believe that Saddam's hold on power is stronger today than it was one year ago? What is the likelihood that Saddam will be in power one year from now? What would be the characteristics and policies of likely successors to Saddam? What are the chances that a successor regime to Saddam will be worse?

Saddam's control over Iraq is comparable to what it was one year ago.

Saddam's hold on power is based almost exclusively on the strength of his security services, whose status appears unchanged.

The two major Kurdish parties remain independent of Baghdad and continue to reject Saddam's overtures.

Despite the regime's brutal efforts to suppress the southern insurgency—including the draining of marshes and burning of villages—Shia groups continue to stage hit-and-run attacks against regime forces and installations.

Saddam is likely to remain in power during the next year. His security services have been very successful in suppressing the development of any organized political opposition groups and in crushing internal dissent and plotting within the regime.

We continue to assess that if Saddam were to be overthrown, the most likely successors would be Arab Sunni military leaders who probably would share some of Saddam's policies and outlook, such as a militarily strong Iraq and distrust of Kuwait. However, we believe there are strong incentives for a successor regime to "clean the slate" and moderate Iraq's behavior so that it can rejoin the international community in good standing.

(7)(b) Will Saddam's fall lead necessarily to Iraq's disintegration? If not, why?

A possibility clearly exists that the collapse of Saddam's regime could lead to a period of anarchy in Iraq. We do not assess, however, that Saddam's fall would *necessarily* lead to Iraq's disintegration. Despite their long-standing opposition to Saddam's regime, the leading Kurdish and Shia opposition groups have affirmed their support for a united Iraq.

The specific outcome would largely depend on the nature of the person or group that comes to power in Baghdad.

(7)(c) Has Saddam effectively regained control of northern Iraq?

No. Two major Kurdish parties—the Kurdistan Democratic Party and the Patriotic Union of Kurdistan—still control the region through their independent militias. Iraqi media recently has issued calls for the Kurds to enter into a dialog with Baghdad on allowing the regime to reassert its control over northern Iraq, but the KDP and PUK continue to keep Saddam at arm's length.

#### SUPPORT FOR IRAQ IN THE MIDDLE EAST

(8) Currently, how much support exists for Saddam in the region? If military action were taken against Iraq, what would be the likely reaction of other nations in the region? What, if any, governments in the Middle East would be publicly supportive of military action against Iraq?

We assess that there is a great depth of regional support and concern for the Iraqi people, rather than for Saddam or his regime. Naturally, any military strike against Iraq would cause anxiety throughout the region for its potential impact on the Iraqi people, but the record shows that reactions vary widely according to the nature of the event that precipitates a strike.

For example, another Iraqi threat to a neighboring state—such as Baghdad's movement of forces toward the Kuwaiti border in October 1994—would probably generate widespread public support by regional governments for military action.

#### THE IMPACT OF SANCTIONS ON IRAQ

(9) Iraq has argued that the continued ban on oil exports is causing mass suffering in Iraq, including unaffordable prices for food and unavailability of medicine. What is your assessment of the nature and extent of the suffering to the Iraqi people as a result of economic sanctions?

General living conditions for most Iraqi citizens remain difficult, despite the infusion of humanitarian supplies under the UN's oil-for-food program. Indeed, inflation is running in triple digits, wages remain stagnant, unemployment and underemployment are widespread, and basic services have deteriorated. Many Iraqis are coping with poor conditions by working multiple jobs, selling personal possessions, moving in with relatives, and relying on remittances from relatives abroad. The Iraqi middle class have effectively disappeared.

Segments of the Iraqi population have not yet felt the full benefits of the UN's oil-for-food program and continue to face nutritional and health problems.

UN studies confirm high rates of malnutrition among children and young adults. Two primary reasons are the deficiency of nutrient-rich food in the oil-for-food ration basket and the inability of average Iraqis to supplement their diets with costly foodstuffs sold on the open market.

The most serious problems facing Iraq's health care system include shortages of medicines, inadequate storage facilities, unreliable power supplies, interrupted water supplies, and poor waste disposal systems.

Despite the deterioration, Iraq's economy is functioning significantly above subsistence level. Economic growth, after having fallen by two-thirds in the early years of the sanctions regime and experiencing no growth more recently, may have risen last year by as much as 25 percent with the implementation of the oil-for-food program. Although growth was concentrated in the oil sector, the construction sector also has been buoyed by public sector works programs, and the building of presidential palaces. Agriculture has improved because the regime is paying higher prices to farmers for their produce, and the oil-for-food program is allowing farmers to market their crops more freely.

Baghdad's claims about mass suffering and death are exaggerated. Iraqi medical statistics are often contradictory and incomplete, and their reliability is highly questionable as the regime often inflates numbers to generate international support for ending sanctions. Baghdad's claim that 1.5 million children have died since sanctions were imposed, for example, implies an infant mortality rate close to three times the US Census Bureau's recent estimate for Iraq. Child mortality as high as this is suffered by only a few countries undergoing extreme duress—Afghanistan, Rwanda, Mali, and Niger.

The oil-for-food program is slowly improving humanitarian conditions in Iraq. Food supplies are relatively stable in northern Iraq, and health care there has tangibly improved, as seen by the increased number of outpatients, surgical procedures, and laboratory investigations. Humanitarian conditions in central and southern Iraq are improving more slowly because of the inefficiency of the Iraqi bureaucracy and the lack of relief assistance from nongovernmental organizations—most of which withdrew from the area in 1993 after Saddam effectively prevented them from operating there.

#### IRAQ'S WEAPONS OF MASS DESTRUCTION

(10) What is the current status of Iraq's BW, CW, nuclear weapon, and missile programs? How much activity has there been in each of these areas since the conclusion of the Persian Gulf War? Do we have any evidence that the Iraqi regime has tested CW and BW agents on humans since the Persian Gulf War?

Iraq currently is developing two ballistic missiles that fall within the UN-allowed 150-km range restriction. The Al Samoud liquid propellant missile, described as a scaled-down Scud has been flight-tested. Iraq's pre-war Scud missile technicians are working on the Al Samoud program and, while under UNSCOM monitoring, are developing technology base improvements that could be applied to future longer-range missile programs. The Ababil-100 solid propellant missile also is under development, although progress on this system lags behind the Al Samoud. Iraq could convert these programs into longer-range systems for production after sanctions are lifted and inspections cease.

Iraq has an active missile force before the Gulf war that included 819 operational Scud B missiles (300-km range) purchased from the Soviet Union, and advanced programs to extend the range of the Scuds and to reverse-engineer the Scud for indigenous production. UNSCOM believes it has accounted for all but two of the original 819 Scuds. Discrepancies in Iraqi accounting for the original 819 Scuds in addition to incomplete explanations for indigenous Scud production efforts, however, suggest that Iraq retains a small covert force of Scud-type missiles.

Despite UNSCR-37, which limits Iraq to having or developing ballistic missiles with ranges less than 150-km, Baghdad has not given up its desire to build larger, longer-range missiles. UNSCOM inspectors have uncovered numerous pre-war Iraqi design drawings, including multi-stage systems and clustered engine designs, that

could theoretically reach Western Europe. In addition, computer simulations and drawings of missile and space-launch-vehicle concepts that post-date the war have been discovered in Iraq. If sanctions were lifted and inspections ceased, Iraq could resume production of Scud-type missiles, perhaps within one year.

On the basis of remaining gaps and inconsistencies in Iraqi declarations to the UN, we assess Iraq could retain a small force of Scud-type missiles, a small stockpile of chemical and biological munitions, and the capability to quickly resurrect WMD production absent UN sanctions and UNSCOM and IAEA monitoring.

UNSCOM and IAEA routinely monitor all known Iraqi facilities capable of producing WMD, reducing Baghdad's ability to produce prohibited weapons at these sites.

Iraq may have hidden WMD production components which would allow it to continue small scale covert WMD efforts at locations unknown to UNSCOM or the IAEA.

CW, BW and Nuclear activity since the war: After the Gulf war, Baghdad rebuilt for civilian purposes many of the industrial facilities involved in prewar WMD production, which are now under UNSCOM and IAEA monitoring. In addition, Iraq retains sufficient technical expertise in all WMD program areas to have continued covert WMD research and development.

Nuclear: UNSCOM and IAEA inspections have hindered Iraq's nuclear program but Baghdad continues to withhold information about enrichment techniques, testing data, foreign procurement, and weapons design needed to fully clarify its nuclear weapons capability. Iraq could be conducting covert nuclear research and development that would be difficult to detect.

Chemical: UNSCOM supervised the destruction of more than 40,000 CW munitions and hundreds of thousands of liters of agents and precursors. Absent inspections, however, Baghdad could restart limited production of the blister agent mustard within a few weeks, full scale production of sarin within a few months, and pre-Gulf war production levels—including VX—within two to three years.

Biological: UNSCOM supervised the destruction of Iraq's largest known BW production facility at Al Hakm, but Baghdad has failed to provide the UN an even remotely credible picture of its prewar program. Iraq is capable of restarting BW agent production virtually overnight at facilities that currently produce legitimate items, such as vaccines.

#### THE NEW REGIME IN IRAN

(11) Do you see President Khatami's election and reform agenda as a watershed that could change the nature of the Iranian regime? What is the possibility that Khatami's conservative critics will sidetrack him? What is the likelihood that the Khatami government will still be in power three years from now? Does his election signify a change in Iran's support for terrorism and its acquisition of weapons of mass destruction? Is there any evidence of such a change?

President Khatami's election is an important step in the political development of post-revolutionary Iran. Khatami's agenda of social and cultural liberalization, coupled with his apparent desire to reduce Iran's international isolation, could lead to real changes in the Iranian regime.

Conservatives are attempting to slow the pace of liberalization, but Khatami's popularity is allowing him to make slow but steady progress on his agenda.

Khatami has sought to improve Iran's international image, and some of his public statements suggest that he may seek to reform the Ministry of Intelligence and Security—an organization that has supported terrorist groups.

Khatami, however, does not have control over the Islamic Revolutionary Guard Corps. The Revolutionary Guard—which plays an integral role in Iran's sponsorship of terrorism—reports directly to Supreme Leader Khamenei.

There is no evidence that Khatami has the inclination or ability to reduce Iran's attempts to acquire weapons of mass destruction—which he probably views as legitimate means to ensure Iran's security.

#### THE IMPACT OF SANCTIONS OF IRAN

(12) Are sanctions likely to influence Iran's behavior over the next 3 years? Why or why not. Late last September, Iran and France confirmed the award of a \$2 billion deal to develop Iran's South Pars gas field to Total SA, and its minority partners Gazprom (Russia) and Petronas (Malaysia). What does this deal say about the effectiveness of US economic sanctions against Iran? (U)

Tehran is offering more attractive projects for tender, a trend that makes it harder to maintain a sanctions regime.



A large number of foreign firms have already expressed interest in an upcoming round of oil and gas projects that Iran will tender in early July.

Nonetheless, companies with significant assets in the United States, such as Royal Dutch Shell and British Petroleum, will remain sensitive to US concerns about foreign investment in Iran.

Companies from outside the EU, especially Japanese firms, may remain reluctant to aggressively pursue Iranian projects until sanctions are lifted or additional waivers are granted.

#### IRANIAN FORCES IN BOSNIA

(13) How large an Iranian presence currently exists in Bosnia? Is this presence growing or diminishing? What is the extent of Iranian influence or penetration of the Bosnian government?

Tehran operates an embassy in Sarajevo and a consulate in Mostar which are staffed by personnel from the Iranian Foreign Ministry, as well as a cultural center in Sarajevo. Iran probably also has intelligence personnel operating in Bosnia. A number of organizations affiliated with the Iranian Government—many of which are involved in humanitarian efforts—are active in Bosnia, including the Iranian Red Crescent Society and Iran's Ministry of the construction Jihad.

#### THE PALESTINIAN AUTHORITY

(14)(a) Please assess both the willingness and the ability of the Palestinian Authority to control terrorist violence in Gaza and areas of the West Bank under its control.

The Palestinian Authority's efforts against the two most active terrorist groups—the Islamic Resistance Movement (HAMAS) and the Palestine Islamic Jihad (PIJ) in Palestinian-controlled areas have enjoyed some notable successes apprehending terrorists, capturing materiel, and disrupting support networks. While investigating the death of prominent HAMAS bombmaker Muhi al-Din al-Sharif, the Palestinian General Intelligence Organization arrested Imad Awadallah—a leading HAMAS militant in the West Bank and one of Israel's most wanted fugitives. Both Israeli and Palestinian press reports have highlighted Palestinian security services' successes in uncovering terrorist bombmaking facilities and weapons caches in recent months.

The Authority's antiterrorism campaign over the past year has largely avoided targeting HAMAS political leaders—Arafat's main competition—and legitimate HAMAS social service and charitable institutions that provide relief to poor Palestinians. Although Palestinian security services have occasionally detained HAMAS members for incitement, Arafat's preferred approach is to attempt a "unity dialogue" with political leaders and have the Authority fund rival social and charitable organizations. This approach has left the political, social, and financial structure of HAMAS largely intact and left Arafat open to Israeli charges of not doing enough to dismantle the terrorist infrastructure.

The Authority could order a broad crackdown on all aspects of HAMAS's infrastructure as they did after the February and March 1996 bombings in Israel. Palestinian security services have shown the capability to undertake severe and sustained measures, such as arresting militant HAMAS members, closing HAMAS-affiliated charities, and halting incitement by opposition press offices. Such actions undermine the armed wing of HAMAS's ability to conduct terrorist attacks, but also damage essential social service like education and health care, and leave the Authority vulnerable to charges of human rights abuse. Arafat's counterterrorism efforts are hampered by a Palestinian public that is increasingly sympathetic to suicide attacks according to polls, is upset over poor economic conditions, and angry over Israeli unwillingness to be implement key peace accord commitments.

(14)(b) To what extent is HAMAS receiving outside support, and from whom is that support coming?

HAMAS receives the majority of its annual budget—estimated to be 25–50 million dollars per year—from private donors and charitable institutions worldwide. Wealthy individuals in the Persian Gulf region are the primary source of these funds, but donors in Europe and the United States also provide substantial amounts, usually through Islamic charitable organizations.

Prominent HAMAS-affiliated charities include Interpol in the United Kingdom and the Al Aqsa foundation in Germany. The Islamic Relief Agency, Muslim Aid, and other Islamic charities not necessarily affiliated with HAMAS also are key sources of support. Iran gives HAMAS several million dollars per year.

(14)(c) Please assess Chairman Arafat's health, comment on his likely successor and describe the impact his departure would have on the peace process.

Palestinian Authority Chairman Arafat has largely recovered from the head trauma he suffered in a plane crash in 1992 and from subsequent surgery to remove blood clots from his brain.

According to the 1995 Palestinian election law and draft basic law, if a vacancy occurs in the position of president, the speaker of the legislative council will take over for no more than 60 days, during which time a new election for the head of the Palestinian Authority will take place. The current speaker of the legislative council is Ahmad Qurei (Abu Ala), the primary negotiator of the 1993 Declaration of Principles. The strongest party at present is Fatah, Arafat's support base and the preeminent political movement in the West Bank and Gaza Strip. Arafat has not publicly favored any candidate. The most widely touted successor to Arafat, according to many middle East commentators, is his deputy Mahmud Abbas (Abu Mazin) Arafat's chief peace negotiator and an architect of the breakthrough 1993 PLO-Israel peace deal.

Arafat's departure could slow efforts at progress on the peace process. Palestinian commentators have assessed that no other leader could command the loyalty of disparate Palestinian groups and unite them around such controversial goals.

#### THE STABILITY OF THE ISRAELI GOVERNMENT

(15)(a) Please give us your assessment of Prime Minister Netanyahu's commitment to abiding by the Oslo Accords. Is he committed to a land-for-peace formula or does he want to kill the peace process as currently formulated?

Refer to the classified appendix for the response.

(15)(b) How do you assess the longevity of the current Likud government? How do you assess Labor's ability to win an election at this point?

Refer to the classified appendix for the response.

(15)(c) Please assess Israeli Defense Minister Mordechai's recent statements in support of United Nations Resolution 425, which calls for Israel's unilateral withdrawal from southern Lebanon. Does this represent a significant change in Israeli policy? What has been the response of the Lebanese and Syrians to Mordechai's statement?

Refer to the classified appendix for the response.

#### THE ISRAELI PRESENCE IN LEBANON

(16) Please comment on the losses the Israelis have suffered in Lebanon in the past year and the impact of those losses on Israeli public opinion and the likelihood that Israel will initiate a unilateral withdrawal from southern Lebanon. Do those losses indicate that Hizballah is becoming a more effective force? Please comment on the military effectiveness of Israel's allies, the South Lebanese Army (SLA) and describe the current military cooperation between the Israel Defense Forces and the SLA.

Refer to the classified appendix for the response.

#### EGYPT

(17)(a) What impact would a reduction in US military aid to Egypt have on US-Egyptian relations, particularly if such a reduction is not matched by a comparable reduction in US military aid to Israel?

President Mubarak has reacted to reports of likely reductions in US assistance by publicly saying that Cairo did not expect US aid to continue forever and that its elimination will not mean an end to good relations with the United States. Egyptian press commentary indicates that the key elements to contain a potential Egyptian backlash to aid reductions are to engage Cairo in discussions aimed at managing the pace and targets of cuts, implement cuts gradually, and roughly retain the post-Camp David ratio in allocating US assistance between Egypt and Israel.

Significant changes to the Egypt-Israel funding ratio at Egypt's expense are likely to be viewed with disfavor by Cairo rather than a rational reallocation of US assistance. Egyptian progovernment newspapers reacted angrily last year to reports that Israel was pressing Washington to use Egypt's aid package to press Cairo to soften its policy toward Israel.

(17)(b) Assess the current strength of the Mubarak government and its ability to prevail over terrorist internal opposition. To what degree is that internal opposition receiving outside support, and from whom?

There is no indication that Egyptian mainstream Islamic opposition or Islamic extremist groups pose a significant challenge to the Mubarak's leadership. Nonetheless, the extremists' attack last November at Luxor that killed 58 foreign tourists dramatically demonstrated their continued ability to conduct acts of terrorism in

Egypt. Despite improved Egyptian security efforts following Luxor, the extremists retain the capability to strike soft targets.

