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Russian Officer Resettlement Program

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SUMMARY

In an effort to encourage the withdrawal of Russian troops from the Baltic states and to provide political support for Russian President Boris Yeltsin, in 1993 the United States has embarked on a \$166 million project to provide housing units for demobilized Russian officers. Supporters of the program say that it played an important role in the completion of Russia's withdrawal from the Baltic states on Aug. 31, 1994. Some critics have raised concerns about the implementation of the program, while others object to the very concept of providing housing to Russian officers. On Feb. 10, 1995, the House Appropriations Committee approved H.R. 845. One of the bill's provisions rescinds \$110 million in spending appropriated under Section 560 in P.L. 103-87 for the Russian officer housing program.

ORIGINS OF THE PROGRAM

Since the collapse of the Soviet Union in 1991, the Bush Administration, the Clinton Administration and Congress have strongly supported the demands of the Baltic countries that Russia withdraw its troops from those states. The United States never recognized the legality of the Soviet annexation of the Baltic states in 1940 and has made Russian respect for Baltic sovereignty a key issue in U.S.-Russian relations. The Freedom Support Act (P.L. 102-511), which authorizes U.S. aid programs to the countries of the former Soviet Union, prohibits aid to Russia unless it makes "significant progress" in withdrawing its military forces from the former Soviet Union. Foreign aid appropriations legislation for FY1993 (P.L. 102-391), FY1994 (P.L. 103-87) and FY1995 (P.L. 103-306) also prohibited aid to Russia unless the President certified that "substantial withdrawal" had occurred or that a timetable for withdrawal had been reached by Russia and the Baltic states.

In early 1992, Russia agreed in principle to remove its troops from the Baltic states. However, in meetings with U.S. officials, President Yeltsin, Defense Minister General Pavel Grachev and other Russian leaders repeatedly pointed to the lack of housing and other "social guarantees" for Russian officers withdrawing from Central Europe and the Baltic states as a critical factor holding up troop withdrawals. Policymakers, consequently, sought a way of



achieving the objective of rapid Russian troop withdrawal without undermining President Yeltsin and other pro-reform leaders in Russia, who face heavy criticism from hardliners for making too many concessions to the West at the expense of Russian national interests. Administration officials were also concerned that deteriorating living conditions for Russian officers could lead the army to threaten Yeltsin's rule, democracy in Russia, and the U.S.-Russian relationship.

This desire to speed up the troop withdrawals and to "help President Yeltsin with an acute political problem" (as Deputy Secretary of State Strobe Talbott told a Senate Appropriations Committee Foreign Operations Subcommittee in Jan. 1994) led the Clinton Administration to offer to pay to build housing for demobilized (not active duty) Russian officers.¹ In April 1993, during his Vancouver summit meeting with President Yeltsin, President Clinton announced a \$6 million pilot program to build 450 houses for demobilized Russian officers and to provide job training to ease their transition to civilian life. This program was not restricted to officers who had served in the Baltic states. At the summit of the G-7 group of leading industrialized countries in July 1993, President Clinton announced a larger follow-on program to spend \$160 million to build an additional 5,000 housing units for demobilized officers returning to Russia from the Baltic states and other areas. Section 560 of the FY1994 foreign aid appropriations measure (P.L. 103-87) included an earmark of \$190 million "for the purpose of supporting troop withdrawal, including through the support of an officer resettlement program, and technical assistance to the housing sector." Of this amount, \$160 million was allocated for the officer resettlement program.

The U.S. program was proposed and approved as Russian troops were already withdrawing from the Baltic states. On Sept. 9, 1992, Russian and Lithuanian defense ministries approved a bilateral agreement on a timetable that set a deadline of Aug. 31, 1993 for the withdrawal of all Russian troops from Lithuania. Russia completed its withdrawal from Lithuania on Aug. 31, 1993. From 1992 to 1994, Russia withdrew most of its troops from Estonia and Latvia, but there was continued deadlock in talks over a formal withdrawal schedule and recurrent Russian threats to halt withdrawals unless Russian conditions were met on such issues as social guarantees for retired Russian officers, Russian military bases and the treatment of ethnic Russians residing in these states.

U.S. officials say that both Russian and Baltic governments viewed the Russian Officer Resettlement program as an important contribution to breaking the long deadlock in the negotiations. Russian President Yeltsin and Latvian President Ulmanis signed an agreement on Apr. 30, 1994 under which Russia would withdraw its troops from Latvia by Aug. 31, 1994. On July 26, 1994, Yeltsin and Estonian President Lennart Meri signed an agreement under which all Russian troops would leave Estonia by Aug. 31, 1994. On that date,

¹ Reuters wire service transcript of a hearing of the Foreign Operations Subcommittee, Senate Appropriations Committee, Jan. 24, 1994.

