$3.50 / December 2003

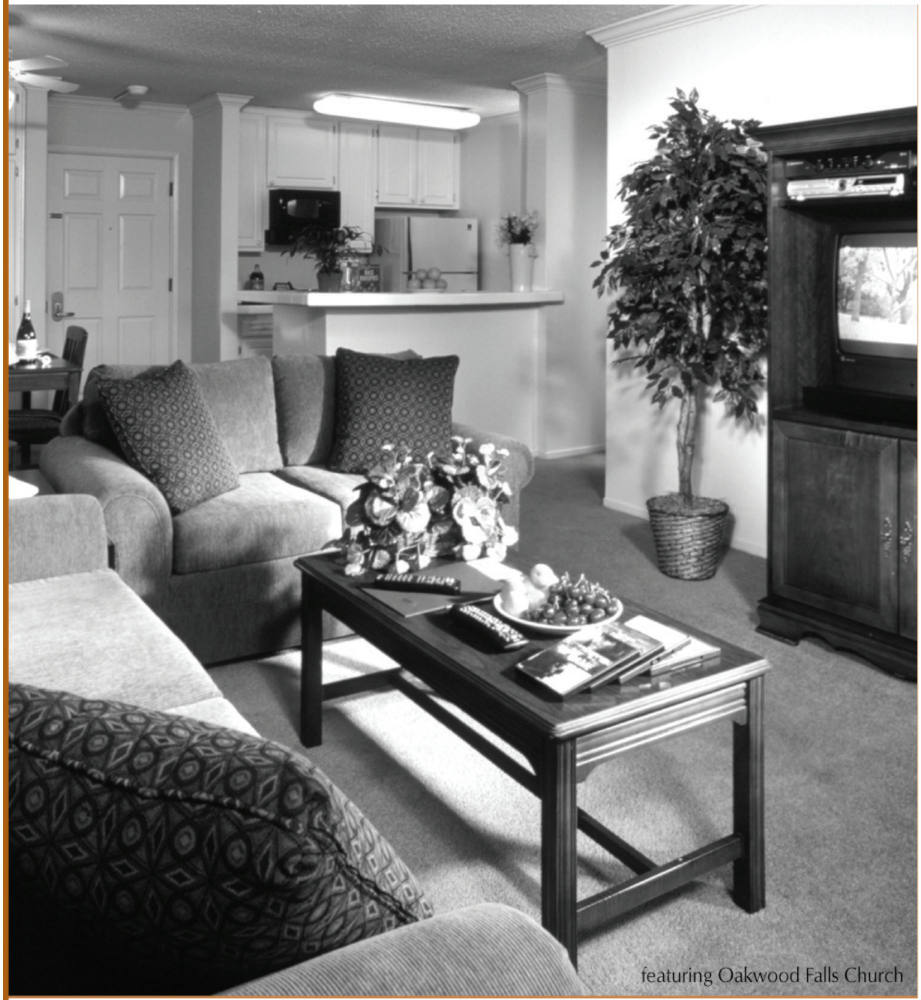
Foreign Service Journal

The Magazine For Foreign Affairs Professionals

We're All in This Together

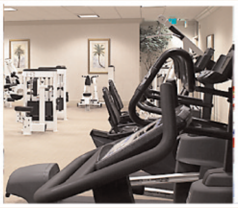
The World Politics of Energy

Temporary housing that serves you.



featuring Oakwood Falls Church

- Spacious, fully furnished accommodations complete with linens, housewares, electronics, utilities, housekeeping and more.
- Unequalled lodging value for U.S. civilian employees and cost reimbursable federal contractors.
- Rates within the TDY per diem.
- Proud participant in GSA's Federal Premier Lodging Program and the Army Lodging Success Program.
- Offering the federal traveler last room availability.
- Providing emergency housing worldwide through the USO.
- Worldwide FEMA-certified locations.
- Locations available throughout the U.S., Asia Pacific, U.K. and select European cities.



1.800.888.0808
www.oakwood.com

EQUAL HOUSING OPPORTUNITY

Oakwood

*The Most Trusted Name In Temporary Housing Worldwide.*SM


WASHINGTON, D.C.
Dec.
01
2003
USA FIRST-CLASS
Wishing Foreign Service Officers and their families throughout the world a safe and happy holiday season.
Clements International
Foreign Service Officers
American & Canadian Posts
Worldwide
"Winter Greetings from Washington, DC"

CONTENTS

December 2003 ■ Volume 80, No. 12

FOREIGN SERVICE JOURNAL

Editor
STEVEN ALAN HONLEY

Associate Editor
SUSAN B. MAITRA

Business Manager
MIKKELA V. THOMPSON

Ad & Circulation Manager
ED MILTENBERGER

AFSA News *Editor*
SHAWN DORMAN

Art Director
CARYN J. SUKO

Editorial Intern
BENJAMIN BODNAR

Advertising Intern
HONGYU CHEN

THE MAGAZINE FOR FOREIGN AFFAIRS PROFESSIONALS

Foreign Service Journal (ISSN 0146-3543), 2101 E Street, N.W., Washington, D.C. 20037-2990 is published monthly with a combined July/August issue by the American Foreign Service Association, a private, non-profit organization. Material appearing herein represents the opinions of the writers and does not necessarily represent the views of the *Journal*, the Editorial Board or AFSA. Writer queries and submissions are invited, preferably by e-mail. *Journal* subscription: AFSA Members - $13 included in annual dues; others - $40. For foreign surface mail, add $18 per year; foreign airmail, $36 per year. Periodical postage paid at Washington, D.C., and at additional mailing offices. Postmaster: Send address changes to *Foreign Service Journal*, 2101 E Street N.W., Washington, D.C. 20037-2990. Indexed by Public Affairs Information Service (PAIS). The *Journal* is not responsible for unsolicited manuscripts, photos or illustrations. Advertising inquiries are invited. The appearance of advertisements herein does not imply the endorsement of the services or goods offered. FAX: (202) 338-8244 or (202) 338-6820. E-MAIL: journal@afsa.org. WEB: www.afsa.org. TELEPHONE: (202) 338-4045.

Printed in the U.S.A. Send address changes to AFSA Membership, 2101 E Street N.W., Washington, D.C. 20037-2990. Printed on 50 percent recycled paper, of which 10 percent is post-consumer waste.

Cover and inside illustrations by Josh Dorman

J. KIRBY SIMON FOREIGN SERVICE TRUST

AN INVITATION TO PROPOSE PROJECTS FOR FUNDING BY THE J. KIRBY SIMON FOREIGN SERVICE TRUST IN 2004

The J. Kirby Simon Foreign Service Trust is a charitable fund established in the memory of Kirby Simon, a Foreign Service Officer who died in 1995 while serving in Taiwan. The Trust is committed to expanding the opportunities for professional fulfillment and community service of active Foreign Service Officers and Specialists and their families.

The principal activity of the Trust is to support projects that are initiated and carried out, not in an official capacity and not on official time, by Foreign Service personnel or members of their families, wherever located. The Trust, however, will also consider proposals from other U.S. Government employees or members of their families, regardless of nationality, who are located at American diplomatic posts abroad.

In 2003 the Trust made its seventh round of grants, 27 in all, ranging from $600 to $5000, for a total of $60,020. These grants support the involvement of Foreign Service personnel in the following projects (further described in a Trust announcement entitled

Grants Awarded in 2003 and available at www.kirbysimontrust.org:

- **Educational Projects:** Library and materials for a nongovernmental school in India; teacher training and books for pre- and after-school programs in Guatemala; computer and books for children's libraries in rural India; public education about AIDS in Romania; furniture for pre-school classrooms in Ghana; electrical outlets and light fixtures for a school for Nicaraguan street children; dental hygiene for a local school in Honduras.
- **Other Projects for Children:** Playground equipment for slum children in India and the following projects at orphanages: dental unit (Ukraine), security wall (Columbia), toilet (Zambia), mattresses, auto maintenance and recreational area (Brazil), books and educational materials (El Salvador), field trip (Lithuania), engineering vocational training (Rwanda), physical therapy equipment and services (Bulgaria), pre-school classrooms (Bolivia).
- **Facilities for the Homeless:** Sports equipment for an Afghan refugee camp in Pakistan; house-building for hurricane victims in Honduras; rehabilitation of two refugee centers in Greece; clothing for abandoned children in Columbia.
- **Facilities for the Ill and Disabled:** Renovation of a small ward at a children's hospital in Ghana.
- **Skills Training Projects:** Roofing, storage and supplies for a women's papermaking cooperative in Burkina Faso; computer equipment and furniture for a computer skills training center in Armenia; cosmetology training for pregnant girls in Panama.
- **Projects for Foreign Service Children:** Soccer program serving Foreign Service (and other "international") youths and Mongolian street children; an initiative to ease the transition for Foreign Service children subject to emergency evacuations from countries in crisis conditions.

The Trust now invites the submission of proposals for support in 2004. It is anticipated that most of the new grants will fall within the same funding range as the 2003 awards, and that projects assisted by the Trust will reflect a variety of interests and approaches, some of which are illustrated by the 2003 grants.

Grants provided by the Trust can be used to defray a wide range of project expenses, such as acquisition of equipment, books and supplies, travel and data collection costs, and dissemination of materials. Grant funds from the Trust, however, cannot be used to pay salaries or other compensation to U.S. Government employees or their family members. Because of the limited resources available to the Trust, it is not in a position to support projects that have reasonable prospects of obtaining all the funds they need from other sources, or that propose to conduct activities closely similar to those undertaken by other public or private programs, or that cannot be carried out effectively with Trust-size grants.

The Trustees wish to emphasize that the Trust will provide support for a project operated by a charitable or educational organization only where the Foreign Service-related applicant(s) play an active part in initiating and carrying out the project, apart from fundraising.

A proposal should include a description of the project, what it is intended to achieve, and the role to be played by the applicant(s); a preliminary plan for disseminating the results of the project; a budget; other available funding, if any; and a brief biography of the applicant(s). Proposals should be no longer than five double-spaced pages (exclusive of budget and biographical material).

Proposals for projects to be funded during calendar year 2004 must be received by the Trust no later than March 1, 2004.

Proposals can be submitted by mail, fax or e-mail to:
J. Kirby Simon Foreign Service Trust
82 Edgehill Road
New Haven, CT 06511
FAX: 203-432-0063
info@kirbysimontrust.org

Inquiries may be directed to one of the above or by phone to 203-432-2698. Further information about the Trust can be found on the Web at www.kirbysimontrust.org.

PRESIDENT'S VIEWS

The Power of One and the Power of Many

BY JOHN LIMBERT

Why should we tie our success to the tenure of one individual? Everyone has seen the positive changes Secretary of State Colin Powell and his team have brought to the Foreign Service. Some of these changes are obvious: our information technology and our facilities are far ahead of where they were a few years ago. The Diplomatic Readiness Initiative has helped address the demoralizing staffing crises facing our missions — particularly our hardship posts.

Other changes are more subtle but no less important. The Secretary and his team have changed that most immutable object — the Foreign Service culture. No longer will the Service tolerate those who abuse or otherwise mistreat those under their command. The Service will take care of its people — all of them — including those who carry our mail, keep us healthy, and work in windowless communication centers.

We have seen a shift in how we treat people. For example: business-class travel for everyone going to and from remote posts. It's hard to overestimate the positive effects of this change. Another is the Secretary's personally swearing in not only new chiefs of mission, but also new classes of generalists and specialists. Such personal involvement has not been seen in the department for many years, and the symbolism is very powerful.

All Foreign Service members should be determined to protect and expand the gains of the past few years.

After many lean years, we are finally providing our posts with the staff and equipment they need to do their jobs and to keep their people safe and healthy. An example from my own recent experience in an Arab country: when our RSO was needed for a year's assignment in Afghanistan, everyone, including the Bureau of Diplomatic Security and neighboring posts, cooperated to ensure our mission had security coverage until the department could find, train and send a permanent replacement. Sounds simple? It was not, and required a positive spirit that has not always prevailed in our work.

Most of us remember the bad, not-so-old days: when posts were cut below critical mass and left to make do; when advancement in the Service and assignments appeared unrelated to leadership or to possessing even a modicum of common courtesy and humanity; and when family members, specialists, FSNs, USAID contractors, and so many "others" were treated with less than the respect they deserved.

No one should want those days back. We, Service members collectively, should be determined to protect and expand the gains of the past few years regardless of who sits in the Secretary's office. Maintaining these achievements should not depend on Sec. Powell's indefinite tenure. Protecting and enlarging them will depend on us.

How can we Foreign Service members make sure these changes stick? First, we must protect the principle that support for and decent treatment of our employees is the norm. Anything less is unacceptable. Second, as professionals we may have to give up our habitual reticence, and step on some toes if that is what it takes to get results. Third, we should look at our recruiting, testing and orientation to ensure that the process is bringing our posts what they need. As I mentioned in my column last month, the recent results have been very good indeed.

AFSA and its members have a huge responsibility in this effort. The fate of the recent improvements depends on all of us. Our best weapon is publicity, both good and bad. When things are not right, let us know. We cannot fix every wrong, but we can bring such wrongs out of dark rooms and let them be seen clearly. When things are right, let us know that too. In this issue, in the *AFSA News* section, you can learn about our awards, especially those to colleagues who have challenged conventional wisdom. These award nominations and "attaboys" are the soft currency of our profession. We should spend it generously. ■

John Limbert is the president of the American Foreign Service Association.

LETTER FROM THE EDITOR

BY STEVEN ALAN HONLEY

Last month's issue of the *Journal* featured our fourth annual compilation of recently published books by Foreign Service-affiliated authors, "In Their Own Write." Following up on that theme, I want to use this column to remind you all that you don't have to write a book to share your thoughts and experiences in our pages.

For example, the **Speaking Out** column is your forum to advocate policy, regulatory or statutory changes to the Foreign Service. These columns (approximately 1,500 words long) can be based on personal experience with an injustice or your insights into a foreign affairs-related issue.

Each issue of the *Journal* features a **focus section** examining various facets of an issue related to the Foreign Service or international relations. We commission most of the articles for these sections from different sources, but warmly welcome contributions (2,000-3,000 words is the usual range) from FS personnel who are familiar with these issues.

Below is a boxed list of the focus topics our Editorial Board has identified for the coming year (subject, of course, to revision).

As you can see, most of these themes relate directly to Foreign Service professional and lifestyle issues, so I hope many of you will consider sharing your insights and expertise on them with your colleagues. However, note that because of our lead time for publication, we need to receive submissions at least two months (and preferably longer) prior to the issue's release date. Thus, we have already lined up authors for the January and February issues, but there is still time to submit manuscripts for later months.

There are many ways you can share your insights in our pages. Let us hear from you.

If those choices don't grab you, or if you feel we have not devoted enough space to a professional concern or functional issue, please consider writing a **feature article** (generally 2,000-3,000 words long) about it for us.

For those of you with a more literary bent, consider submitting a piece (600 words) for our **Reflections** department (formerly "Postcard from Abroad"). While Reflections are usually based on personal experiences while living or traveling overseas, they should center on insights gained as a result of interactions with other cultures.

Last but certainly not least, it's not too early to start thinking about writing one or more short stories for our annual **summer fiction** issue. (By the way, the deadline to submit stories for next summer's contest will again be April 1.) See next month's issue for details on how to enter.

Please note that all submissions to the *Journal* must be approved by our Editorial Board and are subject to editing for style, length and format. For information on how to submit a column, article or letter, please contact us at journal@afsa.org and we will be delighted to respond.

Let us hear from you. ■

2004 EDITORIAL CALENDAR for the
FOREIGN SERVICE JOURNAL

JANUARY	International Broadcasting Bureau/Voice of America
FEBRUARY	George Kennan Turns 100
MARCH	Iraq, A Year Later
APRIL	Foreign Service Workforce Planning
MAY	Africa: The Forgotten Continent
JUNE	FS Family Issues: The Sandwich Generation
JULY/AUGUST	Summer Fiction
SEPTEMBER	The War on Terror, 3 Years Later
OCTOBER	Foreign Policy & the U.S. Presidential Election (commentaries by foreign journalists)
NOVEMBER	"In Their Own Write" (annual roundup of books by FS authors)
DECEMBER	Medical Issues & Diplomacy

LETTERS

We're Tested, Too!

I was pleased to see the September *Foreign Service Journal* dedicated to specialists. However, the article "A Touch of Class: The World of Foreign Service Specialists" indicated that Office Management Specialists do not take standardized tests prior to coming on board, but rather have their qualifications scored by an evaluation panel. When I came on board in 2000 as an OMS, I took a written exam and a proofreading test, and then spoke to an evaluation panel. Perhaps the exam is not standardized, but an exam is, in fact, given.

Thanks again for highlighting our issues.

Sonjia Swann
Office Management Specialist
Embassy San Salvador

Change the Mindset

You are to be commended for committing so much space to the issues dealing with Foreign Service specialists. A few observations:

• As with so much in the Foreign Service, the status of specialists at overseas posts depends greatly on the attitude of the chief of mission. I served at posts where the ambassador made it clear that specialists were equal colleagues in fulfilling the U.S. government's objectives and were to be treated as such. I've also served at posts where — despite saying the right words — the ambassador's actions made clear that specialists were at the bottom of the hierarchy. (Some examples I've seen are ambassadors who did not know where the communication center was; did not know many specialists' names at post; and never invited specialists to the residence.)

• Some specialists are their own worst enemies. When I joined the Service as an administrative officer in 1978, it was made clear to me that admin was at the bottom of the conal food chain, and I should try to "recone" as quickly as possible. Instead, because I enjoyed admin work, I was determined to help change the mindset. Specialists today are in much the same situation. The perception is out there that they are not "real" diplomats, but they can change that. I've had specialists on the staff who were as interested in "substantive" issues as any political or economic officer — and they contributed to our policy formulation. I've also had specialists who — given the minimal interest they showed in their surroundings — could have been serving in Lubbock, Texas instead of Africa. But they did want all the rights and privileges accruing to a diplomatic passport holder.

• I suspect that just as admin (now management) and consular affairs have become accepted as "real" diplomatic fields, some specialist categories will make the breakthrough: probably starting with diplomatic security — given the critical importance of that function. That's one reason I enthusiastically encouraged one of my sons to pursue that specialization. One way the department could help would be to include specialists in the prestigious "Diplomats in Residence" program. What better way for DIRs to promote specialists than by having some in the group?

Ambassador Tibor P. Nagy Jr.
FSO, retired
Office of International Affairs
Texas Tech University
Lubbock, Texas

Consular Expertise

In response to Thomas Hutson's concerns regarding a "Foreign Service culture that relegates consular work to the realm of non-substantive endeavor" (Letters, September), I would like to point out that it has been my experience (as a coned consular officer for nearly 17 years) that those primarily responsible for such relegation are consular officers themselves.

How many times have I heard consular officers moan that they get no respect, that they are viewed as second-class FSOs, or that they do not get the same amount of "face time" with ambassadors and deputy chiefs of mission as do political or economic officers? When I entered the Foreign Service in 1987, I believe there was some merit to these claims. During the early- to mid-1990's, leadership and funding were lacking in the Consular Affairs Bureau, and the status of consular officers suffered. However, during the last six or seven years this attitude has changed dramatically. In my last two posts (Beijing and Bangkok), consular issues were sensitive and had important consequences for our bilateral relationships. Ask most ambassadors or DCMs whom they want on the front line when there is a major disaster, war or civil disturbance, and most will choose their consular staff.

I agree with Hutson's statement that defending our national security must not be considered to be "down" in the consular section, and there is no question that the role of consular officers has changed dramatically over the last two years. It is the responsibility of consular managers to make sure that all Foreign Service staff understand and appreciate these changes and the importance of our work.

Charles Bennett
FSO
American Institute in Taiwan

Pack Journalism

Two assignments in Chile and a reasonable amount of reading lead me to comment on George Gedda's September article, "Chile's Own 9/11." Pack journalism and the print equivalent of the sound bite combine all too often to produce inaccurate stories. Gedda's article is a case in point.

Gedda repeats the pack's assertion that before the coup of Sept. 11, 1973, Chile had enjoyed 150 uninterrupted years of "peaceful transfers of power from one elected government to another." Baloney. From the deadly power struggle among its founding fathers to the arrival in power of Colonel Ibanez in 1926, Chile had its fair share of violence and less-than-democratic rule.

Gedda also refers to Allende's

"security guards" without registering the reality that many of them were Cuban military or security bully boys sent to assist the hard-core Marxists in the Allende administration turn Chile into a communist dictatorship. These members of the GAP (Grupo de Amigos del Presidente) were definitely not agrarian reformers.

Gedda also fails even to hint at another unpalatable reality. The Chilean Army's coup was widely supported by the Chilean people when it occurred. In fact, former Christian Democrat President Eduardo Frei, former Radical President Gabriel Gonzales Videla, and another senior party politician whose name escapes me published a letter to Pinochet in the aftermath of the coup thanking him for saving Chile from a Marxist dictatorship and civil war.

None of the above justifies the subsequent human rights violations of the Pinochet regime. By the same token, these same violations do not justify the subsequent rewriting of history by the media pack. It was just more complicated than their received wisdom.

Tom Boyatt
Ambassador, retired
McLean, Va. ■

Correction: Retired FSO Yale Richmond's latest book, *Cultural Exchange and the Cold War: Raising the Iron Curtain* (Penn State University Press, 2003), was included in our annual roundup of books by FS authors, "In their Own Write," in the November issue of the *Journal* (p. 31). Unfortunately, the publisher of Mr. Richmond's previous books was misidentified. *From Nyet to Da: Understanding the Russians* was published in 2002 by Intercultural Press, and *From Da to Yes: Understanding the East Europeans* was published in 1995 by Intercultural Press. We regret the error.

CYBERNOTES

New Salvos in the Public Diplomacy Debate

Three new reports issued in September and October challenge the status quo in U.S. public diplomacy. Acknowledging expanded efforts by both the White House and the State Department, the Council on Foreign Relations-sponsored Task Force on Public Diplomacy, the congressionally mandated U.S. Advisory Group on Public Diplomacy for the Arab and Muslim World and the General Accounting Office are unanimous in declaring the initiatives inadequate.

Each report offers its own set of observations and proposals to raise the direction and coordination of public diplomacy to the executive level, while retaining the State Department as the lead agency for enacting policy. Both the CFR task force and the U.S. Advisory Group view the Bush administration's White House Office of Global Communications as a tactical unit within a new, strategic framework. The GAO report recommends a strengthening of training for Foreign Service officers in foreign languages and public diplomacy.

All three reports can be accessed online at the U.S. Information Agency Alumni Association Web site (**www.publicdiplomacy.org/#debate**).

> The great reservoir of pro-American good will that has existed in the world since World War II … is now very low. The one great mistake that America made in those 58 years [since World War II] … was we tried to do something alone. That was Vietnam.
>
> — Sen. Chuck Hagel, R-Neb., in a speech at the Gallup Organization World Conference in Omaha, Neb., Oct. 21, *www.washingtonpost.com*

Better Late Than Never!

New arrivals to Paul Bremer's staff in Baghdad carry a CD-ROM version of the State Department's 13-volume "Future of Iraq Project," *New York Times* correspondents Eric Schmitt and Joel Brinkley reported Oct. 19 (**www.nytimes.com**). "It's our bible coming out here," one senior official in Baghdad told the reporters, who state that "the work is now being relied on heavily as occupation forces struggle to impose stability in Iraq."

No wonder. The State Department study predicted many of the problems that have bedeviled occupation forces for the past eight months, from the widespread looting and mayhem that immediately followed the Hussein government's downfall to the severely decrepit state of electrical and water infrastructure — neither of which was anticipated by the Pentagon.

The State Department project report predicted problems if the Iraqi Army was disbanded quickly — a step L. Paul Bremer III took — and recommended that jobs be found for demobilized troops to avoid having them turn against allied forces, as some are believed to have done.

Similarly, the project report noted the potential to use Iraq's television and radio capabilities to promote the goals of a post-Hussein Iraq, an opportunity many say the occupation has bungled so far.

Details from the State Department report, which though unclassified was not intended for public distribution, have come to light since it was delivered to Congress in response to requests from several committees.

Though the study began in April 2002, and involved more than 200 Iraqi lawyers, engineers, business people and other experts working in 17 groups on different topics, the DOD office initially charged with rebuilding Iraq wasn't aware of it until late February 2003, less than a month before the conflict began.

When General Jay Garner's reconstruction office attempted to recruit project overseer State Department official Tom Warrick — "We had few experts on Iraq on the staff," an aide to Garner told the reporters — the appointment was blocked by top Pentagon officials.

"It was mostly ignored," one senior defense official admitted to the *New York Times*, referring to the project report. "State has good ideas and a feel for the political landscape, but they're bad at implementing anything. Defense, on the other hand, is excellent at logistical stuff, but has blinders when it comes to policy. We needed to blend these two together."

Senior legislators criticized the Bush administration for not fully incorporating the State Department information. "Had we done more

@fsa

CYBERNOTES

work and made more of a commitment at the front end, there would be drastically different results now," said Sen. Joseph Biden Jr., D-Del., the ranking Democrat on the Foreign Relations Committee.

College: You Can Research and Apply Online!

College: where to go, how to get in, and how to pay for it. Questions like these can drive families to hire consultants. Ultimately, you have to make the decisions yourself, but there are a number of Web-based services that can help clarify the process for free. Here are a few tips to keep in mind.

Apply for college online. It saves the hassle of dealing with the postal system and worrying about postmark dates and arrival times. Most colleges allow this; in fact, most have a link to an online application on the admissions page of their Web site. If you aren't sure if a college accepts online applications, or you want help applying, check out any of the Web sites designed just for that purpose, like *Princeton Review* (**www.princeton**

Site of the Month: www.Google.com

There are hundreds (if not thousands) of Internet search engines, each with its own virtues and shortcomings, depending on the type of information you're looking for. But only one search engine has achieved worldwide fame in its own right: *Google*, consistently ranked as one of the 10 most popular sites on the Internet. Created in 1998 by a couple of college students in California, its name is a play on the mathematical term "googol" (the extremely large number denoted as 1 followed by 100 zeros). *Google* employs an algorithm to scour more than a billion Web pages. It provides an interface in 88 languages and offer search results in 35 of them. In fact, more than half of its traffic (over 70 million users per month) is from outside the U.S.

The site is so ubiquitous that it has even entered the English language as a verb, "to google," meaning to seek background information on someone by typing their name into the site's search function.

On the site's home page, you'll find a wide range of items, such as the "Google Zeitgeist," listing the "Top Gaining Queries" for the previous week. Here's the Top 10 list for the week ending Oct. 27: 1. Elliott Smith; 2. Diwali greetings; 3. Halloween costume ideas; 4. Daylight Saving Time; 5. California fires; 6. Dia de [los] Muertos; 7. Spencer Tunick; 8. Concorde; 9. Scary Movie 3; 10. South Beach Diet.

Google also has a sly sense of humor. If you type the phrase "weapons of mass destruction" into the search box (terms don't have to be in quotes, by the way), but click the "I'm feeling lucky" button instead of "Google Search," here are excerpts from what appears on the screen — on a page that looks exactly like an Internet error message:

"These Weapons of Mass Destruction cannot be displayed.

"The weapons you are looking for are currently unavailable. The country might be experiencing technical difficulties, or you may need to adjust your weapons inspectors mandate.

"Please try the following:

"Click the Regime change button, or try again later. …

"To check your weapons inspector settings, click the U.N. menu, and then click Weapons Inspector Options. On the Security Council tab, click Consensus. …

"If the Security Council has enabled it, the United States of America can examine your country and automatically discover Weapons of Mass Destruction. …

"Some countries require 128,000 troops to liberate them.

"Click the Panic menu and then click "About U.S. foreign policy" to determine what regime they will install.

"If you are an "Old European" country trying to protect your interests …"

If only all error messages were this entertaining!

50 Years Ago...

By making available to succeeding administrations a trained, permanent corps of men and women who have acquired professional skills and insights over the years not easily or quickly learned … the Foreign Service per se represents a fundamental economy in the field of foreign affairs — a field in which the national risks are so high in both blood and treasure.

— Editorial: "Economy and the Foreign Service," *FSJ*, December 1953.

review.com), *ApplyWeb* (**www.applyweb.com**), or *The College Board* (**www.collegeboard.com**).

Even if you don't apply to college online, these sites are ready sources of useful information. They all include some type of college search to help you find schools that have what you're looking for.

If you can, **use the common application.** These days it isn't unusual for students to apply to half a dozen or more schools, which can mean a lot of paperwork. The common application is a way to apply to more schools without having to fill out more forms. It is accepted by 230 private schools, including Harvard and Yale. The forms are available by mail and online for download or online submission (**www.commonapp.org**).

Who doesn't want free money for college? *Fastweb.com* is the Web site for scholarships. It is primarily a scholarship match-up service, but also has a college search feature. It helps you create a student profile with information about your background, family (there's even an option for parents in the Foreign Service), hobbies, and academic achievements. Then, based on your profile, the service selects scholarships for which you qualify. It gives you information on how to apply for each award and notification as deadlines approach. The closely related *FinAid* (**www.finaid.org**) has information on all types of financial aid and helpful explanations of the financial aid process. The advertisements are a little annoying, but the information on the site is well worth it. ■

— Aster Grahn, Editorial Intern

Speaking Out

The Foreign Service and the Quality of Intelligence

By Charles O. Cecil

It has been painful, in recent months, to watch events unfold in the Middle East. And it has been frustrating to note the number of instances where a lack of understanding of the cultural environment, or just plain bad judgment, has resulted in regrettable and entirely avoidable misunderstandings. The decisions made regarding all sorts of issues — from those as fundamental as choosing to go to war, to those as transitory and tactical as how to conduct a home search — have resulted in unnecessary costs and lingering hostility.

These missteps highlight the importance of acquiring and efficiently using, within each unique context, accurate and reliable intelligence. Estimating Saddam Hussein's real intentions, and the seriousness of the threat he posed to the United States, placed heavy demands on our intelligence apparatus. Predicting Turkey's response to our requests that it facilitate our military campaign was an equally serious challenge, as is foreseeing the likely Iraqi response to inviting Turkish troops to join coalition forces inside Iraq. Planning for a postwar Iraq, or building a unified Afghanistan with an effective central government, requires profound knowledge of Iraqi and Afghani society. It also calls for an understanding of the likely reactions of the people and governments of Iran, Turkey, Pakistan, and other interested countries.

> *Throughout my career I always defined my work as "facilitating cross-cultural communication in pursuit of our national interests."*

Role of the Foreign Service

Throughout my career I always defined my work as "facilitating cross-cultural communication in pursuit of our national interests." By that I mean not only conveying the U.S. position on an issue and seeking to influence the actions of another government, but also seeking to understand why other people, and their governments, believe what they do and behave the way they do. This is not to become apologists for the other side, but rather to enable us to change foreign behavior and attitudes to achieve our own goals and objectives. To accomplish this we have to immerse ourselves as much as possible within these societies when we are assigned abroad. "Immerse" doesn't mean "going native" or abandoning American values. Rather, like a sponge, we soak up the substance of the other society while maintaining our own shape and form.

Immersion in another culture requires that we learn to move freely within it, and that we achieve some degree of acceptance by its members — hence the importance of representational activities. Real understanding only begins to be achieved when we build personal relationships, the kind that lead to invitations to people's homes, where we can participate in and observe local attitudes and discussions of important questions of the day. It is in these informal get-togethers for family and friends that the most valuable opportunities for learning about a foreign culture often arise.

Language competency, complemented always by a sincere interest in foreign beliefs, habits, and traditions, is the foundation upon which true understanding — real intelligence — rests. In-country travel is another important key to real understanding of another country. Even knowledge of popular music can add significantly to one's understanding of current tensions within a country. For example, the songs of Ivorian reggae singers Alpha Blondy and Serges Kassy dealt with economic inequities and political tensions in Cote d'Ivoire in the 1990s, years before what had been a stable society nearly imploded. But even the most pointed song lyrics won't reveal much to the listener with just 2+ competency.

Fortunately, Foreign Service management over the last couple of decades has become aware of the need for deep understanding of foreign cultures. It is now 20 years since 3/3 competency in at least one foreign language was made a requirement for entry into the Senior Foreign Service. More recently, we have devoted more resources to helping employees achieve and maintain competency at the 4/4 level. With this knowledge we become far more than messengers who translate and deliver talking points crafted by our colleagues in Washington. We interpret as well as translate the message we are delivering, and the response to it.

In the Absence of Diplomatic Relations …

The absence of diplomatic relations makes it difficult for the Foreign Service to maintain its primacy of knowledge concerning political and social issues and attitudes in another country. Evaluating proposed initiatives toward another government is harder because of the lack of daily reports coming in from our officers in the field. Those who do possess knowledge of the country become dispersed throughout the Service and may now be working half a world away on totally unrelated issues. Intelligence analysts who may have spent little time in the country concerned tend to gain disproportionate influence.

All too often the resulting vacuum can foster a dangerous reliance on intelligence that is purchased from other, sometimes clandestine, sources. A colleague taught me early in my career that informants who are paid to report will always find — or create — something to report. During the last decade of my career I read serious reports telling me that two different heads of state were suffering from terminal diseases. Both are still very active politically today, six or seven years later.

Similarly, intelligence reports that originate in circles in opposition to a government, whether internal or in exile, need to be regarded with a great deal of skepticism. Our military forces in particular need to be extremely cautious about acting on reports that could come from sources with their own political axes to grind. Accepting such reports at face value and acting on them quickly in a potentially hostile environment could well explain grievous errors in Afghanistan and Iraq that resulted in the loss of innocent lives.

Naturally the exigencies of combat do not allow military commanders to check with Foreign Service regional experts before responding to tactical threats they encounter on the battlefield. However, some of the incidents reported after our invasion of Afghanistan did not occur in the midst of battle but were discretionary in nature — seizing on a "target of opportunity" — and in retrospect should have been passed up. Perhaps a better appreciation of the vested interests of the reporting source might have helped avoid such errors.

So what can we do to ensure that an informed framework exists for understanding what is going on in a country such as Iran, Iraq, Libya or Somalia — especially when we contemplate actions affecting such countries?

