SURVEY OF VIEWS ON THE IMPACT OF GRANTING MOST FAVORED NATION STATUS TO THE SOVIET UNION

Report to the Senate Committee
on Finance on Investigation
No. TA-332-280 Under Section
332 of the Tariff Act of 1930

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Introduction

Products entering tt United States from the Soviet Union and certain other nonmarket economy countries are currently not accorded "most-favored-nation" (MFN) treatment and thus are not eligible for the generally lower rates of duty accorded to products originating in countries whose products receive such treatment. In addition, certain U.S. Government trade-related insurance, loan, and loan-guarantee programs apply only to trade with countries receiving MFN treatment. Thus, U.S. exports to the Soviet Union, for example, are not eligible for ExlmBank loans or OPIC insurance.

The term "most-favored-nation" treatment as used in U.S. trade law and in international trade agreements such as the General Agreement on Tariffs and Trade (GATT) generally refers to the practice of providing nondiscriminatory treatment in the form of customs duties and other charges imposed in connection with the importation and exportation of products. Under the MFN principle in GATT, for example, each contracting party to the GATT is obligated to extend "any advantage, favour, privilege or immunity" granted to any one contracting party to all other contracting parties. Since the mid-1930s the United States has substantially reduced most of its rates of duty, initially through bilateral trade agreements and since 1948 as a result of GATT-sponsored multilateral trade negotiations. The United States has applied these lower rates to products originating in countries to which the United States accords MFN treatment. These generally lower MFN rates of duty are set forth in column 1 of the U.S. tariff schedule. Rates of duty applicable to products from countries that do not receive MFN treatment, such as the Soviet Union, are set forth in column 2 of the U.S. tariff schedule. These rates are generally the same as the 1930 (Smoot-Hawley) U.S. rates of duty and are generally substantially higher than column 1 rates.

The terms "U.S.S.R" and "Soviet Union" as used in this report generally refer to all of the areas controlled by the Soviet Union, including Estonia, Latvia, and Lithuania. However, each of these areas is treated, for U.S. tariff purposes, as an area separate from the Soviet Union. An action extending MFN treatment to the Soviet Union would not apply to these areas unless they were specifically named.

This report summarizes the views of recognized authorities on United States-Soviet trade, particularly company and private commercial officials, on the impact that The granting of MFN treatment to the Soviet Union is expected to have on the business climate for such trade. The report includes an assessment of the anticipated commercial implications of such an action, including the potential for U.S. agricultural exports and opportunities for joint ventures. The report attempts to identify the products that would be most affected by this change in trading status and seeks to identify the extent that the action is likely to have on the ability of the United States to compete with other exporters, such as Japan and the European Community, for sales in the Soviet market.

The public hearing in this investigation and most of the interviews took place before the December 2-3, 1989, summit in Malta between President Bush and President Gorbachev. At the summit the United States indicated its intention to proceed with negotiations toward a bilateral trade agreement that would include as one of its provisions the mutual extension of MFN status between the United States and the Soviet Union.

Report Requested by the Senate Committee on Finance

On September 19, 1989, the Commission received a letter from Senator Lloyd Bentsen, Chairman of the Senate Committee on Finance. The letter requested that the Commission institute an investigation under section 332(g) of the Tariff Act of 1930 and provide the Committee with a survey of the views of business persons and recognized authorities on United States-Soviet trade relations on the impact that granting most-favored-nation trade status to the Soviet Union may have on the business climate for United States-Soviet trade. A copy of this letter is contained in appendix A.

The committee requested in particular that the report reflect the views of U.S. companies and private commercial sector officials having experience in United States-Soviet trade. The investigation was conducted primarily through personal interviews in order to allow for indepth explanation of issues. The Commission also sought written comments through a *Federal Register* notice in an effort to obtain the broadest spectrum of viewpoints.

In response to the committee's request, on September 28, 1989, the Commission instituted investigation No. 332-280 under section 332(g) of the Tariff Act of 1930.[1]

ITC Methodology in Conducting the Study

As directed by the committee, the Commission sought to obtain the views of recognized authorities on United States-Soviet trade relations on the impact that granting MFN status to the Soviet Union would have on the business climate for United States-Soviet trade. Views were obtained from U.S. business persons familiar with doing business with the Soviet

[1] See app. B for a copy of the *Federal Register* notice announcing the study.

Union, government officials involved in United States-Soviet trade, scholars, and other experts on the issue. Views were obtained through direct interviews and formal submissions. The Commission conducted direct interviews, the primary research method, with approximately 80 individuals in the United States and the Soviet Union. The Commission also received 47 written submissions expressing views on the subject (a list of individuals and organizations who submitted views for the record is contained in app. C), and 12 parties testified at the ITC public hearing (a list of hearing participants is contained in app. D). Project members traveled to the Soviet Union in October 1989 to attend two events: a Brookings Institution conference on the status of Soviet economic reforms, and "USA '89," a trade show sponsored by the U.S.-U.S.S.R. Trade and Economic Council. Interviews were conducted with both U.S. business persons and Soviet officials in connection with this travel. Staff conducted additional interviews with academics and businessmen at a conference attended at the Russian Research Center of Harvard University, entitled "The Soviet Joint Enterprise Decree: Law and Structure."

Participants interviewed by the Commission were requested to provide frank and candid opinions rather than official or formal positions of the firms, associations, governments, or agencies by which they were employed. The Commission promised interviewees nonattribution in order to obtain the most candid opinions possible. No standard questionnaire was used in this investigation. Rather, participants were asked to discuss the issue of granting MFN status to the Soviet Union, with specific attention to key points identified by the committee in its request letter. These points included the potential for U.S. agricultural exports, opportunities for joint ventures, and the competitiveness of U.S. firms with other exporters (i.e., European Community and Japan) for sales in the Soviet market. Other topics that interviewees felt were relevant to the effect of MFN status for the Soviet Union on the business climate for United States-Soviet trade were also included.