The Egyptian Government has accused Iran, Sudan, Usama Bin Ladin, and Afghan militant Islamic groups of supporting Egyptian Islamic extremist groups in Egypt and members abroad. Such support undoubtedly plays a significant role in motivating these groups and sustaining targets overseas.

#### POLITICAL KILLINGS IN HAITI

(18) What is the status of investigations into the various high profile political murder cases that have occurred in Haiti during the last several years?

The Special Investigative Unit (SIU), which is mandated to investigate a number of politically-motivated murders, is pursuing several investigations but has not yet brought a case to trial.

The SIU has made limited progress in the last year on active cases such as the 1995 murders of General Max Mayard and Air Haiti Director Michael Gonzales.

In February, the SIU assigned a new team of investigators to the case of Jean Hubert Feuille's 1995 murder in an attempt to jump start the stalled investigation.

The SIU actively investigated the 1996 murders of opposition politicians Antoine Leroy and Jacques Fleurival until the death of one of the suspected triggermen, Eddy Arbrouet, during a SWAT raid last December.

Seven of the 12 cases listed in the DeWine Amendment, however, including the 1995 murder of rightwing lawyer Mireille Bertin, are not under active investigation.

Has any evidence of government complicity in those murders been uncovered?

There is no definitive evidence of high-level government complicity in any of the political murders under investigation. Ten members of the Presidential Security Unit—including its former chief and deputy chief—were dismissed in July 1997 for their involvement in the Leroy-Fleurival case.

In this regard, please provide an assessment of the performance of the Haitian National Police's Investigative Unit and Haitian Judiciary in solving the crimes.

The investigations into the political murders have been hampered by a plethora of problems associated with the SIU and Haitian Judiciary judiciary.

The SIU's progress has been plagued by its members' lack of training, absenteeism, lack of initiative, and resource shortfalls. The two US advisers have spearheaded almost all of the investigative work.

The judicial system remains in an embryonic stage and is ill-equipped to prosecute any case that may be eventually brought to trial.

#### MEXICO

(19) President Clinton's February 1997 certification of Mexico as full cooperative in drug control efforts prompted considerable criticism in Congress. What is your assessment of the nature and extent of Mexico's drug control efforts?

President Zedillo has made a strong effort to show he is committed to counter-narcotics. He publicly has underscored the threat drug trafficking poses to Mexican society, directed the military to continue playing a significantly enhanced antidrug role, and engaged in extensive contacts with US officials on antidrug matters. The Mexican government also has had success at keeping drug crop production in check and made some improvements in its narcotics seizures. Nonetheless, Mexico's law enforcement efforts against the country's powerful trafficking groups have not substantially undercut their ability to ship illicit drugs into the United States.

To what extent does Mexican government corruption hamper these efforts?

As with any country where trafficking is a major problem, corruption is one of our top concerns and is an impediment to effective antidrug operations. The arrest of former lead antidrug police director Gen. Gutierrez Rebollo in 1997 points to the ability of Mexico's major traffickers to corrupt officials even at senior levels of Mexico's law enforcement and security forces to help insulate their massive drug shipment and money laundering operations. At the same time, it underlines Mexico's ability and willingness to search out and punish high level corruption. In early June, a Mexican court increased Gutierrez's prison sentence to 32 years after determining the original 14-year judgment for arms trafficking and official corruption was insufficient. He still faces drug-related charges.

#### MONITORING COMPLIANCE WITH A COMPREHENSIVE NUCLEAR TEST BAN

(20) How high is the Intelligence Community's confidence that it can effectively monitor the CTBT? Where are the notable shortcomings? Is US Intelligence doing everything possible to improve US monitoring capabilities in this area? Why or why not?

The IC has drafted a national intelligence estimate on CTBT monitoring in which our monitoring conclusions are presented in terms of confidence levels. These conclusions can only be discussed in classified channels.

The Treaty provides for the use of National Technical Means (NTM), which will be supplemented by an international system of technical sensors, a challenge on-site inspection (OSI) regime and voluntary confidence-building measures (CBMs).

The President identified a set of desired capabilities to monitor nuclear tests underground, underwater, in the atmosphere and in space, roughly equal to a few kilotons of TNT-equivalent evasively tested, and the IC currently is implementing an NTM enhancement program intended to meet that goal.

The US is currently implementing an NTM enhancement program aimed at meeting the monitoring requirements for clandestine explosions underground, underwater, or in the atmosphere. However, these enhancements plus the resources necessary for sustaining our monitoring base do not come cheaply. As the CTBT ratification debate approaches, we will be consulting closely with this committee on our capabilities, their cost, and the tradeoffs involved.

Our confidence in monitoring the CTBT will also depend on the verification tools provided by the Treaty, including international technical sensors with a capability to detect and identify non-evasively conducted nuclear tests down to a level of about one kiloton. Recognizing the inherent limitations of OSI and CBM regimes, the technical monitoring capabilities of our NTM and the International Monitoring System take on every greater importance.

#### NUCLEAR TEST AT NOVAYA ZEMLYA?

(21) There was concern that Russia may have conducted a low-yield nuclear test on August 16, 1997 at Novaya Zemlya. Is there any reason to believe that the August 16 event was a nuclear explosion? Is this a view that is commonly held throughout the Intelligence Community?

Refer to the classified appendix for the response.

#### THE CHEMICAL WEAPONS CONVENTION

(22)(a) Over one hundred of the 168 signatories have ratified the Chemical Weapons Convention (CWC). (Last November, both Iran and Russia completed their CWC ratification.) Do you have any intelligence that any of the signatories of the CWC have engaged in activities that raise compliance concerns?

The Intelligence Community assesses that around 30 countries possess, once possessed but no longer maintain, or are possibly pursuing CW capabilities. Of these 'countries of concern,' approximately half are States Party to the CWC. Most of these countries may not have fully met their obligations under the CWC. In many cases countries have not declared all of the facilities and/or past activities required by the Convention. Reasons for incomplete declarations may include bureaucratic difficulties in gathering the required information, varying interpretations of the declaration requirements, or political sensitivities in acknowledging past or present offensive activities. Several States Party may be retaining or continuing to pursue offensive CW capabilities.

(22)(b) The Intelligence Community has conceded that its ability to monitor compliance with the CWC is limited. Has that capability improved since U.S. ratification of the CWC?

The Intelligence Community's ability to monitor the CWC remains limited due largely to the inherent difficulty of monitoring CW programs, which are based on dual-use material and technology. Nonetheless, steps are being taken that should—over time—improve that capability. Additional resources are being directed against both collection and analysis of information on CW programs and proliferation worldwide. Likewise, the implementation process have revealed some new information on CW programs and chemical capabilities in several countries of concern and we expect more information will become available in time.

#### NORTH KOREA'S TAEPO DONG MISSILES

(23) The North Korean Taepo Dong II missile (which is under development) will have an estimated range of 4,000 to 6,000 kilometers, and therefore qualifies as an intercontinental ballistic missile. (ICBM). How confident are you in these range estimates? What U.S. states or territories could the Taepo Dong hit? How soon could the Taepo Dong I and Taepo Dong II become operational, and how firm is that estimate? How has this assessment changed in the last year?

No unclassified response.

## MISSILE THREATS TO THE US

(24) The proliferation of missile-delivered weapons is an issue directly confronting the strategic interest of the United States and its traditional allies. When will the updated National Intelligence Estimate (NIE) on this subject be complete? What are the current strategic missile threats to the United States and theater missile threats to deployed US forces? How have these threats changed in the last year? What are the projected threats for the next decade? Is the assessment shared by all components of the Intelligence Community? In the wake of the criticism of the previous NIE on this subject what improvements have been made in the NIE process?'

The Annual Report to Congress on Foreign Missile Developments was published and passed to the Congress on 3 March 1998. The report updates judgments reached in NIE 95-19 Emerging Missile Threats to North America During the Next 15 Years. The Annual Report also provides the Intelligence Community's assessment of theater missile threats to US interests worldwide. All components of the Intelligence Community concur with the Report's conclusions, except as noted by either alternate text or footnotes. The report remains classified.

In preparing the Annual Report the National Intelligence Council (NIC) tried to respond to the criticisms leveled at NIE 95-19 by both the Review Panel chaired by former-DCI Robert Gates and other critics. Compared to the 1995 NIE, the Annual Report:

Has a more thorough presentation of the intelligence information and analysis backing the IC's judgments on future missile threats to the United States and its interests worldwide. It also has a more thorough discussion of:

The likelihood that the IC will detect indicators of a long-range ICBM development program.

Theater-missile developments that could threaten US forces and interests overseas. The inclusion of theater missile developments provides a more complete picture of foreign missile developments and the impact of proliferation activities.

Russian and Chinese missile forces and the risk of an unauthorized launch of a strategic missile.

The possibility of a country developing the capability to threaten the United States with short- or medium-range cruise or ballistic missiles deployed on forward based platforms, such as a surface ship.

More clearly lists its assumption and includes a discussion of events that could alter the IC's assessment of future missile threats.

Was reviewed by outside experts, including some who were critical of the 1995 NIE.

## TRENDS IN ECONOMIC ESPIONAGE

(25) A recent survey by the American Society for Industrial Security estimates that intellectual property losses from foreign and domestic espionage may have exceeded \$300 billion in 1997 alone. Does this estimate seem plausible to you? A January 12 Los Angeles Times article dealing with this issue states that currently pending before the FBI "are more than 700 foreign counterintelligence investigations involving economic espionage". Is that an accurate number? Please comment on trends in economic espionage directed against the US. How effectively are you able to measure the level of economic espionage against the US? Has US business reporting of economic espionage improved over the last year? What other measures would help to stop industrial espionage?

Although the ASIS study is the best available estimate of the economic costs of economic espionage, it is difficult to assess if the study understates or overstates the cost.

The ASIS uses blind surveys of several thousand US businesses so that US firms can report that they were victimized without suffering embarrassment or damage to their stock price—a common reason for underreporting.

Since corporate security officers often answer the survey, this method could encourage overstating of numbers and costs of the events to justify security programs.

The ASIS survey asks about copyright violations and trademark infringements which, although illegal and damaging, are not typically considered economic espionage.

Only known or suspected incidents are reported—successful espionage goes undetected—which results in underestimating impact.

The response rate to the ASIS study is low—eight percent in the 1995 survey, a further indication that some economic espionage is missed.

Estimating the economic impact of a single act of economic espionage is itself quite difficult. For example, two companies—or countries—could steal the same pro-

proprietary information but use it in different ways, resulting in widely different economic impacts. In addition, a company's reaction to the loss of a trade secret, as well as the general development of the market, also can affect the ultimate economic impact of the theft. As a result, a company's knowledge that it has been victimized and its efforts to mitigate the damage may lessen the act's cost.

We defer to the FBI on the question of the number of ongoing investigations as well as on what new measures would help stop industrial espionage.

#### ECONOMIC ESPIONAGE LAW

(26) In last year's response to this Committee's question regarding the effectiveness of the Economic Espionage Act of 1996, the CIA stated that the law clearly has attracted the attention of many of our key economic competitors, but that it is "perhaps too early to assess whether the law has had an appreciable effect on the level of economic espionage directed against the US." Over the past year, have you seen any results from the Economic Espionage Act? Do you have information that the law has deterred economic espionage activity by foreign governments or foreign corporations?

We believe it is still too soon to gauge adequately the impact of the US Economic Espionage Act. There have only been a handful of cases since it was enacted, and only two that involved foreign individuals. To foreign intelligence services, how the US Deploys resources to uncover economic espionage and how aggressively the US prosecutes economic espionage cases will be as important as the Act itself.

#### ESPIONAGE BY FOREIGN CORPORATIONS

(27) Last year, in response to a question by this Committee, the definition of economic espionage was given as "government-directed or orchestrated clandestine effort to collect US economic secrets or proprietary information". To what extent are US corporations threatened by the theft of trade secrets by foreign entities that are not "government-directed or orchestrated"? How do you distinguish whether espionage is government-directed or not, especially if the foreign corporation involved receives extensive government subsidies?

The EEA has separate provisions to prosecute economic espionage conducted to benefit a foreign government, instrumentality, or agent. We defer to the FBI and the Justice Department as to how this legal standard is applied. From an intelligence standpoint, however, we would look at connections between the foreign firm and foreign intelligence and security services to decide whether they are government-directed or orchestrated. Any communication or connection between these entities regarding tasking, targeting, or execution of economic espionage activity would, to the CIA, suggest government direction or involvement.

#### ECONOMIC ANALYSIS

(28) Over the past several years, the CIA has emphasized an increasing interaction with academic experts and an increasing use of open source information in its economic analysis products. As the CIA increasingly reports information based on open and public sources, does this lessen the significance of the classified information in CIA reporting? Does the CIA create analysis products that are based entirely on open source or public information?

Classified information continues to make a significant value-added contribution to our economic analysis. The contribution in any given assessment, however, ranges broadly from a small slice of the all-source information used to a much larger input in the case of analysis on closed societies and illicit economic activities, such as sanctions busting and money laundering. Clandestine collection is targeted against information that policymakers tell us they need but which cannot be obtained in the public domain; it is especially critical to helping us warn of economic trends and policy choices that could affect US interests. We do not duplicate solid work done outside the Intelligence Community. In the cases where the bulk of the raw information to answer the policymaker need comes from open sources, the value-added of our product is the range of information we can tap, including foreign media, the timeliness of the product in meeting the request, and the expertise we bring to bear in putting the information in context, including how the current situation could change or affect foreign policy and political decisions.

#### SOUTH KOREA ECONOMIC CRISIS

(29)(a) How well can the political institutions in the South manage the socio-economic repercussions of the economic crisis—is there a likelihood of civil disorder?

Political institutions in South Korea are stable and there are no signs of serious civil disorder. The election last December of long-time dissident leader Kim Tae-chung as president is one indication that democratic institutions are taking root.

The election was the cleanest on record, according to local political observers, and the public was not swayed by the alleged efforts of South's primary intelligence service to fan longstanding suspicions about Kim's "communist leanings."

Kim has worked to minimize possible social unrest stemming from the recession by co-opting the most likely source of disturbances—labor unions.

Even before his inauguration in February, Kim sought to create an atmosphere of shared sacrifice. He brought together union, government, and business leaders to expand the social safety net, increase labor flexibility, and encourage corporate restructuring.

Media opinion is running against union officials whose actions appear to discourage foreign investment or delay economic recovery, suggesting that South Koreans have little stomach for domestic political turmoil.

Leaders of the Korean Confederation of Trade Unions (KCTU)—the more militant of the two major labor umbrella groups—have called-off or shortened several job actions in the face of public opposition, low participation rates, and threats of legal action from President Kim.

Strikes and demonstrations—even sporadic violence—are inevitable, however. The unemployment rate in April topped 6.7 percent—1.5 million workers—up from 2.5 percent last December, according to official figures.

The huge conglomerates, or *chaebol*, are just beginning to restructure and some private forecasters project unemployment will exceed 10 percent by year's end.

(29)(b) How will the economic turmoil in the South affect its relations with the North? Does it make conflict with the North more or less likely?

South Korean President Kim Tae-chung takes the traditional view that economic aid is Seoul's trump card in negotiating with P'yongyang. His ability to extend largesse to the North is constrained by Seoul's financial crisis, however.

Despite Kim's pledge to separate politics from economics, South Korean officials say North Korean concessions are necessary to generate public support for aid.

Seoul during bilateral talks in April conditioned the provision of fertilizer on progress toward reuniting families separated since the war.

#### POTENTIAL IMPACT OF ASIAN ECONOMIC CRISIS ON CHINA

(30) How will China react to the growing economic instability in the region?

One way China will react to the Asian crisis is by stimulating domestic demand to compensate for the anticipated drop in export growth. Chinese government agencies predict exports—which grew 21 percent and accounted for about one-third of GDP growth in 1997—will grow between three and ten percent this year. As a result, government economists estimate investment growth must rise to between 15 and 18 percent from about 10 percent last year to achieve Beijing's 8-percent official target for GDP growth. Premier Zhu Rongji in a nationally televised press conference in March stated that the main method of ensuring 8-percent growth this year would be by raising domestic demand.

In particular, Chinese authorities will take some steps to develop new sources of growth by raising investment in infrastructure, high-technology industry, and residential housing. Increasing investment in traditional labor-intensive export industries would merely add to excess capacity—already below 60 percent in many industries—and ultimately worsen the financial health of state enterprises and state banks. Chinese leaders, therefore, are stressing the development of new "growth points." For example, Vice Premier Li Lanqing told foreign reporters earlier this year that China would spend \$750 billion on infrastructure investment during the next three years. Beijing by June will issue a new housing reform plan—aimed at stimulating demand for new construction—under which state enterprises will stop providing workers with subsidized housing, according to Chinese press reports.

Beijing has also reacted to the crisis by accelerating structural reforms, particularly in the financial sector. China's leaders last November convened an extraordinary national financial conference—attended by top central and provincial officials—to respond to the crisis, and in January the central bank unveiled an ambitious program of bank reforms to be completed by 2001. The package includes restructuring the central bank by eliminating many provincial branches, a similar reorganization of the four largest state banks, and establishing over 200 new local banks. Other reforms to be completed this year include scrapping mandatory credit quotas, installing a new risk-based loan classification system, and the special bond issue of 270 billion yuan to recapitalize the four largest state banks. The acceleration in financial reforms does not extend to liberalization of capital account trans-

actions; Chinese senior officials have repeatedly stated that they have no timetable for achieving capital account convertibility.

Will the Chinese leadership view the crisis as an opportunity to gain influence with other nations?

Chinese officials have repeatedly touted Beijing's commitment not to devalue the yuan as China's contribution to regional stability. Premier Zhu Rongji in his March press conference, for example, stated that the government must ensure China achieves 8-percent growth and that the exchange rate is not devalued this year because this would affect the "prosperity and stability" of Asia as a whole.

How do you judge the likelihood that China will "competitively devalue" its currency, the yuan, in order to ensure that its companies maintain export market share?

China's leaders since last November have repeatedly denied they will devalue. They generally have not explicitly mentioned a timeframe for this commitment, but statements by Premier Zhu suggest Beijing intends to maintain this commitment at least through 1998. Financial market speculation that China would devalue this year appears to have somewhat subsided in the face of Beijing's repeated assurances. China's lack of capital account convertibility and relatively strong balance of payments make it unlikely that it will face external payments problems during the next year that would force it to devalue; thus, Beijing is in a position to maintain its commitment.