• Usually there will be a number of officers who have served in the country in the past, though the number clearly declines when the break in relations begins to exceed 20 years. Convening these officers periodically to discuss new initiatives or trends in U.S. policy may be useful and could prevent unwise initiatives from proceeding in a vacuum of cultural ignorance.

• Immigrant communities in the U.S. sometimes exist. These are not frequently the object of contacts by State officers, but they could be, though in the aftermath of 9/11 contacts by U.S. government officials may be received with suspicion. Because such communities are often disaffected and hostile to regimes in place in their countries of origin, their views need to be weighed with care.

• Monitor the press and the media. Intelligence analysts do this routinely. If these analysts do not have the advantage of having worked for years in the countries they cover, this can result in judgments that are not well grounded in experience.

• Cultivate academic authorities. They may visit countries with which we do not maintain diplomatic relations and may have fresher knowledge and impressions than do career U.S. government employees.

• Designate officers in our neighboring embassies and consulates as responsible for reporting on the country of interest. This is a challenging assignment requiring real self-starters to carry it out effectively, but it can be very valuable.

No Substitute for Experience

Some questions important to determining broad policies require years of experience and profound knowledge of an area to address meaningfully:

• Will democracy work in Iraq? What's the best way to lay the foundation for it?

• Why are so many Palestinians willing to commit suicide to kill Israelis?

• What are the sources of anger that drive fundamentalists to want to damage American interests and harm Americans? ("Why do they hate us?")

• Why do some societies value discipline and social cohesion more than liberty and freedom of expression?

• What are the internal cleavages within a society — tribal, religious, regional, caste, class — and how do they affect the distribution and exercise of authority? Why do people of one family, clan or occupation resist dealing with others?

The knowledge required to answer these questions is acquired over time, through a series of assignments in a country and a region. Acquiring this understanding is the unique task of the Foreign Service.

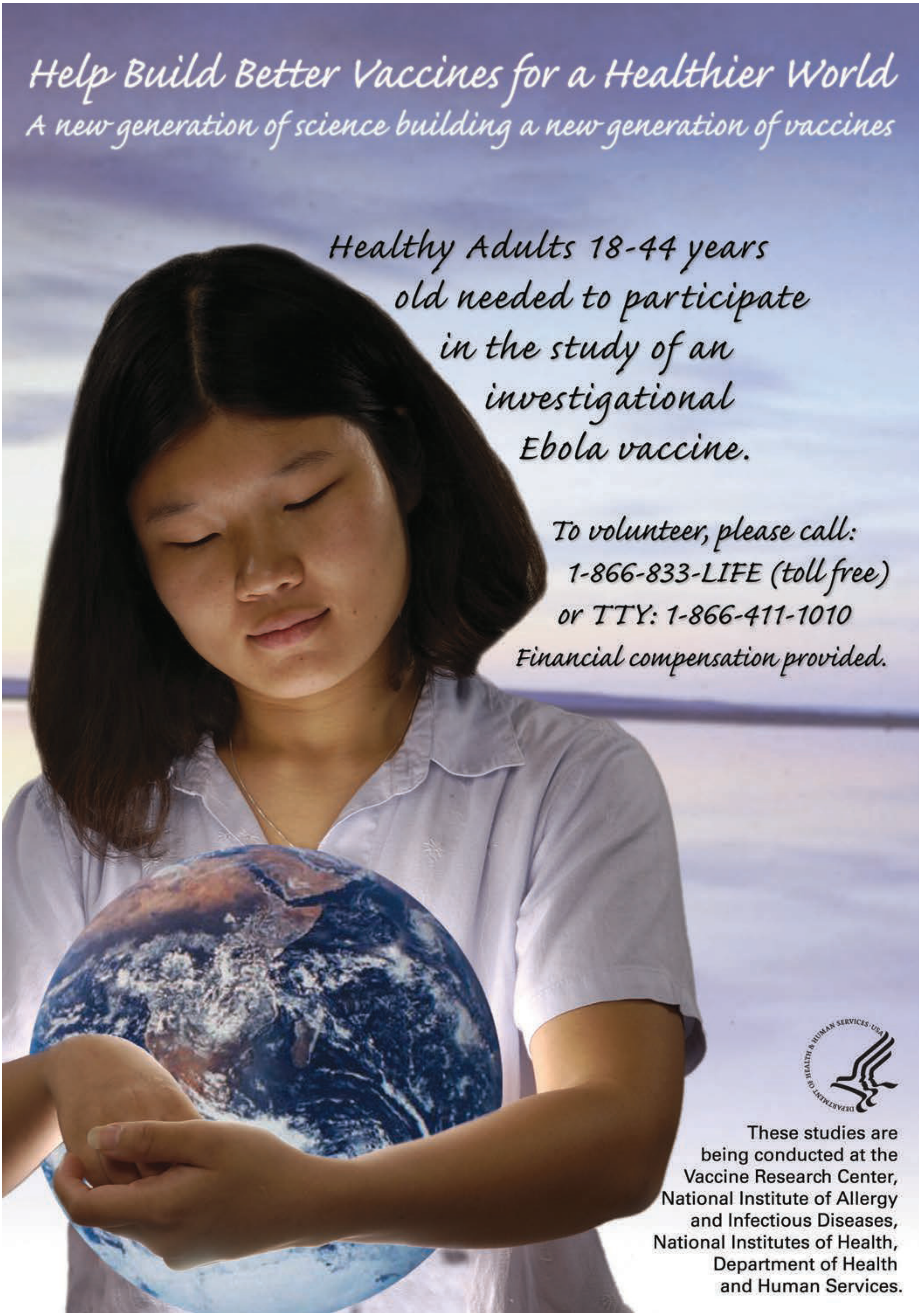
It All Adds Up to What?

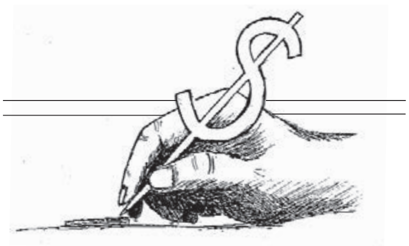
As they rise in the Service, our senior officials should be expected to make judgments based on a broad body of knowledge they have acquired. "This is unlikely." "This makes no sense; try again." "This is a plausible strategy that will achieve our objectives." These are the kinds of judgments senior officials should find themselves making, grounded in a solid understanding of the society and culture that is the object of the proposed action.

Language competency, complemented by a sincere interest in foreign beliefs, is the foundation upon which true understanding — real intelligence — rests.

If we learn nothing else from our experience in Iraq, and from the debate over the quality of intelligence acquired through clandestine as well as overt means, let us hope that in the future, our political leadership will have the good sense to ask for and to listen to the judgments of those who have devoted their lives to cross-cultural communication in pursuit of the national interest. Policy-makers ignore such knowledge at their peril, and the nation pays the cost. ■

During his 35-year career in the Foreign Service, Charles ("Chuck") O. Cecil served in five Arab countries and four countries in sub-Saharan Africa, ending his overseas service as ambassador to Niger, 1996-99. He retired in 2001 and now devotes himself to photography and writing.


Help Build Better Vaccines for a Healthier World
A new generation of science building a new generation of vaccines
Healthy Adults 18-44 years old needed to participate in the study of an investigational Ebola vaccine.
To volunteer, please call:
1-866-833-LIFE (toll free)
or TTY: 1-866-411-1010
Financial compensation provided.
These studies are being conducted at the Vaccine Research Center, National Institute of Allergy and Infectious Diseases, National Institutes of Health, Department of Health and Human Services.



FS Finances

IRAs and You

By Stephen H. Thompson

Many experts suggest that retirees need 70 to 80 percent of their pre-retirement income to maintain their standard of living, and even more if they plan to travel or have major expenses. Active-duty Foreign Service personnel have several options for amassing a comfortable retirement income: the Foreign Service pension, under the old Foreign Service Retirement and Disability System, known as FSRDS, or the new Foreign Service Pension System, FSPS; a Thrift Savings Plan portfolio; and possibly Social Security.

All of these buckets of retirement income help address the challenges posed by increasing longevity. But there is one other mechanism employees should bear in mind: contributions to an Individual Retirement Account.

Why open an IRA?

Investing in an Individual Retirement Account allows you to take advantage of time and compounding in a tax-deferred environment. A 25-year-old who contributes $3,000 to an IRA annually through age 65 would have $777,170 on retirement (assuming an 8-percent average annual rate of compounding; the actual return will differ). But beginning contributions at age 45, 20 years before retirement, would produce only $137,286 by retirement, assuming the same $3,000 annual contribution and an 8 percent average annual return compounding annually. Thus, waiting is expensive.

As with TSP contributions and other savings vehicles, it is not always easy to set aside the money for IRA contributions. But many Foreign Service personnel find that overseas assignments represent an excellent opportunity to do so, both because of fewer temptations to spend and because of hardship, language and danger pay differentials.

> *Investing in an IRA allows you to take advantage of time and compounding in a tax-deferred environment.*

How much can be contributed annually to an IRA?

From 2002 through 2004, the ceiling on IRA contributions is $3,000 or 100 percent of earned income, whichever is less. However, the maximum will rise to $4,000 from 2005-2007, and after 2008, $5,000, which is indexed thereafter for inflation.

Besides contributing $3,000 to their own IRA, wage-earners may also contribute up to an additional $3,000 (for a total of $6,000) to their non-wage-earning spouse's IRA, as long as the combined earned income of both spouses is greater than or equal to the contribution. These maximum contribution levels for both a wage earner and his spouse will rise in accordance with the scheduled increases. In addition, those age 50 or older are eligible to make an additional catch-up contribution of $500 (for years 2002 to 2005, increasing to $1,000 for 2006 and after) to their own IRA account and a similar catch-up contribution to the IRA account of a non-working spouse who is at least 50 years old.

Contributions for a tax year may be made at any time during that same calendar year or by the due date for filing your return for that year, not including extensions. For most people, this means that contributions for 2002 must have been made by April 15, 2003.

Like TSP contributions, IRA contributions are not necessarily tax-deductible (see next section for general guidelines). In all cases, however, IRA earnings grow tax-deferred until withdrawal of the money.

The rules governing withdrawal of funds from IRAs are too complex to summarize here; but in general, it is not advisable to take money out of the account prior to retirement age. However, if you need to tap into your account, there may be mechanisms to do so while avoiding or minimizing the early withdrawal penalty. Such withdrawals may be subject to ordinary federal income tax. But bear in mind that even if you avoid penalties, such withdrawals can still significantly diminish the growth of your retirement assets.

What are the two types of IRAs?

Traditional IRAs are available to everyone who has earned income and is younger than 70 ½ at the time of the contribution.

The ability to make tax-deductible

contributions to a Traditional IRA hinges on whether you or your spouse is an active participant in an employer-sponsored retirement plan. If neither of you is an active participant, the contributions should be tax-deductible.

If one or both spouses do participate in an employer-sponsored retirement plan, that can limit the deductibility of your Traditional IRA contribution, depending on your modified adjusted gross income for that year. If your joint MAGI is $150,000 or less, contributions are tax-deductible up to the maximum level. If your MAGI exceeds that limit, your spouse's active participation in a qualified plan will affect the deductibility of your Traditional IRA contribution. (But you are still eligible to make a non-deductible contribution to your spouse's IRA account up to the limit.)

Withdrawals from a Traditional IRA, regardless of whether contributions are deductible or non-deductible, prior to age 59 ½ are generally subject to a 10-percent early withdrawal penalty. However, the following are exceptions to the penalty: death or disability, withdrawals made as a series of substantially equal periodic payments commonly referred to as 72(t) distributions; withdrawals used to pay unreimbursed medical expenses exceeding 7.5 percent of adjusted gross income; withdrawals used by qualified unemployed persons to purchase qualified health insurance; withdrawals used to pay qualified higher education expenses, or withdrawals used to pay for qualified first-time homebuyer expenses ($10,000 lifetime limit).

Note that withdrawals from a Traditional IRA must begin by April 1 of the year following the calendar year in which the IRA owner reaches 70 ½.

Roth IRAs have been well-received since their introduction six years ago as part of the Taxpayer Relief Act of 1997. They have several important features that may offer significant tax savings to retirement savers: no federal income tax on qualified distributions, certain penalty-free withdrawals, the ability to continue contributing after age 70½, and no required distributions after age 70½.

The Economic Growth and Tax Relief Reconciliation Act of 2001 made Roth IRAs even more attractive. The maximum amount one may contribute to a Roth IRA has been increased and additional catch-up contributions may be made by investors over age 50.

Unlike the Traditional IRA, Roth IRA contributions are always non-deductible; however, the Roth IRA is only available to individuals who meet certain modified gross adjusted income requirements.

Single taxpayers can make an annual contribution of up to $3,000 of earned income to a Roth IRA if their MAGI is less than $95,000, or a partial contribution if their MAGI is between $95,000 and $110,000.

Married taxpayers filing jointly can make annual contributions of up to $3,000 each if their joint MAGI is less than $150,000 and the combined earned income of both spouses is at least the contributed amount. They can make partial contributions if their MAGI is between $150,000 and $160,000.

Married taxpayers filing separately can make partial contributions if their MAGI does not exceed $10,000.

Earnings from a Roth IRA may be free from federal income tax and penalties if certain conditions are met. For distributions to be qualified, the Roth IRA must exist for a minimum of five years after the first tax year for which a contribution was made and must either be made after age 59½, due to death or disability, or made for qualifying first-time home-buyer expenses (up to a $10,000 lifetime limit).

Withdrawals from Roth IRAs that do not meet the requirements for qualified distributions can be included in income to the extent of earnings on contributions; however, contributed amounts are always distributed before investment earnings. Thus, you can withdraw up to the aggregate amount of your contributions at any time, for any reason, free from federal income tax and penalties. All non-qualified withdrawals beyond cumulative contributions will be subject to both ordinary federal income taxes and a 10-percent early withdrawal penalty.

Unlike Traditional IRAs, people who continue to work after age 70½ can still make Roth IRA contributions, provided they have sufficient earned income to qualify. This is particularly valuable if you do not wish to distribute assets from your tax-favored IRA at that age.

How can I get the best of both worlds?

You are always free to invest in both a Roth IRA and a Traditional IRA, but the combined annual contribution cannot exceed $3,000 for an individual, or $3,500 with the catch-up provisions. Thus, as mentioned previously, the total for a wage earner and his spouse could reach a maximum of $7,000 through 2004 if both are age 50 or above.

A common question concerns the conversion of a Traditional IRA, either deductible or non-deductible, into a Roth IRA. One is eligible to do this if the single or joint adjusted gross income of the account-holder(s) is $100,000 or less (not including the funds used in the rollover). However, married persons filing separately cannot convert to a Roth IRA.

Note that ordinary federal income taxes will apply to the amount of the conversion. In addition, while any applicable 10-percent early withdrawal penalty does not apply to converted amounts, the dollars paid in taxes may also be subject to that penalty if one elects to pay the taxes from the amount converted.

It can be difficult to determine whether converting a Traditional IRA to a Roth IRA will be beneficial. But there are resources available over the Internet to help with the calculations and analysis. You may also wish to consult with a professional financial adviser to help you make this important decision.

Can I roll over my TSP into an IRA?

Employees who leave the Foreign Service on retirement or after resignation may elect to roll their Thrift Savings Plan retirement account into a Traditional IRA. A rollover can enhance access to retirement funds, provides a very wide range of investment possibilities, and enables savings to continue to grow tax-deferred. In addition, once you reach 70½, a rollover may give you greater control over the way in which you are required to take funds out of your account.

Many regulations govern rollovers, so employees should contact their financial and tax advisors regarding potential penalties and withholding requirements.

Choose to act rather than react

Managing your retirement plan assets wisely is one of the most important financial challenges you may face. For many Americans, a qualified retirement plan represents the single largest asset in their portfolio, worth even more than their home. Many personal, tax and estate planning decisions must be considered before reinvesting and reallocating retirement plan assets, because the wrong decision can quickly open a large portion of your retirement assets to taxes and penalties.

Thus, an IRA can be an important consideration in the process of retirement planning, but should be evaluated carefully beforehand in consultation with your financial and tax advisors. Moreover, retirement planning should be an integral component of an overall investment plan for any person. ■

Retired FSO Stephen H. Thompson is a financial advisor at Legg Mason Wood Walker, Inc., a diversified securities brokerage and financial services firm that is a member of the New York Stock Exchange, Inc., and of the Securities Investor Protection Corporation (SIPC). He has been an AFSA member for more than 25 years. The views expressed herein are the author's own.

INTERNATIONAL OIL SUPPLY: HOW VULNERABLE ARE WE?

Josh Dorman

THIRTY YEARS AFTER THE 1973 ARAB BOYCOTT REVOLUTIONIZED THE GLOBAL ENERGY MAP, OIL IS STILL THE MAIN FOCUS OF CONCERN.

BY AMY MYERS JAFFE AND JILLENE CONNORS

On Oct. 17, 1973, the Arab oil boycott and unprecedented quadrupling of oil prices revolutionized the global energy map. Now, 30 years later, oil remains a continuing worry for the U.S. and the international economy. The unavoidable reality is that oil accounts for 40 percent of the energy that powers America's $10.5 trillion economy and, short of a technological revolution that is not yet in sight, will continue to play a decisive role for the foreseeable future.

In recent years, the international community has faced the most difficult energy market it has seen in two decades. Oil prices have experienced record swings, and there are severe strains at critical links in the energy supply chain, especially in the United States. An oil workers' strike in Venezuela in late 2002 contributed to rising oil prices, and in March 2003, after the U.S. and its allies began military action in Iraq, oil prices hit $37 a barrel. Meanwhile, acute shortages are evident in the United States' electric power generation and transmission capacities, and natural gas production has not been adequate to meet growing domestic needs, resulting in rising prices and a need for increased imports. American refineries are struggling to produce adequate amounts of cleaner fuels that are increasingly in demand to meet clean air requirements. And, perhaps most important, the political future of the Middle East remains highly uncertain.

Despite talk of an expanding, energy-hungry Chinese economy, it is the incredible surge in U.S. oil imports that is the most significant factor in the oil market today.

The U.S. energy dilemma is not a new one, nor did it emerge overnight. As a Council on Foreign Relations-Baker Institute study, "Strategic Energy Policy: Challenges for the 21st Century," stated, the U.S. has not had a comprehensive, integrated strategic energy policy for decades. As a result, today's situation arose by stealth, as years of rapid economic growth crashed into the physical supply barricades erected by decades of underinvestment in energy infrastructure.

Ultimately, both for energy resources generally and petroleum supplies in particular, resource levels are not the major problem: the problem is one of developing those resources and getting them to the consumer in a timely fashion. In the shorter term, the challenge is to promote market stability.

The Oil Market Has Changed

At the time of the 1985 oil price collapse, OPEC was estimated to be carrying 15 million barrels per day of unutilized shut-in production capacity, the equivalent of one quarter of global demand. That meant that any supply disruption — from an explosion on the Colombia oil pipeline to a strike in Nigeria — could be easily mitigated with an immediate increase in production from any number of potentially consumer-friendly OPEC countries.

When Iraq invaded Kuwait in 1990, OPEC still had a spare capacity of approximately 5.5 million b/d, representing 8 percent of world oil demand — enough to replace the oil from the two warring producers. Indeed, OPEC met hastily and agreed to raise its output to maximum levels, immediately calming oil markets. Within three months of the Persian Gulf crisis, rising oil production from Saudi Arabia, the United Arab Emirates, Nigeria and Venezuela put markets back on an even keel, obviating the need for consuming countries to tap strategic oil stockpiles in any major way. But by the year 2000, OPEC's spare capacity was a negligible 2 percent of global demand, almost all of it in Saudi Arabia.

Falling levels of spare oil production capacity and rising tensions in the Middle East have left the door open for oil supply disruptions that could have a potentially larger impact on the U.S. and world economy than in past crises such as the Persian Gulf War. World oil markets remain extremely vulnerable to short-term disruptions and, as a result, oil prices are very sensitive to changes in OPEC production policies.

At its Sept. 24 meeting, OPEC leaders announced plans to reduce oil output limits from 10 key producers by 900,000 barrels a day, or by about 4 percent, as of Nov. 1. The decision, intended by OPEC to prevent weakening oil prices due to emerging competition from other oil producers like Russia, Angola and Chad, caused oil prices to jump up by $1.11, to $28.24 a barrel on the New York Mercantile Exchange. Analysts predict that the cuts may stave off, at least for now, possible price declines in 2004.

U.S. Demand Drives Markets

The days of working off and managing surplus capacities are gone. Today's energy era is concerned with generating capital to develop adequate resources

Amy Myers Jaffe is the Wallace Wilson Fellow for Energy Studies at the James A. Baker III Institute for Public Policy and the associate director of the Rice Energy Program. Jillene Connors is a research associate at the Baker Institute Energy Forum.

and infrastructure to meet rising demand for energy in harmony with environmental goals. But because policies to promote oil development, to shift to alternative sources or to limit wasteful consumption have not been put in place, the United States has become increasingly dependent on Middle Eastern oil to satisfy its growing needs.

In the aftermath of 9/11, U.S. political rhetoric also became tougher and more strident.

Unlike Japan and the European Union, the United States has been relatively ineffective in controlling growth in its oil use. Tokyo and Brussels imposed huge taxes on oil consumption of 400 percent or more over the past two decades in response to the oil crises of the 1970s. These policies have helped curtail growth in oil demand and promoted efficient technologies that have led to rising exports of highly energy efficient motor vehicles. The United States, unfortunately, has taken a reverse course, and its rising demand remains a problem for the international market. In fact, U.S. net oil imports are a key support for OPEC.

Despite talk of an expanding, energy-hungry Chinese economy, it is the incredible surge in U.S. oil imports that is the most significant factor in the oil market today. U.S. net imports rose from 6.79 million barrels a day in 1991 to 10.2 million b/d in 2000. During that same period, global oil trade — that is, the amount of oil exported from one country to another — rose from 33.3 million b/d to 42.6 million b/d. This means that America's imports alone accounted for more than a third of the increase in oil traded worldwide over the past decade. In terms of OPEC, the U.S. import market was even more significant — more than 50 percent of OPEC's output gains between 1991 and 2000 wound up in the United States.

For the past two decades, United States international oil policy has relied on maintenance of free access to Middle East Gulf oil and free access for Gulf exports to world markets. Throughout the 1980s, this policy was intensified as the U.S. strengthened its special relationships with major Middle East exporters, who expressed a common interest in stable oil prices and adjusted their output to keep prices at levels that would neither fuel inflation nor discourage global economic growth. The U.S., in turn, played the role of guarantor of regional security, a commitment it honored when it rushed troops to Saudi Arabia in 1990 after Iraq invaded Kuwait. Further, the United States counted on these countries to make the substantial investments needed to sustain enough surplus capacity to form a cushion against disruptions elsewhere in the world.

Shifts Within OPEC

But over the past few years, there has been a dramatic shift in the internal politics of OPEC, reflecting changes in political leadership at the highest levels as well as changes in the broader policies of key members. The result has been greater cohesion inside the producer group and a clearer articulation and implementation of goals and aspirations.

The mid-1990s were characterized by OPEC disunity and overproduction, as the organization struggled to deal with Venezuela's aggressive bid for a greater share of oil markets and the gradual rise of Iraqi exports through the U.N. Oil for Food program. The unexpected economic meltdown of Southeast Asian economies in 1997 precipitated a sharp drop in Asian oil use. By 1998 oil prices had collapsed below $10, and the financial squeeze on oil producers brought them together on a major agreement to trim output. At the time, OPEC set a price band of $22 to $28 as its target. That price target remains in place today.

OPEC also developed a more unified dynamic that is rooted in several factors. First, a rise in democratization, freedom of the press and political debate and a growing tide of anti-Americanism ushered in greater concern for popular opinion inside OPEC countries, especially in the Middle East, than in past years. This new concern for popular sentiment is restricting the options of regional leaders to accommodate Western interests. Populations, as well as some leaders, remain bitter about the suffering that took place when oil prices collapsed in the late 1990s.

Second, rising populations and economic stagnation in many OPEC countries has meant revenue pressures have been taking precedence over other considerations. And finally, lack of investment in infrastructure and oil fields over the years, due to tight state treasuries and rising pressures for revenues to be spent on social projects, has greatly curtailed OPEC's spare productive capacity, rendering it much easier to agree to restrain output.

Given these dynamics, OPEC's rhetoric became tougher in the late 1990s, with oil ministers defending their choices to attain a "fair" price for OPEC oil despite the ramifications for global economic growth rates. Leaders in OPEC countries cannot be seen as delivering benefits to Western consumers at the expense of their own citizens; such perceptions would leave regimes more vulnerable to public attack and more susceptible to the efforts of opposition parties and groups. "Things have changed," observes the 52-person task force on Strategic Energy Policy Challenges for the 21st Century. "These Gulf allies are finding their domestic and foreign policy interests increasingly at odds with U.S. strategic considerations, especially as the Arab-Israeli tensions flare."

In the aftermath of 9/11, U.S. political rhetoric also became tougher and more strident. America's special relationships with Mideast oil exporters have been placed under greater scrutiny, and debate has more pointedly focused on the security problems associated with increasing dependence on Middle East oil. Some commentators would like to see Washington play an altogether more assertive role in the oil arena. In this view, diversity of supply would not just be an economic end but a strategic means. The United States would attempt to break the ability of OPEC to push up prices, and thereby deprive unfriendly oil states of revenue. However, it is obvious that having oil revenue is neither a necessary nor sufficient condition for funding terrorism or developing weapons of mass destruction — to name but two distinctly unfriendly policies. More significant, the challenge to reduce dependence on Middle East oil supply is by itself daunting.

The Unique Position of Saudi Arabia

The Middle East currently supplies more than one third of global oil demand. According to the International Energy Agency, more than 60 percent of the world's remaining conventional oil reserves are concentrated in the Middle East, one quarter of them in Saudi Arabia alone. Depending on the pace of development of new resources and technologies, and on policies in consumer countries, this percentage could rise considerably in the future. In its *World Energy Outlook 2000* reference case, the IEA forecasts that the Middle East share of world oil supply will rise to over 40 percent by 2020. The U.S. Department of Energy predicts that the need for OPEC oil could rise from 28 million b/d in 1998 to 60 million b/d in 2020, with the majority of supplies having to come from the Middle East, in particular Saudi Arabia.

Within the Middle East, one country holds a uniquely commanding position in the global oil market: Saudi Arabia alone is responsible for almost 10 percent of world supply, and it maintains the largest share of spare idle production capacity of any nation in the world. (Iran, Iraq, Syria, Sudan and Libya collectively produce approximately 8 million b/d, or another 10 percent of the world supply.) Moreover, Riyadh's cushion of spare capacity represents more than three-quarters of all global spare capacity. The kingdom is the only oil producer in the world that can single-handedly replace, within a short period of time, the total loss of exports from any other oil producer. There is no other nation that currently has enough spare capacity to do this. Moreover, Saudi Arabia is also the world's largest exporter, generally selling almost 100 percent more than Russia, its next largest export competitor.

Diversification of supply is one approach to reducing dependence on Middle East oil suppliers. But diversification of supply requires, among other things, access for foreign investors to develop new production — and more than half of the world's current oil and gas reserves are located in places where the government controls access, and private companies are not allowed to explore. According to PFC Energy Consultants of Washington, D.C., only 19 percent of global oil and gas reserves allow full international oil company access. Fully 60 percent of oil and gas reserves are controlled by national oil monopolies with no equity access allowed to outside investors. The remaining reserves are held by Russian companies (13 percent) or other state firms that allow limited equity access by foreign investors.

Market Outlook: A Delicate Balance

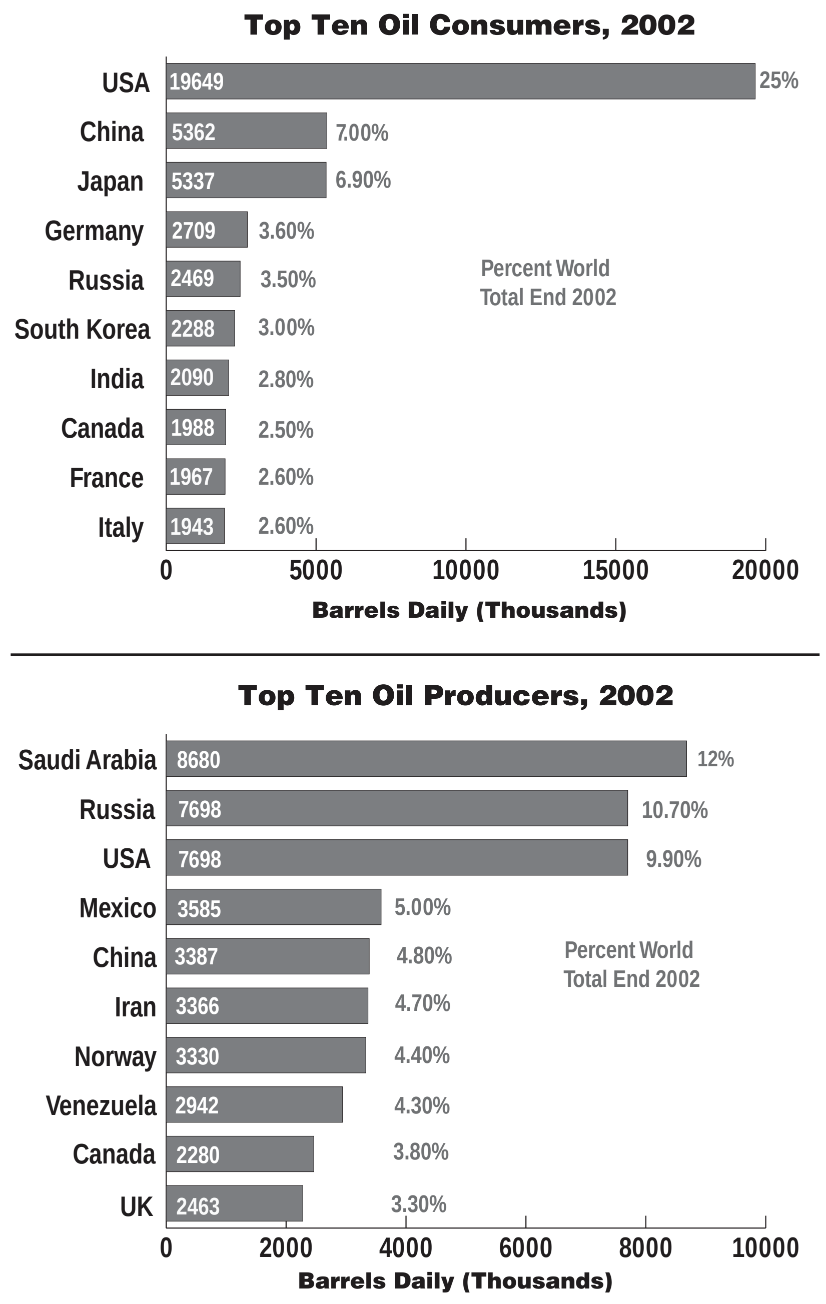
Limiting demand growth is another approach to reducing dependency. Some analysts are forecasting that oil market conditions may improve in the coming years if demand growth is held in check over the remainder of the decade. This will require concrete

policies in oil-consuming countries to discourage sharp rises in oil consumption.

A continuation of sluggish world economic activity may help. Under such a scenario, analysts suggest that oil demand may grow by no more than 4 million b/d between 2002 and 2005, or roughly 1.3 million b/d a year, with about 60 percent of that growth coming from China and elsewhere in Asia. Non-OPEC oil supplies, including production increases from Russia and the Caspian Basin, are expected to total 3 million b/d over the same period. This would only leave OPEC with one million b/d in market share growth over the period to 2005. As Iraq alone could push output up by one million b/d and expected increases from Algeria and Nigeria might also amount to that much, OPEC could have increased difficulty sustaining its current oil price targets without shutting in substantial productive capacity.

Some analysts such as Adam Sieminski of Deutsche Bank believe that OPEC will want Saudi Arabia to cut its production to make room for increases by other cartel members, but it remains to be seen how much market share the kingdom will be willing to sacrifice to defend prices. At the same time, Riyadh has made clear in public statements that it will not look on passively if Russia continues to grab market share away from OPEC, and any Russian government will have to move cautiously to avoid stimulating a price war among major oil producers. This pressure will be increased by 2007 and beyond, if Iraq is able to make significant headway in achieving some large-scale expansion of its production capacity.

OPEC's ability to raise prices in the short run to levels that may damage the economies of major consuming countries poses a major policy challenge. Oil price volatility can inhibit investment and economic growth and spur inflation in major economies that purchase consumer country exports. The burden of rising energy import costs also threatens social stability in such key regional consuming countries as India, Pakistan, and Southeast Asia. Moreover, supply constraints also make it easier for governments or sub-national groups to threaten vital interests of the U.S., the E.U., Japan



Source: British Petroleum

and their allies by creating an opportunity for governments to press for political or military concessions as a precondition for moderate oil prices or in the case of subnational groups, raising the stakes of a major terrorist attack on oil installations.

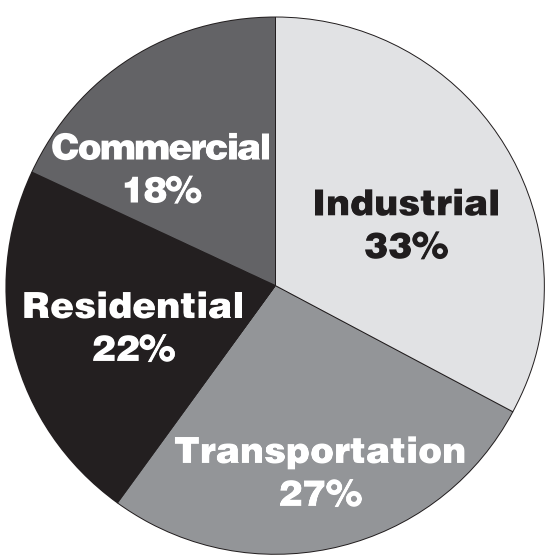
OPEC's ability to raise prices in the short run to levels that may be damaging to the economies of major consuming countries poses a major policy challenge.