In order to solicit the business community's views on granting MFN status to the Soviet Union, the Commission's Office of Industries identified key business representatives for possible contact. That office identified 269 associations or firms as having a likely interest in granting MFN status to the Soviet Union. This list included firms or industries that have a current or potential interest in importing from, exporting to, or investing in the Soviet Union. Also included on the list of potential interviewees were import-sensitive interests that may have a negative reaction to the granting of MFN treatment to the Soviet Union. All such firms or associations, plus firms currently importing[2] from the Soviet Union, were informed by mail about the investigation, the opportunity for public comment (as provided for in the *Federal Register* notice), and the possibility that Commission staff might contact them for a personal interview. Over 500 information packets were mailed to parties identified as having an interest in the investigation. The Commission endeavored to interview a representative distribution of individuals from the various categories.

Organization of the Report

The report is organized into an executive summary and two chapters. The executive summary provides a listing of the major issues addressed by the Commission and highlights the views obtained by the Commission on these issues. Chapter 1 presents background material to the subject of most favored nation (MFN) status for the Soviet Union, describing certain relevant U.S. and Soviet laws and regulations in order to assist the committee in understanding the views summarized in chapter 2. Among the topics covered in chapter 1 are the U.S. tariff structure, certain provisions of the Trade Act of 1974, controls on export credit, the Soviet tariff structure, and Soviet joint-venture laws. Both U.S. and Soviet export-control provisions are also briefly described. This discussion is not intended to be exhaustive.

Chapter 2 of the report contains the survey of views requested by the Committee on Finance. The views gathered in the investigation are broken down into specific subjects and include comments concerning the effects of granting MFN status on U.S. imports, U.S. exports, joint ventures, U.S. competitiveness, and overall United States-Soviet commercial relations. Views on other related issues are also included. Among such issues are views expressed on the terms of granting MFN status to the Soviets, the effect on Soviet economic reform, and the anticipated reaction of U.S. trading partners to such a move by the United States.

[2] The 1989 Customs Net Import File was used to identify 194 such firms.

Executive Summary

Most of the experts consulted in this investigation strongly supported a U.S. decision to grant MFN status to the Soviet Union, claiming that it would substantially improve United States-Soviet relations and provide a firmer footing for long-term expansion of trade flows and business partnerships between the world's two superpowers. However, few predicted that the step would, in and of itself, have a significant near-term impact on the volume of United States-Soviet trade. Indeed, many participants argued that changes in other U.S. policies—those restricting Soviet access to U.S. credit, credit and insurance guarantees, and high technology goods—could play a more concrete role in expanding two-way commerce.

Despite its limited immediate economic impact, a move to MFN status would be of great symbolic importance, many experts believed. Granting MFN status to the U.S.S.R. would send a clear signal of the United States' long-term commitment to sound commercial relations with the Soviet Union, they claimed, and provide a vote of confidence in the Soviet reform process. Extension of MFN status would improve the climate for U.S. firms doing business with the Soviet Union and would increase opportunities for small-to-medium-size U.S. businesses, many participants stated. Moreover, such a move would align U.S. policy more closely with that of its principal military allies and economic competitors and signal a greater U.S. willingness to separate foreign policy considerations from commercial interest in its dealings with the Soviet Union. [Both Japan and the European Community (EC) currently accord Soviet products MFN treatment.] While predicting that U.S. allies would officially welcome a U.S. extension of MFN status to the Soviet Union, some experts believed that the EC and Japan might respond by increasing financial support to their own firms, thus intensifying competition for Soviet markets.

Significant changes in the pattern or the level of U.S. imports were not anticipated by most experts over the near-to-medium term. Most of the current U.S. demand for Soviet goods involves products for which U.S. column 2 and column 1 tariff rates are either identical or do not substantially differ. Moreover, many said that structural deficiencies—inadequate transportation and communications infrastructure, poor product quality and design, chronic supply shortages, and lack of trained managers—are likely to make it difficult for the Soviet Union to diversify its sales to the United States to a significant extent over the next 5 years.

Nevertheless, many experts believed that a decision to grant the Soviet Union MFN treatment would ultimately lead to an expansion of U.S. imports of Soviet goods. The need to generate hard currency and to reduce the U.S.S.R.'s bilateral trade deficit may spur increased export efforts by Soviet enterprises, many experts suggested. Moreover, most participants predicted that an overall expansion of United States-U.S.S.R. joint ventures and countertrade arrangements would ultimately result in increased U.S. imports from the Soviet Union. At the psychological level, U.S. buyers would be likely to perceive of Soviet products as being lower cost, whereas Soviet producers might focus on the United States as a more viable long-term export market.

Participants generally agreed that to the extent that there were increases in U.S. imports of Soviet merchandise after the granting of MFN status, most would not be sufficient to harm U.S. industries. However, some experts predicted relatively rapid growth in U.S. imports from the Soviet Union of certain products, notably nitrogen fertilizers, ferroalloys, other minerals and nonferrous metals, furs, textiles, paper, chemicals, steel (particularly structural steel), and ball bearings. A few U.S. industries—ferrosilicon, textiles, and minerals—expressed concern that more favorable U.S. tariff treatment of Soviet products would result in intense price competition, potentially causing worker displacement or financial difficulties.