China has several political reasons to avoid a devaluation this year. Devaluing after repeated assurances that this was not under consideration would be a political embarrassment and would undermine Beijing's goal of expanding China's influence in East Asia. A devaluation also poses several significant economic risks. It would raise pressures on the Hong Kong dollar and financial markets, risk a further round of devaluations in the region, raise tensions with major trading partners, and increase the costs of debt servicing and imports.

A devaluation cannot be entirely ruled out, however. Despite senior leaders' repeated statements that a devaluation is not being considered, a PRC-owned Hong Kong newspaper has published two articles this year quoting Chinese government economists and mid-level Chinese officials as recommending a moderate devaluation. If exports fall and economic growth falls short of 8 percent in 1998, Beijing next year may consider its commitment not to devalue.

Will the "Asian Contagion" spread to mainland China?

China's lack of capital account convertibility and relatively strong balance of payments make it unlikely that it will face external payments problems such as those that precipitated the crises in other East Asian economies. Foreign debt levels are relatively manageable at 15 percent of GDP, and only a small fraction of foreign investment is portfolio investment. China recorded a \$40 billion trade surplus last year, and—even with a sharp drop in export growth—will probably record a substantial trade surplus in 1998.

China, however, shares some systemic economic problems with its East Asian neighbors that could ultimately lead to a domestic economic crisis if Beijing does not implement structural reforms. Many industries are now operating at less than 60 percent capacity, according to Chinese surveys, in part because of poor investments made during the sharp credit expansion earlier in the decade. Commercial real estate markets have slumped, occupancy rates in Shanghai, for example, are less than 60 percent. Slower growth probably has also compounded problems with nonperforming loans, which Chinese officials acknowledge are 20 to 25 percent of total bank lending.

If so, how will economic problems affect the policies of Jiang Zemin and his government.

Slower growth could lead Beijing to slow down enterprise reforms that generate large layoffs. Unemployment in urban areas probably is already eight to ten percent, based on unofficial estimates cited in Chinese press, and considerably higher in some sections of the country such as the industrial Northeast. Slower growth may also lead to increased capital flight, which could cause Beijing to be even more cautious about removing controls on capital account transactions and opening financial markets to foreign participation. It may also lead Beijing to adopt export subsidies and other measures that would complicate its WTO accession negotiations.

With unemployment already rising in China's state-owned industrial sectors, will slower or negative economic growth lead to civil strife in China?

The chances of negative economic growth in China are extremely slim and probably would only occur as a result of widespread civil strife or political instability. Nevertheless, increased unemployment and labor demonstrations during the next few years probably will lead Beijing to further strengthen internal security forces to curb social unrest. Although internal security forces appear to have been fairly



successful so far in avoiding large-scale violent confrontations with workers protesting layoffs and unpaid wages, the lack of training with non-lethal methods of riot control could potentially lead to increased numbers of violent incidents.

#### THE PHILIPPINES' ECONOMIC SITUATION

(31) How will the economic crisis affect the upcoming elections? Are democratic institutions strong enough to withstand economic and financial turmoil? How likely is a return to martial law?

The slowdown of the Philippines' economy due to the regional financial crisis has helped the candidacy of recently inaugurated Vice President Estrada, who ran on the slogan "Estrada for the poor." He won the election with an unprecedented 40 percent plurality in a field of 11 candidates.

The business community—which once formed the core of his detractors—is now cautiously optimistic of an Estrada presidency; since the election, Estrada has toned down his populist rhetoric, appointed mainstream technocrats to his cabinet, and focused on promises to continue former President Ramos's reform policies.

Manila remains vulnerable to exogenous forces—in particular, weakness in Japan's economy and continued turmoil in Indonesia—but its openness to economic reform has placed it in a strong position to weather the regional crisis. Democratic institutions, in particular, have been strengthened during the Aquino and Ramos administrations.

Unlike many of its neighbors, the Philippines has strong civilian institutions—including the Catholic church, non-government organizations, and a vigorous free press—that are committed to the preservation of constitutional democracy.

A return to martial law is extremely unlikely. The military appears more professional and unified than at any time in the last 30 years and has shown no inclination to intervene in civilian politics; many of its highest level officers were promoted to their current posts in the post-Marcos era.

#### POTENTIAL BW/CW ATTACKS ON THE US

(32) What is the likelihood that the US will be subjected to a biological or chemical attack within the next 2–5 years? 5–10 years? How is this attack likely to be carried out? Do you consider a BW/CW attack against the US as more likely than a ballistic missile attack against the US? How difficult is it for a group to construct and deliver an effective chemical weapon? A biological or radiological weapon? A nuclear device? What existing groups now have or are seeking such a capability?

Nonstate actors appear to be increasingly interested in, and developing capabilities for, employing chemical and biological materials. International terrorism remains a significant threat, whether conventional or unconventional, despite improved counterterrorist efforts worldwide. The United States, as the only superpower, is widely resented by radical groups worldwide and is a major target of international terrorism. Terrorists probably will continue to favor conventional tactics like bombings and shootings because these means are more familiar and have proven successful, but we judge that the potential for terrorist to use or attempt to use WMD or chemical, biological, radiological, and nuclear (CBRN) materials is increasing.

The relative ease with which some chemical and biological agents can be acquired or produced in simple laboratories makes them potentially attractive to terrorists, making it difficult to anticipate, warn against, or disrupt such a terrorist threat. Particularly appealing to some groups is the potential to produce large numbers of casualties, cause residual disruption, and generate significant psychological impact on a population and its infrastructure. Delivery and dispersal techniques are also manageable and can be made effective relatively easily.

Some groups, including the Aum Shinrikyo and the Chechen rebels, have employed, threatened, or are interested in chemical, biological, and radiological materials and the IC is monitoring this issue closely.

#### THREAT OF INFORMATION WARFARE BY TERRORISTS

(33) Our traditional definition of terrorism does not include such things as computer attack intended to damage our telecommunications or transportation infrastructure. Are we prepared to deal with "virtual terrorism?" What steps do we need to take to focus Intelligence Community counterterrorism efforts on this new threat?

Being prepared to protect against and take active measures to fight this form of terrorism requires understanding it. Efforts to understand terrorists who would attack or threaten to attack information systems is the first step, one of many that has been taken within the Intelligence Community (IC). The CIA has a variety of

technical experts dedicated to understanding this threat and defending against it through a variety of means.

The CIA has recognized the importance of this threat and has hired additional experts to address this issue. A new branch within the DCI's Counterterrorist Center, which has Information Systems Terrorism (IST) as a major focus, has taken steps to understand the nature of this threat and its multiple facets by coordinating with the IC, academia, and the private sector.

In October of 1997 the CIA convened a roundtable on Information Systems Terrorism. Since October, the results of this roundtable have spurred additional, on-going efforts to coordinate understanding on IST within the IC. New collection requirements have been levied to focus on IST. The results of this roundtable have been briefed and published in classified IC Counterterrorism community publications to spur understanding, coordination, and collection on this threat.

#### THREAT TO US DEPLOYED FORCES IN BOSNIA

(34)(a) What are the shortfalls in Intelligence Community support to the Bosnian operation and what is being done to rectify these problem areas?

No unclassified response.

(34)(b) In recent months, SFOR troops (including US soldiers) have acted in support of President Biljana Plavsic by seizing radio and television transmitters, police stations, and other government installations controlled by her hard-line opponents. Does the participation of US troops in such operations expose them to increased risk of attack from hard-line supporters? Would a hard-line response be limited to stone-throwing civilian mobs, or could it escalate to attacks and other forms of arms conflict?

While the inclusion of US troops in the aforementioned activities exposes them to greater risk and in theory increases the chances that these operations will result in attacks by Serb hardliners, in practice this has not been the case. US SFOR troops have not been attacked by Bosnian parties after these actions. Moreover, the improved political and security atmosphere in Bosnia has greatly reduced tensions over the last six months, and has reduced the chances that Bosnian parties will use violence against US personnel. We remain alert to the possibility of attacks on US forces, however, and continue to dedicate significant resources to force protection.

(34)(c) What is the prospect and key action required for establishing long-term stability in Bosnia?

Refer to the classified appendix for the response.

(34)(d) How many foreign Islamic fundamentalist fighters still reside in Bosnia? What countries do they come from? Who supports them? Do they pose a threat to US troops?

The Intelligence Community estimate of the number of former Islamic fundamentalist fighters remaining in Bosnia remains classified. The former mujahedin who have remained in Bosnia have married Bosnian women and obtained citizenship or are legally documented workers with humanitarian organizations. The Intelligence Community and SFOR continue to monitor the former mujahedin in Bosnia to safeguard the troops against potential threats these individuals might pose.

(34)(e) Would more active participation by SFOR in civilian implementation tasks such as refugee resettlement increase the risk to US forces?

The improved security situation in Bosnia has reduced the chances that resettlement efforts would result in significant violence. Refugee resettlement, however continues to be resisted by all sides, especially the Bosnian Serbs and Bosnian Croats, and tensions could flare in some local situations to the point that US SFOR troops find themselves in the middle of ethnic violence.

(34)(f) What is the possibility that current low-level violence in Kosovo in Serbia could escalate into a major conflict, spreading into Macedonia and endangering the security of US troops there?

Increasing Yugoslav army and security forces in Kosovo and a growing number of clashes between Serbian forces and Kosovar Albanians along the Kosovo-Albanian border increase the chances that this dispute could develop into a major conflict. It is too early to determine the full consequences of such a conflict on neighboring states.

(34)(g) Are you satisfied that the US has sufficient HUMINT assets in Bosnia to provide early warning of possible threats to US forces?

No unclassified response.

(34)(h) How do you deconflict your HUMINT collection assets for force protection with those already deployed by DOD to prevent duplication?

No unclassified response.

## COUNTERINTELLIGENCE THREAT TO NATIONAL LABORATORIES

(35) A September 1997 GAO report regarding DOE's security controls over foreign visitors to the National Laboratories noted that "DOE's procedures for obtaining background checks and controlling the dissemination of sensitive information are not fully effective" and that as a result "sensitive subjects may have been discussed with foreign nationals without DOE's knowledge and approval." In your (the DCI's) opinion, how significant is the counterintelligence threat to DOE in general and the National Laboratories in particular? What is being done to rectify this problem?

(Note: The following response was provided by the Dept. of Energy's Office of Counterintelligence.)

The Counterintelligence threat facing the Department of Energy and the national laboratories is serious. In February 1998 the President signed PDD/NSC-61, "The Department of Energy Counterintelligence program," to enhance DOE's CI effort. The PDD charges the Director, Office of Counterintelligence (OCI) to conduct a 90-Day Study as a basis for determining near-term and strategic actions for revitalizing the department's CI program.

The Director, OCI shared preliminary findings and recommendations of the 90-Day Study with SSCI staff on 11 June, and he intends to formally brief the Committee and staff when the Secretary of Energy has approved the report.

## INTERNATIONAL CRIME

(36) How critical do you assess the current and future threat to US interests from international crime activities and networks?

Several factors are in play that clearly indicate international crime will be a growing threat to US interests, and so this issue is of very high priority in US intelligence collection and analytical efforts. The threats to US national interests from international criminal activities and organizations are twofold:

International criminal activities directly affect the lives, property, and livelihood of US citizens living or working at home and abroad. Inside the United States, they have a corrosive effect on the safety and integrity of communities across the country. These effects include drug addiction, violence undermining of societal values and job performance, and defrauding of individual citizens businesses, and local state, and federal governments of hundreds of millions of dollars. Overseas, international criminal activities can undermine US business interests and competitiveness in global markets, as well as threaten US citizens working and living in foreign countries.

Also important from a national security perspective, international crime undermines political and economic stability in countries important to US interests. Corruption of government, politics, and business by criminal entities is antithetical to democracy wherever it occurs. Nowhere is this problem more serious than in Russia and other countries making the difficult transition to democratic and free market systems.

The problem takes on an added dimension of urgency because the globalization of international commerce, finance, transportation, and telecommunications greatly facilitates the spread and scope of criminal activities:

The breaking down of political barriers around the world since the end of the Cold War has allowed international criminals unprecedented freedom to operate and to move virtually without constraint across national frontiers.

The globalization of international business—including multilateral agreements reducing trade barriers in North America, Europe, and elsewhere—has made it easier for criminals to smuggle contraband and illicit financial proceeds.

The advanced telecommunications and information systems that underpin legitimate international commercial and financial activity are as easily used by international criminals.

As a result of these developments, international criminals have been able to expand their networks and increase cooperation in illicit activities and financial transactions.

The ease with which globalization allows international criminals to conduct their activities across national borders makes the challenge more difficult for both intelligence and law enforcement. Unlike international criminals, who are not constrained by national boundaries, governments and law enforcement agencies must respect other countries' sovereignty and legal statutes in law enforcement operations.

Is there room for improvement in the FBI-CIA relationship in dealing with international crime?

Because of differences in mission and approaches—most fundamentally, the CIA's focus on foreign intelligence to support policy and the FBI focus on investigative in-

telligence to support prosecutions—we have worked hard to establish an effective collaborative relationship on the international crime problem. There is now a mutual recognition that foreign intelligence can provide significant benefits to law enforcement efforts against criminal organizations and activities with international connections, and there is an unprecedented level of commitment by the senior-most officials in both agencies to work cooperatively together.

Programs are in place to join forces and capabilities against common international criminal targets, and exchanges of personnel at both working and senior levels have done much to enhance collaboration and ensure that intelligence collection and analysis meets the highest priority needs of law enforcement. Senior officials from both agencies meet regularly to address important aspects of interaction and the overall relationship between the intelligence and law enforcement communities. The rules of the road for cooperation are consistent with the National Security Act and are designed both to protect foreign intelligence sources and methods, and to support law enforcement investigations and prosecutions.

#### NATO EXPANSION

(37) What are the risks, if any, to US intelligence personnel and the Intelligence Community in general, in allowing Poland, the Czech Republic, and Hungary to join NATO?

No unclassified response.

#### INFORMATION OPERATIONS

(38) The Defense Science Board and the President's Commission on Critical Infrastructure Protection both issued reports during 1997 which identified our nation's vulnerability to both physical and computer attacks on our nation's information infrastructure. These reports noted that such an attack could come from a foreign government, a non-state actor, a criminal organization, or an individual hacker. How significant is the threat to our critical information infrastructure in the short-run? In the long-run? How do you judge the Intelligence Community's ability to collect intelligence on this threat?

##### *Short-run threat*

The information warfare (IW) threat is real and growing. The number of known potential adversaries conducting research on information attacks is increasing rapidly and it is clear that these foreign entities are aware that an increasing proportion of our civil and military activity depends on the secure and uninterrupted flow of digital information. All are competent to conduct cyber attacks, but the intelligence and military IW programs and state-sponsored terrorists pose the greatest short-run risk to our critical infrastructure because they have the greatest knowledge and resources.

Several countries have government sponsored information warfare efforts underway (many countries also have excellent electronic warfare, jamming, and command and control attack capabilities). Equipment and systems necessary to conduct information warfare attacks are increasingly available on the open market.

Trans-national and sub-national groups like terrorists and organized crime have some capability to attack US information systems, and the ability to conduct such attacks is growing as technologies and tools spread around the world. We have noted increased interest in IW techniques among terrorists, hackers, narcotraffickers, and organized criminals. We believe these non-state actors will increasingly view information systems in the United States as a target.

Information systems attacks by terrorists are likely to be undertaken for psychological or terror effects rather than for strategic, or battlefield application. We estimate that computer-literate terrorists could carry out damaging attacks against US information systems with little risk or cost to themselves.

##### *Long-run threat*

More and more foreign governments and their military services are paying increasing attention to the concept of information warfare. Foreign military writings discuss the importance of disrupting the flow of information in combat. The battlespace of the future will also extend to our domestic information infrastructure, such as our electric power grids and our telecommunications networks. We know that a number of countries around the world are developing the doctrine, strategies, and tools to conduct information attacks. At present, most of these efforts are limited to information dominance on the battlefield; that is, crippling an enemy's military command and control centers, or disabling an air defense network prior to launching an air attack.

Many countries are observing US actions and public debates with respect to information warfare and using them as a guideline or a jumping off point for their own programs. They may not follow the US lead, but rather select areas to concentrate on where they feel information warfare will have an impact for them.

#### *Intelligence community collection*

We have taken steps to focus our collection and analytic resources on this threat and have taken steps to increase the level of cooperation between intelligence analysts and their counterparts in the law enforcement community. Unfortunately cyber threats are a difficult intelligence target. They are cheap, they require little infrastructure, and the technology required is dual use. In short, they are exceptionally easy to conceal.

Unlike traditional military preparations, where our technical systems can reliably detect the movement and coordination of large forces, preparation for an information warfare attack presents no such opportunities.

The subtle and diverse nature of IW operations makes it difficult to detect an attack even when it is actually underway, and the cumbersome process of investigation these events inhibits effective real-time tracing of the actual source of an attack.

In order to address this relatively new threat area, we are pursuing a number of initiatives inside the Intelligence Community and in cooperation with the law enforcement community, other government agencies, and the private sector.

#### THE THREAT POSED BY HIV

(39) To what extent has HIV had an impact on the health and economies of foreign countries? How has HIV impacted foreign militaries?

UNAIDS and the World Health Organization (WHO) recently released a joint report that revises upward—to roughly 30 million—the total number of people estimated to be infected worldwide through the end of 1997. This new estimate left unchanged the regional distribution of HIV/AIDS cases, Sub-Saharan Africa still accounts for over two-thirds of the world's HIV-positive population.

The social implications of the HIV infection will be felt between 2005 and 2010 with the deaths of a large number of those already infected. Because the disease got an earlier start in Africa, gains in Africa. Life expectancies achieved over the past few decades are being canceled out by HIV.

The health systems in less developed countries are unable to cope with the HIV epidemic, governments with limited resources are likely to categorize HIV/AIDS patients as low priority in funding decisions, and medical triage will result in AIDS patients receiving little or no treatment for their illness.

World Bank and UNDP studies have found, however, that the disease has had relatively little impact on economic development. For example, in Africa, a recent World Bank model estimates HIV/AIDS lowers annual per capita income by just half a percent in developing countries, although the epidemic has driven the poorest families deeper in poverty.