Consumer Country Strategies

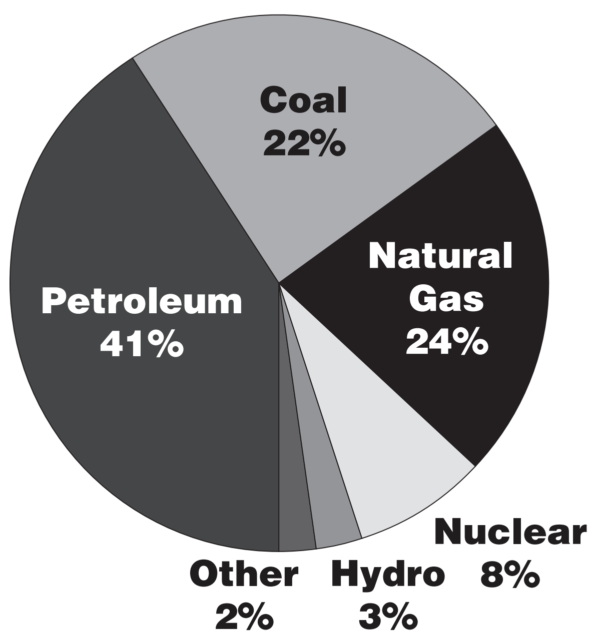
Consuming countries have a clear interest in undertaking policies that will limit the growth in oil use and insulate their economies from the vagaries of the oil markets, in effect undermining OPEC's market strength. Policies taken in conjunction with other consuming nations are likely to be more effective than policies taken individually, but the United States must also find the resolve to get its own energy act together, instead of counting on the "good will" of friends within OPEC to assure that oil prices remain "moderate."

A serious effort to lessen dependence on the Middle East would involve simultaneously nurturing sources of "new" oil such as Russia, the Caspian and Canadian tar sands, while at the same time allocating more substantial resources to alternative sources of energy. In addition to fostering these "new" sources of supply, the U.S. should look seriously at ways to bring the rules of oil sector trade and investment into harmony with the rules governing trade in manufactures and services. This might require actively discriminating against the exports of those countries that do not permit foreign investment and that undertake limitations on exports to manipulate prices. The fact that Norway and Mexico are among these countries makes such diplomatic trade

U.S. Energy Consumption by Economic Sector
(Percentage)
2002



U.S. Energy Consumption by Economic Sector
(Percentage)
2002



Source: Energy Information Administration negotiations difficult, but the stakes are such that creative ways should be sought to move an open energy trade agenda along.

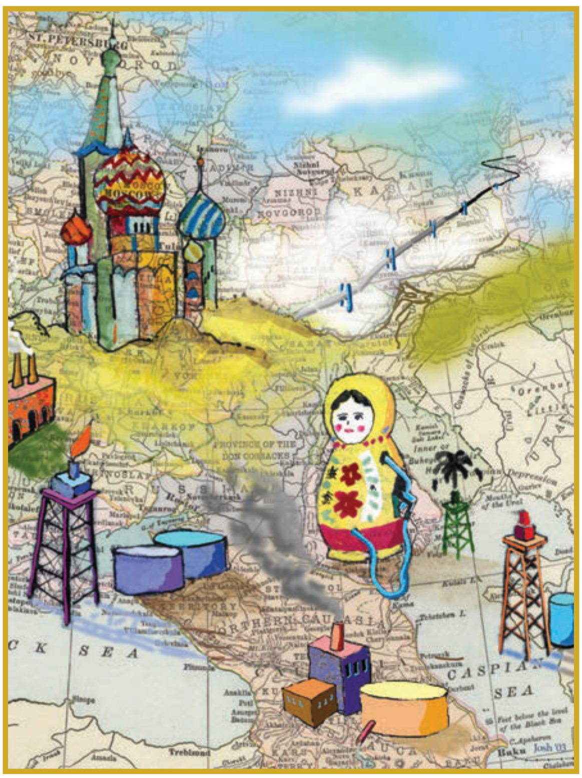
The United States needs to take demand management seriously.

The international safety net also has to be improved. Countries that were not members of the OECD in 1973, especially large oil-importing countries like China and India, need to be brought directly into the International Energy Agency's emergency stockpiling planning mechanism. They need to be assisted in building strategic stocks and in coordinating their emergency actions with the IEA. There might even be room for innovative financial and supply arrangements to involve Russia in this system as well.

Finally, there is much to be done on the domestic front. The United States needs to take demand management seriously. The U.S. lags behind the rest of the industrialized world in energy policy. All U.S. government fleet vehicles should be highly efficient hybrid vehicles or natural gas or electric power cars. If U.S. taxpayers resist energy taxes, then U.S. policy should include higher mileage efficiency standards on all vehicles, including sport utility vehicles. Higher taxes could at least be placed on inefficient vehicles. A larger commitment to research and development of renewable and alternative energy fuels is also required.

Developing a sound energy strategy requires political courage, sacrifices and compromises by special interest groups and the American public. Until Americans accept the reality that unfettered energy use is not free of consequence, anniversaries of the 1973 oil embargo will remain an uncomfortable reminder of choices not taken, rather than a benchmark of challenges overcome. ■

U.S.-RUSSIA ENERGY DIALOGUE: POLICY, PROJECTS, OR PHOTO OP?



Josh Dorman

THE U.S.-RUSSIA ENERGY PARTNERSHIP WAS LAUNCHED WITH GREAT FANFARE ONE YEAR AGO. IT'S TIME TO LOOK AT WHAT WE REALLY WANT, AND WHAT WE CAN EXPECT.

BY EDWARD C. CHOW

In hindsight, September 2003 may seem like a high-water mark in the U.S.-Russia energy dialogue so trumpeted by both the Bush and Putin administrations. More than 250 American government officials and petroleum industry executives, headed by Commerce Secretary Don Evans and Energy Secretary Spencer Abraham, showed up on Sept. 22-23 in St. Petersburg, President Putin's hometown, then in the midst of its 300th-anniversary celebrations. The occasion was the second Commercial Energy Summit, which followed last year's gathering in President Bush's home state of Texas. The Americans were joined by an

No amount of success in promoting energy cooperation with Russia will fundamentally improve U.S. oil supply vulnerability.

even larger contingent from the Russian side, headed by the economics and energy ministers. Evans and Abraham also met in Moscow with President Putin, who fully endorsed the policy process and the cooperation in major oil and gas projects it supports.

CEOs of major Russian oil companies and state enterprises in the sector were present, as were their American counterparts. The American chairman of the newly formed company TNK-BP spoke, representing a new $8 billion foreign investment in the Russian oil and gas patch. Speculation was rife, fueled by Russia-based investment bankers and Western financial press, that ExxonMobil or ChevronTexaco was about to make an even larger investment by taking a 25 percent or higher stake in YukosSibneft. The conference concluded with a banquet in a state dining room of one of Catherine the Great's palaces, followed by a spectacular fireworks display. Russia seemed finally open for business and willing to play by international rules, at least in the petroleum sector. Enthusiasm for the future of bilateral cooperation could not have been higher.

The picture seems quite different as of this writing at the end of October. The man who symbolizes the development of a new, progressive and internationally-minded business class in Russia, Mikhail Khodorkovsky, the CEO of Yukos, is sitting in a Moscow prison. He was seized by security forces from his airplane on Oct. 25 during a stop in Novosibirsk while on a business trip inside Russia. Charges have been filed that attack the validity of privatizations in the 1990s in spite of repeated assurances from President Putin himself, since early July when the Yukos controversy started, that the admittedly flawed privatization process will not be revisited. The Moscow stock market dropped by 10 percent on the first day of trading after Khodorkovsky's arrest.

The idea of a major investment by ExxonMobil or ChevronTexaco in Yukos shares, if it was ever realistic, now seems far-fetched. More important, the foundation of Russia's recent natural resource boom — secure property rights under the rule of law, leading to reinvestment of Russian capital and the introduction of Western managerial and technological methods — seems to be in jeopardy. Net capital inflows, evident only beginning in 2003, have reversed and been replaced by the flight of domestic capital that was prevalent throughout the previous decade in Russia.

Megaprojects such as a $7 billion export pipeline and terminal to Murmansk or an even more expensive Barents Sea natural gas exploration and liquefied natural gas export project were actively discussed during the St. Petersburg commercial energy summit as concrete steps in bilateral economic cooperation, but appear to be far from realization. The likelihood of a major infusion of international capital at a time when the Russian private sector's independent management of oil and gas assets is questioned seems remote. Special commissions are also being formed to investigate the performance of Russian and Western companies like ExxonMobil and Shell on existing petroleum licenses, just as major investment decisions are being made.

The enthusiasm of autumn has been replaced by the cold wind of an early Russian winter. Will spring,

---

Edward Chow is a visiting scholar at the Carnegie Endowment for International Peace. An international business consultant who has worked in Asia, the Middle East, Africa, South America, Europe and the former Soviet Union, he specializes in investments in emerging economies and international oil and gas. Prior to establishing his own consulting practice, Mr. Chow spent 20 years with Chevron Corporation in the U.S. and overseas. He played a leading role in negotiating the international commercial agreement to build a $2.6 billion oil pipeline from Kazakhstan on the Caspian to the Russian Black Sea coast, and served as Chevron's principal international representative in Washington. Between 1989 and 1991 he was based in Beijing as Chevron's country manager for China.

after the December Duma elections and the March 2004 presidential election, bring the return of a favorable business climate and renewed zest for investment in the Russian oil and gas sector? And whither American policy? Is a fundamental reassessment required on energy cooperation and how best to advance U.S. policy goals?

The U.S. search for a diversity of sources is a good fit with Russia's search for markets.

The Fundamentals

At first glance, the case for a commonality of interests between Russia and the U.S. in energy relations is very simple.

Russia is rapidly returning to the earlier Soviet position as the largest oil producer in the world. It is already the second largest oil exporter, behind Saudi Arabia. It has the largest natural gas reserves in the world. Oil and gas represent more than a quarter of GDP and half of export earnings. The sector has been the engine of economic growth and led the modernization of business practices since the financial collapse of 1998, and had started to attract significant direct foreign investment into the Russian economy.

The United States is the largest oil and gas consumer in the world. Well over half the oil we consume is imported from increasingly politically uncertain parts of the world, not only the Middle East but also more recently unstable countries in South America and West Africa. American oil companies need to augment existing production with new oil reserves, but are largely blocked from making equity investments in the Persian Gulf, which has the most abundant and economic petroleum resources, due to host-government policies. There is a growing shortage of domestically produced natural gas, and higher gas prices are seen to be negatively affecting the U.S. economy.

Both countries have strong geopolitical and economic interests in fostering oil and gas supply diversity: the U.S. search for a diversity of sources is a good fit with Russia's search for markets. Energy cooperation seems like a good complement to cooperation on the global war against terrorism.

Moreover, Russia is in need of foreign investment in the oil and gas sector, particularly in high-risk exploration or technologically challenging development, such as offshore Sakhalin. The easy steps for reviving production to previous levels have been taken, including the use of Western contractors for modern seismic interpretation, drilling and reservoir management technology. Sustaining production growth now requires providing suitable business conditions for multi-billion-dollar domestic and international investments. By international standards, the Russian oil and gas patch remains woefully under-invested relative to its resource base, especially in transportation; i.e., oil and gas pipelines. American oil companies have both the means and the interest.

The convergence of corporate and government interests would be appealing to most administrations, and certainly to one that traces its roots to Midland, Texas. Without energy, a bilateral economic dialogue may be reduced to the seemingly implacable challenges posed by chickens, the Jackson-Vanik amendment and WTO accession.

Happy Marriage or Hype?

At the same time, policy-makers should not burden U.S.-Russia energy relations with inflated expectations that conflict with economic reality.

No amount of success in promoting energy cooperation with Russia will fundamentally improve U.S. oil supply vulnerability. Three-quarters of known oil reserves in the world are in the OPEC countries. Two-thirds of the reserves, and the most economical to produce, sit in the Persian Gulf. Oil is a largely fungible commodity traded in a worldwide market under short-term contracts.

Certainly incremental production from Russia or Alaska, or any other non-OPEC (and particularly non-Middle Eastern) sources, is important in extending the time when the last incremental barrel must come from the Persian Gulf. This moderates the monopoly power of the OPEC cartel, whose uneven management of production policy has led to volatility in pricing and big increases in non-OPEC production worldwide, not just in Russia, for the past two decades. Increases in oil production outside the Middle East continue today in the Caspian, from deepwater reserves off West Africa and in the Gulf of Mexico, from Canadian tar sands and in the Venezuelan Orinoco Belt. With 5 percent of total world oil reserves, Russia is important but no more so than these other areas.

Russia certainly cannot replace Saudi Arabia or other major producers in the Persian Gulf. With a reserve/production ratio of approximately 20 years, Russia cannot be compared to Persian Gulf producers with a ratio of 70, 80 or over 100 years. Russia is a price taker, not a price setter, in an energy market dominated by OPEC until a technological leap advances the world beyond the age of petroleum.

A serious supply disruption in the Persian Gulf will have the same impact on world oil markets and U.S. oil supply and prices whether significant volumes of Russian oil reach U.S. shores or not. This was demonstrated this year when temporary disturbances limited Venezuelan and Nigerian oil exports. Even if every barrel of Russia's current 8.5 million total daily production were to be exported to the U.S., sparing not a single barrel for domestic consumption, it still would not satisfy current U.S. import needs of 11 million barrels of oil per day. What's more, we are treaty-bound to share in the pain of any major supply interruption by allocating available supply with other International Energy Agency countries.

As long as we are so import-dependent, the U.S. is destined to suffer through the vicissitudes of global oil markets along with the rest of the world.

Russia's Dilemma

There is a serious policy debate in Russia about whether a natural resource export strategy is the best way to revive and modernize the economy. This debate has been somewhat muted in recent years by

the success of the oil sector after privatization, and the huge increases in oil exports that coincided with the economic recovery after 1999. A certain self-congratulatory tone emerges from spokesmen of parts of the Russian government and industry, cheered on by the self-interested financial investment community, in discussing the impressive economic performance of the oil sector bolstered by historically high world oil prices. Of course, a longer-term perspective shows that the flood of exports has been at the expense of domestic oil demand, which has collapsed to half of Soviet levels since the late 1980s. This was due primarily to the continued breakdown of the real economy outside of oil and gas, and only marginally reflected conservation and efficiency gains resulting from better price signals.

Long-term economic growth is more likely to be enhanced by government policies that remove structural impediments to balanced growth than by picking the right economic projects.

The pertinent policy question is whether an oil and gas dominated economy is a good basis for long-term sustained economic growth for a country where industrial production is still a fraction of what it was during the Soviet period. President Putin has set a modest goal of doubling GDP from its current low levels by the end of the decade (in order to catch up to Portugal!), and is nonetheless criticized for unrealistic expectations by his own economic team. Is the natural resource-based economic strategy an engine for growth or a restraint on growth in the long term?

With a well-educated population of 145 million and important agricultural and industrial potential, Russia certainly has advantages and policy choices that other natural resource-based economies do not have. Still, one is hard-pressed to find in history an example of a country that achieved economic takeoff on the basis of a natural resource boom, with the possible exception of the U.S. between the Civil War and the Great Depression. Among oil-producing countries, Mexico and Indonesia successfully diversified their economies only after oil prices collapsed in the mid-1980s. Today, Nigeria is alone among populous countries pursuing such a narrow economic strategy.

Russia's position is not unlike that of Britain and Norway after major oil production started in the North Sea in the 1980s, and OPEC tried to convince those two countries to restrain production and help prevent an oil price collapse. Ultimately London and Oslo decided that their economic futures lay with the industrialized world. Britons and Norwegians, in spite of being major oil exporters, are also better off with stable, low to moderate oil prices just like Americans and Japanese. Canada is also a major oil- and gas-exporting country, but not too many Canadians argue in favor of high energy prices.

Russia has a vast territory and consequently faces daunting transportation challenges, as well as a very cold climate. It also needs to reindustrialize in order to provide gainful employment for its people, something the capital-intensive oil industry is notoriously bad at doing. Russia's population needs affordable energy just like ours. Cheap energy benefits farmers, manufacturers and consumers in Russia just as it does in America. And yet, today, the prospect of the world oil price slipping from an artificially high level of $30 per barrel to a more sustainable level of $20 or lower is often cited as the single biggest threat to the Russian economy. Is this an economic posture worth preserving?

The answer would seem clear. A productive economy cannot be based solely on the production of oil and gas. If Washington wants to bring future Russian business leaders to Texas, it would be better if they meet Michael Dell in Houston and wheat or cotton farmers in West Texas than the CEOs of ExxonMobil, ChevronTexaco or ConocoPhillips, who are already all too familiar with leaders in the Russian petroleum sector.

Policy Reform or Project Promotion?

Long-term economic growth is much more likely to be enhanced and sustained by government policies that remove structural impediments to balanced growth than by governments picking the right economic projects to support. First of all, governments are universally bad at picking projects and the bigger the project, the bigger their mistakes. This is not just true of Soviet-style command economies. In the energy sector, one only has to witness the U.S. synthetic fuels (e.g., shale oil) fiasco in the 1980s and the ongoing debate in the U.S. Congress on ethanol subsidies.

The luxury of higher oil prices has stalled the reform process in the Russian energy sector. The lesson of productivity gains due to privatization of the oil sector has led to only timid restructuring of the power sector and no progress in reforming the so-called natural monopolies in natural gas or oil pipelines. As a result, both sectors are starved for investment that would allow them to better serve the Russian economy. The lack of reform is not due to the caprice of management in Gazprom (the state-controlled monopoly in natural gas production, transportation and export) or Transneft (the state-owned monopoly in main oil pipelines), although this could be a factor, but rather to policy requirements of the government as understood by political leaders.

Subsidizing energy consumption or inefficient industry in a transitional economy may be understandable policy or at least good politics. However, such policies also distort the market, encourage the arbitrary exercise of bureaucratic power, invite abuse of political control, promote corrupt business practices and dampen sound investment — as is evident throughout the Russian petroleum industry. Reform is a continual journey in a dynamic market economy, not a terminal destination at times of temporarily favorable external economic conditions, such as high world oil prices.

This is an area where the U.S. can truly be helpful in advancing the cause of economic reform in Russia. It is easy to forget today that the U.S. energy sector was a maze of over-regulation and distortion of market signals in the 1970s, with price controls on gasoline retail margins, oil import quotas, crude oil entitlements, a bias toward small refiners, differential pricing between "old" gas and "new" gas, all designed to "protect" the consumer and small domestic producers. Price controls removed competition from retail marketing, which led to subsidized wasteful investment and consumption. The result was high prices and gasoline lines when the two global oil crises occurred. Deregulation did not start until the Carter and Reagan administrations, within living memory of many still in the U.S. government. The specter of high consumer prices was raised in the late 1970s and early 1980s, but never materialized. Instead retail energy prices stabilized at a lower level after decontrol, and energy efficiency improved after price distortions were removed. Many lessons from the U.S. experience may apply to Russia today.

The luxury of higher oil prices has stalled the reform process in the Russian energy sector.

Sharing our own evolving regulatory experience with Russian colleagues who are faced with similar challenges can be an important and useful contribution to economic partnership. This is far better than preaching to them on what laws to pass in order to attract American investment, such as the decade-long futile effort on production sharing agreement legislation. The Murmansk project and liquefied natural gas exports are fine to talk about if they advance the reform agenda, but not if they are a replacement for reform or, even worse, diversionary devices to delay reform indefinitely.

A Case in Point

When one asks U.S. policy-makers at occasions like the St. Petersburg meeting what our government wants more, structural reform of the energy sector in Russia or announcements of megaproject and investment deal signings, one gets the standard answer that the U.S. wants both. However, in practice there is often a tension or, as Russians would say, a contradiction between the two objectives. Permit me to cite one simple example to avoid boring non-petroleum industry readers with the many other cases that apply.

When Western industry first arrived as major investors in Caspian oil, led by Chevron in onshore Kazakhstan and then BP in offshore Azerbaijan, the companies had in mind using the old Soviet pipeline system through Russia to export their production. This made the most economic sense, deferring billions of dollars of investments that would otherwise be required to build dedicated oil export pipelines. There was surplus capacity in the Transneft system, and Russia would share in the economic benefits from new production from newly independent Kazakhstan and Azerbaijan.

However, a small technical reform step needed to be implemented in the way the old Soviet pipeline system operated commercially. The Soviet system accounted for oil in tons; internationally, crude oil is traded on a volumetric basis in barrels because this better reflects crude oil's refining value in petroleum products. International prices are also adjusted according to crude quality, such as the level of sulfur, metals and other impurities. The simple financial adjustment mechanism commonly used around the world is called "quality bank." Because the Caspian crude oils the major international companies produce are lighter and lower in sulfur than the typical Urals export blend, lack of a quality bank could penalize that production by more than 20 percent of the economic value of the crude oil in a free market.

In the early 1990s, international financial institutions like the World Bank and European Bank for Reconstruction and Development and the international petroleum industry — often with encouragement from the U.S. government — tried to convince the Russian government and Transneft to adopt a quality banking system. They offered hundreds of millions of dollars in investments to de-bottleneck the Russian oil pipeline system to accommodate more oil exports, but to no avail. Finally, everyone gave up. Chevron and its partners built the Caspian Pipeline Consortium project at a cost of $2.6 billion. BP and its partners built the Baku-Supsa pipeline, and are now building the Baku-Tbilisi-Ceyhan pipeline project at an estimated cost of $2.9 billion. Once those business decisions were made, the companies and the

Sharing our own evolving regulatory experience with Russian colleagues is far better than preaching to them on what laws to pass in order to attract American investment.

Western governments supporting them were no longer advocating structural reform by introducing the quality bank concept, but promoting the major pipeline investment projects instead.

An opportunity for mutually beneficial structural reform was thereby lost. Those particular Western oil companies were no longer affected by the absence of quality banking in Transneft. But Russian oil exploration and production continued to suffer under the system that rewards low-value heavy crude oil production and penalizes high-value light crude oil production. Distorted price signals led to wrong investment decisions in upstream petroleum. Rail transportation of crude oil became prevalent though it costs three times more than pipeline transportation.

Buried in a long list of policy recommendations from industry participants in the St. Petersburg summit, endorsed by the four cabinet ministers and secretaries in a report to their two governments, is a small mention of the need for quality banking in the Russian oil pipeline system. Nothing has been done in a dozen years on a simple reform step that everyone, including Transneft today, agrees must be implemented. The list of policy recommendations sets neither priorities nor a timetable.

Politics and Power

It appears to be more appealing to government leaders to discuss projects like Murmansk or Russian natural gas exports to the U.S., even though megaprojects like these take many years to come to fruition. Nor is it yet clear that they advance the reform agenda. Already the Russian government has rejected publicly the concept of privately owned and controlled trunk oil pipelines and the idea of breaking up the Gazprom monopoly in natural gas anytime soon. Whether these positions will become more flexible after elections in a second Putin presidential term is difficult to know.

This takes us back to the richest man in Russia, sitting in the Moscow prison, at the start of winter 2003. As long as a country's economy is based on the exploitation of oil and gas resources, it will favor a highly centralized political system where a few men hold the power to reward state-owned concessions and to guarantee investment conditions.

Left to its own devices, the petroleum industry, which by its very nature routinely takes multi-billion dollar investment risks, would support central authority overruling local authority or civil society in Santa Barbara County, Calif., or Jefferson Parish, La., as well as in the delta of Nigeria, Lake Maracaibo in Venezuela, or Western Siberia and Sakhalin. Mr. Khodorkovsky was the beneficiary of such central power in a few hands at the beginning of privatization in Russia. He is now a victim of the same kind of power.

A bonanza of oil income allows governments to pay social benefits, reward friends, punish enemies, buy elections and maintain power without seeking the sort of political legitimacy a broad tax base demands in a diversified economy. This has been the unfortunate universal experience around the world in natural resource-exporting countries.

It may be too early in Russia's still young and potentially promising reform process to know whether this is the path it is now on. What we do know is that Russia is endowed with many human and cultural advantages not enjoyed by other resource-rich countries and, therefore, has better policy choices.

What happens in the coming months with the Yukos crisis will go a long way in telling us the vision Mr. Putin and the people around him have for Russia's future. The U.S. and other industrialized countries can consider what it really means to have Russia in the G-8, beyond an additional spot in the photo opportunity, if it is to be truly integrated into the industrialized world economy. But Russians, who are at a pivotal moment in their history, will first have to make their choice. ■

MAKING THE MOST OF U.S.-CANADA ENERGY TIES

John Dorman

I THE REALIZATION THAT OUR LARGEST AND MOST DEPENDABLE ENERGY SUPPLIER IS SITTING TO OUR NORTH HAS YET TO SINK INTO MOST AMERICANS' CONSCIOUSNESS.

BY JOHN STEWART

In 1960, the idea of dependence on energy imports — to the extent that this would be a major consideration in our policies toward countries on the opposite side of the Earth — would have been as foreign to most Americans as a Japanese car. The oil production of the lower 48 states had not yet peaked (it did so 10 years later). We still exported nearly as much petroleum as we imported, and half the oil we did buy came from friendly, nearby Venezuela. Furthermore, coal was in equal demand as a fuel, and we had plenty of it.

Yet the signs of our future dependence were there. America's petroleum exports had already fallen by half from their levels in the early 1950s. Our oil consumption was significantly outrunning the use of coal. And Saudi Arabia's oil production was growing at double-digit rates.

It has now been 30 years — a long generation — since the 1973 Yom Kippur War triggered the Arab countries' oil embargo against the United States. Those events launched Americans into decades of angst about our reliance on imported energy, the international politics of oil, and the borderless reach of multinational oil companies.

Where energy is concerned, Americans have learned to think in terms of security, rather than self-sufficiency.

Where energy is concerned, Americans have learned to think in terms of security, rather than self-sufficiency. But when we seek energy security, do we know where in the world our best partners are?

In its April issue focusing on Central Asia, the *Journal* published an article by Alec Rasizade ("Caspian Basin Oil: Just a Pipe Dream?") that made a sensible point: Caspian energy developments have more meaning from a political point of view than from the perspective of U.S. energy security.

As a sidebar, the article included a list from the Sept. 14, 2002, issue of *The Economist* magazine labeled "The World's Largest Crude Oil Producers in 2001." (The countries were actually ranked by reserves, not production, despite the heading.) The table listed five Persian Gulf states, followed by Venezuela, Russia, the United States, Libya and Mexico, in that order.

Canada did not show up anywhere on this list, even though it produced more petroleum in 2001 than Iraq, Kuwait and the United Arab Emirates (all of which were included) and has the second largest petroleum reserves in the world after Saudi Arabia (which should have placed it second on the list). In fact, Canada is, by a ratio of greater than two to one, the largest exporter of total energy to the United States — see the tables on p. 44. And it warmly and consistently supports America's national energy goals.

Canada's role as a net energy supplier to the United States traces back to the 1920s in the electric power industry. But it wasn't until after World War II that major oil and gas fields were developed in Western Canada. Fortunately for American consumers, Canada had an excellent investment climate for natural resource industries, easy accessibility to U.S. firms, and advanced technical capacities. As a result, its oil production ramped up smoothly and quickly to world-class levels.

John Stewart is an economic specialist at the United States Embassy in Ottawa. The views expressed here are those of the writer.

The Quiet Giant Next Door

And in 1972, the year before the imposition of the oil embargo, Canada became our single largest foreign supplier of petroleum, shipping us over a million barrels a day — nearly a quarter of our import needs — in addition to exporting more than one trillion cubic feet of gas and 11 billion kilowatt-hours of power per year to the U.S.

Three decades later, Canada is still our largest supplier of imported crude and refined petroleum products, exporting an estimated 1.58 million barrels per day of crude oil to the United States during 2002 — a new record, up 4 percent over 2001.

Moreover, Canada's oil reserves are actually growing, partly because American companies have helped pioneer massive exploration. Its proven conventional reserves grew by about 3.1 percent in 2001, faster than North American demand rose.

Yet conventional oil is only part of the story — and a much smaller part than it was in 1973.

For one thing, oil statistics ignore the expanding role of Canadian natural gas in America's economy. In 1973, natural gas imports from Canada supplied about four percent of U.S. gas consumption. Over the next two decades, that figure doubled to around 8 percent. Then, in less than 10 years, it doubled again: thanks to ambitious investments in our shared cross-border pipeline network, Canada now supplies about 16 percent of America's natural gas.

Another problem with conventional oil data is that they often leave out frontier resources like Newfoundland's offshore oilfields, which began producing in the late 1990s. Under Newfoundland's continental shelf lie an estimated six to 12 billion barrels of recoverable oil (between two and three billion barrels of which have already been discovered) and 50 to 60 trillion cubic feet of natural gas (10 trillion feet discovered).

But the real flaw in using conventional oil data to view the world is that they ignore the massive deposits of oil sands in the western Canadian province of Alberta, concentrated in the Athabaska region.

Located in the northern part of the province, these deposits are estimated to total between 1.7 and 2.5 trillion barrels of oil, making them one of the largest proven reserves of oil in the world.

Canada's role as a net energy supplier to the United States traces back to the 1920s in the electric power industry.

Of that total, the U.S. Energy Information Administration estimates that at least 170 billion barrels are commercially recoverable with current technology, as long as crude oil prices do not fall much below $20 a barrel. That figure is based on a conservative evaluation of the cost of extraction, which is steadily coming down; other analysts say the figure could be as high as 300 billion barrels. When such authorities as EIA and *Oil and Gas Journal* formally recognized the extent of the Athabaska sands earlier this year, Canada (with 260 billion barrels) immediately moved up to rank as the world's largest oil reserve holder after Saudi Arabia.

As recently as 1973, the oil sands' potential was not well known. But motivated by the OPEC oil embargo, Canadians — and their U.S. partners — began to work out how to turn this massive resource into refined products. Thanks to those investments, 62 percent of Canada's crude oil exports now come from heavy or synthetic sources like the oil sands. In fact, those sources provide the United States with a significantly greater flow of oil than we ever imported from Iraq, and are expected to achieve a production rate of a million barrels per day sometime this year. With tens of billions of dollars of further private-sector investments planned, it is entirely possible that that production rate can be doubled within five years and quadrupled in another decade.

A Good Partner

The OPEC oil embargo drew our attention to one global commodity, to a handful of exotic countries, and to the geopolitics that seemed to move them. So the realization that our largest and most dependable energy supplier is sitting to our north has yet to sink into most Americans' consciousness.

Canada is a young country, but it is also a very old democracy that shares our basic values. We count on each other not just militarily and diplomatically, but economically, as well. Canadians return wealth to every region of the United States every day as tourists, as university students, as shareholders, as winter or retirement residents, and as investors. The majority of Canadian direct investment abroad — more than $65 billion so far — is in our country, supporting jobs and enterprises in industries like financial services, minerals and metals, communications, and chemical products.

In particular, Canada's energy exports to the United States are an integral part of the planet's single largest trade and investment relationship. Yet, ironically, this helps to explain why we think so little about Canada as an energy supplier.

As for energy, Canadians already cooperate with us to a degree that would be difficult to achieve with other energy partners. Here are some highlights:

• At least once a year, U.S. and Canadian energy officials get together through the Energy Consultative Mechanism. It's a way to deepen cooperation and minimize bilateral irritants, and we've been doing it for nearly 25 years now. For example, the ECM keeps departments and agencies on both sides well prepared to manage the complex issues raised by the financing and routing of the two Arctic natural gas pipelines which are now being contemplated.

• Both of our countries, along with Mexico, are "continentalizing" our partnership through the North American Energy Working Group.

• Even while we have different national approaches to the Kyoto Accord (which Canada has formally ratified), we are sharing research both on climate change science and on the related issues of energy research and development — through visionary initiatives such as the International Partnership for the Hydrogen Economy.

• Canada is our largest supplier of uranium and radioactive isotopes, and we have complementary civilian nuclear technologies and industries.

Our energy future is less and less about buying a few commodities on world markets. More and more, it involves developing new energy sources, finding new environmental solutions, disseminating new fuel and conservation technologies, and many other service- and technology-based challenges.

Our National Energy Policy of May 2001 (known informally as the Cheney Report) provided a comprehensive blueprint for enhancing our energy security on five fronts: increasing energy supplies; modernizing conservation; modernizing energy infrastructure; accelerating the protection and improvement of the environment; and building strong international relationships.

Canadians aren't just our energy partners of the future; they're our energy partners today. It's time we recognized them as such.

Canadians helped to develop this blueprint and they are already experiencing this future with us; they share both our challenges and our vision. That's why Canadian energy experts, officials, researchers and companies responded so positively to the National Energy Policy Report. And their enthusiasm gave it momentum which has helped to keep its work moving forward through the turbulent events of the past two-and-a-half years.

Looking to the future, Canadians are just the kind of energy partners we need.

Success Is Never Assured

We form poor strategies when we are complacently certain about what matters, what works, and what won't. And one of our dangerous, complacent certainties is that the growth in Canadian energy supplies can be taken for granted.

Take just one example: electric power.

Canada holds great untapped potential for new electrical power generation. Forecasters believe that as much as

40 gigawatts of new generating capacity, more than one third of Canada's current capacity, could enter service by the year 2025.

Yet the same forecasters expect Canada's exports of power to the United States to decline over the same period. How can this be? What could cause our use of Canadian power, which has grown ever since the 1920s, to change its trajectory?

The answer is, in large part, right here at home. We have put too many uncertainties and obstacles in the way of electric power trade — many related to transmission. Obtaining permission to build or expand transmission lines has become very difficult, particularly over long distances. And the ongoing restructuring of electric power markets in many states and provinces has blocked investment in both generation and transmission.

We may be moving toward a situation of less, not more, electric power trade between our two countries, reversing nearly a century of mutually beneficial exchange.

So we may be moving toward a situation of less, not more, electric power trade between our two countries, reversing nearly a century of mutually beneficial exchange. The new situation probably means less efficient use of capital, fuel, and carbon emissions.