Over the next 5 years, U.S. exports would probably be little altered by a U.S. decision to grant the Soviet Union MFN treatment, most experts believed. However, the move could enhance U.S. business prospects over the longer term. Participants were divided over whether or not the granting of MFN status would increase U.S. agricultural sales to the Soviet Union. But all of those connected with the grain business maintained that improvement in bilateral relations in the wake of granting MFN status would help their competitive position in the Soviet market. Among the other U.S. exports mentioned by participants as likely to increase were consumer goods and equipment that could improve the productivity of Soviet factories—process control equipment; safety equipment; pollution control and abatement equipment; machinery for raw material extraction and processing; distribution, blending, and handling machinery; and steel mill products. The Soviet Union's lack of hard currency is likely to mean that it will continue to be necessary for U.S. firms to enter into barter and countertrade arrangements if they wish to sell their wares to the Soviets, most experts cautioned. While granting MFN treatment could improve the business climate for U.S. firms operating in the Soviet Union, many participants stated that daunting obstacles to the success of U.S. joint ventures in the U.S.S.R., such as the ruble's inconvertibility and the consequent difficulty in profit repatriation, would remain.

While granting Soviet products MFN treatment would offer long-term political and economic advantages, most businesspersons argued that removal of U.S. restrictions on credit and insurance guarantees—including those placed on the Export-Import Bank and OPIC—would provide more immediate, concrete benefits in terms of liberalizing U.S. trade with the U.S.S.R. Private sector representatives strongly urged repeal of prohibitions on credit imposed by the Stevenson amendment to the Trade Act of 1974, the Byrd amendment, and other related restrictions contained in the Export-Import Bank Act of 1945, as amended, restrictions on OPIC insurance, and the Johnson Debt Default Act. A handful of nonbusiness participants opposed such action, warning that private financial institutions would upgrade the Soviet Union's credit rating and increase loans to the Soviets, who could use these loans to support their military structure.

Without an easing of U.S. export controls, however, granting of MFN status would have little effect in increasing direct U.S. export opportunities to the Soviet Union, many participants warned. Export controls have a particularly detrimental impact on U.S. exports of machinery and equipment, U.S. business participants argued. Many said that the Soviets are often able to buy controlled goods from non-U.S. sources, causing U.S. firms to lose sales. Sources who spoke about export controls and the Coordinating Committee for Multilateral Export Controls (COCOM) claimed that U.S. export controls are more strict than those of other Western countries and include heavier involvement of defense agencies than in other COCOM countries. These sources questioned COCOM's effectiveness in controlling technology flows to the Eastern Bloc, and called for greater predictability, less control, and more uniformity among COCOM members.

Most participants called for outright repeal or a multiyear waiver of the Jackson-Vanik provision in order to clear the way for MFN status for the Soviet Union. (The provision links MFN status for a nonmarket economy to its emigration policies.) It was suggested that granting MFN status for a short period would limit any positive effect on U.S.-Soviet trade, particularly on joint ventures, because of the time needed to negotiate arrangements and get them into operation, as well as the time needed to make a profitable return on an investment. A 3-year waiver of the provision was the most commonly cited minimally acceptable timeframe.

Participants were , divided about the desirability of associating trade-related conditions to the granting of MFN status to the Soviet Union. Some said that a bilateral trade agreement that included MFN status would afford the United States an opportunity to incorporate into such an agreement such desired features as a dispute-settlement mechanism and investment and tax provisions. Others claimed that inclusion of any conditions in a United States-U.S.S.R. trade agreement would make such an agreement unacceptable to the Soviets.

Chapter 1

Background

Relevant U.S. Laws

Chapter 1 contains background material that is important for understanding the comments described in Chapter 2 concerning the impact of granting the Soviet Union Most-Favored-Nation (MFN) status. Specifically, this chapter outlines the relevant provisions of certain U.S. and Soviet statutes that are mentioned in the comments made by interviewees. This statutory discussion is not intended to be an exhaustive treatment of all statutes that are relevant to the MFN issue.

The discussion of U.S. laws includes a description of this country's tariff schedules and a summary of certain relevant provisions of the Trade Act of 1974; also included is a section on statutes concerning export credit provisions (the Johnson Debt Default Act, the Export-Import Bank Act, OPIC provisions of the Foreign Assistance Act) and the Export Administration Act.

The Soviet laws described in this chapter include the tariff structure, the laws governing joint ventures, and Soviet export controls.

Tariff Schedules

In 1962,[1] Congress enacted the Tariff Classification Act of 1962,[2] which simplified the structure of the tariff schedules that had been established by the Tariff Act of 1930. The 1962 act provided for eight schedules plus an appendix, collectively enacted as the *Tariff Schedules of the United States* (TSUS).[3] The TSUS codified the former "Reduced rate" column as "Column 1" and the former "Full rate" column as "Column 2." The TSUS also codified, in a general headnote (headnote 3(d)), the list of countries that were subject to the rates of duty in column 2; all other countries were eligible for column 1 (MFN) rates.

With the enactment of the Omnibus Trade and Competitiveness Act of 1988 (OTCA), Congress restructured the U.S. Tariff Schedule in order to harmonize this country's tariff nomenclature with that of our major trading partners.[4] Effective January 1, 1989, the *Harmonized Tariff Schedule of the United States* (HTS) replaced the former TSUS. The HTS retained the two rate columns entitled "column 1" and "column 2" in the TSUS. Imports continue to be subject to column 1 or column 2 rates depending upon the current status of the country of origin of the goods.

A discussion of the differences between column 1 and column 2 rates of duty is contained in appendix F. A number of other relevant background pieces have been prepared for information purposes to provide context for both the discussion of the impact of extending MFN status to the Soviet Union and for the summary of views of recognized authorities on United States-Soviet trade as contained in chapter 2. These background sections include "History of United States-Soviet Commercial Agreements" (app. G), "MFN Treatment and Other Nonmarket Economy Countries" (app. H), "U.S. Trade With the U.S.S.R." (app. I), and "Soviet Trade With Other Western Industrialized Countries" (app. J).