Many African countries are already accepting and retaining HIV positive military personnel who pose some readiness problems for national and joint—including peacekeeping—forces. Outside of Africa, Thailand's military has the worst reported infection rates with some military units having up to 60 percent HIV positive, according to a recent journal article.

#### ACTIONABLE INTELLIGENCE

(40) Some analysts say that the increased emphasis on action-oriented intelligence has come at the expense of other important—but more mundane—work, like maintaining data bases and conducting in-depth analyses on foreign militaries and political groups. Do you share this concern? If so, how do you intend to deal with these competing needs?

The Directorate of Intelligence is working to strike an appropriate balance between the production of current intelligence and in-depth analysis. The DI's senior management has commissioned a series of in-depth studies on fundamentally important issues. In addition, analytic tool and production integration projects currently under way will bring increased efficiencies to those "mundane" processes, thereby providing analysts increased time to focus on longer term analytic work.

#### INTELLIGENCE COMMUNITY'S ROLE IN THE POW/MIA ISSUE

(41)(a) National Security Advisor Sandy Berger wrote to the Senate Majority Leader last year and indicated that he had directed the Intelligence Community to produce a Special National Intelligence Estimate (SNIE) regarding POW/MIA issues

with Vietnam. After consulting with this Committee, the terms of reference were settled. When do you expect to have this Estimate completed? Mr. Berger also indicated that he would ask for an updated Intelligence Community assessment on the so-called "735" and "1205" documents found in the Russian archives. What efforts has the Intelligence Community made to acquire additional information about these documents either in Russia or in Vietnam? As per the Committee's request, have the 574 classified CIA documents on the POW/MIA subject matter been reviewed and summarized? Do they shed any light on the SNIE?

The National Intelligence Estimate on "Vietnamese Intentions, Capabilities, and Performance Concerning POW/MIA Issues" recently was published.

The Estimate was drafted by one of our most senior East Asia specialists, and was actively supported by all elements of the Intelligence Community. The drafter consulted closely with analysts at DOD/DPMO and traveled to Thailand, Vietnam, and Honolulu to consult with US officials involved in POW/MIA issues. Besides examining material available in intelligence archives, relevant CIA documents, and transcripts of interviews of Russian officials conducted by the Joint Commission Support Directorate/DPMO, he also reviewed material in SSCI files. (An Annex to the Estimate spells out in detail the nature of the sources examined and the scope of the research.)

The completed draft was read by four distinguished outside experts thoroughly familiar with the issue and representing a variety of professional experience. All four praised its balance and thoroughness.

(41)(b) In his letter, Mr. Berger offers assurances that "collection requirements pertaining to the POW/MIA issue [will] remain as a high priority" after administration officials conceded that it had mistakenly left off the POW/MIA issues from PDD-35—the document that sets out intelligence collection priorities. Has this oversight been corrected?

POW/MIA issues on SE Asian countries such as Vietnam, Laos, and Cambodia, have always remained priority collection requirements.

(41)(c) In July 1993, the Secretary of Defense consolidated four DoD offices charged with different functions of the POW/MIA issue. The Intelligence Community's only POW/MIA analytical element, the Defense Intelligence Agency's Office of POW/MIA Affairs, was then transferred out from the oversight of both the DCI and the responsible Congressional committees. Do you now have oversight of the Defense Prisoners of War/Missing persons Office (DPMO) analytical section? If not, who is responsible for oversight of this capability? Why is this intelligence capability not reflected in the Congressional Justification Books (National Foreign, Joint Military and Tactical intelligence accounts) provided to the congressional oversight committees?

The analytical component of DPMO is not a component of the Intelligence Community, and the Director of Central Intelligence has no oversight responsibilities for it. That responsibility belongs to the office of the Secretary of Defense.

#### A DECLINING MILITARY THREAT

(42) In your testimony before the Committee, you indicated that the military threat to the United States was declining, and General Hughes concurred with this assessment. Please elaborate on this critical issue and discuss the impact it will have on the Intelligence Community.

It would be incorrect to characterize the military threat to the United States as declining and conclusions drawn from general testimony to that effect would be erroneous. While the threat of massive conflict may have diminished, new or intensified challenges have emerged with profound implications for the Intelligence Community.

Tracking WMD Development and Proliferation. A number of dissatisfied states seek to alter regional balances through force of arms. Unable to compete with US conventional arms, they seek to deter a US response by threatening WMD use. Tracking the development and proliferation of WMD programs, including delivery systems, is an extraordinarily difficult mission. The number of states involved is substantial, their programs lack signatures, and their use of denial and deception is rapidly improving.

Force Protection Intelligence Support. The US military has always concerned itself with force protection and the Intelligence Community has assisted in that effort. Today, however, as regional rogues turn more to asymmetric challenges to US presence abroad—including terrorism, sabotage, and subversion—intelligence support for the force protection mission has become more demanding and complex.

Global Coverage Support. During the Cold War, any adversary likely to attack US interests was likely to have been equipped and trained by the Soviets. In short, by

covering the Soviet target, US intelligence was able to address a substantial range of issues of concern. Today by contrast, potential adversaries may have received weapons, doctrine, and training from any of a number of states. Tracking tomorrow's threats requires a much broader coverage of an increasing set of targets.

Forecasting Future Threats. Although the US may not be confronted by conventional military peers today, over the longer term such challenges may emerge. Forecasting the emergence of future challenges is a daunting challenge, requiring an understanding of economic, social, political, military, and technological trends in many regions and for many states.

In addition to these challenges, the Intelligence Community is called on to support the US military as it takes on new missions to protect our global interests. US military operations have changed since the end of the Cold War, to include increasing involvement in operations other than war and lower-tier conflicts. In response, the intelligence needed to support US military operations is changing, with growing emphasis on the need to:

Monitor S&T/weapons developments that could lead to an introduction of a technology surprise against US forces or interests. Aside from the terrorist threats or acts of sabotage, the changing nature of our military operations may encourage adversaries to pursue limited gains in encounters with US forces—seeking to inflict damage against US interests as opposed to pursuing a more traditional military victory. This will require additional emphasis on “tactical” support to US policymakers as well as the continued emphasis on strategic context.

Track foreign transfers of weapons systems or expertise to pariah states or regions of potential conflict. The rising cost of some advanced weapon systems is driving foreign suppliers to increasingly pursue export opportunities during the research and development stage. This could increase the rate at which new technologies become a threat to US interests and result in a more diverse range of systems as recipients pursue individual applications.

U.S. DEPARTMENT OF JUSTICE,  
FEDERAL BUREAU OF INVESTIGATION,  
Washington, DC, June 9, 1998.

Hon. RICHARD C. SHELBY,  
*Chairman, Select Committee on Intelligence,*  
*U.S. Senate, Washington, DC.*

DEAR MR. CHAIRMAN: Attached are the unclassified responses to questions for the record resulting from the January 28, 1998, hearing of the Senate Select Committee on Intelligence on security threats to the United States.

Please contact me if I can be of any further assistance.

Sincerely yours,

JOHN E. COLLINGWOOD,  
*Assistant Director, Office of Public and Congressional Affairs.*

#### RUSSIAN ORGANIZED CRIME

(1) What general trends do we see in Russian organized crime? How is organized crime impacting the Russian economy and the Russian political system? To what extent is Russian organized crime involved in the trafficking of weapons of mass destruction? What is your prognosis for Russian efforts to combat this problem? How active is Russian organized crime in the U.S.?

#### GENERAL TRENDS IN RUSSIAN ORGANIZED CRIME

The FBI has noted several emerging trends with respect to Russian organized crime activity. First and foremost is the fact that this activity is increasing not only in Russia but worldwide. Recent statistics published by the Russian Ministry of Internal Affairs (MVD) indicate that the share of crimes committed by “mafia” groups as a percentage of total crimes committed in 1997 has risen throughout the Russian Federation. This trend is magnified in the larger cities such as St. Petersburg, Russia where regional law enforcement authorities are reporting a 100 percent increase in the crime rate over the previous year. Although this statistic includes all types of crime in addition to those related to organized crime groups, it is nevertheless indicative of the overall rise in violent crime which local officials attribute to the criminal influence of organized crime groups.

Moscow law enforcement authorities have also reported a higher incidence of contract murders of the type normally associated with “turf” battles between organized crime groups and mob style retribution. Foreigners doing business in Moscow, in-

cluding US citizens, have not been immune to this trend. In November of 1996 US businessman Paul Tatum was murdered in a mob-style execution in a Moscow Metro station which was likely the result of his disagreements with the local Chechen crime boss. This upsurge in violence involving Russian organized crime continues to impact the international scene. In February of this year three Russian nationals were killed during a gun battle in Ostrava, Czech Republic which, police believe, resulted from disagreements between rival organized groups. In this same month a suspected Russian organized crime "boss," believed to be involved in prostitution and money laundering, was gunned down in Marbella, Spain. Thus far Spanish law enforcement authorities have not ruled out a "settling of scores" as the motive for this killing.

The sheer number of Russian organized crime groups is also increasing. In December, 1992 the Russian Ministry of Internal Affairs (MVD) reported the existence of 4,352 organized crime groups in Russia, with widely varying size, criminal activities and organizational structure. In 1994, the MVD reported the existence of 5,691 organized crime groups. In October 1997, Interior Minister Kulikov estimated that the number of identifiable and operational organized crime groups in Russia is more likely closer to 12,000.

There appears to be an emerging trend which suggests a growing level of sophistication in the area of large scale financial institution fraud and transnational money laundering involving Russian organized crime groups. These groups are continuing to solidify their control of a major portion of the banking industry within the Russian Federation and Russian law enforcement sources estimate that as much as one half of the country's financial sector may be affected. Russian Ministry of Interior sources have reported that 550 banks, or nearly half of Russia's credit and financial organizations, are controlled by organized crime interests. This capability allows these groups to more easily launder and to ultimately move large amounts of cash around the world and to evade efforts by the government to collect taxes. This has become an operational necessity due the large amounts of cash being generated by their criminal enterprises. Russian organized crime figures are also known to have purchased controlling interests in banking institutions located in Cyprus and other "offshore" locations such as Antigua and Aruba in the Caribbean. During the past years five Russian owned banks have opened for business on the island of Aruba. From these locations they electronically launder large amounts of cash around the world. Due to strict bank secrecy laws it is extremely difficult for law enforcement agencies to trace the origin of these funds. This transnational banking activity has been accompanied by a high level of violence directed against senior banking officials in Russia and dozens of them have been the victim of contract murders. Last year one prominent Moscow journalist compared the life expectancy of a Russian banker in recent years to that of a bomb-disposal officer.

Russian organized crime groups are becoming increasingly more diversified and professionalized. Former, and sometimes active, soldiers of Russian Special Forces units have been recruited by organized crime groups to perform as private bodyguards, hit-men, debt collectors and security guards for smuggling operations. As increasing numbers of these individuals are demobilized into an economy where meaningful employment is scarce, the prospect of steady employment with established organized crime groups is an attractive prospect. In addition to active duty soldiers and military veterans, police officers from a variety of Russian law enforcement agencies have become involved in organized racketeering activity. Recently, a group of 12 Moscow police officers were arrested and charged with murder, extortion and robbery. Reports indicate that this group was led by a long serving officer from the Interior Ministry's detective branch and included an instructor from a Moscow police academy. In addition to attracting these types of professionals into their ranks, Russian organized crime groups are also utilizing the services of professionals from other fields in the operation of their various criminal enterprises. These include specialists in computer software applications, international law and finance, intelligence gathering and corporate security (some of whom include former KGB officers), international banking, casino gaming operations and hotel and restaurant management. In many cases these individuals are employed in seemingly legitimate "front" companies which are proliferating around the world and which are used to represent the interests of Russian organized crime groups in various locales.

Russian organized crime activity is increasing in the area of narcotics trafficking and human smuggling. In the last five years the amount of drugs smuggled into Russia has grown by a factor of fifteen. Former Interior Minister Anatoly Kulikov recently announced that within the Russian Federation drug related offenses have nearly doubled in 1997. Use of narcotic substances and drug addiction has increased substantially throughout Russia and the resulting increase in consumer demand has fueled an expansion of the drug trade. This has provided Russian organized crime



groups with additional profit making opportunities in this area and they are capitalizing on this problem by expanding their drug smuggling and marketing operations. Russian organized crime figures are known to have allied themselves with members of the Cali Colombian drug cartel for this purpose and Russian law enforcement authorities have stated that heroin and cocaine originating from Colombia is being sold on the streets of Moscow. Russian organized crime groups have furnished the Cartel with weapons and combat helicopters in exchange for drug shipments. At one point Cartel members were considering the purchase of a surplus diesel-powered patrol submarine from Russian organized crime sources for drug smuggling purposes but canceled the deal at the last minute. In addition to establishing links to the Colombian cartels, Russian organized crime groups are also believed to have developed ties with Italian mafia groups for the purpose of coordinating narcotic trafficking efforts.

As Russian organized crime groups become more firmly established in the international vice trade, their involvement in the trafficking of young women has increased dramatically. They are operating hundreds of brothels and striptease bars throughout Europe and Asia and are expanding their role in the worldwide prostitution industry. In many cases young women from Russia and Eastern Europe are lured into a life of sexual bondage with promises of lucrative legitimate employment made by bar and casino operators associated with Russian organized crime.

Russian organized crime groups continue to generate a high level of corruption among politicians, police officers, businessmen and other officials within the Russian Federation and elsewhere. Not only has this trend gained momentum in the Russian Federation but has surfaced in other countries where Russian organized crime groups have established a foothold. Israel's National Unit for Serious Crimes has been redesignated as the National Anti-Mafia and Serious Crimes Unit after it became obvious that Russian organized crime was seeking to bolster its efforts to take over state assets and infiltrate the government. Reports have surfaced which suggest that Russian organized crime figures played a prominent role in selecting and supporting certain candidates during Israel's recent national election. In Colombo, Sri Lanka Russian organized crime figures are believed to have coopted the majority of the local police force into providing security for their vice and gambling operations.

#### IMPACT OF RUSSIAN ORGANIZED CRIME UPON THE RUSSIAN ECONOMY AND POLITICAL SYSTEM

Russian organized crime groups have accumulated great wealth and extensive social and political influence within the Russian Federation and other republics of the former Soviet Union. They have successfully exploited the period of political chaos which followed the collapse of the Soviet regime. Previously, they had been silent partners of the regime in the black market economy. Today, Russian organized crime groups dominate the economic life of Russia by exerting control over key economic sectors such as: petroleum distribution, pharmaceuticals, and consumer products distribution. This control has allowed them to dominate certain markets associated with a wide variety of consumer goods and this has the undermined open market competition necessary for normal economic development. Along with corrupt public officials and unscrupulous businessmen they have perverted the all-important privatization process by acquiring ownership of previously owned state assets and then selling them off at tremendous profits which should have accrued to the Russian government. Many of the most powerful groups have close working relationships with senior public officials and high-level politicians. Through bribery and coercion Russian organized crime figures have obtained favorable consideration in obtaining government contracts, various commercial licenses and tax exemptions. Known organized crime figures have been elected to the Russian Duma where they champion legislation favorable to their business interests. However, the most destructive impact of Russian organized criminal activity upon the Russian economy is in the area of small business development, the backbone of any successful capitalist economy. Most emerging private businesses are forced to pay protection money to the local organized crime bosses in order to remain in business. By some estimates, such protection payments, which are called "krishas" (roofs), amount to 20 percent of a private business's turnover. The amount of money funneled to Russian organized crime figures puts them in a position to corrupt widely the police, judiciary and other government agencies, especially when measured against abysmally low government and police salaries. In an environment where journeyman level police officers earn an average salary of 200 dollars a month and where they are frequently paid on an irregular basis, organized crime groups are amassing tremendous influence. This was highlighted in a recent newspaper poll in Russia in which

the majority of respondents believed that the "Russian Mafia" was more powerful than the Duma.

To what extent is Russian organized crime involved in the trafficking of weapons of mass destruction? What is the prognosis for Russian efforts to combat this problem?

While purported nuclear weapons and weapons-grade nuclear material have been offered for sale, at the present time, there are no known instances in which law enforcement authorities have confirmed that such materials were actually available for sale. There have been confirmed illicit transactions in Europe which involve uranium and plutonium, however, these nuclear materials have been well below the enrichment and/or quantity levels required for weapons production. It is the illicit trafficking in the relatively more common, commercially available nuclear or radioactive materials that pose the most significant potential for serious damage. Most of these incidents have been determined to be frauds involving industrial or relatively lowgrade nuclear materials perpetrated by petty criminals who believe that a market exists for such items. These items have included discarded nuclear reactor residue or radioactive substances associated with various manufacturing processes or military applications. Nevertheless such materials do pose a threat to public health and environmental safety and are taken very seriously by law enforcement agencies worldwide.

The FBI is not aware of any involvement by established Russian organized crime groups at this time in nuclear weapons trafficking, however, the potential for such involvement cannot be discounted. The large potential profit associated with such trafficking may attract rogue or otherwise undisciplined organized crime factions into this arena. The more established organized crime groups would probably discourage such activity since it would tend to adversely impact the international status-quo and thereby interrupt currency markets, investment climates, real estate valuations and international mobility.

Russian law enforcement authorities are very sensitive about the issue of nuclear materials trafficking in light of Alexander Lebed's recent statements concerning unaccounted for "suit-cased" sized tactical nuclear weapons. Representatives of various Russian law enforcement agencies have stated repeatedly that there is no higher priority than to safeguard the disposition of nuclear weapons and related material. In the event that such materiel is trafficked within or through the Russian Federation it is likely that Russian law enforcement authorities would respond with a massive effort directed at recovery and prosecution.

How active is Russian organized crime in the US?

There are two basic types of Russian organized crime groups presently operating in the US. These include the larger, traditionally structured organizations which originate from Moscow, St. Petersburg and other locales within the former Soviet Union and which are attempting to maintain a foothold in the US, and the smaller fewer structured groups of career criminals who have come to be known as "fraudsters." The fraudsters share a common ethnic heritage and usually engage in a variety of financial fraud schemes which employ recently arrived Russian emigres. They have been primarily involved in white collar crimes including various types of entitlement fraud such as health care fraud (Medicare and Medicaid fraud), credit card fraud, computer fraud, financial institution fraud, check kiting, visa and immigration fraud, forgery of financial instruments, securities fraud and contract fraud. While lacking in size when compared to the larger, more structured groups, these groups are capable of causing losses in the millions of dollars. They often operate in particular geographic areas, primarily large urban areas, and are self-contained through an informal networking system comprised of criminally oriented Russian emigres. Although originally focused upon their own emigres' communities with respect to their criminal activity, these groups are continually expanding the range of their operations and are victimizing others as well. It is also increasingly more common for larger Russian emigre criminal organizations to "muscle in" on these groups and extract a share of the profits in the form of "protection payments."