The August 2003 power outage in northeastern North America catalyzed the determination in both countries to find a way to reverse that trend. We can hope that the resulting U.S.-Canada Power Outage Task Force — another superb example of practical cross-border collaboration — will help to achieve this. But we cannot take it for granted. The Task Force's mandate is to explore what happened on Aug. 14 and why — not necessarily to tackle

2001 Total Primary Energy Production, Selected Countries
(Quadrillion British Thermal Units)

United States	71.6
Saudi Arabia	20.4
Canada	18.2
United Kingdom	11.2
Iran	10.5
Norway	10.2
Mexico	9.6
Venezuela	8.9
United Arab Emirates	7.0

2000 Total U.S. Imports of Energy in All Forms, Top Four Source Countries
(Quadrillion BTU)

Canada	7.87
Venezuela	3.48
Saudi Arabia	3.39
Mexico	3.03

2001 Total U.S. Imports of Petroleum, Top Source Countries
(Thousand Barrels per Day)

Canada	1,786
Saudi Arabia	1,657
Venezuela	1,538
Mexico	1,423
Nigeria	854

2001 Crude Oil Reserves, Top Ten Countries
(Billion Barrels)

Saudi Arabia	261.8
Canada	180.0
Iraq	112.5
United Arab Emirates	97.8
Kuwait	96.5
Venezuela	77.8
Russia	60.0
Libya	29.5
Nigeria	24.0
China	18.3

Source: Energy Information Administration www.eia.gov the broader issues of electricity supply and demand.

Investment in major oil sands projects is another example. Remember, this is one of the largest petroleum resources that is now economically available — and it's right outside our door. But the multi-billion-dollar investments that could double the oil sands' production rate in the next few years are coming out of private wallets. And those investors can be shaken from their plans.

As oil sands production approaches two million barrels per day, the capacities of both our continental pipeline network and our refineries will come under increasing strain.

Uncertainty over climate change policy in 2002-2003 cast a shadow over plans for the oil sands, which has not entirely cleared. Billions of dollars in development hung in the balance during the uncomfortable months when U.S. and Canadian policies seemed to be drifting apart. Fortunately, our announcement of our respective policies — even though they are somewhat different — has removed some uncertainty and helped to settle investors down. But it remains entirely possible that missteps or misfortune could derail enormous new projects, and all the benefits that would accompany them. And, as oil sands production approaches two million barrels per day, the capacities of both our continental pipeline network and our refineries will come under increasing strain.

What else might happen? North America is likely to need a good deal more natural gas. That appears to require getting natural gas from Alaska's North Slope to major North American markets. And that means someone must finance and build a pipeline across 500 forbidding miles of Alaska and 1,500 miles of western Canada. The economic, financial, technical and regulatory considerations are many.

Also numerous are the reasons why it might not happen. Remember, this incredibly ambitious line will take years to plan and build. It must cross a country which currently sells us its own natural gas. Should we be complacent that Canadians will, as usual, work with us at every step?

Should we be complacent that Canadians will, as usual, work with us at every step?

Indeed, it's remarkable that they have worked with us so closely for so long. In the early 1980s, under Canada's National Energy Program, things were quite different. Canada separated itself from the world market for oil in an effort to keep domestic prices below world levels.

A senior Canadian energy regulator recently warned that such policies can return. Particularly during periods of high energy prices, people may lose their faith in markets, and demand to be protected from them. Canadians could someday want to keep more of their energy at home — to our detriment and their own. Indeed, there are voices within Canada demanding just that.

Remaining attentive to Canada and engaging with it on energy policy can help to keep those voices in the minority.

We live in a tough, complicated world that constantly changes beneath our feet. But we also live in a great neighborhood called North America, with great neighbors. They are not just our energy partners of the future; they're our energy partners today. It's time we recognized them as such. ■

GAS PIPELINES AND THE NORTH KOREAN NUCLEAR CRISIS

Josh Dorman

THE KEY TO RESOLVING THE NORTH KOREAN CRISIS MAY BE A NEW AGREEMENT COMBINING A NATURAL GAS PIPELINE WITH A SCALED-DOWN NUCLEAR ENERGY PROGRAM.

BY SELIG S. HARRISON

In explaining why it is seeking to develop a nuclear deterrent, North Korea points to the U.S. National Security Doctrine of Sept. 20, 2002, and says that it does not want to be "another Iraq," vulnerable to a U.S. pre-emptive strike. To begin a process of negotiating an end to its nuclear weapons program, Pyongyang declares, the United States would have to join with North Korea in a mutual pledge not to use force of any kind against each other.

Negotiating such a pledge will not be easy. In October, President Bush opened the door to negotiations by dropping his previous insistence that North Korea dismantle its nuclear program as a precondition for dialogue, and by offering to join in a six-power security assurance to North Korea (i.e., the United States, China, Russia, Japan, South Korea and North Korea). But it is unclear whether the administration is prepared to offer a security guarantee that would commit the U.S. to co-existence with the Kim Jong Il regime, as Pyongyang has demanded — ruling out efforts to promote "regime change." Nor is it clear that Washington is ready for the step-by-step process of simultaneous economic and security trade-offs that the North wants. By the same token, it is uncertain whether North Korea will agree to make a security assurance conditional on the "verifiable progress" toward denuclearization that Washington understandably expects.

In any event, even if a compromise formula can be devised (see "Turning Point in Korea," the February 2003 report of The Task Force on U.S. Policy in Korea, [www.ciponline.org/Asia/Task Force.pdf] for a suggested approach), a complete and definitive end to North Korea's nuclear program would require a comprehensive settlement that addresses not only its military security but also its economic security — especially the energy crisis that underlies its economic stagnation.

North Korea's drive for nuclear weapons reflects a recognition that the foundations of its national security have been steadily eroding since the cutoff of the Russian and Chinese subsidies that kept it afloat during the Cold War. Even though the country has abundant coal deposits, Pyongyang built its economy primarily around the abundant, low-cost Chinese crude oil flowing directly to its refineries from the Daqing oil field. But since 1990, when Beijing and Moscow began to demand payment at commercial rates in hard currency, crude oil imports have dropped by 85 percent. Now North Korea receives carefully doled-out installments of Chinese oil, on a grant basis, amounting to only a fraction of what it used to get.

Selig S. Harrison, former Northeast Asia bureau chief of the Washington Post*, is director of the Project on Oil and Gas Cooperation in Northeast Asia at the Woodrow Wilson Center, and director of the Asia program at the Center for International Policy. He is the author of* Korean Endgame *(Princeton University Press, 2003). This article is based on a yearlong investigation that took him to Russia, China, Japan and the two Koreas.*

This has virtually immobilized industries dependent on petroleum, including fertilizer factories, as well as most tractor operations and many of the power generators in rural areas needed to run irrigation pumps. As a result, agricultural production has plummeted, aggravating the impact of famines in 1995 and 1996.

Industries dependent on coal have also suffered, as coal production has been crippled by the reduction of electricity output from oil-based power stations that is needed for mechanized mining as well as for the electrified rail system used to ship coal out of the mines.

With no significant petroleum resources yet discovered and only 18 percent of its largely mountainous terrain suitable for agricultural production, North Korea has been dependent since its inception as a state on external energy sources and international food aid, notwithstanding its rhetorical commitment to the slogan of "Juche" (self-reliance). Besides exacerbating that vulnerability, the economic decline triggered by the fall in Cold War-era aid levels has also left Pyongyang with less money to spend on conventional forces, undermining its ability to sustain a protracted war. The Kim Jong Il regime therefore fears that its fragility is emboldening those in Washington, Tokyo and Seoul who would like to promote its ouster.

To escape from its energy bind, North Korea is prospecting for oil in the seabed off the coast of Anju, but those explorations have not been productive. It also has been counting on 2,000 megawatts of electricity annually to be generated by two light-water nuclear reactors that a U.S.-led consortium, the Korea Energy Development Organization, promised to build for the North under a 1994 U.S. nuclear freeze agreement with Pyongyang known as the Agreed Framework.

A Broken Framework

It is often forgotten that North Korea viewed the 1994 Agreed Framework in part as a step toward achieving energy security. In return for the U.S. commitment to build two light water reactors by a target date of 2003 and to provide 500,000 tons of oil annually pending their completion, North Korea discontinued a graphite-based nuclear program that was consciously designed to serve dual purposes: helping to meet civilian electricity needs while producing plutonium for nuclear weapons.

Although the United States did provide the oil as promised, the reactor project did not get beyond the preparatory stage during the ensuing seven years. Equally important, the United States also failed to fulfill two other key provisions of the agreement: Article Two, which envisaged the U.S. normalization of economic and political relations with North Korea, and Article Three, which required "formal assurances" ruling out "the threat or use of nuclear weapons by the United States" against North Korea.

For Pyongyang, getting at least one of its reactors up and running is a political imperative.

Pyongyang repeatedly threatened to stop honoring the agreement unless Washington lived up to these obligations. Finally, in 1998, when Pakistan offered to pay for missiles with uranium enrichment technology, Pyongyang accepted the offer and initiated an enrichment program. At the same time, apparently seeking to keep the door open for improved relations with the United States, North Korea continued to honor the operative provisions of the Agreed Framework, which covered the plutonium program that had been under way when the agreement was concluded. However, discovery of the uranium program by the United States led to a showdown with Pyongyang in October 2002 that resulted in a U.S. cutoff of oil shipments. This, in turn, provoked North Korean abrogation of its commitment to freeze plutonium production.

Prospects for a negotiated settlement of the nuclear crisis remain uncertain, and the Bush administration is unlikely to build the two reactors. Nevertheless, in a January 2003 interview with Tim Russert on "Meet the Press," Secretary of State Colin Powell praised the Agreed Framework. It is also noteworthy that President Bush has resisted pressures to dismantle the Korea Energy Development Organization, which oversees the reactor project and could provide the regional umbrella for some form of future energy assistance to Pyongyang.

An Offer Pyongyang Can't Refuse

Given the poor results of its oil prospecting efforts to date and the refusal of the Bush administration to build the promised nuclear reactors, North Korea is increasingly pinning its hopes for economic salvation on two competing pipeline projects that would bring Russian natural gas, either from Sakhalin Island or Kovykta in eastern Siberia, through North Korea to South Korea. (See box on p. 50.) Pyongyang would not only receive royalties for letting the pipelines pass through its territory but could also tap into them to supply fertilizer plants and power stations.

Accordingly, American support for these pipeline projects could provide the irresistible incentives needed to get North Korean cooperation in moving toward a definitive end to its nuclear weapons program.

One pipeline would originate in gas fields off the northeast coast of Sakhalin Island, controlled by ExxonMobil, and would cross directly from Russia through North Korea en route to the South. (These gas fields are designated by Russia as "Sakhalin I" to distinguish them from another oil and gas concession area to the south of the island, being explored by a consortium consisting of Shell, Mitsui and Mitsubishi.) South Korea would be the main market for the pipeline's gas, with an expected commitment to buy 10 billion cubic meters annually. Russia would buy some for the Khabarovsk-Vladivostok region, adjacent to the pipeline route, and North Korea would seek a steadily growing share as a supplement to nuclear power.

The other pipeline would originate in the Kovykta complex of gas fields in eastern Siberia, controlled by British Petroleum, and would cross through China, and possibly North Korea, en route to the South, supplying up to 20 billion cubic meters of gas to China annually as its demand increases.

Seven months before the nuclear crisis erupted in October 2002, a leading expert on Northeast Asian economic issues, Bradley O. Babson, senior consultant on East Asia to the World Bank, made a prescient proposal for a deal with Pyongang in an address before the Institute of Energy Economics in Seoul.

If North Korea satisfies the United States that it has ended its nuclear and missile programs, Babson suggested, Washington and the multilateral development banks should encourage the oil companies involved to proceed with commercially viable construction of a gas pipeline from Russia through the North and join with multilateral development banks in financing gas-based power plants, gas-based fertilizer factories and rehabilitation of the existing North Korean power distribution grid. The petroleum companies and regional governments involved would pay most of the pipeline costs, he said, but the ancillary facilities would require additional support. "The idea of building a gas pipeline to cross North

Sakhalin vs. Kovykta

Neither the precise routes from Kovykta and Sakhalin, nor the capacities of the pipelines, have yet been decided. But it appears that the Sakhalin I pipeline would be no more than 1,900 miles long, running along the east coast of Korea to its terminus near Seoul, where it would intersect with an existing South Korean gas network. It could be built within three to four years between $3 billion and $3.5 billion.

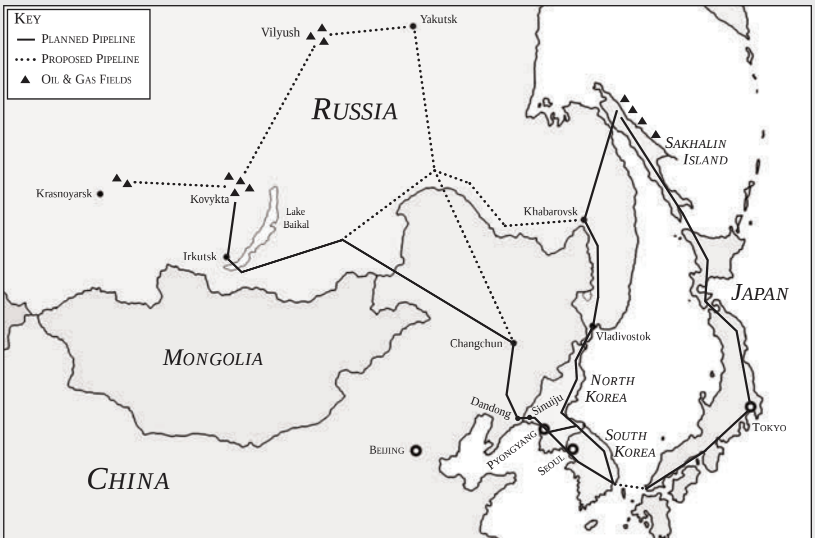
By contrast, assuming that the route from Kovykta crosses China's Liaoning province to Dandong, enters North Korea at Sinuiju and proceeds along the west coast of Korea to a terminus at Inchon, the Kovykta pipleline would be nearly 3,000 miles long, take some six years to complete, and would cost some $9 billion.

Compared with the huge potential of Siberia, where gas reserves are expected to last for the next century, the reserves so far discovered in the Sakhalin I concession are less spectacular, though their impact on the Russian Far East and adjacent areas of northeastern China, Korea and Japan is likely to be significant.

The grand total of proven Sakhalin reserves is 915 billion cubic meters, divided almost evenly between Sakhalin I and Sakhalin II. It is likely that Sakhalin pipeline gas would be competitive with liquefied natural gas and cheaper than Kovykta gas, though how much cheaper remains to be seen. Because about $2.5 billion will be needed to develop the Kovytka fields after exploration is completed, British Petroleum and its Russian partners want definite commitments from China and South Korea on how much gas they will buy before making development outlays. Most experts accept estimates indicating proven reserves in the Kovykta fields of 1.6 trillion cubic meters -- sufficient to provide 20 billion cubic meters of gas annually to China for 25 years, plus another 10 billion for South Korea and 10 billion to meet the growing gas needs of Irkutsk and neighboring areas of Siberia. While South Korea is ready to consume 10 billion cubic meters right away, however, China may not be able to absorb its 20 billion until about 2010.

Complicating negotiations further, Beijing is outraged at Russian suggestions that the Kovykta price be fixed at the same level as liquefied natural gas. Defending the Russian position, Alexander Y. Misiulin, Director of Foreign Economic Relations in the Energy Ministry, says that, "What they can pay Oman, they can pay us. After all, when it comes down to it, they are interested in cooperation with us primarily for geopolitical reasons, for diversification of their sources of supply, not only for economic reasons. Diversification should be reason enough." Stanislav Zhiznin, Counselor for Economic Cooperation in the Foreign Ministry, notes that Siberia and the Russian Far East badly need gas for their own development, and "we have to get a high price to justify large-scale exports that undercut what they can have."

Chinese officials are more tight-lipped than their Russian counterparts but are privately threatening to increase their reliance on LNG if Moscow refuses to compromise on the price issue. They also warn that Russia's reliability as a petroleum partner has yet to be tested, citing recent signs that Moscow may renege on a long-standing commitment by the Russian oil and gas giant Yukos to build a crude oil pipeline from Angarsk, near Irkutsk, to Chinese refineries near Daqing. Beijing has been counting on the pipeline, which would provide 20 million tons of crude oil per year by 2005 and 30 million by 2010. In the name of "national security," President Vladimir Putin has recently signaled possible



PROJECTED OIL AND GAS PIPELINE NETWORK IN NORTHEAST ASIA

Source: World Policy Institute

support for Yukos' politically powerful rival, Transneft, which wants to build a crude pipeline to the Russian port of Nahodkha that would sell oil to all comers, not just to China, but primarily to Japan.

Tokyo is pushing hard for this option, offering attractive terms that mark a striking departure from its past dealings with Russia. In addition to extending credits at a much lower interest rate than those offered in previous energy negotiations, Tokyo no longer insists that the Russian government guarantee repayment of these credits.

Putin may well be using the Nakhodkha option in part as a bargaining chip in the emerging negotiations with China over the price of Kovykta gas and is likely to seek a compromise solution to the Daqing-Nakhodkha dilemma. It would be surprising if he does back out of the Daqing deal entirely because Russian profits from pipeline gas exports to China and Korea would skyrocket as their gas demand grows after 2010. Indeed, projections of future demand are so high that Kovykta alone might not be able to keep pace with this demand, and other gas-rich areas in Siberia are already lobbying for their inclusion in a pan-Siberian pipeline export grid in which they would be linked to Kovykta.

Meanwhile, South Korea's position may be shifting. Under former South Korean President Kim Dae Jung, Seoul favored routing the Kovykta pipeline through the North as a key component of Kim's "sunshine" policy. Since the advent of Kim's successor, Roh Moo Hyun, however, South Korean hard-liners are pressing for a route that would bypass the North by veering south of Dandong to Dalien, where it would go under the Yellow Sea directly to Inchon.

Ironically, in addition to the opposition of hard-liners in Seoul and Washington to a pipeline from Kovykta running through North Korea, Pyongyang itself is cool to the Kovykta project. Given China's burgeoning demand for gas, observes Song Bok Ku, commercial counselor of the North Korean Embassy in Moscow, Beijing will not be willing for very long to let Kovykta gas go to Korea. Whatever short-term commitments it might make, he said, "as time goes by, there will be little left for North and South Korea."

Other sources concur that the North strongly prefers a pipeline from Sakhalin and has repeatedly conveyed this preference to Russia and South Korea.

— Selig S. Harrison

Korea and serve the South Korean market is worth serious consideration," he concluded, "not just from the point of view of meeting South Korea's future gas requirements through regional energy cooperation," but because "it could transform inter-Korean relations and advance the larger goal of regional security."

Supporting this view, a leading expert on Northeast Asian energy issues, Keun Wook Paik, author of *Gas and Oil in Northeast Asia* (Royal Institute of International Affairs, 1995), points out that the cost of building the reactors ($4.9 billion) would greatly exceed the projected $3 billion to $3.5 billion cost of the Sakhalin pipeline. Furthermore, gas could begin flowing well before the reactors are likely to start producing and transmitting electricity, assuming that ExxonMobil can reach agreement with South Korea on the price of the gas and the annual volume to be purchased.

Like many observers, Paik emphasizes that North Korea's antiquated electricity transmission grid cannot handle the 2,000 megawatts of electricity to be produced by the two nuclear reactors. The cost of constructing a new countrywide grid with a 540-kilovolt capacity would be substantially higher, he estimates, than building a network of 250-megawatt gas-fired power stations along the pipeline route, linked to small local transmission grids. Each of these power stations and its local grid would cost from $150 to $170 million, he calculates, based on the 2002 price of gas-fired turbines made by Korea Heavy Industries. To cover the most populous parts of North Korea with eight power stations, the cost would be $1.2 to $1.36 billion, but they would not all have to be constructed at once.

At their own initiative and at their own expense, two leading European engineering firms, Asea Brown Boveri of Switzerland and Siemens of Germany, have conducted extensive studies in North Korea of its existing electricity distribution system and of its future energy needs. Even though the country is virtually destitute at present, both companies are gambling that the security interests of the United States, Japan and South Korea will sooner or later lead to multilateral aid to ease North Korea's energy problem as part of a broader rapprochement, whether through a new countrywide grid linked to the two KEDO reactors or through gas-fired power stations with local grids fueled by a Sakhalin pipeline — or through a combination of both.

In economic terms, there is no need to make an either-or choice between pipeline gas and nuclear power. Both will be needed to meet the growing economic needs of North Korea, South Korea and a unified Korea. The American interest in a stable Korea would clearly be served by a policy in which the two reactors are supplemented by a Sakhalin pipeline. In political terms, however, the issue confronting the Bush administration is how to head off a North Korean nuclear weapons program. In my view, the best way to do so is to replace the Agreed Framework with a new agreement that combines pipeline gas with a scaled-down nuclear power program in return for an inspection regime fully adequate to verify that the nuclear weapons effort has ended.

Both North Korea and South Korea would strongly oppose a revision of the 1994 accord in which both nuclear reactors would be abandoned in favor of pipeline gas. But they might well agree to reduce the KEDO commitment to one reactor, instead of two, if that would keep the nuclear agreement on track.

In order to make such a compromise attractive to the United States, Pyongyang would have to reaffirm its commitment to the existing provisions of the Agreed Framework, under which it must dismantle its frozen nuclear facilities, designed to produce plutonium, coincident with the completion of the reactor project. In addition, North Korea would have to accept new provisions providing for inspecting and dismantling the uranium program and reaffirming existing provisions that require International Atomic Energy Agency inspections to determine how much fissile material had been accumulated before 1994. The Bush administration wants these inspections to begin immediately, much sooner than the Agreed Framework requires. Pyongyang would accept such accelerated inspections, in my view, if the schedule of inspections is linked to progress in the construction of the reactor. In return, the United States would drop its opposition to an ExxonMobil gas pipeline through North Korea; encourage multilateral assistance for gas-fired power stations, transmission grids and fertilizer factories along the pipeline route, and support interim KEDO energy aid to the North pending completion of the reactor and the pipeline.

For the Bush administration, inducing North Korea to accept one reactor instead of two, together with strengthened nuclear inspections, could be presented in the United States as a political victory, partially vindicating Republican charges that Clinton gave North Korea too much in the 1994 accord, on terms that were not tough enough.

A Comprehensive Regional Approach

For Pyongyang, getting at least one of the reactors up and running is a political imperative, if only because the Agreed Framework bore the personal imprint of the late President Kim Il Sung and of his son Kim Jong Il, now North Korea's leader. Equally important, since Japan and South Korea both have large civilian nuclear programs, North Korea regards nuclear power as a technological status symbol. Like Tokyo and Seoul, Pyongyang wants nuclear power in its energy mix to reduce dependence on petroleum. Still another factor is that North Korea has a force of 7,500 nuclear technicians, many of them trained in Russia, who have been in a state of limbo since the 1994 accord and are awaiting new jobs when the KEDO nuclear complex at Kumho is completed.

In the case of South Korea, support for the KEDO program comes in part from vested interests with a stake in contracts to build the reactors. The South has already spent some $800 million on the reactors, and South Korean companies have contracts totaling another $2.3 billion for the construction work ahead. As a State Department official has observed, "the bribes have already been paid." Still, half a loaf would be better than none, and the money spent by the South has gone, so far, only to the infrastructure at the site and to the first reactor.

South Korea likes the KEDO project because it is confident that the reactors will someday belong to a unified Korea. By contrast, Japan made its $1 billion commitment to KEDO grudgingly and has dragged its feet on meeting its obligations. In Japanese eyes, North Korea cannot be trusted to observe nuclear safety standards, and Tokyo fears another Chernobyl in Japan's backyard. Because Tokyo has already spent $400 million on the project, it is reluctant to see it scrapped entirely, but like Seoul, it might accept a compromise limiting the project to one reactor.

A government-controlled Japanese company, SODECO (Sakhalin Oil Development Cooperation Company), is ExxonMobil's principal partner in Sakhalin I, with a 30-percent stake. Therefore, if Japanese Prime Minister Koizumi's Sept. 16, 2002, summit meeting with Kim Jong Il eventually leads to a normalization of Japanese relations with Pyongyang, Japan might well support a pipeline from

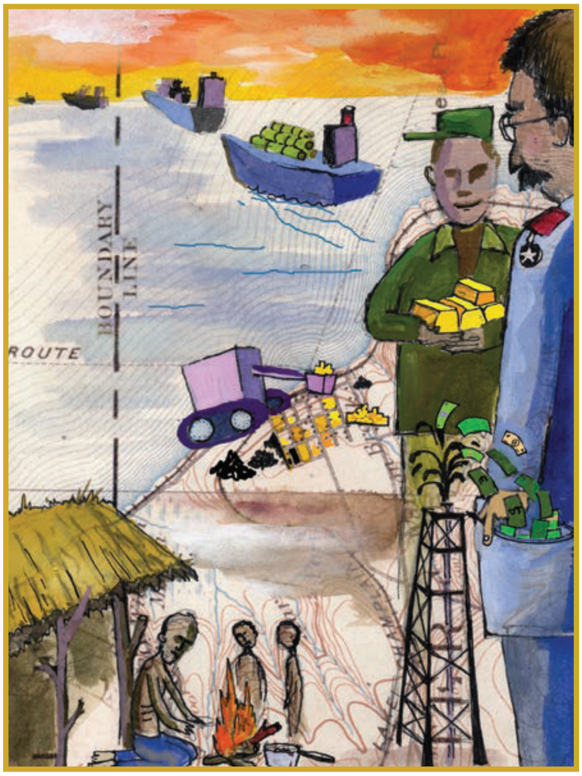
Sakhalin I through North Korea to the South as part of its rapprochement with Pyongyang. Conceivably, the pipeline route could be extended across the Tsushima strait to southern Japan. But Japan is not likely to need Sakhalin gas routed through Korea because ExxonMobil and SODECO are already planning a direct 870-mile pipeline link from Sakhalin I to northern Japan that could provide 8.2 billion cubic meters of gas annually to Japanese consumers.

A comprehensive settlement must address not only Pyongyang's military security but also its economic security.

Ultimately, in order to make gas pipeline networks in Northeast Asia a reality, the governments of China, Russia, South Korea and Japan would all have to provide large-scale financial support and launch a serious regional political dialogue on pipeline development designed to set common objectives and priorities. Such a dialogue should be institutionalized in a Northeast Asia Energy Forum that would lead, in turn, to a Northeast Asia Energy Charter Treaty patterned after the one negotiated a decade ago by the European Union.

"A comprehensive regional approach accepted by all of us would be much better than letting the vagaries of the marketplace decide what happens," observes Zhou Dadi, Director General of the Energy Research Institute in China's State Planning Commission. "Is some of the Kovykta gas going to the two Koreas and Japan? How much Sakhalin gas will come to Northeast China? How much to Korea? How much to Japan? If everything is left to each company, each country, each interest group, China will have to think of itself and give priority to its own immediate pressures and demands. It would be much better for everybody if we adopt a regional approach." ■

LIFTING THE NATURAL RESOURCE CURSE



Josh Dorman

INCREASING TRANSPARENCY AND ACCOUNTABILITY WILL HELP DEVELOPING NATIONS USE THEIR NATURAL RESOURCES TO FOSTER ECONOMIC GROWTH.

BY THOMAS I. PALLEY

Many of the world's poorest countries possess significant reserves of oil and other natural resources. Yet numerous academic studies show that, controlling for income level, countries that are highly dependent on revenues from oil and other minerals score lower on the U.N. Human Development Index, exhibit greater corruption, have a greater probability of conflict in any five-year period, have larger shares of their population in poverty, devote a greater share of government spending to military spending, and are more authoritarian than those with more diverse sources of wealth.

This occurs because the income from these resources is often misappropriated by corrupt leaders and officials instead of being used to support growth and development. Moreover, such wealth often fuels internal grievances that cause conflict and civil war. This pattern is widely referred to as the "natural resource curse" — natural resource wealth creates stagnation and conflict, rather than economic growth and development.

The natural resource curse is vividly illustrated in Angola, where an International Monetary Fund fiscal audit has been unable to account for hundreds of millions of dollars of oil revenues. In Nigeria, Cameroon and the Republic of the Congo, oil wealth has failed to generate development, and has instead fueled deep-seated corruption that retards growth. Sudan is marked by strife over oil. And in Aceh, Indonesia, regional separatism has been fanned by secrecy about oil payments and public misunderstanding about their scale.

The problem of natural resource-related corruption also afflicts the Western Hemisphere. Ecuador is rich in oil but ranks as one of the most corrupt countries in Latin America. And accumulated resentments over the way Venezuela's oil wealth has been distributed have contributed to the political divisions in that country.

Finally, Saddam Hussein's Iraq is another tragic example of the natural resource curse. Iraq is abundantly rich in oil, having proven reserves of 112 billion barrels, which represent 10.8 percent of the world's total proven resources. Moreover, many believe that its potential may be far greater, as the country is relatively unexplored due to years of war and sanctions. But like many other countries rich in natural resources, Iraq has failed to benefit from its oil wealth. Instead, Saddam Hussein's regime used petroleum revenues to finance domestic political repression, military aggression and state looting — exemplified by wasteful spending on presidential palaces and transfers of funds to personal foreign bank accounts. These revenues also bankrolled the war with Iran and Saddam's invasion of Kuwait.

The natural resource curse represents the pre-eminent obstacle to democracy and development in much of the developing world. Moreover, the problem has the potential to worsen in the coming decade. In the Caspian Basin, the completion of the Baku-Tiblisi-Ceyhan pipeline will increase oil revenues in Azerbaijan; the now completed Chad-Cameroon pipeline will have oil revenues ramping up in Chad; and off the coast of West Africa, the Gulf of Guinea has some of the most promising oil exploration prospects anywhere in the world. None of these areas have histories of strong democratic governance, and all therefore risk being afflicted by the natural resource curse.

There is no "silver bullet" to remedy the problem, but there are a range of measures that the U.S. and other developed nations, multilateral institutions, and developing countries themselves can all take to increase accountability and transparency. In a world lacking strong institutions of global governance, the U.S. has a special responsibility to back international cooperation and collective action. For without coordinated interventions, corruption will just move between jurisdictions — like squeezing air in a balloon.

In addition, putting a stop to the national resource curse would serve U.S. national security interests, both by reducing strife around the globe and by addressing the poverty and political instability perpetuated by this tragic pattern.

Publish What You Pay

Corruption is the enemy of both free markets and democracy. Corrupt government promotes corrupt business, and corrupt business promotes corrupt government. This inexorable logic means that citizens and investors everywhere have a public and private interest in combating corruption by increasing transparency and accountability.

When oil and mining companies fail to disclose payments to governments, for example, it is easier for government officials to steal and more difficult for citizens to hold officials accountable. Recognizing this, philanthropist George Soros and his Open Society Institute have been working for the last 18 months to address the problem of corruption connected with natural resource extraction through an international "Publish What You Pay" campaign.

This initiative proposes legislation requiring publicly-listed oil and mining companies to disclose information about payments to government, as a condition of stock exchange listing. Relevant payments that would have to be disclosed include tax payments, royalty and license

Thomas I. Palley is the director of the Globalization Reform Project at the Open Society Institute. The views expressed in this article are those of the author and not those of the Open Society Institute.

fees, revenue sharing and payments-in-kind, forward sales of future revenues, and commercial transactions with government and public sector entities.

Investors and citizens everywhere stand to benefit from PWYP. Reducing corruption will stimulate investment and growth, which is good for business and good for developing countries. It will also strengthen the rule of law and property rights, thereby attracting investors. Reducing corruption also lessens the likelihood that multinational businesses will get drawn into corrupt activities, which can damage their reputation and expose them to legal problems, both in country and back home.

PWYP is part of a larger international governance agenda needed to address corruption in today's globalized economy. The PWYP campaign has the support of over 130 groups from all around the world. Several large natural resource extraction companies, including BP, Shell, and Newmont Mining, have expressed positive views about it. In addition, a group of major European and American asset management funds representing $3 trillion has endorsed greater company transparency regarding payments to government.

Regrettably, U.S. oil companies have resisted PWYP, claiming that corruption is a governmental problem. But the reality is that corruption is a systemic problem, and by doing nothing to end it, such companies are de facto fencers of oil and other natural resources.

If the G-8 were to ignore such opposition and collectively agree to make PWYP part of their securities laws, it would immediately cover all major financial markets that are the principal source of major pools of development finance. This approach would quickly become the benchmark for capital market integrity, and those developing country governments that barred companies from disclosing payments would soon find the supply of capital drying up.

Extractive Industries Transparency Initiative

PWYP is a mandatory disclosure measure targeted to publicly-traded natural resource companies. But it does not address non-traded companies or state-owned natural resource companies; nor does it address governments themselves. The Extractive Industries Transparency Initiative, announced by British Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg, in September 2002, complements PWYP by broadening the web of coverage to include these actors.

The EITI aims to establish voluntary compacts between country governments and companies regarding natural resource revenue transparency. Using standardized reporting templates, companies would report what they pay governments and state agencies, including state-owned oil companies and provincial governments. State oil companies would also report what they receive from companies and pay governments, while governments are to report revenues received from private sector and state-owned natural resource companies. This architecture is intended to create a web of double-entry checks.

The strength of the EITI is its broadening of the scope of reporting coverage to include state oil companies and governments. Its weakness is that it is a voluntary compact, so bad cases such as Angola and the Republic of the Congo are unlikely to participate.

Publish What You Lend

It is not just the current revenues of developing countries that are subject to theft. Because modern financial markets enable governments to borrow significant amounts of money that effectively convert future revenues into cash today, they can facilitate the looting of the public purse. This can happen in several different ways.

Leaders of countries may incur large debts, saddling future governments with the burden of making the interest and loan principal repayments on them. In effect, financial markets can enable corrupt governments to steal from the future.

Another way financial markets facilitate this kind of theft is by borrowing against secured assets. Thus, valuable assets can be converted into cash today without ever being publicly sold. And once again, future governments and taxpayers are left with the tab.

In government-owned extractive industries, a related practice is to forward-sell future output. For instance, state-owned oil companies may forward-sell future production, getting cash today in return for promising to deliver oil in the future. In effect, these sales represent borrowing against future production, and they, too, provide a means by which governments can be stripped of future revenues.