The Trade Act of 1974

Title IV of the Trade Act of 1974 contains provisions concerning trade relations with countries not receiving nondiscriminatory treatment at the time of enactment. Except as otherwise provided in that Act, the President is directed under section 401 to continue to deny nondiscriminatory, i.e. MFN, treatment to the products of countries that were denied such treatment as of January 3, 1975 (the date on which the statute was enacted).[5] On the date of enactment, the TSUS listed the following countries or areas as those whose products were subject to tariff treatment under column 2 and, therefore, ineligible for MFN status at that time.

> *Albania, Bulgaria, China (any part of which may be under Communist domination or control), Cuba, Czechoslovakia, Estonia, Germany, (the Soviet zone and the Soviet sector of Berlin), Hungary, Indochina (any part of Cambodia, Laos, or Vietnam which may be under Communist domination or control), Korea (any part of which may be under Communist domination or control), Kurile Islands, Latvia, Lithuania, Outer Mongolia, Rumania, Southern Sakhalin, Tanna Tuva, Tibet, land' Union of Soviet Socialist Republics and the area in East Prussia under the provisional administration of the Union of Soviet Socialist Republics.*[6] [7]

[1] For a discussion of official U.S. actions prior to 1962, see app. E, "Historical Evolution of the U.S. Two Column Tariff Structure."

[2] Public Law No. 87-456, 76 Stat. 72 (1962).

[3] 19 U.S.C. 1202 (1963).

[4] Public Law No. 100 418, 102 Stat. 1107, 1147-1163, Title I, Subtitle B (1988).

[5] 19 U.S.C. section 2431. Prior to enactment of the 1974 Act, nondiscriminatory trade treatment was denied to all Communist countries, except Poland and Yugoslavia, under section 231 of the Trade Expansion Act of 1962, as amended by section 402 of the Foreign Assistance Act of 1963.

[6] General headnote 3(e), TSUS (1975)

[7] The following countries currently remain subject to tariff treatment under column 2: Afghanistan, Albania, Bulgaria, Cuba, Czechoslovakia, Estonia, German Democratic Republic, Kampuchea, Laos, Latvia, Lithuania, Mongolia, North Korea, Romania, Union of Soviet Socialist Republics, [and] Vietnam. General note 3(b), HTS (1989).

The Trade Act of 1974 set out two requirements which must be met by any of the countries listed above, before becoming eligible for MFN treatment. First, the President must determine that the country complies with the freedom of emigration provisions of section 402 of the Trade Act and submit a report to Congress indicating that this is so.[8] Second, the President must complete a bilateral commercial agreement that meets the requirements of section 405 of the Trade Act, discussed in more detail below.[9]

A decision to grant MFN status to the "Soviet Union" under Title IV raises a question as to the geopolitical areas to be covered by the grant. It is interesting to note that, at the time of the enactment of this statute, Estonia, the Kurile Islands, Latvia, Lithuania, Southern Sakhalin, Tanna Tuva, and "the area is East Prussia under the provisional administration of the Union of Soviet Socialist Republics" were all listed separately from the Union of Soviet Socialist Republics for tariff purposes.lo Under the HTS, Estonia, Latvia, and Lithuania continue to be listed separately, although the other areas are not specifically referenced.[11]

Jackson-Vanik amendment

Section 402 of the 1974 Trade Act is commonly referred to as the Jackson-Vanik amendment. Under its provisions, products from a nonmarket economy country may not receive MFN treatment, and the country may not participate in U.S. financial credit or guarantee programs, if the President determines that the country (1) denies its citizens the right or opportunity to emigrate; (2) imposes more than a nominal tax on visas or other documents required for emigration; and (3) imposes more than a nominal levy, fine, fee, or other charge on any citizen as a consequence of the desire to emigrate.[12]

Products of nonmarket economy countries (NMEs) may be eligible for MFN treatment and for U.S. financial programs, and the President may conclude a commercial agreement with an NME country, only after the President submits a report to Congress indicating that the country is not in violation of the conditions listed in the preceding paragraph. Such report must include information as to the nature and implementation of emigration laws and policies and restrictions or discrimination applied to persons wishing to emigrate.[13] After initial submission of the report, the President must submit updated reports biannually, before June 30 and December 31 of each year that the MFN agreement is in effect.[14]

o 19 U.S.C. section 2432(a), (b).
o 19 U.S.C. section 2435.
l° General headnote 3(e), TSUS (1975).
" General note 3(b), HTS (1989).
12 19 U.S.C. § 2432(a)(1), (2), (3).
13 19 U.S.C. § 2432(b).
14 Ibid.

The President may waive by executive order the application of the above requirements if he reports to Congress that (1) he has determined that the waiver will substantially promote the objectives of the freedom-of-emigration provisions, and (2) ***he*** has received assurances that the emigration practices of that country will henceforth lead substantially to the achievement of the objectives of this section."[18]

Sections 404 and 405 of the Trade Act

Sections 404 and 405 of the Trade Act authorize the President to enter into, and effectuate by proclamation, bilateral commercial agreements providing for MFN treatment to the products of countries listed in HTS headnote 3(d).[18] As explained above, the President must comply with the reporting requirements of the Jackson-Vanik amendment as a precedent to concluding such an agreement. Any such bilateral commercial agreement must be limited to an initial period specified, in the agreement, which period shall be no more than 3 years from the date the agreement enters into force. The agreement may be renewable for additional periods, each not to exceed 3 years, contingent upon a satisfactory balance of trade and services concessions and satisfactory reciprocity.[17]

In addition, the bilateral commercial agreement must include provisions for: suspension or termination for national security reasons; safeguards against disruption of domestic markets; protection of intellectual property rights; settlement of commercial disputes; consultations for the purpose of renewing the operation of the agreement and the relations between the parties to the agreement; and arrangements for the promotion of trade and other appropriate commercial arrangements.[18]