The larger, hierarchically structured groups have been found to exist in cities such as Miami and New York. These groups typically contain at least 100 members and have clearly defined leadership hierarchies and some semblance of an organizational structure. The members of these groups include veteran criminals who have served sentences in Soviet prisons and who are highly skilled in the fine arts of extortion, racketeering, smuggling, prostitution and large scale fraud. Individuals associated with these groups are very mobile and highly interconnected with confederates in the Russian federation. These groups are also involved in the establishment of front companies for the purpose of lending an air of business legitimacy to their various criminal enterprises. They have laundered billions of dollars of illicit

proceeds and played the dominant role in channeling much of the \$200 billion in capital flight from the Russian Federation in the last decade.

The FBI has approximately 250 pending investigations targeting Russian organized crime groups in 35 field divisions in 27 states. These cases encompass all major investigative programs including Organized Crime/Drugs, White Collar Crime, Violent Crime/Major Offenders and Racketeering Enterprise Investigations. These groups have been found to be involved in a wide range of criminal activity primarily in the areas of fraud, money laundering, murder, prostitution, extortion and drug trafficking. As a result of these investigations the FBI has identified elements of 25 distinct Russian organized crime groups operating in the United States.

#### INTERNATIONAL CRIME

How critical do you assess the current and future threat to US interests from international crime activities and networks? Is their room for improvement in the FBI-CIA relationship in dealing with international crime?

Current and future threat to US interests from international crime activities and networks?

International organized crime is an immediate and increasing concern of the worldwide law enforcement community. It is global in nature and respects no political boundaries. The widespread political, social, economic and technological changes which have occurred within the last two decades have enabled these groups to become more firmly entrenched on the international scene. The criminal activities of these groups are likely to increase in scope, magnitude and diversity as their operations expand worldwide. They are currently taking advantage of more open immigration policies along with the increased ease of international travel and international commerce to infiltrate existing governments and legitimate businesses. These groups are becoming more corporate in their outlook and more long-term in their planning. They are utilizing high-tech communications and information technology to increase the profitability of their criminal enterprises and to transfer these funds around the world. Some of these groups have demonstrated the capability to subvert or co-opt the governments and law enforcement agencies in the countries in which they operate as they have in Latin America. In short, international organized crime represents a growing and serious threat to US interests both domestically and worldwide.

FBI-CIA relationship dealing with international crime?

The FBI and CIA are working closely on a daily basis concerning international organized crime. Both agencies are regularly exchanging criminal intelligence information for the purpose of countering worldwide organized crime activity, especially that which threatens US interests directly. The FBI and CIA also routinely exchange personnel who are specialists in a variety of areas which contribute toward these complex transnational investigations. This relationship is now regarded by both agencies as being mutually beneficial and reinforcing and is continually evolving in proportion to the growing threat and sophistication of these groups. As personnel from the FBI and CIA become more familiar with each other's procedures, techniques and systems, it is expected that the relationship between the two agencies will improve even further.

#### TRENDS IN ECONOMIC ESPIONAGE

(2) A recent survey by the American Society of Industrial Security estimates that intellectual property losses from foreign and domestic espionage may have exceeded \$300 billion in 1997 alone. Does this estimate seem plausible to you? A January 12 Los Angeles Times article dealing with this issue states that currently pending before the FBI "are more than 700 foreign counterintelligence investigations involving economic espionage." Is that an accurate number? Please comment on trends in economic espionage directed against the U.S. How effectively are you able to measure the level of economic espionage against the U.S.? Has U.S. business reporting of economic espionage improved over the last year? What other measures would help to stop industrial espionage?

Because trade secrets are an integral part of virtually every aspect of U.S. trade, commerce, and business, the security of trade secrets is essential to maintaining the health and competitiveness of critical segments of the U.S. economy.

Prior to the passage of the Economic Espionage Act, the FBI was already addressing hundreds of foreign counterintelligence investigative matters concerning hostile economic intelligence activities. That pace continues.

The FBI initiated its Economic Counterintelligence Program in late 1994, with a mission to detect and neutralize threats against U.S. economic interests sponsored or coordinated by foreign powers. This focused effort resulted in a dramatic increase

in FBI investigations and a realization that existing legal remedies at the federal level were insufficient to address the scope and nature of the economic espionage activities.

Directly after the Economic Espionage Act of 1996 was signed into law, the FBI National Security Division sponsored a series of six regional Economic Espionage Conferences. These conferences brought together elements of industry and U.S. federal government criminal and intelligence sectors which play a role in economic espionage matters.

The American Society of Industrial Security (ASIS) recently completed a study on economic espionage against U.S. corporations. Richard J. Heffernan, a consultant to ASIS for the study, stated "while the number of incidents appears to have leveled off at a high plateau, the damage caused by these incidents has drastically increased since the last survey. The amount of intellectual property at risk, through actual theft and targeting, is \$44 billion for the survey period, this is an annualized amount of \$31 billion."

Under FBI contract, the Pacific Northwest National Laboratory has developed a methodology to objectively assess and determine the scope of economic loss resulting from the theft and intellectual property. This Economic Loss Model was first applied to the facts of a case involving the theft of Intellectual Property from a U.S. corporation by a foreign competitor resulting in the foreign competitor capturing the market. The American firm was involved in a joint venture activity to produce a major product for foreign markets.

Using the tool the misappropriation of Intellectual Property in this case resulted in over \$600 million in lost sales alone, the direct loss of 2,600 full time jobs, and a resulting loss of 9,542 jobs for the economy as a whole over a 14-year time frame. The analysis also determined that the U.S. trade balance was negatively impacted by \$714 million, and lost tax revenues totaled \$129 million.

An actual increase or decrease in economic espionage is difficult to assess, although the reporting has shown a distinctive increase in the past year. It appears that as the FBI and large U.S. corporations succeed and the press follows high visibility cases, the reporting will continue to improve.

Additionally, the FBI has forged crucial partnerships with the Department of Defense, Department of Energy, the private industry to allow for prompt detection and successful investigative efforts in this area.

A number of countries continue to pursue economic collection programs. Foreign economic collection focuses on science and technology, as well as research and development. Of particular interest to foreign collectors are dual-use technologies and proprietary economic information which provide high profitability. Proprietary business information, e.g., bid, contract, customer and strategy information, is aggressively targeted. Foreign collectors have also shown interest in government and corporate financial and trade data.

#### ECONOMIC ESPIONAGE LAW

(3) In last year's response to this Committee's question regarding the effectiveness of the Economic Espionage Act of 1996, the CIA stated that the law clearly has attracted the attention of many of our key economic competitors, but that it is "perhaps too early to assess whether the law has had an appreciable effect on the level of economic espionage directed against the United States."

(a) Over the past year, have you seen any results from the Economic Espionage Act? Do you have information that the law has deterred economic espionage activity by foreign governments or foreign corporations?

(b) To what extent have you been able to use the Economic Espionage Act of 1996 as a tool against foreign economic spying?

Five case examples are offered to demonstrate the FBI's efforts to combat foreign economic spying. To date four indictments have been brought under the Economic Espionage Act of 1996 (EEA 96). Two of the four involve foreign nationals. One foreign corporation has been indicted. Guilty pleas have been entered in four of the five cases. In each instance, a significant economic loss was prevented. The estimated aggregate loss prevented is estimated to be several hundred million dollars. Prosecutions are still pending in two of the five cases. An outstanding warrant presently exists for a Taiwan national

Each prosecution is a strong example of close cooperation between the FBI and the targeted major American company. In two cases, investigation continues to fully determine the extent of foreign government involvement.

#### *Recent cases*

*Pittsburgh:* (U.S. v. Worthing, 2 guilty pleas, no foreign involvement) On December 7 1996. the first arrest under the new law occurred in Pittsburgh, Pennsylvania.

Patrick Worthing and his brother Daniel were arrested by FBI agents after agreeing to sell Pittsburgh Plate Glass (P.P.G.) information to a Pittsburgh agent posing as a representative of Owens-Corning, Toledo, Ohio. Both subjects were charged under Title 18 United States Code, Section 1832 (18 USC 1832, Theft of Trade Secrets). On April 18, 1997, due to his minimal involvement, Daniel Worthing was sentenced to six months of home confinement, five years probation, and 100 hours community service. In June 1997, Patrick Worthing was sentenced to 15 months in jail and three years probation. Potential loss prevented was \$20-\$40 million.

*Philadelphia:* (U.S. v. Hsu, et al., awaiting trial, involves Taiwan nationals) On June 14, 1997, Hsu Kai-lo and Chester H. Ho, naturalized U.S. citizens, were arrested by the Philadelphia Division for attempting to steal the plant cell culture technology of Taxol, patented and licensed by the Bristol-Myers Squibb Company. On July 10, 1997, a federal grand jury for the Eastern District of Pennsylvania returned indictments, totaling eleven counts against Hsu, Ho, and Jessica Chou (a Taiwanese citizen who was actively involved with Hsu in attempting to obtain the Taxol formulas). Hsu and Chou are employed by the Yuen Foong Paper Manufacturing Company of Taiwan, a multinational conglomerate. Ho is a professor at the National Chiao Tung University and the Institute of Biological Science and Technology in Taiwan. Chou remains in Taiwan. Two of the eleven counts were violations of Title 18 USC 1832. Potential loss prevented is estimated in the hundreds of millions of dollars.

*Cleveland:* (U.S. v. Yang, et al., 1 guilty plea, two awaiting trial, Taiwan company indicated) On September 3, 1997, Pin Yen Yang and his daughter Hwei Chen Yang (aka Sally Yang) were arrested on several charges, including Title 18 USC 1832. Also charged is the Four Pillars Company, which has offices in Taiwan, and a registered agent in El Campo, Texas. It is alleged that the Four Pillars Company, Pin Yen Yang, Sally Yang, and Dr. Ten Hong Lee were involved in a conspiracy to illegally transfer sensitive, valuable trade secrets and other proprietary information from the Avery Dennison Corporation, Pasadena, California, to Four Pillars in Taiwan. Dr. Lee, who is cooperating with the investigation, has been an Avery Dennison employee, at the company's Concord, Ohio, facility since 1986. Dr. Lee received between \$150,000 and \$160,000 from Four Pillars/Pin Yen Yang for his involvement in the illegal transfer of Avery Dennison's proprietary manufacturing information and research data over an approximate ten year period. On October 1, 1997, a federal grand jury returned a 21-count indictment, charging Four Pillars, Pin Yen, and Sally Yang with attempted theft of trade secrets, mail fraud, wire fraud, money laundering, and receipt of stolen property. On the same date, Dr. Ten Hong Lee plead guilty to one count of wire fraud and promised continued cooperation with the investigation. Economic loss estimated at \$50-\$60 million.

*Memphis:* (U.S. v. Davis, 1 guilty plea, 27-33 months) On October 3, 1997, the Memphis Division arrested Steven Louis David, who was indicted in the Middle District of Tennessee on five counts of fraud by wire and theft of trade secrets. Wright Industries, the victim company and a sub-contractor of Gillette, had fully cooperated with the FBI's investigation. Although the FBI knows that Davis reached out to one foreign owned company (BIC), it is unclear if he was successful in disseminating trade secrets overseas. The FBI, however, has learned that a competitor in Sweden had seen the drawings of the new Gillette razor. Davis plead guilty on January 23, 1998, to a ten-count indictment pertaining to theft of trade secrets and wire fraud. Potential loss prevented was in the hundreds of millions of dollars.

*Buffalo:* (Pre-EEA 96, 1 guilty plea, PRC-related) Harold C. Worden was a 30-year employee of the Eastman Kodak Corporation who established his own consulting firm upon retiring from Kodak. Worden subsequently hired many former Kodak employees and stole a considerable amount of Kodak trade secret and proprietary information for use at his firm. As a result of investigation, Worden signed a plea agreement with the U.S. Attorney's Office for the Western District of New York in which he pled guilty to one felony count of violating Title 18, USC, Section 2314 (the Interstate Transportation of Stolen Property). Worden was sentenced to one year imprisonment, three months of home confinement with monitoring bracelet, three years of supervised probation, and a fine of \$30,000. Investigation is continuing in the case. Potential loss prevented was in the hundreds of millions of dollars.

#### ESPIONAGE BY FOREIGN CORPORATIONS

(4) Last year, in response to a question by this Committee, the definition of economic espionage was given as "government-directed or orchestrated clandestine effort to collect U.S. economic secrets or proprietary information."

(a) To what extent are U.S. corporations threatened by the theft of trade secrets by foreign entities that are not "government directed or orchestrated?" How do you

distinguish whether espionage is government directed or not, especially if the foreign corporation involved receives extensive government subsidies?

(b) What steps are you taking to prevent corporate espionage that is not directed by a foreign government?

The determination of economic espionage committed to the benefit of a foreign government, foreign instrumentality, or foreign agent, is made through logical FBI investigative steps. The FBI works with a number of different entities to determine foreign involvement in potential cases of economic espionage.

Many of the steps taken to prevent corporate espionage that is not directed by a foreign government are essentially the same as those with possible foreign involvement.

The FBI National Security Division's Awareness of National Security Issues and Responses (ANSIR) Program brings to the attention of U.S. corporations their potential vulnerability to economic espionage. ANSIR communicates via INTERNET (ansir@LEO.GOV) with thousands of American firms in high technology and other industry. ANSIR representatives are located at each FBI office nationwide. To date, the FBI has presented its economic espionage program at lectures in ten countries and has reached an audience of over 80,000.

Industry is obviously one of the front lines in the battle to protect trade secrets. The FBI is currently working with industry to develop an on-line system to facilitate the timely sharing of information concerning incident reports, threat profiles, and referrals between industry and the FBI.

The FBI has developed significant information on the foreign economic threat, to include: (1) identification of the foreign government sponsors of economic espionage; (2) the economic targets of their intelligence and criminal activities; and (3) the methods used to clandestinely and illicitly steal U.S. Government information, trade secrets and technology.

Also, the FBI helped establish in 1998 the Department of Defense Counterintelligence Science and Technology Protection Working Group. This group was formed through the joint efforts of the Office of the Secretary of Defense and the FBI to develop a forum to identify and address defense-related technology protection issues. The group has attendees from all DOD elements, OSD, NSA, NRO, and other U.S. Government agencies such as DOE and CIA. The FBI participates both at the executive committee and working group levels.

The FBI has initiated efforts to include operative language of the EEA 96 in the Federal Acquisition Regulation (FAR). The FAR provides uniform policies and procedures for acquisitions by executive agencies of the federal government. Current plans include placing a definition of the law and how to handle a violation (to include reporting requirements) in the Improper Business Practices section of the manual. Also, the instances where the U.S. Government retains the intellectual property rights to a particular unclassified technology, clauses will be included in the actual contract defining the technology as a trade secret belonging to the U.S. Government.

These efforts are helping to forge a closer working relationship between the FBI and the various governmental and U.S. industry organizations that can assist and benefit from FBI counterintelligence programs.

#### WORKING WITH U.S. CORPORATIONS

(5) If you find evidence that a U.S. company is being targeted for economic espionage or is the subject of unfair competition with a foreign firm, what mechanisms are in place to remedy the situation? How often does this occur?

Practitioners of economic espionage seldom use one method of collection rather they have concerted collection programs that combine both legal and illegal, traditional and more innovative methods. Investigations have and continue to identify the various methods utilized by those engaged in economic espionage and to assess the scope of coordinated intelligence efforts against the United States.

An intelligence collector's best source continues to be a mole, or "trusted person," inside a company or organization, whom the collector can task to provide proprietary or classified information. Recently, we have seen the international use of the Internet to contact and task insiders with access to corporate proprietary information. Other methodologies include the recruitment of foreign students, joint ventures, and the use of well-connected consultants to operate on behalf of a foreign government.

A number of remedies are available to levy against entities that commit economic espionage. The FBI has used various statutes in addition to the EEA 96 to combat the theft of U.S. trade secrets. These remedies include, but are not limited to, Wire

## Fraud, Mail Fraud, Interstate Transportation of Stolen Property, Conspiracy, and Money Laundering.

### ECONOMIC ESPIONAGE AGAINST THE U.S.

(6) How do you distinguish between economic espionage and aggressive but legitimate information gathering by a foreign government or a foreign corporation? Please describe the type of economic espionage you see as the greatest threat to U.S. economic competitiveness. To what extent is economic espionage against the U.S. supported and coordinated by foreign governments?

Logical FBI investigation is used to determine foreign involvement in specific cases.

The United States' proprietary economic information, research and development into cutting-edge technologies, and its overall science and technology bases are the envy of most nations in the world. The open nature of the United States is conducive to foreign targeting of sensitive economic and technological information. For these two reasons, U.S. science and technology research and development, and proprietary economic information are all susceptible to intense collection efforts.

The increasing value of trade secrets in the global and domestic marketplaces, and the corresponding spread of technology, have combined to significantly increase both the opportunities and motives for conducting economic espionage. Traditionally hostile countries and a number of allies continue their collection of U.S. trade secrets. The U.S. counterintelligence community has specifically identified the suspicious collection and acquisition activities of foreign entities from at least 23 countries. Analysis of updated information indicates that of those identified countries, 12 are assessed to be most actively targeting U.S. proprietary economic information and critical technologies. This list has been revalidated since the 1996 Annual Report on Foreign Economic Collection and Industrial Espionage.

All economic espionage is a threat to U.S. economic competitiveness. Foreign collection continues to focus on U.S. trade secrets and S&T information products. Of particular interest to foreign collectors are dual-use technologies and technologies which provide high profitability.

Specifically, throughout the past year, foreign collectors had particular interest in targeting U.S. industry in areas such as biotechnology, communications equipment, aerospace technology, computer-related software/hardware, nuclear-related technology, electronics, pharmaceuticals, missile systems, lasers, night-vision equipment, encryption technology, stealth technology, and aircraft systems.