Estonian, Latvian and Russian spokesmen announced that virtually all Russian troops had withdrawn from Estonia and Latvia. A few hundred soldiers will remain temporarily by mutual agreement to dismantle a military nuclear reactor in Paldiski, Estonia by Sept. 30, 1995, and operate and then dismantle the Skrunda radar station in Latvia by 1999. Also on Aug. 31, 1994, Russia formally completed its troop withdrawal from Germany. Germany is currently completing a \$5.24 billion program, started in 1990, to build 45,000 housing units for ex-Soviet troops withdrawn from Germany.

PROGRAM IMPLEMENTATION

Implementation of the housing program ran into difficulties due to conditions in Russia. In Jan. 1994, Agency for International Development (AID) Administrator Brian Atwood said that some local officials refused to provide land for the project, unless a certain percentage of the housing was set aside for them to distribute to local civilians. Others demanded that members of their families be given the contracts to build the housing.² Other problems mentioned by AID officials include "scarcity of serviced land, fragile new private firms trying to compete with the powerful state Kombinats for building materials, rapid inflation in construction costs and weak financial infrastructure." AID's preliminary list of 13 cities for possible construction sites was whittled down to three. AID contracted with five private Russian builders and one private voluntary organization to build the housing. The units are expected to average 60-70 square meters per unit. Most of the officer job training part of the pilot project is being managed by a private voluntary organization, the International Catholic Migration Commission. Retraining in Tula region is being handled by an agricultural cooperative. As of the end of 1994, 142 units in the construction portion of the pilot program had been completed. An additional 71 units had been supplied by a voucher program. The remaining 230 units in the construction component and 9 remaining voucher sales are scheduled to be completed by the end of May 1994.³

In order to complete the much larger 5,000-unit program within the two-year planned life of the project, AID decided to rely more heavily on vouchers than it did in the pilot project. The voucher can be used to purchase accommodation from the existing local stock of housing in a participating area, or for housing under construction. Two thousand five hundred units will be constructed for distribution to officers, and 2,500 will be provided by vouchers. Two thousand of the vouchers must go to officers selected by the Russian Army's Northwest Group Military Command who were demobilized from military service in the Baltic states on or after Apr. 2, 1993, and who continue to live in the Baltic states due to a lack of military housing. Another 250

² Reuters wire service transcript of a hearing of the Foreign Operations Subcommittee, Senate Appropriations Committee, Jan. 24, 1994.

³ U.S. Department of State, "U.S. Assistance and Related Programs for the New Independent States of the Former Soviet Union, 1994 Annual Report," January 1995, 58.

vouchers may go to officers selected by the Northwest Group Military Command who were demobilized from service in the Baltic states before Apr. 2, 1993. Finally, 250 vouchers may go to officers, selected by local civilian leaders of participating regions in Russia, who served in the Baltic region or in other countries outside Russia on or after Apr. 2, 1993. AID officials expect that apportionment of the 2,500 units provided by direct construction will be similar to the breakdown listed above for the voucher program. AID and the contractor for the voucher program verify the eligibility of the officers nominated for the program and require them to sign a statement saying that they have not paid anyone to gain access to the program, that they do not own a privatized housing unit in the Baltic states or Russia, and that they will not seek permanent residency in the Baltic states in the future.

An officer participating in the voucher program does not receive the amount of the voucher in cash. He registers the voucher with the contractor managing the program or a participating bank and receives a letter promising to pay up to the maximum voucher value of \$25,000.⁴ The officer then has three months to search for housing in a participating Russian region. Once he finds a place, he applies to the contractor or bank for a closing date. The contractor or bank submits all documents for the transaction (including proof of the officer's eligibility for the program) to an independent accounting firm for review. The contractor or bank, the officer and seller meet to sign a final sales agreement and the contractor or bank makes the payment to the seller, after the officer's eligibility is verified a final time.

Implementation of the larger follow-on program has gotten underway. In July 1994, AID negotiated a Project Agreement with the Russian government on the housing construction and voucher program. AID signed a contract the same month with the firm of Ralph M. Parsons, which then selected construction firms from a prescreened list of U.S. and Russian bidders and will manage the construction program. AID and the Russian government agreed on a list of participating oblasts and projects. Subcontracts for the construction of 2,097 units were signed between Dec. 7, 1994 and Jan. 4, 1995. As of January 1995, 1900 housing units were under construction. The first 108 units are scheduled to be completed in the second quarter of 1995, with a total 1,226 units scheduled for completion by the end of 1995. All units in the construction part of the program are scheduled to be completed by the end of 1996. In order to accelerate the building program, 1900 of the units are in buildings that have already been partially constructed by others (often local governments) but were abandoned due to lack of financing. AID chose Abt Associates and the Urban Institute to run the voucher program. Through Feb. 10, 1995, 928 vouchers had been issued. The remaining vouchers are scheduled to be issued and redeemed by the end of 1995. In total, AID estimates that 75% of the total program (all

⁴ AID established the maximum value of the vouchers by estimating how much it would cost to build the unit, including profit, in a participating region. The maximum value of the voucher for each officer is determined by a market survey, updated monthly, of local market costs for the type and size of the unit for which the officer is eligible.