Before a bilateral commercial agreement negotiated under section 405 and the President's implementing proclamation under section 404 can take effect, they must receive Congressional approval by the adoption of a concurrent resolution.[19] The procedures to be employed by Congress in introducing and adopting such a concurrent resolution are set forth in section 151 of the Trade Act.[20] Under the provisions of that section, the responsible House and Senate committees have 45 days after introduction of the resolution to report it; after ,the resolution is reported, or after 45 days expires without committee action, the full House or Senate has 15 days to vote on final passage.[21]

'° 19 U.S.C. § 2432(c)(2). The President must renew his waiver authority annually, ibid., § 2432(d).
'° 19 U.S.C. §§ 2434, 2435.
19 U.S.C. § 2435b)(1).
te Ibid., § 2435(b)(2 -(10).
'° 19 U.S.C. § 2435 c).
20 19 U.S.C. § 2191.
21 19 U.S.C. § 2191(e).

If the country entering a commercial agreement under section 405 has entered an agreement with the United States regarding the settlement of lend-lease debts, MFN treatment will not apply in periods during which such country is in arrears on its obligations under the lend-lease agreement.[22] However, the Soviet-American lend-lease settlement agreement conditions the Soviet Union's fourth and all subsequent lend-lease payments upon the extension of MFN treatment to the Soviet Union.[23]

Credit

In addition to making the Soviet Union eligible for MFN treatment, waiver of the Jackson-Vanik amendment would also waive the prohibition (of sec. 402 of the Trade Act of 1974) against Soviet participation in U.S. financial credit or guarantee programs.[24] There are, however, various other statutory provisions, within and without the Trade Act, that regulate the availability of credit for business with the Soviet Union.

Stevenson Amendment to the Trade Act of 1974

One explicit restriction on the extension of credit for exports to the Soviet Union is contained within the Trade Act of 1974. Section 613 of the Trade Act, commonly referred to as the Stevenson amendment, prohibits any agency of the U.S. Government, other than the Commodity Credit Corporation, from approving any loans, guarantees, insurance, or any combination thereof, in connection with exports to the Soviet Union in an amount exceeding $300,000,000, without prior congressional approval "as provided by law. "25

Johnson Debt Default Act

The Johnson Debt Default Act, as amended, makes it a criminal offense within the United States for any "individuals, partnerships, corporations, or associations other than public corporations in which the United States has or exercises a controlling interest through stock ownership or otherwise," to purchase or sell the bonds, securities, or other obligations of, or make any loan to any foreign government (or a political subdivision thereof or any association or organization acting on its behalf) that is in default of its obligations to the U.S. Government, unless that government is a member of both the International Monetary Fund and the International Bank for Reconstruction and Development.[26] Regarding the Soviet Union, this prohibition applies in that the Soviet Union is in default of its debts incurred during World War II under the Lend-Lease Act and of earlier debts incurred by predecessor governments.[27]

Since 1934, the U.S. Attorneys General have issued eight opinions interpreting the Johnson Debt Default Act. The most recent, and most relevant for purposes of this study, were issued on October 9, 1963, and May 9, 1967. The 1963 opinion addressed the act's applicability to the proposed export sale of agricultural commodities to the Soviet Union and Eastern European Bloc countries.[28] Attorney General Robert F. Kennedy opined that federal corporations, such as the Commodity Credit Corporation, are exempt from the act's coverage. He further concluded that neither sales transactions by private American exporters on a deferred-payment basis nor credit transactions involving the assignment of commercial obligations constituted "loans" within the meaning of the act. In 1967, Attorney General Ramsey Clark ruled that the Johnson Act does not prohibit transactions by United States firms or banking institutions for the financing of export sales of particular goods or services.[29] Specifically, he found no distinction between the types of financing previously determined to be permissible and the types of financing arrangements which were the subject of the inquiry before him—lines of bank credit, barter. arrangements, and deferrals of payments pending earnings.

Export-Import Bank Act

The Export-Import Bank of the United States (Eximbank) is statutorily exempt from the Johnson Default Act.[30] However, other statutory provisions restrict the Eximbank from loaning money for transactions involving the Soviet Union. In addition to the restrictions imposed by the Stevenson amendment to the Trade Act of 1974 (discussed above), Eximbank loans are further restricted by the Export-Import Bank Act

[22] 19 U.S.C. § 2434(b).

[23] Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics Regarding Settlement of Lend Lease, Reciprocal Aid and Claims, Oct. 18, 1972, 23 U.S.C. 2910, 2913, T.I.A.S. No. 7478.

[24] 19 U.S.C.§ 2432.

[25] 19 U.S.C. § 2487.

[26] 18 U.S.C. § 955.

[27] The principle additional indebtedness consists of cash advanced by the U.S. Treasury during World War I, under the Liberty Bonds Act. For a more detailed discussion of the Johnson Default Act as it applies to the Soviet Union, see generally, Prince, "The Johnson Debt Default Act: How to Comply with What's *Left,"* *Banking Law Journal* vol. 98 (1981) p. 147; Starr, "A New Legal Framework for Trade Between the United States and the Soviet Union: The 1972 US-USSR Trade Agreement," *American Journal of International Law,* vol. 67, (1973) p. 63, 81; Berman, "The Legal Framework of Trade Between Planned and Market Economies: The Soviet-American Example," *Law and Contemporary Problems,* vol. 24 (1959) pp. 516-17.

[28] 42 Op. Att'y Gen. 229 (Oct. 9, 1963).

[29] 42 Op. Att'y Gen. 357 (May 9, 1967).