### POTENTIAL BW/CW ATTACKS ON THE UNITED STATES

(7) What is the likelihood that the U.S. will be subjected to a biological or chemical attack within the next 2-5 years? 5-10 years? How is this attack likely to be carried out? Do you consider C/B weapon attack against the U.S. as more likely than a ballistic missile attack against the U.S.? How difficult is it for a group to construct and deliver an effective chemical weapon? A biological or radiological weapon? A nuclear device? What existing groups now have or are seeking such a capability?

It is very likely that there will be continued instances of WMD use in the United States in the next 2-5 years, since the U.S. has experienced increases in the number of individuals producing, possessing, planning and/or using chemical and biological materials. In 1997 there were in excess of 100 investigations ongoing by the FBI in the WMD arena. While many of the threats were considered non-credible, more arrests and preventions have taken place by local, state and federal authorities. Although cases over the last two years did not involve large groups with significant resources, they did affect U.S. citizens where treatment and/or hospitalization was required in selected cases. The FBI has observed a trend of increased interest in WMD materials, especially biological agents. As the result of recent events, significant threats over the past few years, and the increased availability and proliferation of nuclear, biological and chemical materials, there is a growing concern for the potential of terrorist incidents occurring in the U.S. involving WMD, specifically chemical biological, and to a lesser degree, radiological, and nuclear. Therefore, the need to increase awareness and vigilance in the WMD prevention, mitigation, and response arenas is critical.

The probability of a major WMD incident in the next 2-10 years is extremely difficult to quantify. Based on a number of factors, to include an arrest in April, 1997 of extremist elements of a right wing group who planned to blow up a natural gas refinery as a diversion to an armored car robbery, the prospect of such an incident occurring in the U.S. as we reach the millennium in the United States is increasing. Some of these factors include the following:

(a) Certain WMD agents are relatively inexpensive to produce, commercially available, and easy to acquire, especially biological purposes.

(b) Basic knowledge required to manufacture C/B substances is readily available, difficult to detect, and increased public awareness through the movies, T.V. and the Internet.

(c) Certain state sponsors of terrorism have active WMD programs. Additionally, non-aligned terrorists and certain cult type groups are still a growing concern. Such efforts could result in a major WMD incident, however, we hold no credible intelligence presently that any such action is being contemplated.

(d) The majority of both credible and non-credible threats in the U.S. has come from "lone offenders." Motivation ranges from anti-government sentiment, extortion, end of the world type logic to those who are mentally unstable. Nonetheless, while many did not possess the technical know-how, several individuals have had the intelligence and ability to create such devices.

Based on case studies of threats/incidents and investigations, the FBI believes that two likely scenarios of a postulated attack in the U.S. would consist of a lone individual or small group of individuals either (1) deploying a small amount of a crude biological agent, probably a toxin, in an unsophisticated delivery system, resulting in a relatively small amount of casualties, but with some deaths possible or (2) theft and/or sabotage of a site storing industrial chemicals, associated with conventional explosives, with the likelihood of causing more significant widespread damage.

Less likely, but equally difficult to quantify, is the use of an effective radiological weapon. Although technically feasible, difficulty in dispersal associated with a relatively small casualty rate makes this option less appealing to a would-be terrorist. Recent cases do not demonstrate a significant increase in interest in radiological devices. However, as with all WMD scenarios, the mere threat of any of these options can cause concern and disruption. The FBI does share concerns with the Department of Energy (DOE) on the ever present threat of the use of an improvised nuclear or radiological device and has embarked on a long term initiative involving Nuclear Site Security with both the DOE and the Nuclear Regulatory Commission (NRC) which cannot be further discussed in an unclassified setting.

Internationally, as alluded to previously, the threat from state sponsored and non-aligned terrorists exists, however, the FBI has no intelligence professing imminent attack against the U.S. from these elements. We do consider the use of C/B weapon in a smaller quantitative attack, as noted above, a much more likely alternative than a ballistic missile attack.

How difficult is it for a group to construct and deliver an effective chemical, biological, radiological weapon or nuclear device?

Currently, no groups other than certain nations have the capability to build a nuclear device. Technical expertise in designing a weapon, and in obtaining the plutonium, or Highly Enriched Uranium (HEU) are required. Obtaining this critical material is what slowed down one known terrorist sponsored state's nuclear weapon developed program and will be the main difficulty faced by any terrorist group.

Radiological devices in comparison are easier to build, but have extremely limited effectiveness other than the terror they would induce in people who felt threatened by the possibility of irradiation. There are thousands of radioactive sources used in medical and industrial applications. They could be stolen rather easily and dispersed by a terrorist or individual with an explosive charge. The results of such an explosion would be fairly limited and would depend upon the type and form of radioactive material stolen.

The creation of a C/B weapon is within the ability of an individual or group, although effective dissemination is a more complicated task. As stressed in this testimony, we believe that C/B weapons would be the weapons of choice in the WMD environment, noting that we still believe that conventional terrorist weapons and methods, i.e., bombings, use of firearms and kidnappings are still the primary methods of operation by terrorists.

The most difficult question from a law enforcement perspective is determining motivation, so that prevention can mitigate damage. As recent cases have shown, the reasons for using WMD can be as simple as creating a diversion for an armored car robbery or to take revenge on the Government, an institution or an employer. These factors make the task of accurate and timely prediction very difficult. While many in law enforcement and the intelligence community believe that a WMD event is in our future, there exists the proverbial argument of "how small or large will it be?"



## POSSIBLE RETALIATION FOR THE KANSI SENTENCING?

(8) Mir Aimal Kansi has recently been sentenced to death for the killing of CIA employees outside CIA Headquarters. What is the likelihood that there will be acts of terrorism against the U.S. as a result of this?

On November 10, 1997, a jury in Fairfax, Virginia, convicted Mir Aimal Kansi of capital murder. In January 1998 the court sentenced Kansi to death.

The potential threat of retaliation against U.S. targets for Kansi's sentencing takes two distinct forms. The threat of some type of retaliatory attack on U.S. soil is low but not outside the realm of possibility. The threat of retaliation against U.S. targets outside the United States should be viewed as a somewhat more likely scenario, although the FBI has no credible information indicating that such an attack should be expected.

Kansi's January 25, 1993, attack on CIA employees appears to be more a product of his own dementia than an organized conspiracy. Although Kansi warned during his subsequent trial that "his people" would retaliate for his sentencing, this warning may again represent more his delusional thought processes than a serious threat referring to a concerted effort to average his sentence. The FBI has not detected a support network within the United States that appears prepared or willing to retaliate for Kansi's sentencing. Kansi's own family has publicly distanced itself from his actions. The possibility of retaliation within the United States would most likely stem from the same type of rogue, lone attacker represented by Kansi himself. An attack by such an individual would be difficult to detect beforehand, or to prevent.

The killing of four American businessmen in Karachi, Pakistan, 36 hours after Kansi's conviction raised speculation that the killings were carried out in response to Kansi's conviction. However, there has been no indication that the killings in Karachi are related to Kansi in any way. To date, there have been no confirmed attacks against U.S. targets stemming from Kansi's conviction or sentencing. However, attack on "soft" U.S. targets abroad (business persons, tourists, nongovernmental facilities) could prove attractive to any individual or group seeking to avenge Kansi's sentence.

## ECONOMIC TERRORISM

(9) Do you have any evidence that foreign governments, corporations, or individuals are targeting U.S. economic interests using technology (such as a virus, computer hacking, etc.)? Do you see this as a near-term threat, or more long-term?

The FBI has, in numerous investigations, encountered evidence that foreign governments, corporations, and individuals have targeted U.S. economic interests using computer technology. Many of these investigations are still pending and some are classified, thus, detailed discussion is not possible in this format.

A well-known example of this targeting is the Citibank investigation which revealed that individual Russian hackers had intruded into Citibank computers and attempt to divert over \$10 million worth of electronic transactions. The FBI has pending investigations in which foreign corporations have, or have attempted to, obtain proprietary information from U.S. corporations using computer technology (either to access the information without authorization or to exceed an authorized level of access to the information).

The FBI has an extensive economic counterintelligence program which has identified attempts by foreign governments and foreign government-controlled entities to target U.S. economic interests. Many of these attempts now involve the use of computer technology either to obtain information from or about the U.S. targets, or as a means to facilitate more traditional espionage (e.g., to transmit large amounts of data abroad, to provide a secure means of communication).

The threat, then, is present now, and is likely to increase in the long-term along with reliance on networked information systems. The FBI's outreach efforts for both economic counterintelligence and critical infrastructure protection purposes tend to suggest that there is significant amount of activity that is not reported by the victims or intended targets.

## TERRORIST'S USE OF ADVANCED INFRASTRUCTURE

(10) Terrorists are making more use of advanced computer and telecommunications technology, their own communications and intelligence gathering, and establishing a worldwide network of contacts and support. Does this easy access to information, communication, and transportation make the job of intelligence gathering more difficult or does not provide opportunities which you can exploit? Are there

steps that we can take to deny terrorists the ease of movement and communication they now enjoy?

Without question, the acquisition and use by terrorists of advanced technologies make the work of intelligence collection and operational countermeasures much more difficult. While a terrorist's uncritical reliance on new technologies may occasionally offer a spectacular opportunity for intelligence collection, such is the exception rather than the rule. The availability of strong encryption further complicates collection in these circumstances.

From the FBI's perspective, the most effective steps to take here are those that enhance the FBI's ability to exploit collection opportunities and to monitor terrorist communications. An important initial step is to reinforce the FBI's technical resources, in terms of equipment, expert personnel, and trained agents. Given the rapid pace of technology development, it is essential that the FBI be able to stay abreast of the latest commercially available technologies. The Computer Investigations and Operations Section (CIOS) of the National Infrastructure Protection Center (NIPC) serves as the FBI's focal point for computer intrusion investigations. CIOS investigators and technical personnel currently support operations in other National Security Division components when computer technology issues arise. The technical expertise encompassed by the CIOS and other FBI components is subject to ever-increasing demands for criminal, counterterrorism, and counterintelligence assistance. Maintaining the appropriate level of expertise, retaining experienced personnel, and extending training to more counterterrorism agents are important steps in countering the broad spectrum of challenges posed by emerging technologies.

It will also be important to ensure that the current legal authorities for FBI counterintelligence operations adequately correspond to the current technological environment. While Foreign Intelligence Surveillance Act (FISA) authority applies to electronic communications, surveillance of the content of computer communications alone is not always sufficient to determine the path or true origin of the communication. "Transactional" or computer log data is often of critical significance. Unlike the legal authorities for criminal investigations, the counterintelligence authorities do not yet include mechanisms (short of full FISA authority) for obtaining this data. The Justice Department has proposed the creation of a counterintelligence "pen register" mechanism to address this situation, and this proposal represents an important enhancement of our ability to deny terrorists the opportunities offered by new technology.

#### THREAT OF INFORMATION WARFARE BY TERRORISTS

(11) Our traditional definition of terrorism does not include such things as computer attacks intended to damage our telecommunications or transportation infrastructure. Are we prepared to deal with "virtual terrorism?" What steps do we need to take to focus Intelligence Community counterterrorism efforts on this new threat?

The FBI's counterterrorism and infrastructure protection programs, computer attacks on critical infrastructures, such as telecommunications or transportation, are already considered weapons available to terrorists. In fact, terrorist groups have, in at least one incident recently made public, used a computer-based "denial of service" attack targeting the facilities of a foreign government. An effective response to this emerging threat depends on the rapid analysis and sharing of infrastructure information so that seemingly isolated computer intrusions can be recognized as coordinated attacks. The FBI's goal is to consolidate in the NIPC all relevant computer intrusion information, as well as all of the FBI's background information about the architecture and vulnerabilities of our nation's key infrastructures. The NIPC can then analyze information, determine the nature and scope of an attack, rapidly disseminate that information to FBI counterterrorism components (as well as the U.S. Intelligence Community [I.C.] and the Department of Defense) and if appropriate, issue public warnings to those at risk. Using NIPC analytical product, FBI counterterrorism components can craft an investigative response with the appropriations."

The Defense Department recently has sponsored information warfare exercises that featured computer attacks on critical infrastructures. The NIPC participated in these exercises, which incorporated representatives from the I.C., other government agencies, and the private sector. These exercises, as well as other discussions in the I.C., all identify rapid and effective information sharing as the key component of a successful defensive strategy. The NIPC is intended to serve as the focal point for this information sharing, which will be accomplished in a variety of ways. First, the NIPC will incorporate direct technical connectivity with relevant military and intelligence community components. Second, the NIPC staff will include a significant

number of DOD and I.C. representatives who will be fully integrated into the NIPC and will facilitate rapid dissemination of information to their home agencies in accordance with legal requirements.

Our defensive strategy against computer attacks also must incorporate the private sector owners and operators of the infrastructures. The FBI, through the NIPC's outreach programs and other initiatives, is seeking to open channels of communication with the private sector. The NIPC will ultimately incorporate private sector representatives on its staff and will generate analytical products tailored to the private sector's need for threat information and warnings.

#### EXECUTIVE BRANCH ORGANIZATION ON THE COUNTERTERRORISM ISSUE

(12) How well is the Executive Branch organized to deal with counterterrorism? Is there room for improvement in the CIA-FBI relationship on counterterrorism matters? Should the FBI be given primacy over both domestic and foreign counterterrorism intelligence gathering?

During the past three years, the U.S. Intelligence Community (I.C.) has significantly improved its information sharing capabilities. Much of this improvement stems from a profound shift in the organizational structure of the I.C. Two specific examples of this new approach—the DCI Counterterrorist Center (Central Intelligence Agency) and the FBI Counterterrorism Center—reflect this shift. Both centers integrate personnel from a variety of federal agencies into their daily operations. Currently, 18 federal agencies—including the CIA, the Department of Defense, and the U.S. Secret Service—maintain a regular presence in the FBI Counterterrorism Center. Likewise, the FBI has assigned senior-level officials to the DCI Counterterrorist Center. These exchanges—and the operational enhancements they have brought to the cooperative relationship of the two agencies—have helped the FBI and CIA move beyond the mutual distrust that sometimes marked their relationship in the past.

This sense of cooperation extends to training as well. Since 1995, the FBI and CIA have participated in several joint training conferences around the country. In addition, the CIA now participates in 4 of the 16 joint terrorism task forces operating in communities around the country. CIA representation to these task forces improves their ability to prevent acts of international terrorism from occurring in the United States.

The FBI has been designated as the lead federal agency in the U.S. Government's response to terrorism, both within and outside U.S. borders. However, the FBI lacks the statutory mandate or the overseas presence to assume "primacy" in foreign intelligence gathering. Given the information sharing and integrated intelligence analysis that marks the U.S.I.C.'s response to terrorism, little would be gained from designating one agency as the primary foreign counterterrorism intelligence gathering arm of the U.S. Government. Agencies such as the CIA and the Defense Intelligence Agency (DIA) have developed effective means to monitor international terrorist threats. The coordinated effort now in place benefits from the individual expertise each agency brings to the government's intelligence gathering effort.

#### COUNTERINTELLIGENCE THREAT TO NATIONAL LABORATORIES

(13) A September 1997 GAO report regarding DOE's security controls over foreign visitors to the National Laboratories noted that "DOE's procedures for obtaining background checks and controlling the dissemination of sensitive information are not fully effective" and that as a result, "sensitive subjects may have been discussed with foreign nationals without DOE's knowledge and approval." In your opinion, how significant is the counterintelligence threat to DOE in general and the National Laboratories in particular? What is being done to rectify this problem?

For reasons previously outlined to the Senate Select Committee on Intelligence (SSCI), and due to the sensitive nature of the material involved, the Commonwealth of Independent States (CIS) and Domestic Espionage Unit, Eurasian Section, National Security Division, is unable to respond to this question in the unclassified manner requested. The CIS and Domestic Espionage Unit can provide a classified statement to the SSCI if so requested.

#### INFORMATION OPERATIONS

(16) The Defense Science Board and the President's Commission on Critical Infrastructure Protection both issued reports during 1997 which identified our nation's vulnerability to both physical and computer attacks on our nation's information infrastructure. These reports noted that such an attack could come from a foreign government, a non-state actor, a criminal organization, or an individual hacker. How significant is the threat to our critical information infrastructure in the short-run?

In the long-run? How do you judge the Intelligence Community's ability to collect intelligence on this threat?

As discussed in the responses to questions 9 and 11, the FBI regards the threat to the critical infrastructures as real and already present. The significance of the threat in the long-run depends, to a great degree, on the extent to which the private sector owners and operators of critical infrastructures recognize and respond to the threat. In many actual intrusions investigated by the FBI, as well as in certain exercise scenarios, intruders were able to compromise critical systems by exploiting widely known (and easily removable) vulnerabilities. As awareness of the threat increases, and relevant technical information about the nature of specific threats is disseminated, the owners of critical systems should be able to reduce the number of real vulnerabilities. Likewise, the deterrent effect of successful investigations or other responses to infrastructure attacks should begin to be evident.

However, even if these trends develop successfully, the size and complexity of the critical infrastructures alone suggest that the threat will persist. Gathering intelligence about threats posed by foreign governments and terrorist groups operating abroad is the responsibility of the foreign intelligence community and will depend on both traditional intelligence gathering capabilities and technical capabilities designed to address the use of newer technologies. Gathering intelligence on individual actors or criminal organizations is often more complex, and depends on the integration of law enforcement and infrastructure protection efforts within U.S. territory. The FBI envisions the NIPC as the focal point for the interaction of law enforcement and infrastructure protection efforts in relation to this threat. Through the NIPC, and in compliance with applicable legal restrictions, analytical product derived from this information can be generated and disseminated through the I.C. to provide a current and full-spectrum portrayal of the threat to our infrastructures.

All of these efforts assume a great deal: the creation of an effective information sharing protocol for the NIPC, the cooperation of the private sector and other government entities, and a successful campaign of outreach and education to infrastructure owners. However, this is the FBI's strategy for addressing the threat, and important steps have already been taken to implement these plans.

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DEFENSE INTELLIGENCE AGENCY,  
Washington, DC, June 12, 1998.

To: Don Mitchell,  
Professional Staff Member,  
Senate Select Committee on Intelligence,  
Washington, DC.