of the vouchers and half of the units being constructed) will be completed by the end of 1995. As of Feb. 1, 1995, AID signed contracts totalling \$152 million with Parsons (\$68.7 million), Abt Associates (\$57.4 million), the Urban Institute (\$15 million) and other groups (\$10.9 million) for the program. As of Feb. 9, 1995, \$39.6 million had been expended under these contracts.⁵

CONGRESSIONAL CONCERNS

One set of congressional concerns deals with how the program is administered. During a January 1994 hearing on U.S. aid programs to the countries of the former Soviet Union, Senator Mitch McConnell expressed concern that housing might be given to local civilian officials in exchange for agreeing to participate in the program.⁶ Deputy Secretary of State Strobe Talbott and AID Director Atwood responded that no housing would go to local officials. While noting that he supported the concept of the program as a way to induce Russia to withdraw its troops from the Baltic states quickly, Senator McConnell objected to providing housing to demobilized Russian officers who had been withdrawn from areas other than the Baltic states.⁷ The Administration has said that its refusal to limit housing only to troops withdrawing from the Baltic states was partly based on a concern that Russia could use the link to halt the withdrawal by claiming that the U.S. had not yet supplied enough housing for withdrawing officers. Another Administration justification for this policy was that local Russian officials would be reluctant to participate in the program if they were forced to pass over demobilized officers who were already on long local waiting lists for housing in order to give housing to more recently demobilized officers from the Baltic states.⁸ AID officials say that at most 10% of the housing units will be given to officers not demobilized from the Baltic states.

A second set of congressional concerns relates to the very concept of the program. At least one veterans' group has written to Members of Congress, attacking the program as "outrageous ... when nearly 17,000 American enlisted men and women need food stamps to subsist..."⁹ In Jan. 1995, Representative Sonny Callahan, chairman of the Foreign Operations Subcommittee of the House Appropriations Committee, reportedly said "the Russians can kiss that

⁵ AID documents and memoranda on the housing program, January and February 1995.

⁶ Senate Foreign Operations Subcommittee hearing, Jan. 24, 1994.

⁷ Congressional Record, July 13, 1994, S8873.

⁸ Hearings before the Senate Committee on Appropriations, Foreign Operations, Export Financing and Related Programs Appropriations, Fiscal Year 1994 (H.R. 2295), S. Hrg. 103-430, Part 2, 322-323.

⁹ Letter from American Legion National Commander Bruce Thiesen to U.S. Senators, Aug. 17, 1994.

program [i.e. the Russian officer resettlement program] goodbye...We're discharging 3,500 men and women a month out of our services and we're not offering them new homes. How could we possibly reward their soldiers with a home and tell our own men and women 'thanks for your services and go buy your home on your own.'"¹⁰ On Feb. 10, the House Appropriations Committee approved H.R. 845, a package of spending rescissions, by a vote of 33-18. One of the bill's provisions rescinds \$110 million of the \$160 million in spending appropriated under Section 560 in P.L. 103-87 for the Russian officer housing program. Additionally, another rationale for the rescission is that the money taken from the program was needed to improve the readiness of U.S. forces.

Members who support the program and oppose the rescission see the completion of the Russian withdrawal as a clear success for U.S. policy. They view the officer resettlement scheme as an appropriate means of peacefully bolstering Baltic independence and encouraging continued Russian cooperation on other issues. They charged that the rescission would renege on a commitment President Clinton made to President Yeltsin. Representative David Obey, ranking minority Member on the Committee, reportedly said "the last thing America wants to be seen as doing is going back on its word."¹¹ An AID document discussing the political impact of the rescission asserted that the rescission would damage U.S.-Russian relations and hurt U.S. ties with the Baltic states, since approximately 4,000 retired Russian officers who were waiting for U.S.-promised housing would likely remain there if the program is cancelled. The document also claims that efforts to promote economic reform in Russia would be hurt by the rescission because the resettlement program is tied in with broader reform programs (such as those aimed at creating a mortgage market, banker's training, land reform and privatization) and because it would diminish U.S. credibility with both the Russian central government and reformers at the local level.

On Feb. 9, 1995, AID estimated that early termination of contracts for the program would result in \$45.5 million in closeout costs for "demobilization of field staff, payment to subcontractors for works in place and termination costs, etc." AID notes that the high closeout costs are in part due to the purchase by AID of uncompleted buildings that were to be completed by subcontractors for use as officer housing. If the program were terminated, AID says it would have to try to recoup its costs by reselling the partially completed buildings, a task it calls "very difficult." AID estimated that total costs for the program would be \$85.1 million for 928 units distributed by vouchers (a unit cost of \$91,703). AID did not estimate how much closeout costs would be offset by sales of uncompleted buildings.¹²

¹⁰ Associated Press wire service, Jan. 30, 1995.

¹¹ Associated Press wire service, Feb. 10, 1995.

¹² AID documents and memoranda on the Russian Officer Resettlement Program, February 1995.