[30] 12 U.S.C. § 635h.

of 1945, as amended (Eximbank Act). The Byrd amendment to the 1974 amendments prohibits the Export-Import Bank from providing any loan or financial guarantee, or any combination thereof, in an amount exceeding $40,000,000 for the "purchase, lease, or procurement of any product or service which involves research or exploration of fossil fuel energy resources" in the Soviet Union.[31]

The 1986 amendments to the Eximbank Act placed a blanket prohibition on any ExIm Bank guarantees, insurance, or extension of credit for leases or products purchased by, or for use in, a Marxist-Leninist country.[32] This prohibition does not apply to transactions which the President determines are in the national interest.[33]

OPIC provisions of the Foreign Assistance Act

The Overseas Private Investment Corporation (OPIC) is likewise statutorily constrained from providing insurance and guarantees for projects in the Soviet Union. Section 620(f) of the Foreign Assistance Act of 1961, as amended, prohibits assistance under that act (which includes OPIC funding) for Communist countries, including the Soviet Union.[34]

Export Control

The Export Administration Act of 1979, as amended, provides the authority for controlling the export of goods from the United States.[35] The policy articulated in the Act is to use export controls "only to the extent necessary" to protect the national security, to further U.S. foreign policy and international obligations, and to protect the domestic economy from the drain of scarce materials.[36]

The act directs the Secretary of Commerce to establish a "commodity control list" (CCL) stating license requirements for exports of goods and technology.[37] The CCL divides the world into seven country groups for licensing purposes. The group to which the destination country belongs determines the applicable licensing requirements.[38] The types of transactions regulated include exports from the United States of goods or technical data; exports and reexports from a foreign country of foreign products containing U.S. parts and components or based on U.S. technology; and reexport of U.S.-origin products and technical data from one foreign country to another.[39] The Department of Defense is authorized to review certain applications for national security purposes, while the Department of State reviews specified license applications for foreign policy purposesu-[40] The Department of State's Office of Munitions Control also conducts a review under the Arms Control Act of 1976.[41]

[31] 12 U.S.C. § 635e(b).

[32] 12 U.S.C. § 635(b)(2)(A). The Soviet Union is, of course, included in the statutory definition of a "Marxist-Leninist country." Ibid., § 635(b)(2)(B)(ii).

" Ibid., at § 635(b)(2)(D)(i).

[34] 22 U.S.C. § 2370(f). The provisions of this section may be waived only if the President finds and reports to Congress that—

(A) such assistance is vital to the security of the United States;

(B) the recipient country is not controlled by the international Communist conspiracy; and

(C) such assistance will further promote the independence of the recipient from international communism. Ibid. The President also may remove a country from the prohibitions of this section, for any period, if he determines and reports to Congress that such action is important to the national interest. Ibid § 2370(f)(2). The statute specifies that one factor to be weighed is "whether the country in question is giving evidence of fostering the establishment of a genuinely democratic system, with respect for internationally recognized human rights." Ibid. As a corollary, the OPIC provisions themselves explicitly prohibit assistance to any country "which engages in a consistent pattern of gross violations of internationally recognized human rights." 22 U.S.C. §§ 2199(1), 2152n.

As a further prerequisite to operation in a particular country, OPIC must have entered into an investment program agreement with that country. 22 U.S.C. § 2197(a). After MFN was extended to China, Congress amended the OPIC provisions of the Foreign Assistance Act to allow for OPIC programs in that country. See 22 U.S.C. § 2199(f); Public Law 96-327, 94 Stat. 1026 (1980); S. Rep. No. 840, 96th Cong., 2d Sess., reprinted in 1980 U.S. Code Cong. & Admin. News 2455. Subsequently, OPIC and China signed an agreement permitting OPIC to operate there.

[36] 50 U.S.C., app. §§ 2401-2419 (supp. 1989). The act contains a sunset provision, which has been amended routinely to reauthorize its implementation. Currently, the authority granted by the Act is to terminate on Sept. 30, 1990. Ibid., app. § 2419.

[36] 50 U.S.C., app. § 2402(2) (supp. 1989). See Ibid., § 2404 (National security controls), § 2405 (Foreign policy controls), § 2406 (Short supply controls). The Export Administration Amendments of 1985 include a Congressional finding that—

The acquisition of national security sensitive goods and technology by the Soviet Union and other countries the actions or policies of which run counter to the national security interests of the United States has led to the significant enhancement of Soviet bloc military-industrial capabilities. This enhancement poses a threat to the security of the United States, its allies, and other friendly nations, and places additional demands on the defense budget of the United States. 50 U.S.C. § 2401(11).

[37] 50 U.S.C., app. § 2403(b) (supp. 1989); 50 App. 2404(c) (supp. 1989).

The Soviet Union is listed in Country Group Y. Also included in that grouping are Albania, Bulgaria, Czechoslovakia, Estonia, German Democratic Republic (including East Berlin), Laos, Latvia, Lithuania, Mongolian People's Republic. Although the countries in Group Y are subject to stringent controls, the countries in Group Z—Cambodia, Cuba, North Korea, and Vietnam—are subject to the most stringent export controls.

[33] 15 CFR § 770.3 (a); 15 CFR §§ 774.1-774.9.

[40] 50 U.S.C. app. 2404(a)(1) (supp. 1989); 50 app. 2405(a)(5) (supp. 1989); 15 CFR § 770.13(f).

[41] 22 U.S.C. § 2278 (1982+ supp. III 1985).