Subject: Transmittal of the Defense Intelligence Agency's (DIA's) Response to Questions For The Record January 1998 Threat Hearing.

1. This is in response to your 12 March letter to LTG Patrick Hughes, USA, Director of the Defense Intelligence Agency in which you provided 29 Questions For the Record (QFRs) which resulted from the 28 January Select Committee on Intelligence Hearing on the Worldwide Threat.

2. The enclosures provide DIA's response to the questions posed. The unclassified response to topics 12, 19, 20 and 29 could not be provided due to the sensitivity and nature of the subject matter. We have provided classified submissions for these four QFRs.

3. If we can be of any further assistance in this or any related matter, please feel free to call the Congressional Liaison staff.

Sincerely,

E. JOHN HUTZELL,  
Acting Chief, Legislative Liaison.

Enclosures.

TOPIC (1): RUSSIAN MILITARY CAPABILITIES

*Question a.* In your prepared testimony, you state that "[t]here is little chance that Russia will reemerge as a global military peer competitor to the U.S. over the next two decades. During this period, Russia's strategic nuclear forces will remain the backbone of Moscow's military might, preserving Russia's perception of great power status and protecting its vital security interests." Does the fact that Russia's strategic nuclear forces "will remain the backbone of Moscow's military might" for the next 20 years raise the likelihood that Russia might be more inclined to use nuclear weapons if it feels that its interests are being threatened?

Answer. While Russian strategic nuclear forces "will remain the backbone of Moscow's military might" for the next 20 years, their views on national security indicate that they perceive no major external threat for the foreseeable future.

*Question b.* What vital interests would Moscow perceive beyond its periphery that would warrant its commitment of military force, including the treat or use of nuclear weapons?

Answer. Beyond a direct threat to the Russian homeland, some writings have indicated that Russia would consider a threat to ethnic Russians residing in other states of the former Soviet Union as warranting commitment of military force. Large numbers of ethnic Russians remain, for example, in the Baltics states and in Kazakstan. However, Russia's ability to project sustained, effective conventional power remains limited. Moreover, it is highly unlikely that Russia would use or even threaten to use nuclear weapons as a means to protect ethnic Russians in other countries.

*Question c.* If present trends continue, what will be the Russian military's capability to conduct operations 5 years from now? Do these trends indicate the possibility that Russia may soon have insufficient military force to retain order within Russia?

Answer. The Russian military's fate hinges on the policy priorities and leadership capabilities of the man who replaces Yeltsin as well as on the condition of the economy. The responsibility for the maintenance of internal order, however, rests principally with the Ministry of Internal Affairs and other security organizations, although ultimately backed up by the Armed Forces. The forces of the other power ministries have enjoyed general priority over the MOD for funding, conscript, and military equipment.

*Question d.* What is your assessment of the likelihood that military reform will succeed in Russia?

Answer. The military reform process—intended to transform Russia's top-heavy military into an affordable force capable of meeting the threats facing Russia—remains stalled. A pattern of neglect and poor management of hard decisions on fundamental issues concerning the financing and implementation of reform have been the greatest stumbling blocks. Due to this inadequate leadership, the Armed Forces have been left on their own to struggle with ad hoc survival mechanisms. Only systematic control of budgetary resources and clear efforts at reduction and reorganization will improve the success of reform. This will depend largely on who succeeds Yelstin.

#### TOPIC (2): RUSSIA'S BALLISTIC MISSILE DEFENSE PROGRAM

*Question.* Please describe the nature and extent of Russia's ballistic missile defense effort. Where do you see Russia's ballistic missile defense program heading over the course of the next 15 years?

Answer. It is expected that only a few significant developments will be made in Russia's ballistic missile defense effort over this time period. They are developing both a new ICBM and SLBM within the limitations of extant arms control treaties. Revenue from the export of arms has helped Russia's defense programs to some extent. The latter includes R&B and modernization efforts for strategic weapons programs. As previously indicated, this is also consistent with the reliance on strategic systems for Russian security interests.

#### TOPIC (3): RUSSIA'S SAFEGUARDING OF NUCLEAR MATERIALS

*Question.* What is the Intelligence Community's assessment of the adequacy of Russia's safeguard of nuclear weapons and fissile material?

Answer. The Russians have been consolidating some nuclear weapons reducing the threat somewhat, however, the deplorable financial situation has proven stressful for the Ministry of Defense and equally so for the nuclear security system. Undoubtedly, risks will endure.

*Question a.* What about missile systems, components, and technology? What is the status of Russian nuclear command and control systems?

Answer. Russia became a member of the Missile Technology Control Regime in 1995. However, activities of Russian defense firms remain problematic. The central government has also shown indications that it lacks total control of some of its personnel and resources.

Russia currently has a safe and reliable system for controlling its strategic nuclear forces. However, many of the components that make up the infrastructure of Russia's strategic command and control system are aging.

*Question b.* Has there been any change in the last year regarding Russian capabilities and programs in chemical or biological weapons? Does Russia persist in unacknowledged CW programs and illegal BW programs?

Answer. Key components of the former Soviet biological warfare (BW) program remain largely intact and may support a possible future mobilization capability for the production of biological agents and delivery systems. Moreover, work outside the scope of legitimate biological defense activity may be occurring now at selected facilities within Russia. Such activity, if offensive in nature, would contravene the Biological and Toxin Weapons Convention of 1972, to which the former Soviet government is a signatory. It would also contradict statements by top Russian political leaders that offensive activity has ceased.

TOPIC (4): TRANSFER OF TECHNOLOGY FROM THE FORMER SOVIET UNION

*Question.* What general trends has the Intelligence Community detected in the flow of scientists, technology, and unconventional military equipment to other nations? What evidence have you detected that Soviet nuclear materials, BW, CW or ballistic missile-related materials or technology have found their way to the international black market?

Answer. Russia continues to conduct some foreign sales related to NBC programs as well as missile technologies. It is unclear whether all or any of these marketing efforts are conducted officially or on the black market. It is likely that related training and technology support are inclusive to these same efforts. Russia does continue cooperation with China in the field of nuclear related technologies. This is worrisome since China also has similar market ties to Iran and Pakistan. Russian defense firms reportedly have assisted missile programs in South Asia, Middle East, and China. The ongoing poor economic conditions in Russia will continue to provide an environment for both sanctioned and illicit arms sales.

TOPIC (5): CHINA'S MILITARY STRATEGY

*Question a.* In your prepared testimony, you state that "China military strategy will continue to emphasize the development of a survivable nuclear retaliatory capability as a deterrent against the use of nuclear weapons by the United States, Russia or India. There is no indication that China will field the much larger number of missiles necessary to shift from a minimalist, retaliation strategy to a first-strike strategy." How confident are you of this assessment? What trends do you perceive in the quantity and quality of Chinese ballistic missiles capable of reaching the U.S.? Are these views shared by the remainder of the Intelligence Community?

Answer. There is a high confidence the Chinese will not produce more than the required ICBMs and the additional nuclear warheads for them over the ten years that would be needed for retaliatory strikes. China's limited nuclear deterrent has been, and will remain, a crucial component of its military strength and international prestige and is seen as contributing to Beijing's ability to maintain an independent foreign policy. China's defense expenditures are not expected to increase significantly for nuclear defense modernization. The Intelligence Community is in general agreement on these views.

*Question b.* Do you believe that China views its nuclear forces as a deterrent to other non-nuclear, military or political actions by the U.S. or other countries?

Answer. China considers the United States its principal military competitor in Asia. China has put increased emphasis on procuring nuclear forces designed to deter U.S. and the military involvement of other nations in Asian affairs.

TOPIC (6): CHINA AND TAIWAN

*Question.* In your prepared testimony, you state that "(t)he Taiwan issue remains the major potential flashpoint. Beijing believes U.S. policy encourages the independence movement of Taiwan, deliberately or inadvertently." Please elaborate. What is the potential for armed conflict between China and Taiwan? What would be the likely outcome of such a conflict? Has the threat of confrontation between the PRC and Taiwan replaced North Korea as the number one security issue in Asia?

Answer. From China's perspective, Taiwan is the single most important issue affecting Sino-American relations. Miscalculations or provocations generally run at a higher risk when two perspectives diverge as in the case of China and the U.S. on the issue of Taiwan. Both Taiwan and China see advantages in avoiding confrontation in achieving their long-term goals. Though China continues to modernize its forces in part to present a credible threat against Taiwan, it has not developed a significant amphibious capability that would be required for an invasion of "Formosa". North Korea remains the number one security issue in Asia.

## TOPIC (7): INDIA AND PAKISTAN

*Question a.* In your prepared testimony, you state that "India and Pakistan both continue to view their security relationship in zero-sum terms, possess sufficient material to assemble a limited number of nuclear weapons, have short range ballistic missiles, and maintain large standing forces in close proximity across a tense line of control. In short, although the prospect for a major war between India and Pakistan is low at present, we remain concerned about the potential, particularly over the near term for one of their occasional military clashes to escalate into a wider conflict. Over the long term, however, the threat of large scale war should diminish." Why do you consider a large-scale conflict between India and Pakistan likelier in the short term than in the long term? Is this assessment shared by other components of the Intelligence Community?

*Answer.* The risk of a major war between India and Pakistan, while still low, has increased recently as a result of several factors: the March election of the Hindu nationalist government in India; Pakistan's provocative Ghauri missile launch in early 1998; and both the Indian and Pakistani nuclear tests. Additional nuclear tests and missile tests by one or both countries is likely, which would further inflame tensions. Moreover, tensions over the disputed Kashmir region will continue to add friction to the contentious relationship. Despite the level of tensions, neither country wants war. Consequently, any conflict is likely to be the result of escalation or miscalculation and that is where our concern rests.

Major acts of terrorism occur in both countries, escalate periodically and both sides are prone to holding the other responsible. Although such acts will continue to contribute toward tension between the two states, it is unlikely that individual acts of terrorism will lead to war between Pakistan and India. However, a dramatic terrorist incident, which one side ascribes to the other could cause an escalation in tension and subsequent exchanges along the border, in turn inadvertently leading to war.

## TOPIC (8): NORTH KOREA AS A CONTINUING THREAT

*Question a.* In your prepared testimony, you state that "some significant—perhaps violent—change is likely in the next five years. There are four basic alternatives: leadership change, government collapse, negotiated accommodation with the South, or major economic reform." In your opinion, what is the likeliest scenario? Why?

*Answer.* Of the four alternatives, we believe the most likely scenario is leadership change and continue to assess that Pyongyang is least likely to attempt major economic reform or a negotiated accommodation with the South. Pyongyang's response to economic crisis has been one of retrenchment and ideological exhortation, coupled with rejection of economic reform which it fears would undermine both regime legitimacy and control and hasten the demise of the current government.

*Question b.* You also stated in your testimony that "over the next several years Pyongyang's WMD, missile, artillery, and special operations force capabilities will likely improve, despite the dire economic situation." How do you account for this?

*Answer.* There is no doubt that North Korea continues to emphasize these capabilities. WMD, missile, and artillery systems serve not only as a deterrent. North Korea is always concerned with its geo-strategic position particularly as a small country surrounded by powerful neighbors. It likely sees these systems as a cost effective means to maintain a credible military threat to control or destroy allied defenses before full U.S. force engagement.

## TOPIC (9): CHANGES IN SOUTH KOREA

*Question.* Talks on peace on the Korean peninsula involving North and South Korea, China and the U.S., began in Geneva last December. Long time opposition leader Kim Dae Jung won last December's presidential election in South Korea. What do these developments bode for change in South Korea as well as prospects for normalized relations between or reunification of North and South Korea?

*Answer.* This is basically a political question on which State has the lead and is best qualified to comment. That said, we believe prospects for normalized relations between North and South Korea depend on North Korea seeking compromise and reconciliation rather than confrontation. There is some ground to speculate that North Korea may move gradually in that direction over the next few years—the Four-Party Talks being one example suggesting that change may be possible—but no solid evidence yet of any change in Pyongyang's intentions.

## TOPIC (10): SUPPORT FOR IRAQ IN THE MIDDLE EAST

*Question.* Currently, how much support exists for Saddam in the region? If military action were taken against Iraq, what would be the likely reaction of other nations in the region? What, if any, governments in the Middle East would be publicly supportive of military action against Iraq?

*Answer.* There is very little support for Saddam Hussein or the Iraqi regime in Middle Eastern ruling circles. Any reaction to military action against Iraq would be greatly dependent upon the conditions that could precipitate such action. Arab leaders remain concerned about the possible domestic and regional repercussions of such an attack. A few states could be expected to publicly support military action given that such actions followed full UNSC support.

## TOPIC (11): IRAQ'S WEAPONS OF MASS DESTRUCTION

*Question.* What is the current status of Iraq's BW, CW, nuclear weapon, and missile programs? How much activity has there been in each of these areas since the conclusion of the Persian Gulf War? Do we have any evidence that the Iraqi regime has tested CW or BW agents on humans since the Persian Gulf War?

*Answer.* Based on efforts conducted over the past few years in this venue, Iraq has demonstrated a commitment to rebuilding and expanding their WMD programs. The Iraqi nuclear program sustained considerable damage during the Gulf War and lost most of its infrastructure. However, they do retain critical knowledge gleaned by Iraqi scientists and technicians. Iraq maintains a limited ability to revitalize its chemical weapons program which also suffered during the Gulf War as well as through the subsequent UNSC inspections. Though it is unclear, the Iraqis may also retain a limited biological capability. The difficulty with this field of weaponry is that much of it is dual-use and can be found in Universities and similar commercial research labs. Iraq continues to devote limited resources and funding to overall development of these deadly programs. It is certain that if sanctions are lifted, Iraq will proceed expeditiously with its NBC programs as well as the corresponding delivery systems.

## TOPIC (13): THE ISRAELI PRESENCE IN LEBANON

*Question a.* Comment on the losses the Israelis have suffered in Lebanon in the past year, the impact of those losses on Israeli public opinion.

*Answer.* Israeli public opinion polls consistently highlight a majority of support for occupying the security zone in southern Lebanon until security requirements for northern Israel are met despite losses.

*Question b.* What is the likelihood that Israel will initiate a unilateral withdrawal from southern Lebanon?

*Answer.* It is reasonable to assume that as long as the Hizballah continue to operate in southern Lebanon, Israel will more than likely seek to maintain some sort of presence.

*Question c.* Do the recent losses indicate that the Hizballah is becoming a more effective force?

*Answer.* IDF losses in 1997 more than likely resulted from a variety of factors.

*Question d.* Comment on the military effectiveness of Israel's allies, the Southern Lebanon Army (SLA).

*Answer.* The SLA is of limited strength and consists of approximately 2 to 3 thousand personnel. They operate primarily with small arms, however, they do possess 20 to 40 pieces of armored equipment.

*Question e.* Describe the current military cooperation between the Israeli Defense Force and the SLA.

*Answer.* The IDF continues to train, equip, and support the SLA.

## TOPIC (14): SYRIA

*Question a.* Assess the current military strategic threat Syria poses for Israel and Syrian military capabilities in general.

*Answer.* Syrian military capabilities are severely limited and pale in comparison to Israeli capabilities. Severe deficiencies in maintenance skills, spare parts reserves, and transportation resources limit Syrian sustainment capabilities. Syria recognizes its deficiencies and has stressed the development of ballistic missiles and chemical programs as a deterrent to Israeli superiority.

*Question b.* What is the possibility Syria will exercise the military option to regain the Golan?



Answer. Syria is well aware of Israel's military superiority and the high military and political risks associated with an attempted land-grab on the Golan. As always, the chance of miscalculation remains a factor in such contentious zones.

*Question c.* How do you interpret the Syrian military movement toward the Golan within the last two years?

Answer. Syria retains the objective of regaining the Golan Heights but as previously mentioned it recognizes its military shortfalls.

#### TOPIC (15): LIBYA'S CHEMICAL WEAPONS PROGRAM

*Question.* What is the status of Libya's CW activities? What is the status of their overall CW program? Is Libya making progress toward obtaining any other weapons of mass destruction or their systems?

Answer. Libya maintains a heavy reliance on external assistance for its chemical weapons program given that it is deficient with its indigenous capabilities. Still, Libya has one of the most prominent programs in North Africa and the Middle East. Libya lacks adequate delivery systems for its chemical weapons. Nevertheless, the threat must be considered. Both the Libyan nuclear and biological programs are limited by a small technical base as well as very little outside assistance. As an added shortfall, Libya has not proceeded very far in regards to its ballistic missile program.

#### TOPIC (16): CUBAN MILITARY CAPABILITIES

*Question a.* Does Cuba in any way pose a strategic threat to the United States at this time? Will Cuba pose a strategic threat to the U.S. at any time in the next two to five years? What, if anything, might change that assessment?

Answer. Cuba poses a negligible threat to the U.S. and other surrounding countries. Cuba's weak economy and lack of foreign military benefactors will probably continue for the foreseeable future and subsequently prevent the country from significantly improving its fighting forces.

*Question b. (U)* Is Cuba currently attempting to undermine democratically-elected governments in the Western Hemisphere? What support, if any, is it providing opposition movements in Colombia and Peru?

Answer. Throughout the 1990s, Cuba has focused on improving relations with Latin American governments.

#### TOPIC (17): CUBA AND NARCOTICS TRAFFICKING

*Question a.* Are Cuban Government officials implicated in narcotics trafficking?

Answer. There is no significant information to suggest the Cuban government is involved in narcotics trafficking. Allegations that Fidel Castro and his brother Raul are involved in narcotics trafficking have been repeatedly denied by the Government of Cuba (GOC). Since the celebrated trial and execution of top military and Interior Ministry officials on drug smuggling charges in 1989, the GOC has refuted any existence of narcotics-related corruption by government officials. The US Attorney's Office in Miami drafted a proposed indictment in 1993 implicating Raul Castro, Manuel Pinerio and 13 other Cuban officials for trafficking narcotics through Cuba. The case failed to proceed to the indictment stage because US officials determined that there was not enough evidence to warrant prosecution.

In July 1996, a press report identified Cuban Dictator Castro as being personally involved in cocaine trafficking into the United States. The newspaper also alleged that drug dealers busted with thousands of pounds of cocaine from Cuba not only say that the cocaine was brought into the United States with Castro's coordination, but also that there are photos of Castro with the traffickers and video of Castro assisted drug operations. Another report from the same press source claimed that United States drug enforcement agencies suspected the drugs were offloaded inside Cuban territory from a Colombian freighter and the agency is investigating a photo which documents a meeting between Castro and one of the drug smugglers arrested. The veracity of this report has not been confirmed and a DEA analyst indicated that the agency has no reporting to support these allegations.