The problem is compounded by the fact that financial transactions are often shrouded in secrecy owing to the bankers' culture. Publish What You Lend would have national governments require by law that all banks, financial intermediaries, and business enterprises, that make loans to or engage in forward purchases with governments and state-owned enterprises, publish details of these transactions and report them to the IMF. These published details would include a description of the purpose of the transaction, the value of the principal involved, fee amounts in both absolute terms and as a percentage of the contract value, and the terms of the transaction including effective interest rates and term to maturity. These details would be recorded in a central registry maintained by the Fund that would be open to public inspection.

The IMF, the World Bank and the other multilateral development banks would also be obliged to abide by these same reporting requirements. Governments would also publish details of all official country lending, and report these details to the IMF to be similarly recorded in the central registry.

By mandating disclosure of loans and forward contracts, PWYL can serve as a powerful instrument for blocking illegitimate use of financial markets. Countries will benefit from PWYL, but so too will international investors. This is because loans that finance corruption add to the cumulative obligation of governments, but they do nothing to increase tax revenues. Consequently, they reduce the likelihood of repayment to bona fide lenders. Reducing financial market looting will therefore benefit these lenders. At the same time it will lower interest rates for developing countries. Corrupt loans lower the likelihood that lenders will be repaid, causing lenders to raise interest rates to cover this increased risk. Reducing such loans will therefore cause lenders to lower their rates.

Odious Debt

Another important measure for guarding against looting via financial markets is the legal doctrine of odious debt. The core idea is that where: (1) loans are made to illegitimate regimes, such as those that come to power undemocratically; (2) loans are not used for the benefit of the people; and (3) lenders could reasonably have known about conditions (1) and (2), then such loans can be deemed illegitimate and unenforceable.

Adoption of the doctrine of odious debt would quickly reduce looting via financial markets. Lenders would have an incentive to conduct proper due diligence, write strict loan covenants, and then monitor the loans to ensure that the covenants are abided by. It would also be good for both democracy and economic development. Illegitimate, undemocratic governments that come to power by coup d'etat or civil war, and then refuse to submit to the democratic process, would be frozen out of international capital markets. Side-by-side, stricter monitoring by lenders would ensure that loans are used for developmental purposes, rather than looted.

Opponents claim that adoption of the doctrine of odious debt would reduce the supply of credit to developing countries, and drive up its price. Economic logic suggests otherwise. Total lending could be less, but only because corrupt lending is reduced. Productive "good" lending would increase dramatically. Improved loan monitoring will increase the productivity of loans, as creditors will have an incentive to ensure that loans are used in accordance with loan agreements. These effects will also lower the cost of credit by increasing the likelihood that lenders get repaid.

Corruption exerts a significant negative externality by raising overall indebtedness while doing nothing to increase a country's capacity to repay. In effect, corruption dilutes the asset protection available to other creditors, and they protect themselves by raising their required interest rate. By holding creditors responsible for corrupt loans in cases where lenders failed to do due diligence, corrupt loans can be diminished and honest lenders can lower their required interest rate.

Lastly, the doctrine of odious debt can help starve autocratic kleptocratic governments out of existence by reducing the amount of finance available to them. A 2002 study by economists Bruce Bueno de Mesquita and Hilton Root demonstrates how providing funds to such governments helps them stay in power by enabling them to pay off supporters. This is especially true of loans and foreign aid to these governments which come in the form of hard currency. Reducing such funding can therefore undermine political support for these governments.

Stolen Asset Recovery

Another area where legal action is urgently needed concerns the recovery of stolen assets. Monies looted from developing countries are usually placed within the international banking system. Yet, all too often, it is difficult for countries to recover these assets. Tougher provisions, that facilitate recovery and make it harder to hide assets, are needed. Just as the international community has clamped down on money laundering and terrorist financing, it must also clamp down on corruption by facilitating the recovery of stolen assets. These assets leave behind a paper trail that can be followed, and enhanced recovery of looted assets would reduce the incentive to loot. The experience with money laundering and terrorist financing shows that recovery of stolen assets is feasible. All that is needed is political will.

The IMF and the World Bank Group

The IMF and the World Bank have an important role to play in combating the natural resource curse. As important large lenders, these two institutions have significant power that can be leveraged to improve governance and reduce corruption. The Fund and the Bank can both help by funding technical assistance programs and developing standards for fiscal transparency and good fiscal practice. Governments must publish what they earn and publish what they spend, and government purchases should be governed by transparent contracting procedures that have open tendering, with contracts going to the bidder providing the highest quality at the lowest price. The IMF also has an important role to play in the EITI initiative as the Fund is envisaged to be the aggregator, totaling company payments to national governments to get an overall country figure.

However, the key contribution the IMF and World Bank can make is to institute requirements for transparent reporting of government revenues from natural resources. Given that countries need financing from the Bank and the Fund, these institutions have significant leverage. A good example of this is the World Bank's groundbreaking handling of financing of the Chad-Cameroon oil pipeline, which it has made conditional on Chad's compliance with strict accounting and spending management. Similarly, at the IMF's urging, Azerbaijan and Kazakhstan have established national oil stabilization funds that aggregate much of their oil revenues (see the "Oil Stabilization and Savings Fund" section below).

Building on these initiatives, all Fund and Bank country assistance and lending programs — especially those connected to the extractive sector — should be conditional on recipient countries transparently reporting their revenues. This approach should apply to all activities — development assistance loans to countries, loans to companies via the International Finance Corporation, or investment guarantees provided via the Multilateral Investment Guarantee Agency.

Publish What You Pay can play a valuable role helping the IMF and the Bank. Given the often weak administrative capacities of developing countries, PWYP can help provide a double-entry check on government revenues, since companies' reported payments should match governments reported natural resource revenues from companies (including state-owned companies). This reveals how different policies work together synergistically.

Export Credit Guarantee Agencies

Another important avenue for tackling the natural resource curse is via the various export credit guarantee agencies, such as the World Bank Group's Multilateral Investment Guarantee Agency. These agencies play a critical facilitating role by insuring trade and investment projects. Absent this publicly provided insurance, many private sector transactions would not take place, making these agencies an important lever for change.

Even more important, these agencies often insure large natural resource development projects. They are therefore involved at the outset of the project, before revenue streams come on line. A major difficulty in getting governments to change is that they have little incentive to do so once revenues are on stream. Insisting on change when projects first begin is the strategically sensible moment, and export credit guarantee agencies are well placed to do that.

Oil Revenue Distribution Funds

The transparency and accountability inherent in good governance are the keys to warding off the natural resource curse. However, developing efficient states with honest governments takes much longer than developing oil fields and building pipelines. Oil revenue distribution funds that directly distribute revenues to citizens represent an important means of addressing this conundrum, as they can be established relatively quickly.

Perhaps the best example of an ORDF can be found close to home, in Alaska (though that one operates on a relatively modest scale). But the approach holds great promise for developing countries.

By side-stepping government interference, ORDFs reduce the space for official corruption. But they also provide a host of other economic and political benefits. First of all, income distribution is highly unequal in many developing countries, and this inequality is bad for growth and democracy. The payment of a flat oil dividend to all citizens would constitute a progressive redistribution, helping equalize the distribution of income, and providing seed money for poorer citizens to become entrepreneurs.

And because the dividend would constitute a regular source of income, it would also provide collateral for ordinary citizens to finance small business investment projects. This, in turn, would stimulate development of credit markets, which are so essential for development.

Another problem that frequently afflicts oil-rich countries is they suffer from economic activity that is skewed toward excessive government, a feature which also promotes corruption. Directly paying revenues to citizens would help rectify this structural imbalance. Finally, on the political side, citizens would have an incentive to become politically engaged to protect the dividend paid by the ORDF, and to ensure that state-owned oil industries operated efficiently so as to maximize the dividend.

One common objection to distributing oil revenues is that it would starve developing country governments of money needed for infrastructure building. However, this concern is misplaced. The goal of development is to build strong political and economic institutions, and trade-offs are always present, given the scarcity of resources. Directly distributing a chunk of oil and mineral revenues to citizens may be the best possible development investment, yielding higher returns than infrastructure spending in terms of creating political ownership and economic dynamism.

An ORDF would seem to be particularly appropriate for Iraq. In a *New York Times* op-ed (April 9, 2003), Steve Clemons of the New America Foundation proposed that Iraq establish an Alaska-style oil fund that would pay annual dividends to the citizens of Iraq. But given Iraq's current condition of economic collapse and history of autocratic kleptocratic governance, it makes better sense to pay a significant portion of oil revenues to Iraq's citizens now. In addition, a companion fund should be established that would distribute a share of oil revenues to provincial and local governments. This second fund can ensure a fair regional distribution of revenues, thereby reducing the potential for regional grievances that can lead to civil war.

Paul Bremer, the top U.S. administrator in Iraq, has expressed support for such a fund (*New York Times*, July 13, 2003). But while it is appropriate for Bremer to contemplate some form of temporary distribution during the transition to constitutional democracy in Iraq, any permanent arrangement must be the decision of the Iraqi people. This is the only way an arrangement can have lasting political legitimacy.

Oil Stabilization and Saving Funds

Oil stabilization and saving funds represent another approach. An accounting device, OSSFs provide a separate account into which oil revenues are paid. Their purpose is to shield the government budget from the revenue uncertainty and volatility of natural resource revenues, and to save for future generations given that natural resources are often non-renewable. Azerbaijan and Kazakhstan are two countries that have recently established national oil stabilization funds.

Such funds can make a contribution to improved governance, particularly by contributing to greater transparency of natural resource revenue flows. They can also help guard against the problem of "Dutch disease" by ensuring that some of the revenues are directed to accumulation of foreign assets. This helps prevent exchange rate appreciation, which undermines international competitiveness. Finally, to the extent that government spending is tied to fund revenues, they can contribute to fiscal discipline.

These are real benefits. However, stabilization funds also have significant limitations. For example, there is no guarantee their revenues will be used for the benefit of citizens. Furthermore, governments can avoid the putative income constraint by borrowing. The bottom line is that to work well, oil stabilization funds need good governance. However, the funds do not themselves produce the institutional and political change needed for good governance. This limits their usefulness in worst-case countries.

Privatization

Another widely canvassed solution to the natural resource curse is privatization, the sale of state-owned oil industries and oil production rights to private-sector investors. Privatization has been a big part of the development agenda pushed by the IMF and the World Bank over the last two decades. The argument is that it promotes productive efficiency by restoring the profit motive. It also resonates with political agendas aimed at shrinking state economic involvement.

In practice, however, the history of large-scale privatization has been fraught with failure. In many instances, the majority of the assets end up in the hands of multinational oil companies. This is particularly evident in the former Soviet Union, where the selling-off of industries created a new oligarchy, and the state failed to get its money's worth.

Even if the privatization process is conducted legitimately at fair market prices, there still remains the problem of what to do with the revenues. If handled properly, privatization sale proceeds should equal the net present value of all future profits. In effect, privatization converts future profits into a lump sum. But this conversion gives kleptocratic governments an even larger sum to spend and steal — a case of jumping from the frying pan into the fire.

For this reason, as with oil stabilization funds, privatization works best in countries where governance is strong. This limits the usefulness of privatization.

Economic Oxygen

The natural resource curse represents an enormous impediment to development. Yet it is important to realize that it is not natural resources per se that are the problem; rather, it is lack of good governance and democracy. Remedying this institutional failure requires changes of law and practice but does not require huge resource investments. The measures discussed in this article involve minimal cost but promise enormous productivity gains. From this perspective, the rate of return payoff is astronomical.

Lifting the natural resource curse would be like economic oxygen for developing countries. It would help ensure that existing resources are used efficiently, and the resulting improvement in the economic atmosphere would attract additional resources, making for better growth prospects. ■

ICELAND: PIONEERING THE HYDROGEN ECONOMY

ICELAND HAS UNDERTAKEN AN EXPERIMENT THAT, IF SUCCESSFUL, WILL MAKE IT THE WORLD'S FIRST HYDROGEN ECONOMY BY THE YEAR 2050.

BY ÁSGEIR SIGFÚSSON

Iceland traditionally conjures up images of dramatic natural landscapes, plentiful catches of fish, ESPN's "World's Strongest Man" competition and eccentric pop artist Björk. But now, Iceland is positioning itself as something quite different: a pioneer at the cutting edge of energy technology, on the verge of breaking free of its dependence on imported fossil fuels. This is no ecological fantasy. In fact, Iceland is in the early stages of a decades-long experiment in which the whole country will, in effect, serve as a laboratory. If the experiment is successful, Iceland will become the world's first hydrogen economy by the year 2050.

This will be a long process, but so committed are Icelanders that the government has made this goal a part of its official policy. Still, it has been anything but smooth sailing for the man credited with the initial idea more than 25 years ago. When Dr. Bragi Árnason, a chemistry professor at the University of Iceland, wrote his first paper on the hydrogen option in 1978, it met with skepticism. "People said I was being stupid," Árnason recalls. Few shared his enthusiasm for a new, clean, renewable energy source, and he was ridiculed in the scientific community. Árnason was disappointed, but refused to give up. He was heartened by the fact that Iceland had already undergone two energy revolutions in the 20th century. First, the country's immense hydroelectric resources were tapped to produce electricity. Then, in the 1940s, geothermal water supplies were appropriated to provide the heating needs for all of the homes in Reykjavík — the capital city — as well as to produce a significant portion of the country's electricity. Árnason is confident that hydrogen will spark the third energy revolution in Iceland's recent history.

Why hydrogen? In a word, unlike petroleum, hydrogen is a clean and unlimited fuel. And Iceland can use its already-developed and practically pollution-free hydroelectric and geothermal energy resources to produce it.

Most outside observers agree that Iceland is a uniquely well-qualified contender for this hydrogen experiment. The country has a relatively small population (280,000) — mostly concentrated in the southwest of the country around the capital, Rekyavík — that is well educated (100-percent literacy). Also, Iceland has higher per capita car ownership than any other country in the world. Moreover, Icelanders are typically very environmentally conscious, as the country's successful recycling programs and clean air and water suggest. The absence of a domestic fossil fuel industry is also beneficial, as there is no pressure from domestic business or labor interests, for instance, to safeguard such production. All these elements combined to help Iceland advance its reputation as the "Kuwait of the North."

Fossil fuel resources will run out, and those who have invested in alternative energy research and development will be in a very favorable position.

Bold Plan and Major Players

Iceland has designed an impressive plan to convert every personal vehicle in the country — of which there are currently over 180,000 — to hydrogen. The plan does not stop there, however. Every city bus is expected to run on hydrogen fuel within a decade. In the fall of 2003, the first three hydrogen buses began their scheduled routes on the streets of Reykjavík. They fill up at the world's first commercial hydrogen station, which opened with great fanfare on April 24, 2003, on one of the city's busiest thoroughfares. By the year 2006, the first demonstration project for a fuel cell-powered ocean vessel is expected to be completed, with current plans calling for a complete conversion to hydrogen of Iceland's 2,500-ship fishing fleet, beginning in 2015. These are ambitious goals and correspondingly difficult to meet, but the opportunity for future benefits has attracted major players in the energy industry to come to Iceland's aid.

In 1998, when Iceland's hydrogen plans were still in the early stages of development, assistance came in the form of unlikely allies — business giants whose bottom line is often highly dependent on the production and consumption of non-renewable fossil fuels. Multi-national carmaker Daimler Chrysler, whose hydrogen-powered buses Iceland uses; petroleum powerhouse Royal Dutch Shell, which founded a new subsidiary, Shell Hydrogen, in 1999; and Norway's leading hydroelectric company, Norsk Hydro, are now members of Icelandic New Energy, a joint venture with a group of companies in Iceland. The European Union is also actively involved. Through its Ecological City Transport project, the E.U. has contributed about $3.1 million to the Icelandic hydrogen enterprise. With these powerful patrons supporting the Icelandic foray into alternative energy production, the chances for success have been exponentially increased.

But why are these companies so excited about hydrogen power? The answer is simple: Eventually, fossil fuel resources will run out, and those who have already invested in alternative energy research and development will be in a very favorable position to capture the emerging new energy market. For these companies, hydrogen may be a niche product at the moment, but they foresee an economic windfall in the future, especially if the Iceland project is a success. As Margrét Gumundsdóttir, a spokesperson for Shell Hydrogen Iceland, explains: "We're working with the future as well. We cannot stay behind and just die."

Another aspect of hydrogen production that appeals to these companies is the environmentally friendly reputation that comes with it. The simplest way to explain Iceland's projected hydrogen economy is to say that Iceland will use its hydroelectric and geothermal resources (both practically pollution-free) to "split" water into its two component parts — oxygen and hydrogen — through a process known as electrolysis. The only emission is pure water vapor. Through association with this project, DaimlerChrysler, Shell, and Norsk Hydro can strengthen their status as environmentally conscious corporations.

The Challenge of Hydrogen

Iceland's main interest is to replace the one third of its energy needs currently supplied by imported fossil fuels with domestically produced, clean and natural hydrogen. Iceland also faces an internal paradox that it hopes will be solved by the hydrogen economy. The country's environmentally responsible practices are offset by the immense CO_2 emissions from the country's

---

Ásgeir Sigfússon is assistant to the vice president of AFSA-USAID. An Icelander, Sigfússon received his bachelor's degree in English and international relations from the University of Pennsylvania, and completed his master's degree in German and European studies at Georgetown University's School of Foreign Service.

heavy industry, most notably a handful of aluminum smelters. In fact, Iceland was long unable to sign on to the Kyoto Protocol due to these emissions. While Iceland has now ratified the protocol, hydrogen will allow a further balancing of harmful emissions and better compliance with international environmental standards.

Moving to a hydrogen economy is not without problems. Iceland has been producing hydrogen for decades to use in fertilizers, so the technique is well known by the energy industry. Capacity rather than knowledge presents the most serious challenge: hydrogen production will have to be increased at least 30-fold to meet the expected demand a hydrogen economy would create. The preferred method, electrolysis, is a highly energy-intensive process, which makes hydrogen about three times more expensive by energy content compared to current fossil fuel imports. But Árnason notes that the polymer electrolyte membrane fuel cells that Iceland would use are up to three times as efficient as internal combustion engines, which will probably make hydro-

Iceland's main interest is to replace the one-third of its energy needs currently supplied by imported fossil fuels with domestically produced, clean and natural hydrogen.

From Hydrocarbons to Hydrogen: the U.S. Vision

America will enjoy a secure, clean, and prosperous energy sector that will continue for generations to come. American consumers will have access to hydrogen energy to the same extent that they have access to gasoline, natural gas, and electricity today. It will be produced cleanly, with near-zero net carbon emissions, and it will be transported and used safely. It will be the "fuel of choice" for American businesses and consumers. America's hydrogen energy industries will be the world's leaders in hydrogen-related equipment, products, and services. ...

With steady progress and a few significant technology breakthroughs, the nation will make a committed switch to a hydrogen economy — over the next several decades a confluence of events will mark a steep increase in hydrogen energy development.

By that time, hydrogen production costs will be lower, the basic components of a national hydrogen storage and distribution network will be in place, and hydrogen-powered fuel cells, engines, and turbines will be mature technologies that are mass produced for use in cars, homes, offices, and factories. Early glimpses of this vision can already be seen in pilot programs that are underway in a few U.S. locations and several other countries. ...

At the time the vision for a hydrogen economy becomes a reality, several decades from now, hydrogen will still be produced from fossil fuels, but also from biomass and water using thermal, electric, and photolytic processes. ... Hydrogen produced from water will be a cost competitive alternative to hydrogen made from hydrocarbons. ...

The nation will have a combination of central station and distributed hydrogen production facilities; the mix will depend on local economics and regional resource endowments. ... A selection of relatively lightweight, low-cost, and low-volume hydrogen storage devices will be available to meet a variety of needs. ... Fuel cells will be mass-produced and will be cost-competitive and mature technologies. Advanced hydrogen-powered energy generation devices such as combustion turbines and reciprocating engines will be in widespread commercial use. ...

Hydrogen will be available for every end-use energy need in the economy, including transportation, power generation, and portable power systems. Hydrogen will be the dominant fuel for government and commercial vehicle fleets. …

— Excerpts from *A National Vision of America's Transition to a Hydrogen Economy — To 2030 and Beyond,* United States Department of Energy, February 2002.

gen competitively priced.

Storage will also present some difficulty. Some people have nightmarish visions of the Hindenburg whenever hydrogen is mentioned, but the storage issue is less about safety than about size and form. There are ongoing debates about whether fuel cells should be powered by hydrogen in a gaseous or liquefied state. The former is more energy-efficient but also more difficult to handle. The latter is more amenable to mass consumption, but requires an impractically large storage tank. German automaker BMW is forging ahead with fuel tanks for liquid hydrogen, while most others have decided to use gaseous hydrogen.

By 2030 the DOE aims to replace 10 percent of current U.S. energy consumption with hydrogen power.

A larger-scale problem — literally — is the question of how to store hydrogen on ships that often spend weeks at sea. It is not economical to outfit these vessels with enormous storage tanks. Some have suggested that storing the hydrogen in methanol will prove to be the ideal solution. Scientists will have to resolve these issues for a functional hydrogen economy to emerge.

Price may also be prohibitive in the early stages. The DaimlerChrysler buses introduced in Reykjavík carry a price tag of about $1.1 million each, equal to the price of four to five traditional diesel buses. Increased hydrogen production will inevitably lower these prices, but this economic barrier has prevented larger countries and regions from embarking on a full "hydrogenization" of their own. Iceland's government has done its share to offset costs: The parliament passed a bill exempting zero-emission vehicles from road taxes.

Worldwide Interest

As Iceland moves forward with its hydrogen plans, other countries have taken a keen interest in the small island nation. According to *USA Today*, hydrogen stations have recently been opened or are planned in Tokyo, Hamburg, and major cities in the Netherlands, Spain, Britain, Belgium and Sweden. Canada — like Iceland, abundant in hydroelectric energy — has also expressed a strong interest in the new energy process. In September, Iceland and the province of Manitoba signed an agreement on cooperation in the field of hydrogen production and consumption, covering information, technology, and possible future joint ventures.

Representatives of renewable energy and sustainable agriculture interests in Iowa, Minnesota, and North and South Dakota also visited Iceland to study the possibility of using hydrogen to solve rural energy problems. California is aggressively advocating hydrogen as a way to resolve the state's frequent energy crises. The E.U.'s ongoing involvement in the development of hydrogen energy has already been noted.

The United States is slowly acknowledging the benefits of hydrogen. President Bush has requested $1.2 billion in federal funds over five years to support fuel cell research. In November 2001, the Department of Energy published a report that envisioned hydrogen as the energy carrier of choice for future generations of Americans. By 2010, the report suggests, about 12 trillion kilowatt-hours will by replaced by hydrogen. By 2030, DOE aims to replace 10 percent of current U.S. energy consumption with hydrogen power. In order to familiarize American consumers with a potential new source of energy, DOE has requested significant funds for education purposes alone.

The American automotive industry is also responding. For instance, Ford Motors is developing fuel cell-powered cars. American advocates of hydrogen power point to last August's power grid failure in the Northeast and Canada as clear evidence of the need for new energy solutions. Entrenched special interests may slow the development of hydrogen as a viable alternative energy source in the U.S., but the first important steps have been taken.

At the same time, Iceland is forging ahead with its energy plans. The Icelandic people and the government are in agreement that this is a wise course to take given the immense potential future benefits. As Iceland's President, Ólafur Ragnar Grímsson, told the BBC in 2002: "Iceland is in a way serving as the model of the society of the future — the society which is environmentally sound; which is based on renewable energy and on a way of life which doesn't destroy the life or the atmosphere or the biosystem that we have. There's a lot at stake." ■

"The First American Official Killed in This War"

Army Captain Robert M. Losey, America's first military casualty in World War II, would not be its last.

By J. Michael Cleverley

For many in Europe, the eight quiet winter months following Britain's and France's declaration of war against Germany may have seemed like a "phony war." But there was nothing phony about it in Northern Europe. At the end of November 1939, less than three months after the German invasion of Poland, Stalin invaded Finland. The ensuing 90-day Winter War was a debacle for the invading Soviet columns, as their armor bogged down in the snow and ice of Finland's deep sub-Arctic forests and the Red Army's ill-prepared troops died or were killed by the hundreds of thousands. Khrushchev numbered Soviet casualties at a million. Eventually, the two sides agreed to a cease-fire, in March 1940.

But that was just the beginning of World War II in the north as the fighting moved from Finland's eastern borders to the other edge of Scandinavia. Two weeks before the Finnish-Soviet truce took force at noon on March 13, 1940, Hitler began preparations for the invasion of Norway. On April 5, a German armada carrying 10,000 men quietly moved out of Germany's northern ports to conquer Finland's neighbor.

That same day, officials from the Norwegian Foreign Office received an engraved invitation from the German legation to see a "peace film." The invitation read, "full dress and orders to be worn." Most of the ministry's bureau chiefs attended in white tie attire, curious to see what the Germans had to show. Instead of a peace film, however, they watched a terrifying documentary on the bombing of Warsaw. Shocked, the audience listened while the German minister (chief of mission) explained that the film was intended to illustrate what might happen to any country resisting Nazi attempts "to defend Germany from England."

Four days later, on April 9, 1940, German troops simultaneously took Denmark and seized the Norwegian centers of Oslo, Bergen, Trondheim and Narvik. That night, both the French and British ministers called the U.S. chief of mission in Oslo, Florence Harriman, urgently requesting her to take responsibility for their facilities as they rushed to escape.

The 69-year-old Florence Jaffray Harriman had been head of the American Mission to Norway since 1937. She was only the second woman in American diplomatic history to be appointed to ministerial rank, after Ruth Bryan Rohde. "Daisy," as Florence Harriman was known to her friends, was the widow of New York banker J. Borden Harriman and had been active in Democratic Party politics since the presidency of Woodrow Wilson.

Being a "woman diplomat," as *Newsweek* titled its June 2, 1941, profile of her, was still very much a novelty, but it was hardly intimidating to Harriman. When Norwegian Queen Maud asked her, "How does it feel to be a minister, when you are a woman?" Florence Harriman responded, "Very nice, indeed, when I remember that I am a minister."

Characteristically, Harriman responded swiftly to the crisis. When her attempts to get through to Washington were blocked by local telephone operators who spoke with "more German than Norwegian accents," as she put it, she agreed to the requests on her own authority.

Overnight, embassy families began to congregate at her residence. Harriman

Captain Losey and Amb. Harriman the day before he was killed.

described the situation in her 1941 memoir, *Mission to the North*, as follows: "Wives and children of the staff had been arriving so thick and fast that between five and six o'clock, 25 of us had sat down to breakfast." Finally, instructions arrived from Washington that an evacuation of the entire American legation was to proceed immediately.

The Journey to Stockholm

Nearly simultaneously with the German attack on Norway, orders from Washington arrived in the defense attaché's office at the American Mission in Helsinki that Army Major Frank Hayne and Army Captain Robert Losey, his assistant, were to leave immediately for Stockholm. They were designated "attachés to Norway and Sweden" to keep watch on the war in Scandinavia. With the Defense Attaché office in Oslo literally under siege, they were to cover both countries from Stockholm.

Hayne had been in Helsinki for some time, reporting back to Washington on the ebbs and flows of the Winter War. Losey had arrived in Finland directly from Washington in the middle of February. A young and brilliant officer, Losey had taken two master's degrees from the California Institute of Technology while serving as a meteorological officer at March Field in California. The Iowa-born son of a traveling preacher, he had lived in several parts of the U.S. before attending West Point, where he fulfilled his dream to become a commissioned army flyer.

Losey traveled from Finland to Norway to assist Harriman as she managed the evacuation of American staff and dependents from Embassy Oslo.

Both officers hurriedly departed for Sweden. When they arrived in Stockholm, Hayne went to work in the defense attaché's office at the embassy. Losey, however, was ordered at once to Norway to assist Ambassador Harriman as she managed the evacuation of American staff and dependents from Embassy Oslo. Because Washington had also instructed her to keep close contact with the Norwegian royal family, Harriman divided the party so that she would be near the Norwegian government and royal family. Under the guidance of the Oslo legation's naval attaché, Lt. Commander Ole Hagen, 17 family members, wives and children, had already departed Oslo for the Swedish frontier to the northeast on April 9, the first day of the invasion.

When Losey caught up with Harriman, a few days later, she was in central Sweden, just over the Norwegian-Swedish border. She later wrote, "I ran into Captain Losey on the way to breakfast. I find I have noted in my diary, 'The new military attaché is a nice, spare young man in a flying corps uniform, and seems in every way acceptable.'" (See photo on p. 66.) They spent the day driving across the frigid mountains and by 9 p.m. reached Särna, where they linked up with the French and British legations from Oslo.

By Sunday, April 14, Harriman had still made no contact with the convoy carrying the remainder of the legation families. Fearing they were lost, Capt. Losey told her over lunch that he wanted to press on back to Norway to locate the Hagen party. Harriman agreed and sent him with her own vehicle and driver. They draped the car with a large American flag strung across the top in hopes that prowling German planes would spare the vehicle of a still neutral power. A cable from Stockholm reached the State Department on April 16, 1940, stating that Harriman "… now knows whereabouts of Norwegian government across Swedish border. The roads are open and when Losey returns to her at Salen she will proceed with him to [the] government."

Losey returned that very day, having unsuccessfully tried to locate the missing party. Harriman sent him driving all night to Stockholm to make a personal report to the embassy there. He returned to Salen the following night. Harriman and Losey discussed making a second trip to locate the remaining members of the legation staff, and initially disagreed over whether Harriman should accompany the search mission or Losey should go alone. "You might be bombed," he argued; "the Germans are strafing the roads."

"But so might you," Harriman replied, "and that would be the worse for you are young and have your life before you, while I have had a wonderful life and nearly all of it behind me."

Losey would have none of it. "I certainly don't want to be killed," he said lightly, "but your death would be the more serious as it might involve our country in all kinds of trouble, where with a military attaché' …" he went on, and finally convinced her. Harriman recalled, "I hated to see him go,

---

J. Michael Cleverley, a Foreign Service officer since 1976, most recently served as deputy chief of mission in Helsinki from 1996 to 1999 and as DCM in Athens from 2000 to 2003. He is now the deputy permanent representative at the U.S. Mission to the U.N. Organizations in Rome.

This article is excerpted from his book, Lauri Törni, Syntynyt Sotilas, *a biography of Finnish and American war hero Larry Thorne, which was published by Finnish publisher Otava in October. The book will come out in English under the title* A Scent of Glory *this month.*

A young and brilliant officer, Losey earned two master's degrees at the California Institute of Technology and attended West Point.

but when he impressed on me that 'our first job now must be getting those women out,' I knew he was right." She wrote in her diary, "I will cheer when they return."

While Losey drove west over a mountain road from Sweden back into Norway, the Hagen party moved from the Norwegian coast into the barren, snow-covered Dovre Mountains by car, bus and sled. They eventually traveled through a rail intersection, named Dombas, before reaching safety in Fjällnäs, Sweden. When Losey reached Dombas the party had already passed through.

"Cut Off — and For What?"

Dombas, a strategic intersection along Norway's roads and rail network, was high on the German Luftwaffe's list of targets. On Sunday, April 21, while Losey was still in Dombas, the Luftwaffe attacked. He and Amb. Harriman's chauffeur had loaded the flag-draped car onto a train, and as the bombers arrived overhead, the passengers all ran for a railway tunnel to escape the strafing and bombing. Swooping down on the junction, German bombers dropped their deadly payloads, aiming to destroy the rail facilities. Losey, too, rushed to shelter. But as an air officer he lingered about 30 feet inside the entrance to the rail tunnel, making observations on the air battle above him. Suddenly, a bomb exploded into the earth close by, showering everything around with deadly fragments. One piece shot into the tunnel straight for Losey. It sank deeply into his chest, penetrating his heart.

That same day an urgent telegram arrived at the American legation in Stockholm. It read: "American Military Attaché Captain Losey was killed by German bomber plane at Dombas today. Inform Mrs. Harriman. He will be sent tomorrow, Monday, via Roros to Fjällnäs where instructions from legation are awaited." Harriman received a phone call from an aide telling her the news. "Cut off — and for what?" she sadly wrote. Instructions were sent to Lt. Commander Hagen to take delivery of the body in Fjällnäs.

Following a memorial service in Sweden for Losey, Florence Harriman wrote, "All our hearts ached for the young wife in California who must go on without him. She would be hearing [war correspondent Arthur] Menken on the radio to America, telling of the service; she would read the beautiful tributes to him in the American press; she would not have the picture of the friends of his last winter, who mourned him in the north." Captain Robert Losey's wife, Kay, collapsed when news of his death reached her at her home in Hollywood, California.

"The death of Captain Losey, who is the first American official to be killed in this war, was reported today to Frederick A. Sterling, United States Minister to Stockholm," recorded the *New York Times* on its front page on April 23, 1940. Captain Robert M. Losey, America's first military casualty in World War II, would not be its last.

The citizens of Dombas, Norway erected a monument in Losey's honor in 1987. ■

On American Experience

A Sri Lankan-American maps the contours of the American Dream from the taste of Tang as a child, to Walt Whitman's celebration of the American melting pot, to the dance of democracy that keeps the dream alive.

By Indran Amirthanayagam

My first American experience took place in Colombo when I was 5. It involved a girl and drinking then-unknown and sweet powdered concoctions — Tang, Kool-Aid — in the alley behind her house. That house stood down the graveled path our Hillman took every morning, smart with the starched white shirt and incandescent tie of my father as he rode back and forth to the office and home for lunch.

The girl was naturally blond, sunny-eyed and freckled, and accompanied by an older sister, almost her twin. They belonged, I found out years later, to a consular officer at the American embassy in Colombo and his spouse. I remember feeling slightly perturbed by the invitation to drink the American potion furtively in the cul-de-sac. Perhaps this was just a dare — what children do to bring their kind into consciousness, how they teach each other away from the counsel and occasional rod of their parents.

Perhaps I was simply terrified of girls. Since that tasting in the street, growing up has meant acquisition of further American experience, from foods to civics to girls to driving for the first time down a Honolulu highway. Yet, how daring it must have been for my first teachers to invite the neighborhood boys, the local skins, home for a quick sip of the rare liqueur sent by post on a ship across Atlantic and Indian oceans.

Indran Amirthanayagam is public affairs officer at the American Consulate General in Monterrey, Mexico. His previous postings include Chennai, Mexico City, Abidjan, Brussels and Buenos Aires.