Those countries listed as "Communist" countries under section 620(f) of the Foreign Assistance Act of 1961 [42] must be included on the list of controlled countries, unless the President determines that the export of goods or t?chnology to such country would not make a '-gnificant contribution to the military potential of that country or a combination of countries that would prove detrimental to the national security of the United States. In determining whether to add or remove a country from the list, the President is directed to take into account a variety of factors, such as the adversity of the country's policies to U.S. national security, and the present or potential relationship with the United States.°[3]

The 1985 amendments formally authorized U.S. participation in the Coordinating Committee on Multilateral Export Controls (COCOM)," an informal multilateral export-control body consisting of Japan and all NATO countries except Iceland. COCOM members meet periodically to regulate the export control policies of the members with respect to Communist countries, with the aim of insuring that the Communist countries do not obtain products that have significant military uses.

Relevant U.S.S.R. Laws

U.S.S.R. Tariff Structure

Applicability of duties

The Soviet Union employs a two-column tariff structure for levying import duties." The schedule lists duties for 317 items," all of which are calculated on an ad valorem basis using CIF prices at the Soviet port of entry. The two columns display MFN and non-MFN tariffs. Soviet MFN tariffs are applied to imports originating in or imported from countries that grant Soviet goods MFN treatment in assessing customs duties, and non-MFN tariffs are applied to all other imports. MFN import duties range from free to 50 percent, for a few items, with the vast majority of items listed at free or 2 low duties. Non-MFN duties range from free to 70 percent'.[47]

Nontariff measures

Few sources identify Soviet nontariff measures. A recent publication of the U.S. Department of State detailing economic policy and trade practices in foreign countries" lists inconvertibility of the ruble as a significant barrier to U.S. exports.

Exemptions from duties

The tariff schedule states that goods originating in and imported from developing countries are exempted from customs duties. The schedule does not, however, define developing countries. Foreign goods in transit across the U.S.S.R. are also exempted from customs duties, as are materials imported into the U.S.S.R. from Soviet institutions abroad. Also exempt from duties are films, videocassettes, and recorded videodisks that receive funding from the Soviet Government and -other goods as provided for by the Soviet legislature.

Planned new Soviet tariff schedule

The Soviet Government plans to implement a new tariff schedule, based on the Harmonized System, effective January 1, 1991." The schedule reportedly will have two basic levels of duties—MFN (column 1) and non-MFN (column 2). Non-MFN duties, under the new system, are planned to be 2 1/2 times greater than MFN duties. Revised nontariff measures, the bulk of which are expected to be limitations on Soviet exports, reportedly will also *be* introduced at that time.

Prohibited goods

The importation into the Soviet Union of the following goods is prohibited: (1) weapons of war of all kinds and ammunition therefor; (2) narcotic and psychotropic substances, including accessories for smoking opium and hashish, although certain exceptions are provided for; (3) publications, negatives, exposed film, photographs, cinematographic reels, videocassettes,

[42] See above, discussion in the section entitled "OF'IC Provisions of the Foreign Assistance Act."
[43] 50 U.S.C., app. § 2404(b)(1).
[44] 50 U.S.C., app. § 2404(i).
[48] An English translation of the tariff schedule is published in "U.S.S.R.," *International Customs Journal,* No. 23 (January 1983).
[48] These items fall into the following nine general categories: (1) machines, equipment, and transportation equipment; (2) fuel, raw mineral materials, metals; (3) chemical products, fertilizers, and rubber; (4) building materials and components; *(5)* raw vegetable and animal materials and products therefrom (other than raw materials for the manufacture of foodstuffs other than those specified hereunder); (6) live animals; (7) raw materials for the manufacture of foodstuffs; (8) foodstuffs; and (9) industrial products of current use.

[47] The Soviet tariff structure is different from that of the United States in that while U.S. tariffs may be viewed as a form of a barrier to trade, the Soviet tariff structure may not. The real barriers to trade often arise from Soviet administrative measures and shortfalls in hard currency. In interviews with USITC staff, many U.S. exporters said that in practice Soviet tariffs are not usually levied against their products.
[46] U.S. Department of State, "Country Reports on Economic Policy and Trade Practices." Report submitted to the Committee on Foreign Affairs, Committee on Ways and Means of the U.S. House of Representatives, and the Committee on Foreign Relations and the Committee on Finance of the U.S. Senate by the Department of State, in accordance with sec. 2202 of the Omnibus Trade and Competitiveness Act of 1988, March 1989.
[46] Albert Axebank and Richard Lawrence, "Moscow Threatens Tariff Hike," *The Journal of Commerce* (Nov. 29, 1989), p. IA.

videodisks recorded with cinematographic films, manuscripts, crionograph records and the like, drawings and other printed or illustrated media containing information likely to undermine the political and economic interests of the country, the security of the state, public order, protection of health, and public morals; and (4) other goods prohibited by decisions and regulations of the Council of Ministers of the U.S.S.R. [50]

New U.S.S.R. Joint-Venture Law

It is only 3 years since the issuance of the "Decree of the Presidium of the Supreme Soviet of the U.S.S.R.," [51] published on January 13, 1987, in which the Soviet Union first recognized the joint venture as a legal entity. [52] That brief decree addressed the issue of taxation of joint ventures, granting them a 2-year tax exempt status and authorizing the Ministry of Finance to grant additional tax exemptions. The decree also provided for the resolution of disputes between joint-venture partners, either in Soviet courts or through arbitration agreed to by both parties to the joint venture, and authorized joint ventures to access the Soviet Union's natural resources.

The U.S.S.R. Council of Ministers Decree[53] elaborated further on the procedures governing the establishment and registration of joint ventures. [54] It contained a provision requiring consultation with all Ministries and government agencies affected by a proposed joint venture and, ultimately, the approval of the U.S.S.R. Council of Ministers. This decree also included measures that described the legal documents necessary to enter into a joint venture, as well as the mode of conducting daily operations. The decree also contained a provision limiting a foreign partner's ownership interest to 49 percent and the requirement that the Chairman of the Board, Director General, and management be Soviet citizens. The decree confirmed the granting of the 2-year tax holiday to joint ventures and the authority of the Ministry of Finance to grant additional tax breaks.