*Question b.* To what extent are narcotraffickers overflying Cuban airspace to bring drugs into the U.S.?

Answer. Drug traffickers originating from Colombia and Jamaica routinely exploit Cuba's airspace for transit of narcotics to the United States.

*Question c.* Do these overflights require Cuban government complicity of any kind?

Answer. Currently, there is no evidence supporting Cuban complicity in drug trafficking overflights.

## TOPIC (18): TRENDS IN ILLEGAL NARCOTICS

*Question.* In your prepared testimony, you state that "illicit synthetic drug production in urban areas is a significant threat." Please elaborate. Have we detected any change in the worldwide supply or demand for illegal drugs? Are our efforts having any effect on the drug trafficking organizations?

*Answer.* The Foreign Intelligence Community defers to the U.S. domestic Law Enforcement Agencies to address the threat posed by illicit synthetic drug production in domestic urban areas.

The Foreign Intelligence Community does not address the question of the demand for illicit drugs in the United States. That information is maintained by U.S. domestic Law Enforcement Agencies, as are the available details on demand elsewhere in the world. In terms of any changes in the supply of drugs, there are periodic shifts/fluctuations in the availability of both heroin and cocaine, based on such elements as counterdrug operational successes, adverse weather in cultivation areas, blight or other crop diseases, etc. However, none of these elements has had a crippling impact on the availability of those drugs in the United States. The supply continues to be more than adequate to meet the demand.

As previously noted, counterdrug efforts have had some impact on the regional availability of drugs in the United States. Such successes primarily have been those making it more costly or inconvenient for drug traffickers to conduct business.

Various key cocaine and heroin traffickers have been arrested or imprisoned in recent years, disrupting operations and spawning infighting among those seeking to assume power.

Operational successes have disrupted some traditional routes used by traffickers to move drugs in and from South America, causing them to increase use of alternative means of moving their products.

Some successes against the traffickers' financial assets (cash flow, properties, etc.) have raised the cost of doing business both in the United States and elsewhere.

Operational successes disrupting the supply of essential chemicals have adversely affected the traffickers' production efforts.

Seizures of drug shipments (especially cocaine) have increased traffickers' costs, possibly necessitating increased production to meet demand.

These operations have not yet significantly reduced the supply of heroin and cocaine throughout the United States. However, if they can be sustained in the source and transit zones, it is much more likely that counterdrug operations ultimately will reduce the supply of drugs in the United States.

## TOPIC (21): THE CHEMICAL WEAPONS CONVENTION

*Question a.* Over one hundred of the 168 signatories have ratified the Chemical Weapons Convention (CWC). (Last November, both Iran and Russia completed their CWC ratification.) Do you have any intelligence that any of the signatories of the CWC have engaged in activities that raise compliance concerns?

*Answer.* Due to ongoing concern about worldwide chemical warfare (CW)-related activities, the Intelligence Community (IC) monitors the spectrum of activities related to the CW issue.

*Question b.* The Intelligence Community has conceded that its ability to monitor compliance with the CWC is limited. Has the U.S. monitoring capability improved since U.S. ratification of the CWC?

*Answer.* The U.S. continues to seek ways to enhance its ability to monitor CW programs and related proliferation activities through enhancements in technology and personnel resources.

## TOPIC (22): NORTH KOREA'S TAEPO DONG MISSILES

*Question.* The North Korea Taepo Dong II missile (which is under development) will have an estimated range of 4,000 to 6,000 kilometers, and therefore qualifies as an intercontinental ballistic missile (ICBM). How confident are you in these range estimates? What U.S. states or territories could the Taepo Dong hit? How soon could the Taepo Dong I and Taepo Dong II become operational, and how firm is that estimate? How has this assessment changed in the last year?

*Answer.* North Korea lacks test experience on the Taepo Dong II and the potential range remains as the theoretical projection. Potentially, the Taepo Dong II system could conceivably provide Pyongyang with the ability to reach Guam and parts of Alaska, but not Hawaii. Both the Taepo Dong I and II are still in the early stages of development and it could be sometime before actual flight testing begins and much depends on the availability of resources.

## TOPIC (23): THE PROLIFERATION OF BALLISTIC MISSILES

*Question.* In your prepared testimony, you state that "we are particularly concerned about two trends: the significant increase we expect over the next two decades in the numbers of ballistic missiles with ranges between 300 and 1500 kilometers; the potential for land attack cruise missiles to be more widely proliferated." Please elaborate. What countries' ballistic missile and cruise missile programs are you most concerned about?

*Answer.* With regard to ballistic missiles, the developing programs in the Middle East and East Asia are the most challenging to the strategic and national security interests of the United States. Of particular concern are the rogue states of Iran, Iraq, and Libya. In South Asia, developments in missile capabilities have taken on greater significance with both the Indian and Pakistani nuclear tests. The success of the North Korean missile programs and any subsequent proliferation as well as the status of Russian programs are and will remain chief concerns.

With regard to the land attack cruise missile threat, proliferation will proceed via direct foreign military sales of complete systems, as well as through indigenous developments. Both Russia and China have been prime developers as well as exporters of land attack cruises.

## TOPIC (24): THREAT TO U.S. DEPLOYED FORCES IN BOSNIA

*Question a.* What are the prospects and key actions required for establishing long-term stability in Bosnia? While the goal of the international military presence is to make it possible for the three factions to coexist peacefully, a threat against foreign forces remains. What is the threat facing US Forces deployed in Bosnia?

*Answer.* To establish long-term stability in Bosnia, the economy must be reconstructed, a legitimate, representative, political leadership must be established; rule of law must be established and enforced, free and open media must exist; and finally, the armed forces must be integrated or kept in military balance. All of the above will aid in reducing the mistrust and ethnic animosities all sides harbor. Nonetheless, it is possible that it will be at least a generation before Bosniacs, Bosnian Croats, and Bosnian Serbs can peacefully coexist.

Creating a functional society will require a long-term commitment by a united international community. As long as key western nations pursue a focused and coordinated approach in implementing the civilian aspects of Dayton supported by a credible military force, the prospects for success are greatly improved. Anything short of such an effort will likely result in failure.

All three of the entity armed factions have resisted full implementation of the Dayton Accords at one time or another. Each ethnic group will only cooperate as long as its perceived, long-term interests are not forfeited or marginalized. Although the civilian aspects of Dayton are lagging in their implementation, progress has been made. Such progress has been achieved by holding all parties' political leaders accountable for their actions.

The threat facing the forces in Bosnia remains low to medium. When SFOR simply conducts its daily mission, the threats facing SFOR are low. However, when SFOR engages in other actions such as seizing communications towers or arresting war criminals, then the threat increases temporarily, albeit not significantly. Recent events have shown that low level violence initiated primarily by civilians, has followed such SFOR actions. The threat could possibly increase and elicit a stronger response if SFOR were to arrest more high-profile war criminals. However, the longer Bosnia remains under international supervision, the less it appears that such a move as the arrest of war criminals will elicit a violent response.

The threat from the entity armed forces remains low. SFOR has taken several steps such as monitoring all armies, permitting the entities to train only with SFOR approval, and keeping all equipment in cantonment sites, which has significantly reduced this threat. None of the factions will risk taking any kind of overt military action against SFOR. The Federation Army is receiving training and equipment from the Train and Equip program which significantly modifies its attitudes and behavior towards SFOR. The Bosnian Serb Army, which no longer enjoys an overwhelming superiority in heavy weapons, poses very little threat to SFOR as it is hampered by its own internal problems such as insufficient funds for training, equipment modernization, maintenance, and even pay and salaries.

*Question b.* What are the shortfalls in Intelligence Community support to Bosnia operations and what is being done to rectify these problem areas?

*Answer.* The Intelligence Community conducts a constant effort to explore new or modified ways to best support operational forces in Bosnia all in an equal attempt to avoid shortfalls.

*Question c.* In recent months, SFOR troops (including U.S. soldiers) have acted in support of Republika Srpska President Biljana Plavsic by seizing radio and television transmitters, police stations and other government installations controlled by her hard-line opponents. Does the participation of U.S. troops in such operations expose them to increased risk of attack from hard-line supporters? Would hard-line response be limited to stone-throwing civilian mobs, or could it escalate into sniper attacks and other forms of armed conflict?

Answer. US forces are always at some level of risk and this can recede or escalate dependent on misperceptions or miscalculations of the indigenous factions.

(Note: Original request from SSCI did not contain Question d, Question e, or Question h)

*Question f.* Would more active participation by SFOR in civil implementation tasks such as refugee resettlement increase the risk to U.S. forces?

Participating in refugee resettlement, freedom of movement, and other civilian programs may expose U.S. forces to increased risk. The international Community has proclaimed 1998 as the year of refugee returns and it has begun to focus on moving people back to areas where they are ethnically in the minority. Although the factions seem to have accepted the increased role of the international community in advancing the Dayton process return of refugees and displaced persons to minority areas is likely to spawn incidents of local resistance. This resistance has in the past and will likely continue to turn violent and draw SFOR in to keep order. Refugees could also become again the pawns of political disputes, as factions use them to pursue their political and territorial agendas. The threat to SFOR could further grow should it become involved in dealing with organized crime and corruption. The criminal elements in Bosnian society are prone to violence and possess the capability and determination to use it if they feel threatened.

*Question g.* What is the current status of efforts to remove land mines in Bosnia? Do land mines still pose a significant threat to U.S. troops in Bosnia?

Answer. This threat in the region of the former Republic of Yugoslavia (FRY) is pervasive and the international community continues efforts to locate and destroy these landmines. For the 4.5 years between mid-1991 and the end of 1995, minelaying has been ongoing, encompassing every imaginable method ranging from well planned and emplaced, marked and recorded minefields to simple hand scattering of antipersonnel (AP) mines. Additionally, sophisticated minelaying techniques have evolved that enhance the obstacle while protecting the mines themselves. The prevalence of low-metallic-content, difficult-to-detect landmines requires heightened individual soldier skills, particularly in the area of mine detection.

A serious threat from booby traps also exists. From the onset, the former Yugoslav Army was extremely well equipped with mines, fuzes, special booby trap devices, and explosives. The breakdown of natural authority, open displays of ethnic hatred, time, and availability of these devices has fostered a willingness to booby trap mines, equipment, facilities, and buildings. Any heightened danger from booby trapped mines is fully addressed by the combat engineer doctrine of blowing mines in place.

The landmine situation faced by Bosnia is among the worst in the world; only Afghanistan, Cambodia, and Angola have a clearly more daunting problem. The mined area of Bosnia and Herzegovina is approximately, 8,400 square kilometers. There are 18,086 known mine fields, containing an estimated total of 246,262 anti-personnel and 49,507 anti-tank mines. While our information is not complete, it is estimated that there may be between 600,000 and 1,000,000 landmines in country (a lower figure than the 1.7 million previously estimated).

A few germane points to consider about the landmine problem in Bosnia include the following:

The FRY was a major producer of landmines.

The vast majority of mines found in Bosnia were manufactured by the FRY.

Many of the AP and AT mines are within the category of low-metallic-content, difficult-to-detect mines.

All factions conducted mine-laying (including some of the UNPROFOR peacekeeping forces).

More than 17,000 minefields have been identified with the FRY.

Most minefields are small, point minefields located at once important checkpoints strategic locations, etc.

Multiple belt, extensive mine obstacles have been encountered.

Most main routes are safe.

Shoulders, bypass routes, and unapproved roads remain suspect.

UNPROFOR and IFOR/SFOR have operated successfully in the region despite the prevaivensness of the mine threat. Random and poorly marked often describe the minefields.

*Question i.* Are you satisfied that the U.S. has sufficient HUMINT assets in Bosnia to provide early warning of possible threats to U.S. Force?

Answer. The continued U.S. commitment to Bosnia forces us to constantly evaluate the intelligence assets in country.

*Question j.* How do you determine the extent of personnel required for HUMINT collection operations for force protection.

Answer. DIA provides resources but how other units are sized is beyond our ken.

#### TOPIC (25): NATO EXPANSION

*Question.* What are the risks, if any, to US intelligence personnel and the intelligence community in general, in allowing Poland, the Czech Republic, and Hungary to join NATO?

Answer. As with any new military venture, there is a certain amount of risk involved. Poland, the Czech Republic, and Hungary are working hard to ensure compliance with NATO standards across the spectrum of military cooperation and operations.

#### TOPIC (26): THE THREAT POSED BY DISEASE

*Question.* To what extent has HIV had an impact on the health and economies of foreign countries? How has HIV impacted foreign militaries?

Answer. The HIV pandemic is worse than previously estimated by World Health Organization and the United Nations. This fact was verified last November when the UN Program on HIV/AIDS revised their estimate of worldwide HIV infections upward to 30 million at the end of 1997; a 20 percent increase over their previous assessments.

As HIV infections develop in to AIDS cases, health systems will be challenged to accommodate the cost of treating AIDS patients or to develop alternative care schemes. In many underdeveloped countries, AIDS treatment is likely to be reserved for leaders and those who can afford costly pharmaceutical regimens. Developed countries will be equipped to handle the cost of medications for a large infected population, and have the health care structure to support and monitor patients for compliance with treatments regimens. The problem will be most acute in countries that are on the cusp of developed status, or where the expectation of high-quality health care does not easily permit diverting patients from traditional inpatient care, such as in South Africa.

HIV infections, like other medical problems, have the ability of significantly taxing health infrastructures depending on their severity. This can be problematic in developing regions such as Sub Saharan Africa where limited resources and facilities tend to further exacerbate the difficulties.

HIV infection rates remain highest in Africa's militaries and to a lesser extend those of Southeast Asia. Because of the deplorable state of the economy in Russia and the Ukraine, necessary funds to properly maintain medical facilities and resources has dropped placing the armed forces of these countries at a greater health risk.

By itself, being infected by HIV does not affect the performance of soldiers or their units. Only when HIV-infected soldiers become sick does their performance become impaired and their unit's capabilities degrade. The impact on the unit's overall capabilities depends on what duties were performed by the sick soldiers and how easily those soldiers can be spared or replaced. However, the impact of losing key personnel, such as pilots, and technicians, or effective leaders, could be severe and contribute to degraded readiness.

#### TOPIC (27): THE ROLE OF DOD INTELLIGENCE ANALYSIS

*Question.* As senior military intelligence advisor to the Secretary of Defense and the Chairman of the Joint Chiefs of Staff, your production units and activities around the world have been the producers of action-oriented intelligence—the moment-to-moment reporting that enables policy makers and military commanders to make tactical decisions with timely information. How do you evaluate the Defense Intelligence Community's performance in the production of threat assessments? What contributions have been provided by the reserve component?

Answer. The demands for threat assessment production underscore the need to strike the right balance between current and term intelligence requirements. The Defense Intelligence Community is actively seeking means and ways to strengthening its capabilities to support the warfighter, decisionmaker, and planner with their demands. The turmoil and uncertainty of the current and future security environment that was highlighted in the testimony will continue to give credence to managing our support most expeditiously and prudently. The Defense Intelligence Commu-

nity has and will continue to respond to customer requirements for production for threat assessments.

Reserve component contributions are driven by active force tasking. The theater/service intelligence production centers and DIA may use the already provided, Service Reserve-funded mandatory participation time (drill and annual tour) of their wartraced reservists to fulfill intelligence requirements. This concept, having the reservist "do in peacetime what would be done in wartime," is a basic tenet of the January 1995 Deputy Secretary of Defense-approved implementation plan to leverage reserve intelligence assets in peacetime against Defense intelligence requirements. In essence, reservist mobilization readiness is enhanced by having the reservist perform real missions in peacetime. In addition to their mandatory participation time, reservists may augment active organizations, proving intelligence support via special man-day tours. There are several funding sources for these man-day tours. Specific to the GDIP, DIA managed a reimbursable GDIP man-day program, in FY 97 totaling \$3 million, to meet its requirements, also, the Services program for manage and execute GDIP monies for reserve augmentation (in FY 97 over \$3 million). Intelligence production requirements are also supported by the JMIP. In FY 97, almost 35,000 JMIP-funded man-days were performed in support of CINC/CSA and Service intelligence requirements, with approximately 46% directly supporting intelligence production. To date for FY 98, reservists have performed in excess of 22,000 JMIP-funded man-days with 49% directly in support of intelligence production. The Joint Reserve Intelligence Connectivity Program (JRICP) connects the Reserves with the rest of the Intelligence Community, and allows the dynamic tasking of Reserve Intelligence assets by the nine Unified Command Joint Intelligence Centers, the Combat Support Agencies, and the Service Intelligence Organizations to meet peacetime, contingency crisis, and wartime requirements in support of military commanders. To carry out this mission, the JRICP is integrating and deploying a fully capable and seamless production environment consisting of workstations, software applications, secure connectivity, technical support, and training to 28 Service-owned Reserve production sites across the country. As an example, JAC Molesworth has leveraged this infrastructure capability and its reservists at three CONUS locations to levy over half of its scheduled production requirements for reservist accomplishment. Due to the heavy tasking in EUCOM to support ongoing operations in theater, the JAC had been primarily engaged in current intelligence and indications and warning activities. As its scheduled production began to fall behind, the JAC turned to the reserves to fill the shortfalls in its intelligence production. In sum, the reserve component is a valuable resource that can be used to provided additional capability, based on active duty tasking, funding and reservist availability.

#### TOPIC (28): ACTIONABLE INTELLIGENCE

*Question.* Some analysts say that the increased emphasis on action-oriented intelligence has come at the expense of other important—but more mundane—work, like maintaining data bases and conducting in-depth analyses on foreign militaries and political groups. Do you share this concern? If so, how do you intend to deal with these competing needs?

*Answer.* I do share the concern and know that we must ensure the existence of a solid foundation for a long-term, basis intelligence knowledge base over the next several years. This knowledge base that has suffered from the many demands for analytic surge in support of the large number of crises over the past decade. In order to posture the Defense Intelligence Community to support the entire range of potential missions, strengthening our capability of provide strategic warning is one of the top priorities for all-sources analysis.





## **Document No. 36**