On the Island

My first American encounter took place, then, by invitation, and its fruit was an indelible memory, a sniff and taste of a world beyond cricket bat and pebbled street, beggars, hot and swooping crows, mangosteens. Of course, the island offered plenty to keep the senses swollen and sweat pouring out. And for a boy, wont to play imaginary cricket in his spare time, the sun would have done well to stay up in the sky a bit longer every day. But the sun and rain did not listen to the prayers of boys. Meanwhile, England visited the house on shortwave radio, and our father and mother read to us from Enid Blyton and Dickens. We were properly terrified and fascinated by the horrors of poorhouse and pickpockets, and the mysteries of the Five Findouters.

Our first trip toward the country of Kool-Aid and Tang led us by way of London, and a scarved existence by the resplendent black railings of Gloucester Place.

But the refined pleasure of unhatching an Agatha Christie, or following the calm and firm voice of John Arlott over the radio, could not compete with my boyhood mania for the large screen and its cowboys and

Whether first or last, the American idea continues to draw migrants from throughout the world.

Indians. What shows they were! On the steppes of a vast desert, feathers and spears, blood the color of vermilion and a score of trumpets and drums accompanied the raid of the Indian party on the circled wagons. I see these "Westerns" as the stuff of my second American experience, or rather the backdrop to an eventual and inevitable change of scene.

Yet I did not move right into the Arizona desert, or onto the soundstage of Universal Studios. Our first trip toward the country of Kool-Aid and Tang led us by way of London, and a wonderfully jumpered and scarved existence by the resplendent black railings of Gloucester Place in the center of the city. My brother's autism had forced the hand of my parents to look for treatment abroad. The 1958 riots in Ceylon did their part, as a cloud fell on the aspirations and dreams of a generation of islanders. In retrospect, my first decade in Ceylon had been marked by the ferociousness of that week in 1958, two years before my birth, in which mobs burnt Tamils and their homes and businesses throughout the island.

For a little boy, sheltered, sent off to school in his uniform, playing cricket in the afternoons, ethnic divisions and conflicts did not enter through the wide open doors of his senses. However, they must have seeped in through a crack. I was aware of difference, belonging to a cordoned-off group. I studied in the Tamil class at St. Joseph's while other boys fell into the English or Sinhalese classes. I must have felt some incipient concern about this apparently arbitrary division of mates and academic emphases. Yet the division meant preservation, of culture through language. And why should I complain? I had not yet been stirred into the melting pot of the United States. God and statesmen did not only speak English in those halcyon days.

Shedding Skin

Yet, somewhere on the middle, rough or childhood passage to the new world, or at least jolly England, seat of cricket and cricket commentary, I gave up my Tamil skin — shed it like a snake, trammeled and pummeled its flesh, buried it in some secret corner of the armchair in which my grandmother sat when she accompanied us to London to spend the first year of our exile. The word exile keeps still its exotic and romantic glow. I think of George Lamming's *Pleasures of Exile*, and of an old friend, Paul, an Irish painter I knew when I attended Haverford College near Philadelphia. Paul always sported a silk scarf and constant cigarette, and exhibited fine learning in the arts of mixing spices and preparing aromatic breakfasts in the attic. I loved attics then and now: wonderful hiding places as a child in London, full of buried heirlooms from the old country, later on the scene for a mattress, candles and a tryst.

I left the island in 1969 by plane. Earlier émigrés would have departed by steamship. I wonder how my ancestors would have left thousands

Americans have taught me to be ornery, feisty, and to demand the rights of a participant, a stakeholder, a democrat.

of years ago. By catamaran? We read and debate the origins of our peoples, whether they hail from Kerala or Orissa, why the Finnish and Tamil languages have so much in common. But only in the last few generations, of these post-independence boys and girls, do we see large-scale departures from the island. Trouble in paradise? Has the American Dream become a monopoly? What about the French alternative, the Third Way, non-alignment?

"I am large, I contain multitudes," wrote Walt Whitman in "Song of Myself." Whitman was drawn to the roiling masses. He devoted another important poem to India, although I am not sure he visited its shores. Whitman was an idea generator, an ad man you might say, for the long and sweeping line and for immigration, the ballast of American experience, and dreams and innovation in poetry. He was also one of the first poets Allen Ginsberg introduced me to on a harmonium in Honolulu in 1977, a couple of years after my arrival in the United States.

I have written above about an invitation to drink Kool-Aid, of cowboys and Indians, and the American Dream, first among dreams. Whether first or last, the American idea continues to draw migrants from throughout the world. In my case, it allowed me to adopt a new language, redraft the rules of my particular civic discourse, dream of forming part of a great majority. However, that majority has little to do with race or ethnicity; it does not spring from a careful calibration of university seats to ethnic percentages. I write fully aware of the Great Society programs, the Civil Rights movement, the assassination of Martin Luther King and the Kennedys, protests against U.S. engagement in Vietnam, the literal tug-of-war in which American society has won hard-earned freedoms for all of its citizens. Yet I want to celebrate a different kind of majority, the one that kicks in with a vote for a representative, a letter to the editor, a neighborhood poster campaign against the polluter on the hill. Americans have taught me to be ornery, feisty, and to demand the rights of a participant, a stakeholder, a democrat.

The American Dream

I can hear naysayers remind me of low voter turnouts, apathy, a climate of fear caused by terrorism that is chipping away at long-held privacy protections. Yet, checks and balances function in the United States. Stays of executive orders are granted by courts. Interest groups inspire legislation in Congress that can mollify a particularly strident or partisan policy in the executive branch. Remember, there are three branches to the democracy tree: the executive, legislative and judicial. They work in tandem, at cross-purposes in a wonderful balancing act that keeps the freedom song playing and the resulting dance rip-roaring, cheerful and ultimately full of optimism — what some wags would call American naïveté.

I can hear naysayers remind me of low voter turnouts, apathy, a climate of fear caused by terrorism that is chipping away at long-held privacy protections.

Let the wags wag. I would rather dance, and at the end of the day go to the movies and watch the latest Sundance Festival-stamped film that shows how native Americans really live and work in the modern American democracy, how traditions are preserved within the enormous numbers of different migrant communities.

Over 80 nations lost their citizens in the Twin Towers. How many more nations are driving about American cities and small towns, shopping in the supermarkets and malls, voting or not voting for their representatives (pity, but America is large and I contradict myself, said Whitman)? What about the illegal American, the one who lives on the margins of cities and counties, who staffs restaurants and poultry plants, who picks tomatoes and drives taxis? The debate about resolving the status of these searchers after the American Dream continues as I write.

History shows that debate leads eventually to new legislation, laws and practices. Democracy takes care of dissent, keeps the dream alive. Cowboys and Indians, the White Man and Savage, no longer dominate the American subconsciousness. There are other actors there, a panoply of different stakeholders. They include native Americans, African-Americans, Indian-Americans.

Eventually, the Great Society programs will not be necessary, and we will look back at our cousins gathered in our countries of origin and note with great joy — in my case Sri Lankan-American joy — that war has spent itself, that peoples have healed their wounds and resolved their differences, that the freedom song and the resulting dance are our common patrimony. ■

Books

A Moral Foreign Policy?

A Problem From Hell: America and the Age of Genocide
Samantha Power, Perennial/Harper Collins, 2003, $17.95, paperback, 620 pages.

Reviewed by Peter F. Spalding

Despite its grim subject, *A Problem From Hell: America and the Age of Genocide* is compelling reading. One can readily see why it won the Pulitzer Prize and the National Book Critics Circle Award, and attracted kudos from critics around the world.

Samantha Power, a journalist and lawyer who currently teaches at Harvard's John F. Kennedy School, does not gloss over the horrors of her subject. She devotes separate chapters to the Turkish campaign against Armenians during World War I, the Nazis' "Final Solution," and the Khmer Rouge's brutality, to name but a few of the book's case studies. But her focus is on the consistent inertia of the United States government in responding to each horror, the sole exception being President Clinton's reluctant intervention on behalf of the Albanians in Kosovo.

Power then chronicles the birth of the Convention on the Prevention and Punishment of the Crime of Genocide and its "founding father," Raphael Lemkin, a Polish Jew who lost 48 members of his family to the Holocaust. Lemkin, who invented the term "genocide" in 1944, dedicated his life to advocating the radical proposal that the world must ban genocide through international law, promulgated in a convention signed by all the member states of the United Nations.

> *Despite the U.S. government's apathy about genocide, many individual State Department "worker bees" have raised the alarm.*

Another hero in the birth of the agreement was Sen. William Proxmire, D-Wisc., who on Jan. 11, 1967, stood up in the Senate and announced that he would give a speech advocating the ratification of the Convention Against Genocide every day until it was ratified. Nineteen years and 3,211 Senate speeches later, the U.S. finally ratified the treaty. But it would be another decade before anyone was tried for genocide or before any country acted to prevent it.

Despite the U.S. government's apathy, many individual State Department "worker bees" have done their best over the years to raise the alarm. Consider Charles Twining, who, to the bemusement of his Foreign Service colleagues, spent 1974 at FSI as the lone student of Khmer. Subsequently posted to Thailand, he soon found himself on the Cambodian border interviewing refugees fleeing the Khmer Rouge atrocities. Twining's reports were echoed by those of another young FSO, Ken Quinn (later ambassador to Cambodia), posted on the Vietnamese side of the border. Thanks to these two diplomats, Washington had its first warnings of one of the worst cases of genocide in history.

Less than two decades later, America's refusal to intervene in Bosnia prompted the largest number of Foreign Service resignations on principle in the history of the department, according to the author. Soon thereafter, FSO Prudence Bushnell, a deputy assistant secretary in the Africa Bureau during the 1994 Rwanda genocide, urged intervention only to be marginalized by her superiors for her efforts — despite the fact, as Power documents, that it represented the most clear-cut case for action since the Holocaust. Power's extensive research, including access to previously classified cables, reveals that even a minimal commitment of "boots on the ground" by the U.S. and the U.N. could have saved many of the 800,000 Rwandan men, women, and children from being butchered and burned to death.

To her credit, then-U.N. Ambassador Madeleine Albright also raised concerns but, as she put it, "the global 911 was either busy or nobody was there." For his part, Secretary of State Warren Christopher had to interrupt a meeting on Rwanda to pull an atlas off the shelf to find out where the country under discussion was located.

Lieutenant General Wesley Clark, director of plans and policy at the Pentagon at the time, was no better informed. Once he reportedly asked his staff, "Is it Hutu and Tutsi or Tutu and Hutsi?"

In the final analysis, this reviewer believes that U.S. foreign policy in the "Age of Genocide" reflects a battle between the schools of "realpolitik" and "moralpolitik." The first approach views the mass murder of a people because of who they are through the prism of how it will affect our next national election. The other considers how our reaction (or lack thereof) to such evil will be viewed by humanity in the years to come.

We must be grateful to Samantha Power for so vividly and elegantly pointing us to the road less traveled that leads to a moral foreign policy.

Peter F. Spalding is a retired Senior Foreign Service officer who served in the Middle East, Africa and Asia.

Stalin's Legacy

Gulag: A History
Anne Applebaum, Doubleday, 2003, $35.00, hardcover, 736 pages.

Stalin's Last Crime: The Plot Against the Jewish Doctors, 1948-1953
Jonathan Brent and Vladimir P. Naumov, Harper Collins, $26.95, hardcover, 399 pages.

Reviewed by Ben Justesen

Fifty years after Josef Stalin's death, his legacy continues to fascinate and horrify Western readers, even as Russian admirers pine for the long-lost days of order. These two books con-

At the gulags' peak in 1950, they contained more than 2.5 million prisoners.

tinue the exhaustive historical dissection of both the dictator and the vanished Soviet state.

The more successful is *Gulag: A History*, Anne Applebaum's masterful portrait of Stalin's extensive network of labor camps. Having culled thousands of memoirs and Soviet records, Applebaum (a *Washington Post* columnist) has distilled their essence into three sections of elegant prose (two chronological, one thematic), using such chapter headings as Life in the Camps, Punishment and Reward, and The Dying.

As she explains, Stalin began his massive expansion of smaller-scale political camps in 1929, using forced labor to speed up industrialization of the Soviet state and excavate natural resources in the barely habitable far north. His psychotic vision had its occasional successes, such as the construction of the White Sea Canal, but the camps were inefficient, poorly administered, and counterproductive.

By 1953, an estimated 18 million people, including Russians, non-Russian Soviets, Eastern Europeans, and even a few Westerners, had passed through the system over the previous quarter-century, under sentences for a vast range of crimes (many spurious). At the gulags' peak in 1950, they contained more than 2.5 million prisoners. Most survived, but millions did not.

Inside the gulag (an acronym of the Russian for "main camp administration"), life assumed a terrifying new unreality. Work was relentless, exhaustion constant; prisoners too tired to eat or shower were dragged to do both, compounding psychological torture with sleep deprivation. Even the most mundane details of living assumed a nightmarish quality: vermin-infested clothes and bread-mush were prized, sex was reduced to an animal level, children were separated from their mothers at weaning and often died of sheer loneliness in prison orphanages. The living dead — pitiful, zombie-like inmates in the last, irreversible stages of starvation — were the ghosts of the new world, ignored by the less unfortunate. There were no fortunate ones; even those discharged feared return.

Many modern Russians prefer not to remember the gulags, Applebaum writes, and they routinely rebuffed her requests for details. Nevertheless, her recitation of survivors' horrifying memories will shock even the most cynical reader.

Terrible as the great purges of the 1920s and 1930s, ruthless rural collectivization, and mass starvations under Stalin's rule all were, the gulag system still perhaps best symbolizes the extravagant inhumanity of a system that valued no one's life except the dictator's.

Stalin's death in 1953, attributed to a cerebral hemorrhage at the age of 73, ended the gulag era (although the last, vestigial detention camps were disbanded only by Gorbachev). His demise also fortuitously ended another bizarre episode, the so-called "Doctors' Plot," explored in exhaustive detail by Jonathan Brent and Vladimir Naumov in their book, *Stalin's Last Crime: The Plot Against the Jewish Doctors, 1948-1953.*

Many modern Russians prefer not to remember the horrors of the gulags, Applebaum writes, and they rebuffed her requests for details.

Beginning about five years before his death, Stalin began to plan a gigantic purge of the Soviet Jewish population, whom he painted as stooges of the Soviet Union's Cold War enemy, the United States. In his twisted version of history, Jewish doctors had been killing off Soviet leaders for decades, including A.A. Zhdanov, a disgraced former ally sent to a clinic outside Moscow after a heart attack. Simply put, Zionism threatened Soviet stability. So the Jews had to be stopped.

Did a nervous cabal of aides murder Stalin instead, to head off the purge? The complicated tale is worthy of a Robert Ludlum thriller, but lacks sufficiently clear plot development and generates little suspense. This much, at least, is known: after a Friday night dinner at Stalin's dacha in March 1953, with Lavrenti Beria, Nikita Khrushchev, Nikolai Bulganin and Georgi Malenkov in attendance, the dictator became ill, and was found unconscious on the floor. Four days later, attended by no fewer than 10 doctors, he died.

The authors speculate — though they stop short of asserting — that Lavrenti Beria, head of the KGB, may have administered a large dose of warfarin, a tasteless, colorless poison used in small doses to thin blood in heart patients, to Stalin. It is true that warfarin could induce a brain hemorrhage in an elderly man plagued by arteriosclerosis, but the authors offer no proof that it did, much less that Beria was the perpetrator.

In fact, Brent and Naumov's whole case is circumstantial, at best. To save the nation from Stalin's supremely devious plans to cleanse and destroy it, Stalin had to die. Beria, the likely suspect, was himself conveniently executed; incriminating documents were destroyed or hidden. Too many inconsistencies exist for there not to have been a cover-up. A cover-up proves a plot. A plot means there very likely was a murder.

Yet it is equally possible that Stalin was simply allowed to die by the doctors who might have saved him. Soviet doctors had been forced for years to withhold proper medical care from, or administer improper care to, those who displeased Stalin. Perhaps the Doctors' Plot, in which innocent physicians (few of whom were actually Jewish, by the way) were to be accused of murder, came full circle?

Still, despite repetitiveness and the jerkiness of the authors' conflicting writing styles, the book's thorough documentation of the plot's five-year history makes the book worth reading and its conclusions worth considering. ■

Benjamin R. Justesen, a former Foreign Service officer, is the author of George Henry White: An Even Chance in the Race of Life *(Louisiana State Press, 2001).*

A French-Based Education? Mais Oui!

Foreign Service parents seeking to give their children a good education may wish to consider French-language schools. Here is one family's experience with lycees.

By Roy L. Whitaker and Ninette G.V. Whitaker

One of the main challenges for any parent is how to give their children the best possible education. That task is even more daunting for Foreign Service families, who already have to cope with the effects of the frequent disruptions inherent to an itinerant lifestyle. Often there are few good local schools, and even when there are, the next assignment is usually only two or three years away, raising the issue all over again.

Some FS parents therefore decide to keep their children in boarding schools, either overseas or back in the U.S., to give them a more consistent curriculum and enable them to make friends with peers. Others choose local American- or British-affiliated schools at posts wherever possible to minimize the impact of language and cultural barriers.

There is no one answer that is right for everyone, of course, but we would like to recommend an approach that we have found worked well for our children, Marc, age 20, and Catherine, age 18: educating them in French-language schools, beginning with French-Moroccan nurseries 17 years ago.

Graduates of the French system usually do extremely well at college, and American students are no exception.

Roy Whitaker joined the Foreign Service in 1979. He has served in Manila, Madras, Rabat, Kinshasa, Brussels, Bangkok, Sofia and Washington, D.C., and was recently public affairs officer in Antananarivo. He has been chief of the political section in Dakar since mid-November.

Ninette Whitaker, a Foreign Service GSO specialist since January, has worked as an Eligible Family Member or contractor at embassies and USAID missions in Rabat, Kinshasa, Brussels, Bangkok and Sofia. She has also worked for the Una Chapman Cox Foundation in Washington, D.C. She is currently acting post management officer for Afghanistan.

The French Connection

This was not an easy decision by any means, but Roy had had a happy experience in a European high school as an AFS exchange student in Austria, and his mother's parents came from France's Languedoc region. We worried at first that we would have to choose posts based on the availability of a lycee, but happily we've always found a place for them — though in Kinshasa, Marc and Catherine did have to attend separate French and Belgian schools.

There were plenty of other challenges, too, beginning with the fact that native Tagalog-speaker Ninette had to pick up French along the way to deal with teachers and PTAs. Then there was the fact that while the French educational system is superb, it is also complex and opaque to those not well-grounded in Gallic logic.

To the American parent, everything in the French primary and secondary systems seems unfamiliar. French kids start not with first grade, but with a "Preparatory Course." Once in middle school, they take 10 demanding courses per week and homework is brutal. There is a channeling system in which the most ambitious study sciences while others do literature or economics: even aspiring poets or diplomats major in mathematics! And besides being a tough course, "French-style" mathematical reasoning is taught very differently than in the U.S; for that matter, Belgian math is distinct from French math.

Wherever they are located, French schools are strin-

Continued on page 78

Continued from page 77

We worried at first that we would have to choose posts based on the availability of a lycee, but happily that has not been an issue.

gent and single-mindedly determined to impart a well-defined body of knowledge, in contrast to the more flexible U.S. approach. While once famously Francocentric, lycees are now much less so. The terminal year history/economics course, for example, now uses case studies based on the U.S. as well as such regional powers as China, Brazil, India and Nigeria. Lycees also leave little leeway for class-time exchanges of opinion, preferring to concentrate on giving pupils a solid mastery of facts, which is frequently and thoroughly tested.

As a result, our kids know which French king quipped that "Paris is worth a Mass," but are less sure who chopped down the cherry tree. Ambitious American kids, being bilingual, can address this gap by completing British/U.S. history and literature as an International Option, but of course, that means increasing their already daunting workload.

Finally, grades are based on a 20-point scale, not 100. No teacher ever gives higher than 16, and rarely higher than 14, so even the best and brightest, destined for prestigious Grandes Ecoles, have 15 averages — which translates into a deceptively low 75 on the more familiar 0-100 scale.

The Money Maze

Dealing with sometimes inflexible French bureaucrats has at least one advantage: it is good preparation for seeking reimbursement from our own

Continued on page 80


Bishop O'Connell High School
A CO-EDUCATIONAL COLLEGE PREPARATORY SCHOOL
Celebrating Over 45 Years of Excellence in Catholic Education
• The National Merit Scholarship Program just recently recognized 34 O'Connell students for the 2003-04 school year: five National Merit Semi-Finalists and 29 Commended Students
• The College Board honored 45 members of the 2002 and 2003 graduating classes as Advanced Placement Scholars. The school's AP Program offers 15 college level courses.
• Students are accepted to some of the country's most prestigious colleges and universities, with over 98 percent of all graduates going on to college.
• The school also draws pride from the numerous charitable events in which the students participate annually, most notably the SuperDance for cystic fibrosis research and the Chunky Soup Drive for Christ House in Alexandria.
• DJO's Spiritual Environment has resulted in the school producing 55 graduates who have gone into religious vocations – the largest of any area school.
• The school's athletic teams have consistently gained national recognition through the years, not to mention producing numerous scholarship athletes. Six O'Connell graduates have either played in or are currently playing in the National Football League
• Accredited by the Southern Association (SACS) for over 40 years
• Located just three blocks from the East Falls Church Metro Station and convenient Route 66 exits
OPEN HOUSE
Sunday, October 26 – 12 Noon until 3 p.m.
Sunday, November 23 – 10 a.m. until 1 p.m.
For Admissions Information, call Peggy Kirk (703) 237-1433
6600 Little Falls Road, Arlington, VA 22213
http://www.ee.cua.edu/~oconnell

Continued from page 78

government for educational expenses. Suffice it to say that the State Department's arcane financial rules are ill-equipped to deal with non-U.S. school billings.

Overseas U.S. schools typically provide a well-wrapped "tuition" bill covering every conceivable cost from teacher salaries to gym socks. Embassy Budget & Fiscal offices accept these without a murmur, even though the tab can exceed $30,000 annually. In frustrating contrast, the French ladle out bills like weak soup — for instructional expenses, gym fees, bus transport, research modules, etc. – and seemingly all the time. Yet costs usually total less than $10,000 a year, largely because French schools overseas provide no luxuries. Many classrooms are concrete barracks, with few of the basics provided by U.S. schools, and kids have to buy everything from pencils to wall clocks. (In one southeast Asian capital, the French in their bare-bones digs call the spacious, landscaped and well-appointed U.S. school "Versailles.")

Despite this relative bargain, State Department rules seem to require that every single item and expense from a non-U.S. school, of whatever size or value, be questioned and challenged. We've spent countless hours writing memos to explain that French primary schools require horizontally and vertically-lined paper; that "gymnastique" means freshman physical education, not competitive-level training; that the most popular brand of French staples is not Sweet & Low, as one B&F section we've worked with inexplicably surmised; that because lycees require fountain pens rather than ballpoints, we therefore have to buy ink cartridges, and the only kind of eraser that will remove fountain pen ink costs 29 cents each; and, more generally, that lycees often have both private and public governing boards and that each levies its own, separate fees.

We certainly sympathize with short-staffed financial officers caught

Continued on page 82

Continued from page 80

Dealing with sometimes inflexible French bureaucrats is good preparation for seeking reimbursement from State for educational expenses.

in the middle of all this. But it is still frustrating to encounter the distress, bewilderment and sheer resistance of some embassies to legitimate, well-documented requests to pay French school bills. The optimal solution to this would be to change the rules to allow acceptance of foreign school billings, at least up to a certain amount. At the very least, B&F training should include some coverage of how to handle non-U.S. education finances.

College-Bound

Finally, parents should be aware that not all U.S. colleges enthusiastically accept French credentials, and getting accepted to the ones that do can be harder than it would otherwise be. Lycees naturally focus on educating their students for French universities, and are therefore centered on preparation for the arduous two-part Baccalaureat examination (known familiarly as the "Bac"), not the U.S. college admissions process. It is no exaggeration to say that the Bac process enlists France's full attention and best talents: your daughter's philosophy exam may be graded by a Sorbonne full professor. It can also be a truly unforgiving ordeal: there were rumors (fortunately untrue) in France that this year's math Bac was so impossibly hard that the Ministry of Education might have to repeat it!

Continued on page 84

Continued from page 82

Getting into U.S. colleges is also harder because lycees rarely give multiple-choice exams and never offer SAT coaching, which tends to lower students' SAT scores. Even worse, those 15/20 grades that look great to the Sorbonne translate into 75 on a 100-point scale, so less sophisticated U.S. admissions officers think: "Ah ha, a C student!" Finally, lycees don't offer the clubs, organized team sports or other extracurriculars which serve so well to pad college applications.

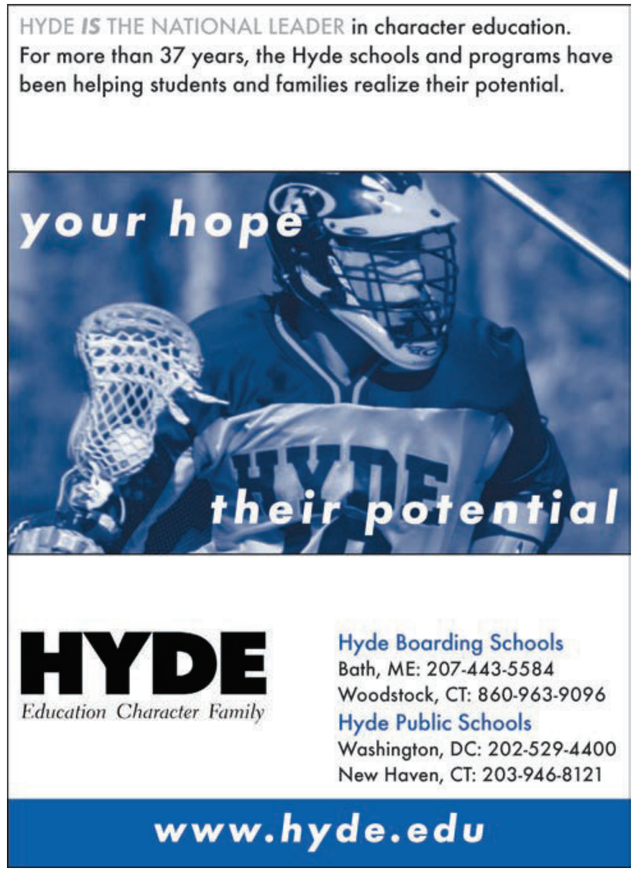
Despite these disadvantages, some top universities love French grads, and many have no particular feelings about them. A few schools are known to be less welcoming. Parents should also be aware that scholarship committees – AFSA's seems among them — find it hard to translate French accomplishments into familiar criteria.

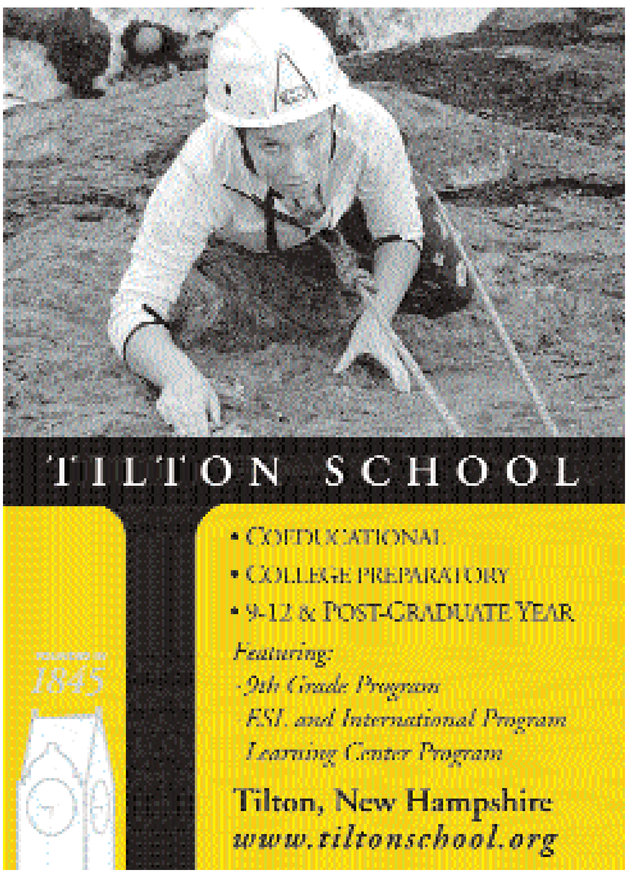
Wherever they are located, French schools are stringent and seek to impart a well-defined body of knowledge, in contrast to the more flexible U.S. approach.

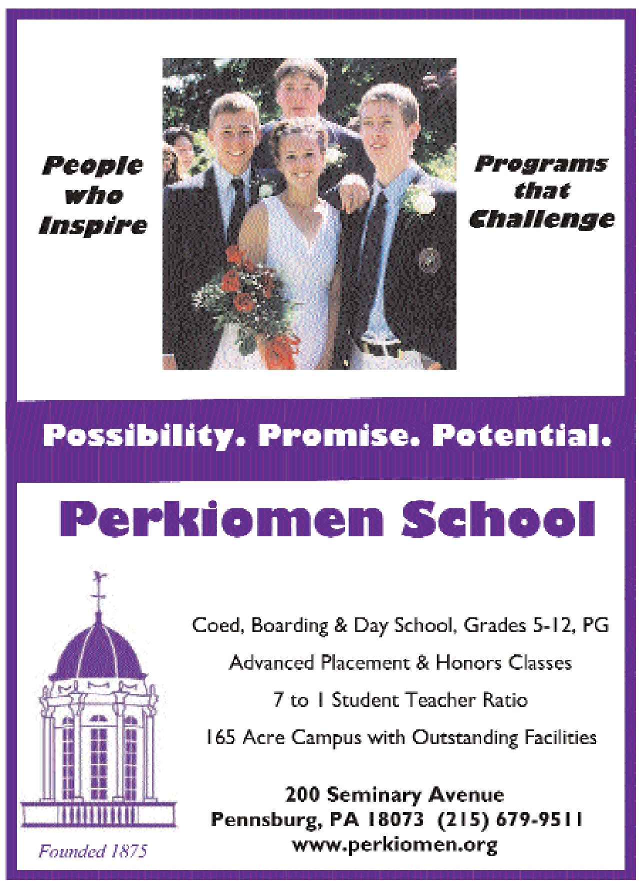
The irony is that graduates of the French system usually do extremely well at college, as they should, since the lycee's two final years, with 12 courses a week and the Bac exam looming, provide valuable experience in dealing with intensive, unrelieved academic pressure.

Speaking of which: We are happy to report that Marc and Catherine both completed Sciences Baccalaureates, with the International Option, at the French International School of Sophia-Antipolis (located in France's "Silicon Valley" near Nice and Cannes). Marc is a Stanford junior, doing a B.S. in Earth Systems and B.A. in International Relations and two more languages while lifeguarding on the side. Catherine, an avid scuba diver, has just entered Duke to study Marine Sciences and earn Divemaster certification during her summers. ■


The Grier School
A Boarding School for Girls
E-mail: admissions@grier.org
URL:http://www.grier.org
phone: 814 684 3000
fax: 814 684 2177
college-prep academics, athletics, arts, dance, horseback riding


HYDE IS THE NATIONAL LEADER in character education.
For more than 37 years, the Hyde schools and programs have been helping students and families realize their potential.
your hope
their potential
HYDE
Education Character Family
Hyde Boarding Schools
Bath, ME: 207-443-5584
Woodstock, CT: 860-963-9096
Hyde Public Schools
Washington, DC: 202-529-4400
New Haven, CT: 203-946-8121
www.hyde.edu


TILTON SCHOOL
• COEDUCATIONAL
• COLLEGE PREPARATORY
• 9-12 & POST-GRADUATE YEAR
Featuring:
9th Grade Program
ESL and International Program
Learning Center Program
1845
Tilton, New Hampshire
www.tiltonschool.org


People who Inspire
Programs that Challenge
Possibility. Promise. Potential.
Perkiomen School
Coed, Boarding & Day School, Grades 5-12, PG
Advanced Placement & Honors Classes
7 to 1 Student Teacher Ratio
165 Acre Campus with Outstanding Facilities
200 Seminary Avenue
Pennsburg, PA 18073 (215) 679-9511
www.perkiomen.org
Founded 1875

Schools at a glance

See our Web page www.afsa.org and click on the marketplace tab.

School Name	Advertisement Page No.	Enrollment	Gender Distribution, M/F	Percent Boarding	Percent International	Levels Offered	Common Application	Accepts/Offers ADD and LD	Miles to Int'l Airport	Int'l Students Orientation	Dorms w/E-mail, phones	Holiday Break Coverage	Annual Tuition, Room & Board (USD)
ELEMENTARY SCHOOL													
Alexandria Country Day School	95	238	48/52	NA	NA	K-8	N	N	20	NA	NA	NA	13,100-14,520
Rock Creek International School	97	220	40/60	0	60	PK-8	N	Y	20	Y	NA	Y	16,975
Washington International School	80	821	49/51	0	37	PK-12	N	Limited	8	Y	NA	NA	16,500-18,390
JUNIOR HIGH SCHOOL													
Indian Mountain School	102	260	60/40	27	12	PK-9	N	Y	75	N	Y	N	29,450
North Country School	102	78	58/42	95	16	4-9	Y	Y	125	Y	Y	N	32,500
JUNIOR-SENIOR HIGH SCHOOL													
Grier School	88	192	All girls	100	50	7-12	Y	Y	120	N	Y	Y	29,500
Hockaday School, The	101	1,010	All girls	9	1	PK-12	Y	Y	30	Y	Y	Y	30,170
Kents Hill Senior High	78	215	60/40	70	20	9-12, PG	Y	Y	50	Y	Y	Limited	31,850
Oakwood Friends School	98	140	55/45	55	5	6-12	Y	Y	35	N	N	N	25,900
Perkiomen School	88	275	60/40	60	20	5-12, PG	Y	Y	50	Y	Y	N	29,300
Stone Ridge School of the Sacred Heart	85	794	All girls	0	2	JK-12	N	N	15	N	Y	N	16,000
Webb School, the	91	280	55/45	33	12	7-12, PG	Y	Y/N	45	Y	Y	Y	27,250
West Nottingham Academy	96	198	65/35	65	17	6-12, PG	Y	Y	50	N	Y	N	26,380
Westtown School	81	785	50/50	75	15	PK-12	Y	N	20	Y	Y	N	29,990
SENIOR HIGH SCHOOL													
Annie Wright School	95	110	All girls	45	25	7-12	Y	Y	27	Y	Y/Y	N	29,920
Bishop Denis J. O'Connell High School	79	1,417	49/51	0	1	7-12	N	Y	18	N	N	N	6,585-9,540
Cambridge School of Weston	95	310	46/54	30	11	9-12, PG	Y	N	15	Y	Y/Y	N	34,600
Cranbrook Schools	82	760	53/47	34	10	9-12	Y	N	25	Y	Y	Y	27,930
Foxcroft School	95	182	All girls	75	13	9-12	Y	N	30	Y	Y	Y	32,000
Garrison Forest School	96	215	All girls	40	10	9-12	Y	N	35	Y	Y	N	30,250
George School, The	81	543	50/50	60	15	12-Sep	Y	Y	40	Y	Y	N	30,370
Gunnery, The	100	271	60/40	70	15	9-12, PG	Y	N	60	Y	Y	N	30,100
Hyde School	88	220	66/33	93	1	9-12	N	Y	30	N	N/Y	N	34,250
Interlochen Arts Academy	98	455	39/61	93	20	9-12, PG	N	N	16	Y	Y	N	28,700
Lawrence Academy	98	390	55/45	50	10	9-12	Y	N	40	Y	Y	N	32,800
Madeira School	84	307	All girls	52	11	9-12	Y	Y	15	Y	Y	Limited	32,800
Mercersburg Academy	99	444	56/44	83	11	9 -12, PG	Y	Y/N	90	Y	Y	N	30,900

CONTINUED ON PAGE 92

Schools at a glance

See our Web page www.afsa.org and click on the marketplace tab.

School Name	Advertisement Page No.	Enrollment	Gender Distribution, M/F	Percent Boarding	Percent International	Levels Offered	Common Application	Accepts/Offers ADD and LD	Miles to Int'l Airport	Int'l Students Orientation	Dorms w/E-mail, phones	Holiday Break Coverage	Annual Tuition, Room & Board (USD)
SENIOR HIGH SCHOOL													
Miss Hall's School	89	165	All girls	75	18	9-12	Y	NA	40	Y	Y	N	31,800
Northfield Mount Hermon School	102	1,030	51/49	79	25	9-12, PG	N	Limited	70	Y	Y	N	30,300
Purnell School	97	100	All girls	85	10	9-12	Y	Y	35	Y	Y	N	31,500
Salem Academy	87	200	All girls	52	6	9-12	Y	N	20	N	Y/N	Y	24,600
Sandy Spring Friends School	85	507	46/54	18	12	PK-12	Y	N	20	Y	Y	N	25,100 30,680
Tilton School	88	210	60/40	70	17	9-12, PG	Y	Y	90	Y	Y	Y	31,850
Wilbraham & Monson Academy	80	340	55/45	50	19	9-12, PG	Y	Y	30	Y	Y	N	30,950
DISTANCE LEARNING/HOMESCHOOLING													
Calvert School	93	Go to: www.calvertschool.org											
University of Missouri (at Columbia)	74	Independent study: 3-12, PG, accredited HS diploma. Go to: cdis.missouri.edu/go/fsd3.asp											21,000
MILITARY SCHOOLS													
Oak Ridge Military Academy	96	240	85/15	85	30	7-12, PG	N	Y	7	Y	N	Y	19,600
SPECIAL NEEDS SCHOOLS													
Gow School	99	143	All boys	100	20	7-12, PG	N	All LD	20	Y	Y	N	37,250
Mount Bachelor Academy	96	95	60/40	100	5	7-12	N	Y	173	N	N	N	62,400
Riverview School	78	182	50/50	NA	Limited	7-12, PG (1 to 3 yrs)	N	Y	75	Y	N	N	55,643
Vanguard School	101	133	55/45	90	26	5-12, PG	N	Y	50	Y	Y	N	31,400
OVERSEAS SCHOOLS													
American Overseas School of Rome	83	600	50/50	5	65	PK-PG	N	Y	30	Y	Y	N	21,000-25,000
Brentwood College School	86	425	58/42	78	22	7-12	N	N	42	Y	Y	N	16,500
CCI Renaissance School	101	120	40/60	100	NA	10-12, AP	N	N	175	Y	Y	N	19,500 Euros
John F. Kennedy Int'l School Switzerland	94	65	50/50	50	70	K-8	N	Limited	90	Y	Y/N	N	31,300
Leysin American School in Switzerland	100	330	58/42	100	65	9-12, PG	Y	Limited	75	Y	Y	N	31,000
TASIS, The American School in England	93	659	51/49	25	35	Nursery-13	Y	Limited	8	Y	Y	N	33,000
TASIS, The American School in Switzerland	93	325	50/50	84	55	7-PG	Y	N	5	Y	Y	N	33,000

OTHER Foreign Service Youth Foundation Ad Page 94 www.fsyf.org


P
PURNEL

Getting an Internship: Some Tips

Internships are the best way to get real job experience and to start figuring out what you want to do professionally. Even if you don't yet know what field you are going into, an internship can be a great experience, and maybe help you to figure it out. Here, briefly, are some tools and tips to make the process as easy and painless as possible, from someone who has just done it. (For more detail, you may want to consult "An Internship Can Open Many Doors," by Tanja Trenz, in the June 2002 *FSJ*.)

First things first: figure out what you're interested in and how to pursue it. Find out which companies dominate the field, or which organizations support your specific interests. Research is crucial in every step of the process; the more you know the better. Simple as it sounds, most companies and organizations list their internships on their Web sites, usually under "employment" or "vacancies." If you are in school, there is probably a career office or similar service on campus, and often they can put you in touch with alumni who are in positions that might interest you.

If you don't have a professional field in mind, or don't know much about the job market in that field, start with a Web site like *MonsterTrak.com* (**www.monstertrak.com**). The main attraction is a database of companies looking for interns in fields from accounting to waste management and everything in-between. The site has a number of other useful features, including a major-to-career converter, a resumé center and a virtual interview program, to help out with the all-important application process.

Begin applying for positions early, at least two to four months before you hope to start; longer if you're looking for a government position that requires a security clearance or background check, as nearly all do. Ask people you know whether they know of an opening or opportunity; they'll often be glad to help. Apply for more than one position; even if you have your heart set on one or think you're a shoo-in, it's always good to have a backup plan. Good luck!

— Aster Grahn

Aster Grahn, a student at McDaniel College, was the Journal's summer 2003 editorial intern.

A FUTURE OF GREAT POSSIBILITIES

FOR MORE INFORMATION, PLEASE CALL 214 360-6522

GIRLS: PRE-K – 12 GRADE
BOARDING 8TH – 12TH GRADE

THE HOCKADAY SCHOOL

11600 WELCH ROAD, DALLAS, TEXAS, 75229
214-363-6311
E-MAIL: SGRIFFIN@MAIL.HOCKADAY.ORG
WWW.HOCKADAY.ORG

CCI The Renaissance School in Italy

Perge et Valeas

Co-ed Semestered Boarding High School

- College Preparatory and AP courses taught in English; grades 10 through high school graduation
- Three school residences
- Expert qualified teaching staff
- Medieval Lanciano on the Adriatic coast in central Italy is safe, quiet, utterly charming
- Supervised excursions
- S.A.T. test centre

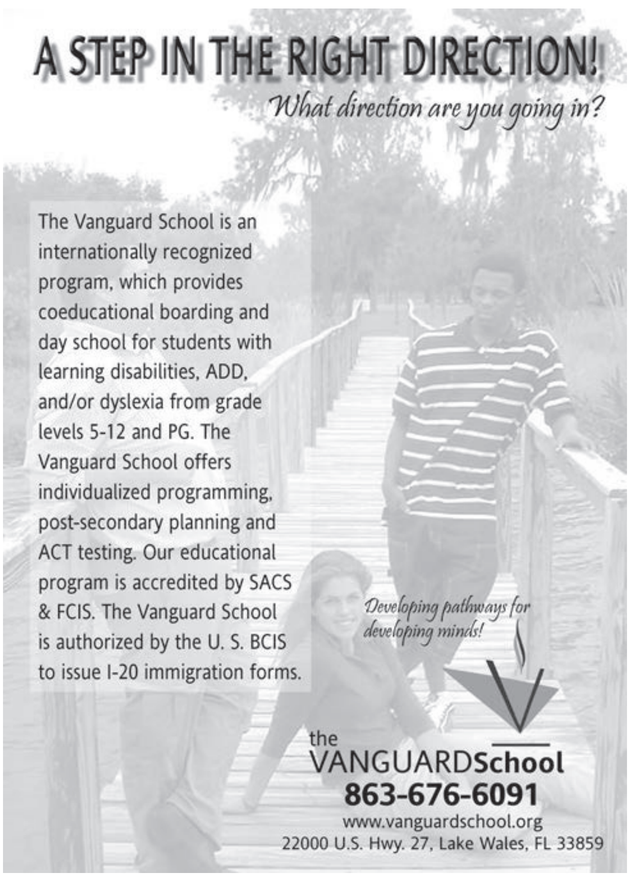
Now Enrolling, January 2004 and September 2004/05

Summer Credit Courses also available Summer 2004

A unique educational experience that lasts a lifetime!

North American Office
Tel: (905) 508-7108 1-800-422-0548 Fax: (905) 508-5480
cciren@rogers.com

Italian Office
Tel: 011-39-0872-714969 Fax: 011-39-0872-45028
cciren@tin.it
website: www.ccilanciano.com



CFC
#7861

DiploTots

Diplotots Child Development Center services State Department and federal employees

Open 7:00 a.m.-6:00 p.m.
Monday - Friday

Open all year, closed federal holidays.

Full-time and drop-in care for infants and children, from six weeks old to kindergarten.

Computers, music appreciation, foreign languages, and dance.

Tuition assistance available for qualified families.

CFC (#7861)
Contributions and recycling funds used for tuition assistance.

U.S. Department of State
Child Development Center
2401 E Street, NW
Washington, D.C. 20520
(202) 663-3555
e-mail:ecdcdiplotos@yahoo.com

REAL ESTATE

REAL ESTATE

REAL ESTATE

ADVERTISING INDEX

When contacting one of our advertisers, kindly mention you saw their advertisement in the Foreign Service Journal.

Real Estate

Reflections

The Christmas Candle

By Dennis Watson

On Christmas Eve in 1994, a bone-chillingly cold day, I found myself in Bratislava, Slovakia as a communications rover, employed by the Department of State. My assignment was to temporarily replace someone during the holidays. I remember feeling alone, in a strange land.

Shortly before noon, I went shopping at a wonderful Christmas market. Wooden booths lined the square and people of all types were wandering about cheery and happy. Everyone was smiling. The Christmas spirit was alive and well. The afternoon air was crisp with the scent of spiced, hot wine. Yet I felt it was going to be a lonely Christmas — just my thoughts and I.

Looking around the market, I saw lots of handmade crafts. I walked over to a booth selling Christmas centerpieces. My eyes locked on one with pine cones, some dried flowers and real moss. I bought it for the telephone operators at the office. The operators were thrilled that I, a temporary boss, would do such a thing. That evening, one of the operators handed me a small gift, wrapped in green tissue paper and a golden ribbon. On the way home, passing again through the Christmas market, I bought myself a table piece similar to the one I gave the operators. Returning to my apartment, I placed the table setting and the small package on the living room coffee table. That was to be my Christmas tree. Complete with gift.

That Christmas Eve, I was alone in my apartment, missing my wife and Christmas food. I lit the candle on the centerpiece and sat back to watch the flame. As the candle was beginning to burn low, it made me sad to think that on Christmas Day there would be no candle to burn. Wanting to save some of the candle for tomorrow, I snuffed out the flame. Not too long after, there was a knock at the door and I slowly got up to answer it. It was my boss holding a large bowl of rich and steamy cabbage soup! She had invited me to a party that she was giving in her apartment above mine, but I had declined due to a bad toothache. Yet even with all the hosting going on, she took the time to think of me and bring me this Christmas Eve dinner!

Christmas Day arrived. Taking my coffee cup to the living room, I peered out the curtains to see a wonderful pristine blanket of freshly fallen snow. It was still early and no one had walked down any of the streets. I lit my little candle for the last time — it was nearly gone now. Soon my Christmas would be over. As the candle sputtered its last breath, I reached over and picked up the gift. I shook it. It didn't rattle. I smelled it. There was a faint aroma coming from the package. I squeezed it. It was solid. I opened it. As my little candle finally sputtered its last, I slowly removed the green tissue paper from the package. It was a candle! A large, green, scented Christmas candle! I was ecstatic. Removing the remnants of the burned candle, I replaced it with the new one and lit it. Later that morning, I decided to go out. As I opened my door, I found, sitting on my doorstep, a small package from my boss. Upon opening it, I found a large, scented beeswax candle!

Life is full of wonderful surprises. During the holiday season, people often search far and wide for miracles. Years from now I won't remember the names of the telephone operators, or my boss in Bratislava. But, every Christmas morning from now on, I will light that large green candle for a short while and think back to a Christmas long ago, in a strange land, where people cared for one another. And simple prayers were answered. ■

It made me sad to think that on Christmas Day there would be no candle.

Dennis Watson served in Paris, Niamey, Bonn, Brazzaville, Hanoi, Karachi and Washington, D.C. and was an Information Management Rover for four years before retiring to Oregon. The stamp is courtesy of the AAFSW Bookfair "Stamp Corner."

AFSA NEWS

American Foreign Service Association • December 2003

OF SPECIAL(IST) CONCERN

ISO Beds for DS Agents in NYC

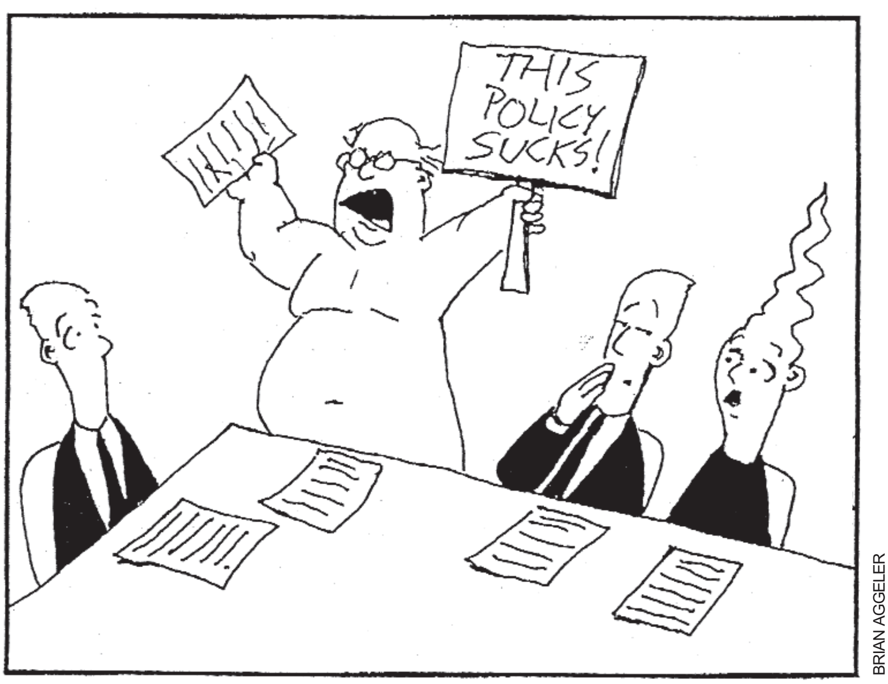
BY LOUISE CRANE, STATE AFSA VP

Editor's Note: Foreign Service specialists make up about 40 percent of AFSA membership, and we've decided it's time to create a vehicle for publicizing issues of special concern to them. We are proud to bring you the first edition of this new AFSA News feature, "Of Special(ist) Concern." We invite and encourage specialists to send submissions for future editions of this series. Send us your 400- to 500-word articles/columns on any topic that you believe has an impact on specialists. If you're highlighting a problem, feel free to suggest a solution. E-mail your submission or questions to dorman@afsa.org. SD

For years AFSA has batted its head against a bureaucratic brick wall to right a serious wrong. We have asked the department nicely, we have begged the department, we have tried to shame the department, we have pleaded, petitioned, prayed and argued with the department to do the right thing. The right thing to do is to pay per diem to all specialist new hires while they go through basic orientation and training.

The department's persistent and impervious-to-reason practice is to tell some new

Continued on page 5



"SURE IT'S DISSENT, BUT IS IT CONSTRUCTIVE?"

In Brief:

CALL FOR 2004 AFSA AWARD NOMINATIONS

Honor the Dissenters Among Us

Help AFSA continue the tradition of recognizing and rewarding constructive dissent and risk-taking in the Foreign Service. AFSA wants to recognize and honor those colleagues who possess the intellectual courage to

- Challenge the system
- Question the status quo
- Take an unpopular stand
- Go out on a limb
- Stand up for their convictions
- Dispute conventional wisdom

We want to publicly recognize and reward those individuals who have promoted critical and constructive solutions to foreign policy problems, management issues, consular policies, or any other area which affects the work of the Foreign Service.

Constructive dissent awards are offered in the following categories:

- The Tex Harris Award — for Foreign Service Specialists

Continued on page 3

AFSA NEWS BRIEFS

AFSA Urges Solution to USAA Problem

Last spring, AFSA learned that USAA decided to exclude from membership all future Foreign Service officers in foreign affairs agencies other than the Department of State. Then-AFSA President John Naland wrote a letter to USAA protesting this decision and urging reconsideration. USAA replied that the USAA Board of Directors had made the decision based on strict criteria for evaluating the eligibility of federal agencies. According to the USAA reply, the other foreign affairs agencies do not meet the criterion that states that "the agency must function under a published, institutionalized mission statement that explicitly refers to national security or national defense, both at home and abroad."

Following this completely unsatisfactory reply from USAA, AFSA President John Limbert wrote to the CEO of USAA to explain that non-State Foreign Service personnel have the same conditions of service and the same status as do their colleagues at State. "Our FCS and FAS colleagues, whatever their agency mission statements say, clearly support national security by supporting U.S. exports and the U.S. economy. In the case of USAID, it has the same mission statement as the State Department – a mandate that explicitly refers to national security." Limbert urged USAA to reconsider the decision to exclude USAID, FCS and FAS from membership eligibility.

USAA has received the letter, and preliminary indications are that it is not seen as a high-priority issue at USAA, and may not be put before the USAA Board until mid-2004. AFSA does not accept this delay, and is currently seeking other ways to push the issue. Find more details on this controversy at www.afsa.org/aidvp/usaa.cfm.

AFSA Press Release on October Gaza Bombing

AFSA issued a press relelase on Oct. 15 condemning the terrorist attacks that resulted in the deaths of three American security guards attached to a U.S. peacekeeping mission in Gaza. The press release received wide national media placement. Media entities quoting AFSA included: *Fox News*, *Yahoo News*, and the *Associated Press*, as well as the *Baltimore Sun*, *Washington Times*, and the *Seattle Post-Intelligencer.*

As we go to press ...
TAX RELIEF (FINALLY!)

Years of hard work by AFSA — and especially Legislative Affairs Director Ken Nakamura — with crucial support from the State Department and the military community, have paid off. On Nov. 5 the House passed (by a vote of 420-0) and sent to the president the Armed Forces Tax Fairness Act. This includes a provision changing the 2-in-5 year residency requirement for exemption from capital gains tax to a 2-in-10 year requirement. The president signed the bill on Nov. 11. For details, go to the AFSA Web site or see *AFSA News* next month.

How to Contact Us:

AFSA HEADQUARTERS:
(202) 338-4045; Fax: (202) 338-6820
STATE DEPARTMENT AFSA OFFICE:
(202) 647-8160; Fax: (202) 647-0265
USAID AFSA OFFICE:
(202) 712-1941; Fax: (202) 216-3710
FCS AFSA OFFICE:
(202) 482-9088; Fax: (202) 482-9087

AFSA Internet and E-mail addresses:
AFSA WEB SITE: www.afsa.org
AFSA E-MAIL: afsa@afsa.org
AFSA NEWS: afsanews@afsa.org
FSJ: journal@afsa.org
PRESIDENT: limbert@afsa.org
STATE VP: cranelk@state.gov
RETIREE VP: jones@afsa.org
USAID VP: wcarter@usaid.gov
FCS VP: charles.ford@mail.doc.gov

AFSA News
Editor Shawn Dorman: dorman@afsa.org
(202) 338-4045 x 503; Fax: (202) 338-8244
On the Web: www.afsa.org/news

Staff:
Executive Director Susan Reardon: reardon@afsa.org

Business Department
Controller Kalpna Srimal: srimal@afsa.org
Accounting Assistant Steven Tipton: tipton@afsa.org

Labor Management
General Counsel Sharon Papp: papps@state.gov
Labor Management Attorney Zlatana Badrich: badrichz@state.gov
Labor Management Specialist James Yorke: yorkej@state.gov
USAID Senior Labor Management Advisor Douglas Broome: dbroome@usaid.gov
USAID Office Manager Asgeir Sigfusson: asigfusson@usaid.gov
Grievance Attorneys Harry Sizer: sizerhs@state.gov, and **Charles Henderson:** Hendersonch@state.gov
Office Manager Christine Warren: warrenc@state.gov

Member Services
Director Janet Hedrick: hedrick@afsa.org
Representative Lindsay Peyton: peyton@afsa.org
Administrative Assistant Ana Lopez: lopez@afsa.org

Outreach Programs
Retiree Liaison Bonnie Brown: brown@afsa.org
Director of Communications Thomas Switzer: switzer@afsa.org
Congressional Affairs Director Ken Nakamura: nakamura@afsa.org
Corporate Relations/Executive Assistant Austin Tracy: tracy@afsa.org
Scholarship Director Lori Dec: dec@afsa.org
Professional Issues Coordinator Barbara Berger: berger@afsa.org

Dissent Awards • Continued from page 1

• The W. Averell Harriman Award — for Junior Officers (FS 6-4)

• The William R. Rivkin Award — for Mid-level Officers (FS 3-1)

• The Christian A. Herter Award — for Senior Officers (FS OC-CA)

Nominating someone for an AFSA dissent award is an excellent way to publicly recognize the contributions of a colleague who has demonstrated the initiative, the integrity and the guts to "make waves" and "rock the boat." There is no better time than now to respond to those who question the loyalty and dedication of the men and women who have chosen to serve their country, often at great risk to themselves and their families, by honoring the qualities of intellectual courage, integrity and initiative that exemplify the best in public service.

AFSA Constructive Dissent Awards are unique for the following reasons:

• They are not based solely on superior performance of assigned duties, however exceptional, and are not the same as employee evaluation reports.

• No other government agency presents similar awards. These are not for whistleblowers, but for those who are committed to creatively and positively working for change within the system.

All winners will receive a monetary prize of $2,500 and are honored at a ceremony in late June at the State Department. Secretary of State Colin Powell attended the last two ceremonies, in 2002 and 2003.

AFSA also offers three awards recognizing exemplary performance of assigned duties or voluntary activities at an overseas post that constitutes an extraordinary contribution to effectiveness, professionalism and morale:

• The Nelson B. Delavan Award acknowledges the work of a Foreign Service Office Management Specialist who has made a significant contribution to post or office effectiveness and morale, beyond the framework of his or her job responsibilities.

• The M. Juanita Guess Award is conferred on a Community Liaison Officer who has demonstrated outstanding leadership, dedication, initiative and imagination in assisting the families of Americans serving at an overseas post.

• The Avis Bohlen Award recognizes the accomplishments of a family member of a Foreign Service employee whose relations with the American and foreign communities have done the most to advance the interests of the United States.

Nomination procedures, additional guidelines and a nomination form can be found on the AFSA Web site, www.afsa.org/awards.cfm. There is also a hyperlink to articles about the AFSA 2003 award winners, as well as a listing of past award winners. The deadline for submitting nominations is late February. The exact date will be announced shortly.

Questions should be directed to Barbara Berger, AFSA Coordinator for Professional Issues, telephone: (202) 338-4045, ext. 521; or e-mail: berger@afsa.org. □

Briefs • Continued from page 2

Legislative Update: Retiree Issues

With the 108th Congress under pressure to cut funding, a number of federal retirement benefit issues hang in the balance. Through AFSANETs and the retiree newsletter, AFSA works to keep retirees informed about issues that affect them and the actions AFSA has taken to protect their interests.

On behalf of its retirees, AFSA recently urged the House Ways and Means Committee to consider favorably the premium conversion bill, filed written comments opposing an EEOC proposal to exempt employer health plans from age discrimination regulations, and began monitoring State Department procedures for collection of annuity overpayments. AFSA has also encouraged retirees to urge Congress to adopt pending bills containing windfall elimination provisions, government pension offsets, and premium conversion authority, and to include the House-passed H.R. 2631 in the Medicare conference bill.

Senator Lugar Continues to Support the FS

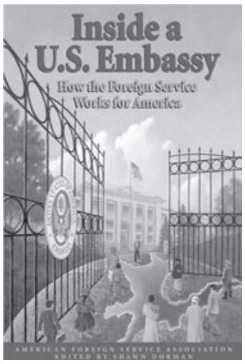
AFSA appreciates the continued support for the Foreign Service shown by Senate Foreign Relations Committee Chairman Richard Lugar, R-Ind. During the Sept. 30 confirmation hearing for Director General W. Robert Pearson, Sen. Lugar made helpful remarks about the Foreign Service. Here is an excerpt:

"Now certainly the country appreciates the sacrifices of our military people who are under fire and who are doing a very tough job, wherever they are. So little is heard of our Foreign Service employees or those who are on the diplomatic front. Those of us on this committee who have opportunities to visit some of those posts and to be with these people have some understanding of that, and so we try anecdotally to convey that to our constituents and to the press people that may want to listen to our stories.

"The cohorts that you have there are the stars ... the people that really have a story that all of us can tell."

Holiday Gift Idea: *Inside a U.S. Embassy*

For only $12.95 (plus shipping and handling, subsidized by AFSA), you can help family and friends begin to understand what it is you do in the Foreign Service. *Inside a U.S. Embassy* takes readers inside embassies and consulates in over 50 countries, providing detailed descriptions of Foreign Service jobs, as well as first-hand accounts of diplomacy in action.



To order *Inside a U.S. Embassy*, go to www.afsa.org/inside, call (847) 364-1222, or visit the nearest Barnes & Noble store.

Continued on page 8

V.P. VOICE: **STATE** ■ BY LOUISE CRANE

AFSA Calling Princeton! AFSA Calling Harvard!

So What Are We — Chopped Liver?

A recent article in the *Washington Post* piqued my interest. William Robertson is seeking the return of millions of dollars his family's foundation gave Princeton University to fund the Woodrow Wilson School of Public and International Affairs. Over the years, the family's original 1961 donation of $35 million has grown to over half a billion dollars to fund scholarships, curricula, campus construction, and professors' salaries. The foundation now pays 75 percent of the Woodrow Wilson School's expenses.

The family's beef is that they expected many Woodrow Wilson graduates to enter government service. "Princeton has known for decades that the goal of our foundation is to send students into federal government, and they've ignored us," Robertson says. This goal is clearly stated in the document that created the foundation: "To establish a graduate school where men and women . . . might prepare themselves for careers in government service with particular emphasis in those areas of federal government concerned with international relations." Hmmm, this sounds like they want Woodrow Wilson scholars to join the Department of State and the Foreign Service. However, it appears that last year, only three Woodrow Wilson students went into federal service.

Americans are applying in record numbers to join the Foreign Service.

Why so few? "Given a choice between stamping passports at some U.S. consulate and, say, working for an international agency establishing health clinics in Tajikistan, most students would hop on an airplane to Central Asia," the *Post* staff writer breezily informs, quoting Joseph Nye, dean of the John F. Kennedy School at Harvard, to bolster this opinion. "Under Reagan, there was a devaluation of government and elevation of making money," states Nye. So, does this indicate a serious trend out there away from government service? No!

Americans are applying in record numbers to join the Foreign Service, more than 65,000 since Colin Powell became Secretary of State. This year alone more than 30,000 applied to take the Foreign Service written exam. Too bad the *Post* reporter did not call AFSA to get the true scoop. The story would have been a lot more objective and accurate if he had.

We want to set the record straight. AFSA has let Robertson know that the fire to serve is out there burning in legions of people who apply to join the Foreign Service, and then apply again if they don't make it on the first round. These are people who value service to their country so much they are willing to accept the low starting salaries, the hardships, the separation from their families and, increasingly, the danger. Our employees apparently didn't go to Princeton or Harvard where, according to Robertson, "folks are turning up their noses at government service." But they are among the most select of government employees.

The commitment to serving our country is alive and well here at the Department of State, Mr. Robertson. Come on down, and we'll introduce you to those of us who are in town. The rest of us are overseas serving our country. □

DREYFUS SCHOLARSHIP PROGRAM

DACOR Offers Financial Support for Students

Several scholarships and fellowships will be available in Academic Year 2004-2005 for children and grandchildren of U.S. Foreign Service officers, active or retired, for study at The Hotchkiss School in Lakeville, Conn., and Yale University, through the DACOR Bacon House Foundation. Awards are made possible by and limited to the income from a generous bequest of the late Ambassador Louis G. Dreyfus Jr.

The Hotchkiss School will seek to select one qualified enrolled student for a $5,000 scholarship. Applicants should contact the Director of Financial Aid, The Hotchkiss School, Lakeville, CT 06039-0800, providing evidence of a parent or grandparent's Foreign Service status.

Awards to Yale students, based on merit, will be made by the DACOR Bacon House Foundation in consultation with Yale University. Awards for undergraduates may be up to $5,000 and up to $10,000 for graduate students. At Yale, the awards are coordinated by the Yale Center for International and Area Studies, Henry R. Luce Hall, 34 Hillhouse Avenue, New Haven, CT 06520. Aspirants may apply for the Dreyfus awards at the time of their application for admission to Yale University.

Application materials must be sent by March 15, 2004, to William C. Hamilton at the DACOR Bacon House Foundation, 1801 F St., NW, Washington, D.C. 20006. For further information on either award, contact Taushia Walker at DACOR by phone: (202) 682-0500, ext. 17, or 1 (800) 344-9127; fax: (202) 842-3295; or e-mail: prog.coord@dacorbacon.org. □

Per Diem • Continued from page 1

hires at the beginning of training where they will be assigned. They cannot receive per diem for the city to which they are assigned, so, for example, those who receive their Washington assignments early are ineligible for per diem there during orientation and training in the Washington area.

Over the years, AFSA has heard many terrible tales from those affected — stories of how they slept in their cars, how they flopped on a succession of couches, and how they ate a steady diet of bologna sandwiches. Many of these new hires have families and mortgages back home, making pricey Washington-area temporary furnished digs out of the question. One security engineer told AFSA he was still paying his temporary housing bill a year after training. The problem is so easy to fix: Management need only wait to officially assign DS agents, English Language Officers and Security Engineers until later in the orientation and training cycle.

We are asking new hires to come on board, be part of the team, yet we don't even have the decency to provide funding to house them for temporary duty in one of the most expensive cities in the country?

The department's bullheaded persistence resulted in a recent absurdity:

There is a group of DS agents-in-training who know that they are being assigned to the New York Field Office beginning next June when training ends. They currently have about six weeks between the end of one training course and the beginning of another. To fill the gap, the department decided to send them to New York. They cannot receive per diem there, because that's where they will report for duty next summer. A call from DS went out for volunteers: Anyone working in New

Continued on page 6

V.P. VOICE: **FCS** ■ BY CHARLES A. FORD

A Lot on the Table

Bill Crawford and I are finding that our agenda is being set rather quickly for us. A lot is on the table and much is at stake! In terms of strategic issues, we are engaged with management on the impact of: new State Department proposals that change the way overseas buildings are financed; proposals to reorganize our parent agency, the International Trade Administration; and CS proposals to restructure the Office of Foreign Service Human Resources. Importantly, our mid-term bargaining proposals are advancing with both sides showing a spirit of cooperation and partnership. We have also developed some thoughts on how to enhance our own communication with members.

The big picture presents us with opportunities and challenges. In October we actively engaged management and the Hill to learn more about both. We identified key players who should hear the FCS AFSA perspective. The State Department and Office of Management and Budget proposal on overseas buildings seeks — for the first time — to have all agencies with an overseas presence foot a share of the bill. Under the Capital Security Cost Sharing Program, the FCS contributions would begin in Fiscal Year 2005. CS management has already had to identify up to 35 overseas posts for closure or down-sizing because of the CSCSP.

Some believe that the cost-sharing program in its present form would eliminate the CS in four years.

Some believe that the cost-sharing program in its present form would eliminate the CS in four years. We are monitoring its impact and will be negotiating implementation with management. We are also working to convince key members of Congress that this is not a smart way to build buildings!

Congress and ITA officials are considering a plan to reorganize ITA to focus more on the manufacturing sector as well as to consolidate all trade promotion programs in the CS. This presents an opportunity to create a one-stop shop for our business clients: the challenge is to do it right. We are working in partnership with management on both issues. Finally, CS management is sharing with us their timeline and ideas on implementing changes to OFSHR as called for in a recent Management Program Review. We applaud the commitment to reform and welcome the call to partnership in working out the details.

Our midterm bargaining revolves around three member-driven issues: new incentives for the maintenance of hard-language skills; payroll deductions for the immediate benefit plan just offered by the American Foreign Service Protective Association; and adoption in the FAM of State's current Member of Household Policy (MOH). As I write this, we are making progress on all three. The spirit of cooperation that allowed us to conclude the new precepts in August continues to dominate. As our next midterm bargaining opportunity is in February, please e-mail us now with your priority issues. The addresses are charles.ford@mail.doc.gov and wcrawford@worldbank.org.

I hope you have all been receiving my regular reports via AFSANet. Together with this column in *AFSA News*, the AFSANet and the AFSA Web site will be our principal tools for communication with you. Let us know what you think of our work so far and share your ideas for work in the coming year. Have a wonderful and safe holiday season! □

INSIDE AFSA: JANET HEDRICK

Member Services Director Crosses 15-Year Mark

BY SHAWN DORMAN

AFSA would like to recognize the outstanding contribution to the association made by our longest-serving staff member, Janet Hedrick. Janet joined the AFSA staff 15 years ago, one year out of college. She spent a year in the grievance department before moving over to membership. Janet's job as AFSA's member services director has grown over the years to include management not only of membership but also of the AFSA Web site, AFSANETs and the AFSA insurance programs.

Janet Hedrick

When Janet came to AFSA in 1988, the association had 9,100 members. Today AFSA has a record membership of over 12,300 employees and retirees. Janet has played a significant role in bringing in new members and increasing efficiency in the membership department. Janet explains that AFSA has become much "more efficient at letting members know what AFSA does for them," and this has helped membership recruiting efforts.

In 1998, AFSA had no fax machine, no e-mail capability and only one PC. At that time, address changes for members took over a month. Today, because of progress in e-mail and Web services led by Janet, it now takes only a minute to make changes. Under her leadership, AFSA is currently undergoing a major technological transition to new, more-advanced association management software that will greatly improve management of membership programs and all other AFSA departments as well.

When Janet joined AFSA, specialists made up only 20 percent of active-duty membership; today they constitute 40 percent. Janet was among the first to recognize the importance of specialists to AFSA's mission and membership community. She is the one who initiated the specialist recruiting lunches for new hires 14 years ago that continue today, introducing specialists to all the AFSA services to members. Prior to that, only the A-100 generalists were invited to AFSA to learn about the organization.

"Janet has been a truly dedicated staff member of AFSA these 15 years," Executive Director Susan Reardon tells *AFSA News*, "and I really admire her ability to help AFSA stay current in membership management." Janet took on management of the first Web site in 1995 and led the efforts to set up e-mail communication with members through the 1990s. "She's now the leader of the team upgrading the membership management system to be truly Web-integrated, a new system that we're rolling out next year," says Susan. "Without her experience, this process would be much more difficult."

Janet explains that she has stayed at AFSA for so many years because "AFSA is a great place to work, and I think we have a great staff here." The expansion of the membership department's responsibilities has kept the work challenging and interesting. Janet appreciates the fact that AFSA truly is a family-friendly organization, offering flexible schedules for many employees. Janet and her husband, Paul, have four children. □

Per Diem • Continued from page 5

York who has a spare bedroom or an empty top bunk in Junior's bedroom should please consider putting up one of these agents-in-training.

So it's come to this. We are asking new hires to come on board, be part of the team, yet we don't even have the decency to provide funding to house them for temporary duty in one of the most expensive cities in the country? Does this send the right message about how management views their service? Will this create a favorable first impression of their new employer, make them proud to work for an institution that takes care of its troops?

When AFSA learned of this, we got on the horn to the higher-ups in DS and, to their credit, they responded quickly. The department still cannot pay per diem or travel costs, but now employees have an alternative to the out-of-pocket travel: They don't have to go to New York. They can stay here in Washington before going on to training at the Federal Law Enforcement Training Center. Because AFSA sounded the alarm, now the employees at least have a choice not to go out-of-pocket.

Now that the higher-ups are engaged on this issue, AFSA is hopeful that they will resolve it once and for all for DS new hires. That will set a precedent for all the other parts of the department that also hire specialists, albeit in fewer numbers. We'll keep fighting this one, and let you know once logic and lodgings (NOT spare beds) prevail. □

AFSA Responds to Pat Robertson

Thanks to all those who sent AFSA messages of support for our letter to the Rev. Pat Robertson following his outrageous October comments about destroying the State Department with a nuclear device. The response from the field and from retired colleagues to AFSA's efforts to counter Robertson's remarks was overwhelming and positive. To read the full text of the AFSA letter to Pat Robertson, go to www.afsa.org/robertsonletter.cfm. □

JO Salary Grievance Denied

BY SHARON PAPP, GENERAL COUNSEL

AFSA regrets to advise that on Sept. 25, 2003, the Foreign Service Grievance Board denied the grievance AFSA filed on behalf of a group of FS-4 junior officers who sought adjustments to their salaries under the department's new entry-level salary policy. This was to be the final stage in our efforts to assist JOs who entered the Foreign Service before the 2001 new entry-level salary policy was implemented.

Effective Sept. 9, 2001, the department adopted new procedures (SOP 104) for determining the entry-level salaries for incoming junior Foreign Service officers. The effect of the new policy was to increase the pay offered to new hires. The policy only applied to officers hired after Sept. 9, 2001, and left equally educated and experienced JOs hired prior to that date out-ranked and out-paid by their new peers. The salary disparities were not insignificant: in some cases, they amounted to over $19,000 per year, not even taking into account lower allowances and retirement contributions. The implementation of SOP 104 caused severe morale problems and created an inequitable salary structure.

With guidance and support from AFSA, JOs sent a message to management that the salary policy was unacceptable. After receiving a well-written petition signed by numerous JOs, the department sought to rectify the situation by announcing guidelines under which JOs in class 06, 05 and 04 could apply to have their entry-level salaries recomputed. Under this procedure, the department administratively promoted eligible JOs in grades 06 and 05 and made the adjustments retroactive to March 10, 2002. AFSA understands that 92 JOs in grades 06 and 05 received a salary increase pursuant to this process.

However, the department believed it could not legally adjust the salaries of officers who had already been administratively promoted to 04 until their competitive promotion to 03. When these JOs were promoted to 03, the department gave them the option to accept the normal salary and rank adjustment that FS employees receive upon promotion or to take the re-calculated entry salary and rank that they would have been given upon entry if SOP had been in effect then. The problem with the second option was that the adjusted rate did not reflect any compensation for time in the Service. The normal two-step increase that comes with promotion was not given with this option.

With guidance and support from AFSA, JOs sent a message to management that the salary policy was unacceptable.

AFSA heard from a number of 04 JOs who believed SOP 104 was unfair. AFSA agreed with them. On July 3, 2002, AFSA filed a grievance with the State Department's grievance staff on behalf of five named junior officers who were affected by the new salary policy. The grievance alleged that the implementation of the salary adjustments violated the merit principles of the Foreign Service Act and violated the Foreign Affairs Handbook. AFSA requested that: 1) FS-4 JOs who were eligible for a salary increase under SOP 104 be granted within grade increases now; 2) If within grade increases were not possible due to legal restrictions, eligible 04 JOs be granted an appropriate within-grade increase upon their promotion to 03 plus an additional two step increases per 3 FAH 01, H 2325; and 3) Experience gained in the Foreign Service be credited as "professional experience" under SOP 104.

On Oct. 7, 2002, the department denied the grievance in whole. AFSA filed an appeal with the Foreign Service Grievance Board on Dec. 4, 2002. After a lengthy discovery and briefing process, the grievance board rendered its final decision on September 25, 2003. In denying the grievance, the board's decision stated the following:

"The fact that some JOs who were initially appointed under the provisions of SOP 104 will earn, at least for some period of time, higher salaries than similarly-credentialed grievants who were initially appointed pre-SOP 104, may appear to be unfair; it may even be unfair." However, it continued, in making salary calculations upon initial appointment, the department takes into account the relevant labor market situation at the time the appointment decisions are made. "It is not the responsibility of this board to judge the wisdom or effectiveness of the department's exercise of its management choices. We are restricted to determining whether the choices violate law, regulation or policy. Grievants cite no law, regulation, policy, or provisions of a collective bargaining agreement . . . that the department has violated, and we do not find that any violation has occurred."

With regard to AFSA's allegation that the department violated the merit principles, the board found the Foreign Service Act establishes a personnel system characterized by rank in person rather than in position; accordingly, the board held that there is no conflict with the merit principles when employees of different pay levels perform essentially the same work. With regard to AFSA's argument that the department violated 3 FAH-1, H 2325a, the board found that the cable announcing the SOP 104 adjustments did not require that employees get two extra steps upon promotion on top of their SOP 104 adjustments.

AFSA thanks the named grievants and the numerous junior officers who assisted us with this grievance. We were under no illusions regarding the difficulty of the case. The grievance board is restricted to finding a violation of law, regulation, policy or collective bargaining agreement. Unfortunately, it is not empowered to provide equitable relief in cases of unfairness. □

AFSA NEWSBRIEFS

USAID Mission Directors Conference

Jim Kolbe, R-Ariz., Chairman of the House Appropriations Committee on Foreign Operations, spoke at the October USAID Mission Directors Conference in Washington, D.C. AFSA members should find his remarks about USAID and foreign aid in general interesting reading. The full text of the speech can be found at www.usaid.gov/press/speeches/2003/sp031009.html.

New to the AFSA Congressional Web Page

AFSA has expanded its congressional Web page (www.afsa.org/congress.cfm) to include a much wider range of resources for visitors with legislative questions.

Visitors to the site can now track important legislation relevant to the Foreign Service as it moves through Congress, gain an overview of top issues, review AFSA's legislative agenda, and read AFSA's congressional testimony. We have also provided more resources for contacting Congress, learning about congressional committees and leadership, and understanding the legislative process. We encourage you to visit this page to learn more about legislative issues of interest to the foreign affairs community.

AAFSW Seeks Nominations for Outstanding Volunteers

The Associates of the American Foreign Service Worldwide is seeking nominations for the Secretary of State Award for Outstanding Volunteerism Abroad. One U.S. government direct-hire employee or family member from each of the six geographic bureaus of the State Department will be selected to receive the award. The awards will be presented at Foreign Affairs Day in May.

The award recognizes outstanding volunteers in one or more of the following categories: exceptional service to the community, outstanding activities directed toward the host country and exceptional service in emergencies. It is time to consider nominating someone from your region. Nominations are due Feb. 2 and can be sent by e-mail to AAFSW@starpower.net; by fax to (202) 362-6589; or by mail to the AAFSW office at 5125 MacArthur Blvd., N.W., Suite 36, Washington, DC 20016. For more information, e-mail AAFSW or call (202) 362-6514.

The nomination should not exceed three printed pages and should follow the following format: Nominee's name; agency and position (if nominee is a family member, the name, relationship to the direct-hire employee and the employee's position and agency); nominator's name, agency, position (or family relationship) and description of association with the nominee; and justification for the nomination. Questions: e-mail aafsw@starpower.net.

OPEN SEASON REMINDERS

Thrift Savings Plan

Open season for the Thrift Savings Plan ends on Dec. 31, so if you want to open an account or change your contribution amount, do it soon! Reallocation of contributions to the individual funds from salary may now be done at any time. To make a change, submit a TSP-1 Election Form to your bureau personnel office or submit it using Employee Express at www.employeeexpress.gov. FS members over age 50 are reminded to consider the TSP catch-up provision which allows them to contribute an extra $3,000 in 2004, up from $2,000 in 2003. The additional contribution can be made by filling out form TSP-1-C. For this form, and for more information on the TSP open season, go to www.tsp.gov/curinfo/index.html. The next open season runs from April 15, 2004 through June 30, 2004.

Health Insurance

The Federal Employee Health Benefits open season for 2004 runs until Dec. 8, or 31 days from the date materials are received at post, whichever is later. (Retirees have until Dec. 31.) Members are also eligible to change plans following the occurrence of a "qualifying life event" such as marriage or changing employment status. More information on the FEHB can be found at www.opm.gov/insure/health/index.asp.

Long Term Care Insurance

Open enrollment period for the Federal Long Term Care Insurance Program runs through Dec. 31. The decision about whether to enroll is a complicated one and depends on your individual needs. AFSA urges members who decide to enroll to research the options offered through the federal government program and look at other options as well to find the best program and price.

The OPM Web site contains information about LTC insurance at www.opm.gov/insure/ltc. Certified LTC insurance consultants are available to answer questions at the toll-free number: 1-800-LTC-FEDS (800-582-3337). Information is also available at www.ltcfeds.com. The Web site offers online applications and an interactive calculator to provide customized price quotes. The AFSA Web site also has information on LTC insurance at www.afsa.org/retiree/ltc.html.

The Federal Long Term Care Insurance Program is administered by Long Term Care Partners, LLC, a joint venture company between John Hancock Life Insurance Company and MetLife, the country's largest carriers of group long term care insurance.

FROM THE STATE DEPARTMENT

The New EER Form Represents Best Practice

BY MICHAEL CAMPION, CONSULTANT TO THE STATE DEPARTMENT

The department's new Employee Evaluation Report form for Senior Foreign Service employees and FS-1s includes a section for rated employees to describe their accomplishments. I think this is a valuable change.

First, employees know their jobs. They are in an excellent position to accurately and objectively describe their work. Employees already provide informal input into their EERs by giving raters a summary of activities or bullet points on accomplishments. Allowing employees to draft the accomplishments section formalizes what already happens and makes the process transparent.

Second, private sector "best practices" suggest this change will encourage better communication between employees and supervisors. Having employees describe their own accomplishments and raters evaluate those accomplishments encourages open and honest dialogue. It also serves to identify differences in viewpoint and improves management. In addition, academic research shows that involving employees in the evaluation process increases their commitment to the process and their acceptance of the results.

Third, the description of accomplishments allows employees to speak directly to the selection boards and others who read the EERs. In most cases, I anticipate that employees and raters will work together to arrive at a description of accomplishments. Nevertheless, because employees write the initial draft and control what goes in this section, it will give selection boards another perspective. Research on the measurement of job performance suggests that increasing the number of viewpoints providing input into EERs should improve their accuracy.

Finally, the department has introduced the new EER as a one-year pilot program. It is part of ongoing efforts to improve department operations and management. As with any innovation, there may be problems. Department managers have carefully considered the potential risks of the new form, however, and concluded the benefits outweigh them. After the year is completed, I understand the department will solicit comments from all employees and review the results. □

Michael A. Campion is a consultant to the State Department on a range of human resources issues. He had input into the design of the current and the new pilot EER form. **Send your comments on the new form to afsanews@afsa.org.**

DACOR CONFERENCE

Diplomacy Key to Combating Terrorism

BY RICHARD MCKEE, DACOR EXECUTIVE DIRECTOR

The 2003 DACOR Bacon House Foundation Conference, held at the World Bank on Oct. 10, examined "Combating Terrorism: The Role of Statesmanship." DACOR (Diplomats and Consular Officers, Retired) President Robert L. Funseth introduced the keynote speaker, Ambassador Robert B. Oakley, who drew on his experience as a director for counterterrorism at the State Department and as ambassador to Somalia and Pakistan, to provide valuable historical perspective. He recounted how concerted international action had defeated far-left terrorism in Europe earlier. He emphasized that U.S. diplomatic, economic and military assets must complement each other and be deployed in coordination with friends and allies.

Former FSO and National Security Adviser to Vice President Gore Leon Fuerth emphasized that U.S. leadership was indispensable but insufficient in itself to overcome terrorism: the cooperation and contributions of friends and allies — at the U.N., in regional alliances such as NATO, and on the ground — are prerequisites. Speaking as a panelist on "state sponsors and failed states," Ambassador Oakley added a third category: complicit states, states that tolerate the presence of terrorist groups on condition that they act elsewhere.

Henry L. Stimson Center President Ellen Laipson underscored that, in addition to international cooperation in the intelligence field, coordination of police activities was needed to combat terrorism. State Department Director of the Office of Andean Affairs Phillip T. Chicola reported that disparate groups with national aims exchange information on tactics and weaponry. Director of the Office of Foreign Assets Control at the Treasury Department R. Richard Newcomb described programs for monitoring the financial transfers that sustain terrorist groups. He observed that terrorist operations cost little, but recruitment, training, arming and positioning terrorists are expensive.

Ambassador Thomas R. Pickering, former under secretary of State for political affairs and a former permanent representative to the U.N., culminated the conference with a thoughtful address strongly endorsing the call by Senator Richard Lugar, R-Ind., to devote sufficient resources to diplomacy and economic assistance to make sure that "we can contain and marginalize this threat." Doing so should reduce occasions that call for the use of military force, Pickering noted. He raised serious concerns about "the new national strategic doctrine of preventive war or preventive attack" and about "what to do after combat is over," as in Afghanistan and Iraq today. □

CLASSIFIEDS

LEGAL SERVICES

ATTORNEY WITH 22 years successful experience SPECIALIZING FULL-TIME IN FS GRIEVANCES will more than double your chance of winning: 30% of grievants win before the Grievance Board; 85% of my clients win. Only a private attorney can adequately develop and present your case, including necessary regs, arcane legal doctrines, precedents and rules. **Call Bridget R. Mugane** at Tel: (202) 387-4383, or (301) 596-0175. E-mail: fsatty@comcast.net

Free initial consultation.

ATTORNEY

GRIEVANCE ATTORNEY (specializing since 1983). Attorney assists FS officers to correct defective performance appraisals to reverse improper tenuring and promotion board decisions, secure financial benefits, defend against disciplinary actions and obtain relief from all forms of discrimination. Free Initial Consultation. Call **William T. Irelan, Esq.** Tel: (202) 625-1800, Fax: (202) 625-1616. E-mail: wtirelan@vais.net

WILL/ESTATE PLANNING by attorney who is a former FSO. Have your will reviewed and updated, or new one prepared: No charge for initial consultation. **M. Bruce Hirshorn, Boring & Pilger**, 307 Maple Ave. W, Suite D, Vienna, VA 22180 Tel: (703) 281-2161, Fax: (703) 281-9464. E-mail: mbhirshorn@boringandpilger.com

TAX & FINANCIAL SERVICES

TAX RETURN PREPARATION AND PLANNING from a CPA firm specializing in expatriate taxation. Home of JANE A. BRUNO, the author of "The Expat's Guide to U.S. Taxes." Tax return preparation, tax consultation and financial planning. Contact us at: Tel: (954) 452-8813, Fax: (954) 452-8359. E-mail: jabruno@americantaxhelp.com Visit our Web site: www.americantaxhelp.com

PLACE A CLASSIFIED AD:

$1.25/word (10-word min.) First 3 words bolded free, add'l bold text $2/word, header, box, shading $10 ea. Deadline: 20th of month for pub. 5 wks. later.

Ad Mgr: Tel: (202) 944-5507,
Fax: (202) 338-6820.
E-mail: miltenberger@afsa.org

VIRGINIA M. TEST, CPA: Tax service Specializing in Foreign Service/overseas contractors. **CONTACT INFO: (804) 695-2939, FAX: (804) 695-2958.** E-mail: VTest@aol.com

ROLAND S. HEARD, CPA
1091 Chaddwyck Dr.
Athens, GA 30606
Tel/Fax: (706) 769-8976
E-mail: RSHEARDCPA@aol.com

- U.S. income tax services
- Many FS & contractor clients
- Practiced before the IRS
- Financial planning
- American Institute of CPAs, Member

FIRST CONSULTATION FREE
WWW.ROLANDSHEARDCPA.COM

FREE TAX CONSULTATION: For overseas personnel. We process returns as received, without delay. Preparation and representation by Enrolled Agents. Federal and all states prepared. Includes "TAX TRAX" unique mini-financial planning review with recommendations. Full planning available. Get the most from your financial dollar! **Financial Forecasts Inc.**, Barry B. De Marr, CFP, EA, 3918 Prosperity Ave. #230, Fairfax, VA 22031 Tel: (703) 289-1167, Fax: (703) 289-1178, E-mail: finfore@aol.com

FINANCIAL ADVISOR: Stephen H. Thompson, Legg Mason Wood Walker Inc. Member NYSE/Member SIPC (Retired Foreign Service Officer).
Tel: (202) 778-1970, (800) 792-4411.
Web site: www.sthompson.fa.leggmason.com
E-mail: shthompson@leggmason.com

ATTORNEY, FORMER FOREIGN SERVICE OFFICER: Extensive experience w/ tax problems peculiar to the Foreign Service. Available for consultation, tax planning, and preparation of returns:

M. Bruce Hirshorn, Boring & Pilger
307 West Maple Ave., Suite D,
Vienna, VA 22180 Tel: (703) 281-2161,
Fax: (703) 281-9464.
E-mail: mbhirshorn@boringandpilger.com

PROFESSIONAL TAX RETURN PREPARATION: Thirty years in public tax practice. Arthur A. Granberg, EA, ATA, ATP. Our charges are $65 per hour. Most FSO returns take 3 to 4 hours. Our office is 100 feet from Virginia Square Metro Station, Tax Matters Associates PC, 3601 North Fairfax Dr., Arlington, VA 22201. Tel: (703) 522-3828, Fax: (703) 522-5726.
E-mail: aag8686@aol.com

PROPERTY MANAGEMENT

REALTY GROUP, INC.

DC PROPERTY MANAGEMENT AND SALES
of single-family homes,
condos & small apartment bldgs.
We serve owners
who appreciate personalized
service & quality maintenance.

Amy Fisher, CRS: (202) 544-8762
E-mail: amyfisher@realtygroupinc.net,
Visit our Web site:
dcproperty**management.**com

KDH PROPERTIES serves the property management needs of clients who are located inside the beltway from American Legion Bridge to the Annandale exit. We have over 30 years experience in renting and managing. We are REALTORS and belong to the Northern Virginia Association of REALTORS. We manage: single-family homes, townhouses, condo units, as well as small community associations. We would be honored to serve as your property manager. Our manager has earned and holds the designation of Certified Property Manager and Certified Manager of Community Associations. Contact us for more information: Tel: (703) 522-4927, or e-mail: kdhproperties@mris.com

PROPERTY MANAGEMENT

PRUDENTIAL CARRUTHERS REALTORS: Complete professional dedication to the management of residential property in Northern Virginia. Our professionals will provide personal attention to your home, careful tenant screening, and video inspections of your property. We are equipped to handle all of your property management needs. We work 7 days a week! Over 22 years real estate experience and Foreign Service overseas living experience. JOANN PIEKNEY.
Vienna:
Tel: (703) 938-0909, Fax: (703) 281-9782,
E-mail: Vienna@prudentialcarruthers.com
Arlington: Tel: (703) 522-5900,
Fax: (703) 525-4173.
E-mail: Arlington@prudentialcarruthers.com.

WJD MANAGEMENT IS competitively priced, of course. However, if you are considering hiring a property management firm, don't forget the old saying, "You get what you pay for." All of us at WJD have worked for other property management firms in the past, and we have learned what to do and, more importantly, what *not* to do from our experiences at these companies. We invite you to explore our Web site at **www.wjdpm.com** for more information, or call us at (703) 385-3600.

CLASSIFIEDS

PEAKE MANAGEMENT: Looking for a great property manager experienced with FS clients? Call me to set up an appointment, or to receive our free Landlord Manual. The manual clearly explains the rental management process no matter which company you choose. We're professional, experienced and friendly. In business since 1982. Lindsey Peake: 6842 Elm St., McLean, VA 22101. Tel: (703) 448-0212.
E-mail: Lindsey@peakeinc.com

TEMPORARY HOUSING

SHORT - TERM RENTALS

CORPORATE APARTMENT SPECIALISTS: Abundant experience working with Foreign Service professionals and the locations to best serve you: Foggy Bottom, Woodley Park, Cleveland Park, Chevy Chase, Rosslyn, Ballston, Pentagon City. Our office is a short walk from NFATC. One-month minimum. All furnishings, housewares, utilities, telephone and cable included. Tel: (703) 979-2830 or (800) 914-2802; Fax: (703) 979-2813.
Web site: www.corporateapartments.com
E-mail: sales@corporateapartments.com

FURNISHED LUXURY APARTMENTS: Short/long-term. Best locations: Dupont Circle, Georgetown. Utilities included. All price ranges/sizes. Parking available.
Tel: (202) 296-4989, E-mail: rlicht@starpower.net

TEMPORARY HOUSING

WASHINGTON, D.C. or NFATC TOUR? EXECUTIVE HOUSING CONSULTANTS offers Metropolitan Washington, D.C.'s finest portfolio of short-term, fully-furnished and equipped apartments, townhomes and single-family residences in Maryland, D.C. and Virginia.

In Virginia: "River Place's Finest" is steps to Rosslyn Metro and Georgetown, and 15 minutes on Metro bus or State Department shuttle to NFATC. For more info, please call (301) 951-4111, or visit our Web site: www.executivehousing.com

FOREIGN SERVICE ASSOCIATES, INC. Stylishly and fully-furnished condominiums at River Place (Rosslyn, Virginia), Foggy Bottom & Dupont Circle (D.C.) All units are walking distance to the Metro or NFATC SHUTTLE. Utilities, free basic cable, free local telephone service and Internet access included. Full-service gym, pool, entertainment center and jacuzzi (certain locations). Efficiencies, 1 & 2 Bedroom units available. Owned by retired Department of State Employee. Flexible with all per diems, even sliding allowances. WE UNDERSTAND BECAUSE WE'VE BEEN THERE! (703) 470-4908.
E-mail: fsassoc2@aol.com

PIED-A-TERRE PROPERTIES, LTD: Select from our unique inventory of fully-furnished & tastefully decorated apartments & townhouses all located in D.C.'s best in-town neighborhoods: Dupont, Georgetown, Foggy Bottom & The West End. Two-month minimum. Mother-Daughter Owned & Operated. Tel: (202) 462-0200. Fax: (202) 332-1406.
www.piedaterredc.com

1768-74 U. ST/ ADAMS MORGAN: Unique spacious 2-BR apts w/terrace. In newly renovated historic bldg. Individual HVAC units, controlled entry system, hdwd flrs, all new appliances including W/D. Pkg. avail.
For appt. call: (917) 567-4811.

TEMPORARY QUARTERS GEORGETOWN: Exquisite, fully furnished accommodations at the East End of Georgetown. Short walk to World Bank and State Department. Lower two levels of four-level home, private front and rear entrances, eight-foot ceilings, three fireplaces, two large marble bathrooms, granite and stainless steel kitchen, washer and dryer, fenced rear patio leading to alley. Street parking. Dishes, flatware, towels, linens and light maid service included. Pets case-by-case. Rate commensurate with housing allowance. Contact owner at: rraysol@aol.com or Tel: (202) 625-6448. See photos and description at: www.1229-30thStreet.com

REAL ESTATE

HEADED TO D.C.? Start planning now for house hunting in Northern Virginia. Let my 16-plus years of experience providing FS personnel with exclusive **Buyer Representation** work for you. My effective strategy for home buying will make the transition easier for you and your family!

Contact **MARILYN CANTRELL**, Associate Broker, ABR, CRS, GRI at McEnearney Associates, 1320 Old Chain Bridge Rd, McLean, VA 22101. Tel: (703) 790-9090, ext. 246; Fax: (703) 734-9460.
E-mail: **marilyn@marilyncantrell.com**
www.marilyncantrell.com

WEST END 1 br, den, 1 bath, laundry, garage. End unit, Wrap-around balcony. Available: Jan 1, 2004. $2,350.00.
Tel: (202) 232-2244, (202) 333-1176,
cell (202) 352-1463.

BEAUTIFUL EXECUTIVE HOME with two decks, and hot tub. Great for entertaining. 5 bedrooms, 3 1/2 baths. Lawn and spa service included. $3,600/month. Summerwood Realty. Tel: (703) 255-6500.

LEASE 205 FORESTED acres, in Tenn., 25 miles north of Knoxville. Call to discuss house. Tel: (865) 609-1864 or cell (865) 548-5561.

WARRENTON, N.C.: Shady Oaks, ca. 1812, is a lovingly restored and sensitively enlarged (4368 sq. ft.) tripartite home occupying 13+/- acres. Lovely gardens and numerous restored outbuildings make it a true country estate. $695,000. Diane Lea Tel. (919) 967-8742.
E-mail: dlea@mindspring.com
www.dianelea.com
Prudential Carolinas Realty

FLORIDA

LONGBOAT KEY, BRADENTON/ SARASOTA Area will exceed expectations. Don't miss owning in Florida. Resales, new homes, rental management and vacation rentals. Dynamic growing company offering personalized professional service. Contact: Sharon E. Oper, Realtor (AFSA Member) Wagner Realty. Tel: (941) 387-7199.
E-mail: lbk@comcast.net

FLORIDA

NO STATE INCOME TAX enhances gracious living in Sarasota, the cultural capital of Florida's Gulf Coast. Contact former FSO **Paul Byrnes,** Coldwell Banker residential sales specialist, through e-mail: byrnes@family-net.org or **Toll-Free: (877) 924-9001**.

BOCA RATON, PALM BEACH, FORT LAUDERDALE Gracious living in vibrant S. Florida with many cultural events, universities, and sports. The Treasure Coast remains affordable w/ condos, villas, waterfront and golf communities in all price ranges. Enjoy EuroMed living as your investment grows. FSO (ret.) assists with amenities, and spouse/agent shows range of retirement, investment and vacation properties. Contact: Tel: (561) 445-9923.
E-mail: marilyn.mangan@coldwellbanker.com

COME ON DOWN! The Carolinas have it all -- mountains, forests, beach and lakefront living. Exciting cities or country quiet. Retire, or build a new career among friendly people. Great tax advantages for federal retirees. Let Allen Tate Realtors, the region's number one agency, be your guide. Contact former FSO Craig Davidson today for a free relocation package. Craig.Davidson@atcmail.com.
Tel: (704) 367-7227.

CLASSIFIEDS

WASHINGTON STATE ISLANDS: Spectacular views, wonderful community, climate, boating, hiking. Access Seattle & Vancouver, B.C. Former FSO Jan Zehner, Windermere Real Estate/ Orcas Island, (800) 842-5770; www.orcas-island.com
E-mail: janz@rockisland.com

VACATION

BETHANY BEACH: Watch golfers on the 15th tee from your bedroom window and then grab your clubs and join them! Three-year-old townhouse in Bethany's prized Salt Pond community is available for rent for a winter escape...or plan now for the summer of 2004. Sleeps six; 10-minute drive to the beach. Salt Pond has an 18-hole golf course; natural mini-golf course; basketball, tennis, and shuffleboard courts. Plus swimming pool (summer only). Bethany Beach is between Ocean City and Rehoboth on the Delaware Coast. Off-season rentals, $300/weekend; in season rentals, $800 to $1500/week. For more info. contact Carol: (202) 310-5491, e-mail: carolgiacomo@earthlink.net

BEAUTIFUL AVENTURA CONDO: 2/2 For Rent N. Miami Beach. Breathtaking Intracoastal/Ocean views from 40' balcony; pool; jacuzzi.
E-mail: summertime2014@hotmail.com

NAPLES, FLORIDA CONDO, monthly rental, 2 bedrooms, 2 baths.
Email: wjhummel60@earthlink.net

BOOKS

OLD ASIA/ORIENT BOOKS BOUGHT Asian rare books. Fax: (212) 316-3408,
E-mail: arbs@erols.com

DIPLOMATIC AFFAIRS: Robert G. Morris' third novel, now available from: www.thebookden.com

MORTGAGE

BUYING OR REFINANCING A HOME? Save money with some of the lowest rates in 40 years. Jeff Stoddard specializes in working with the Foreign Service community overseas and in the U.S. Call today and experience the Power of Yes! ® Tel: (703) 299-8625, E-mail: jeffstoddard_wamu@compuserve.com

BUSINESS CARDS

BUSINESS CARDS Printed to State Department specifications and delivered in 5 working days. 500 cards for as little as $37.00! Thank you for calling Herron Printing & Graphics at (301) 990-3100; or e-mail: sales@herronprinting.com

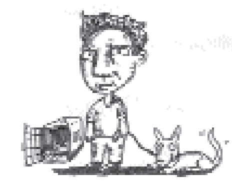
SHOPPING

WHOLESALE PRICES FOR AMERICAN PRODUCTS OVERSEAS! Shopping for all your Holiday needs (Christmas, Thanksgiving, etc.) comfort food, kosher food, & personal needs; i.e., favorite cosmetics, brand-name clothing: Levi's, Lee, Chaps, etc. for adults and children. We even have diapers! Personalized service for FS personnel by FS retiree. Must have APO or FPO address. For FREE CATALOG:
E-mail: consumables101@yahoo.com
First order includes a free gift!

110 - 220 VOLT STORE
MULTI-SYSTEM ELECTRONICS

GRAND OPENING! EPORT WORLD INTERNET COMMUNICATION ELECTRONICS EXPORT. HELP US CELEBRATE OUR NEW STORE!
Serving DC's international and local Community for over 30 Years: 220 Volt Electronics Cellular Phones with National and World coverage (T-Mobile, Sprint, AT&T) Multisystem – multi-region DVDs, VCRs, TVs, Stereos Dish Network - Satellite Systems International Audio and Video Equipment and much, much more!
INQUIRE ABOUT OUR PROMOTIONS!
1030 19th Street, NW (Btwn K and L Sts.)
Washington, DC 20036 Tel: (202) 464-7600
(800) 513-3907 Fax (202) 464-7605.
E-mail: export@exportdc.com
www.eportworld.com

PET TRANSPORTATION



DOMESTIC / WORLDWIDE SHIPPING:
Tel: (304) 274-6859, (888) 234-5028
www.actionpetexpress.com
E-mail: info@actionpetexpress.com

MISCELLANEOUS

W.W. GENERAL CONSTRUCTION
Serving VA, MD & DC
Licensed and Bonded
Complete Home Remodeling & Repair
Total Renovations
Kitchens, Bathrooms and Basements
Ceramic Tile and Hardwood Floors
Painting and Drywall
For more information visit our Web site
www.1stcarpenter.com
or e-mail us at: vic_wieczorek@yahoo.com
or call us at (301) 330-9806
Quality Work and Reasonable Prices
References upon Request

SHIPPING

PLANNING TO MOVE OVERSEAS? Need a rate to ship your car, household goods, or other cargo going abroad? Contact SEFCO-Export Management Company for rates and advice. Tel: (718) 268-6233, Fax: (718) 268-0505. Contact Joseph T. Quinn. Visit our Web site at www.sefco-export.com
E-mail: info@sefco-export.com

NEED CAR PARTS? EFM with vast experience in car parts and accessories can locate the right item for your needs at the best price and ship to you via APO or pouch. Contact me at: www.rodacointernational.com or send me an e-mail at:
rolandoaguilera2003@hotmail.com.

INDEPENDENT SCHOOL OPTIONS: Finding the best school placement for each child in the Washington Metro area.
www.independentschooloptions.org
Tel: (703) 671-8316.