Since the issuance of the initial decrees, the Soviet legal environment governing joint ventures has continued to evolve. A September 1987 Resolution of the Communist Party of the Soviet Union (CPSU) simplified some of the legal requirements for establishing a joint venture. [55] This decree, for the first time, established the authority of the various Ministries and departments, as well as the Council of Ministers of the Union Republic to independently approve the establishment of joint ventures. The resolution also streamlined the procedures for registration ofjoint ventures, expanded access to foreign currency credits, and clarified the scope of the 2-year tax exemption described in the January 1987 decrees.

In December 1988, the U.S.S.R. Council of Ministers further amended the joint venture laws in an effort to address those issues that they believed were most troublesome to the Western business community. [56] Among the important changes that this decree makes is the further decentralization of the authority for entering into joint-venture agreements. Under the December 1988 decree, the consent of the local ministry or other entity that supervises the Soviet partner alone is sufficiently legally binding to permit a joint-venture enterprise to commence. [57] This decree also made fundamental changes in the daily governance of joint ventures, allowing the Chairman of the Board and the Director General to be foreigners and removing the prohibition on ownership by foreigners of a greater-than-49 percent interest. The requirement that the board must consent unanimously to all "fundamental" business issues, however, guarantees a continuing strong voice for Soviets in the management of joint ventures, no matter how small the ownership percentage of the Soviet partner.

The December 1988 decree[58] also established the right of all enterprises, cooper-

[50] The tariff schedule also lists a variety of goods whose export from the Soviet Union is prohibited.

[51] The Presidium of the U.S.S.R. Supreme Soviet is composed of approximately 20 members of the Supreme Soviet, chaired by the U.S.S.R.'s president. It is charged with convening sessions of the Supreme Soviet, ensuring observanc,? of the constitution, and interpreting laws.

[52] Decree of the Presidium of the U.S.S.R. Supreme Soviet, "On Questions Concerning the Establishment in the Territory of the USSR and Operation of Joint Ventures, International Amalgamations and Organizations with the Participation of Soviet and Foreign Organizations, Firms, and Management Bodies," No. 6362-XI (Jan. 13, 1987).

[53] The U.S.S.R. Council of Ministers is the senior executive and administrative body of the Soviet Union, chaired by the prime minister, with several deputy ministers and nearly 100 ministers.

[54] Decree of the U.S.S.R. Council of Ministers "On the Establishment on the Territory of the U.S.S.R. and Operation of Joint Ventures with the Participation of Soviet Organizations and Firms from Capitalist and Developing Countries," No. 49 (Jan. 13, 1987).

[55] Resolution of the CPSU Central Committee and the Council of Ministers of the U.S.S.R., "On Additional Measures to Streamline Foreign Economic Activity in the New Conditions of Economic Management," No. 1074 (Sept. 17, 1987).

[56] U.S.S.R. Council of Ministers Resolution, "On Further Developing the Foreign Economic Activity of State, Cooperative, and Other Public Enterprises, Association and Organizations," Ratified by the U.S.S.R. Council of Ministers, Dec. 2, 1988.

[57] A few participants in this study indicated that it was easier for a joint venture to commence operations after receiving the approval of the Council of Ministers, because the Council's action automatically binds all Ministries, whereas the commitment of one Ministry may not be sufficient to obtain the cooperation of another Ministry. It was the opinion of knowledgeable participants, therefore, that in practice it is still important to consult with all the Ministries that might be affected by a joint-venture proposal.

[58] The Resolution of the U.S.S.R. Council of Ministers, "On the Regulation of Various Types of Activity of Cooperatives in Accordance with the Law of the U.S.S.R. 'On Cooperatives'" (Dec. 29, 1988).

atives, and associations to import and export goods directly themselves, rather than to deal through a Foreign Trade Organization, except for those products in which the Council of Ministers specifically restricted trade.[59] Several participants confirmed that more than 8,000 entities can now do business directly with foreign companies. The 1988 decree and its implementing regulations are probably the most important to the understanding of the legal environment in which United States-U.S.S.R. joint ventures currently operate.

In a further effort to create a new economic environment, of which joint ventures are expected to be a major component, the Soviet Government is reportedly considering additional legislative initiatives, which may be proposed in the near future." Proposed topics for such initiatives include private property rights, both personal and commercial; taxation; environmental protection; cooperatives; the economic independence of the republics; pensions and benefits; banking practices; and continued modernization of the ministries.'"

The experience of American businesses with these new joint-venture laws remains limited. In fact, as of June 1989, there were only approximately 1,000 registered joint ventures between the Soviet Union and all other countries,[82] of which approximately 200 are thought to be operational." The rate of establishment of joint ventures has been increasing since the Soviet Union first permitted joint ventures 3 years ago. Only between 1 and 9 joint ventures per month were established in 1987, whereas 5 to 17 per month were registered in the first 10 months of 1988." The number of newly registered joint ventures increased to 30 and 48 in November and December 1988 respectively." The first 3 months of 1989 saw the pace of growth continue, as 41 joint ventures were registered in January, 45 in February, 53 in March, and 80 in April."

About 30 percent of all existing joint ventures are in the services sector.[87] The limited nature of the capital investment made by the vast majority of foreign joint-venture partners further represents the limited scope of joint-venture activities currently being undertaken in the Soviet Union. As of June 1989, the vast majority of joint ventures had a capital investment of less than $5 million."

Through June 1989, West Germany had the most joint ventures with the Soviet Union, with a total of 89 registered. Finland, with 71 registered joint ventures, also had more than the United States. As of July 18, 1989, U.S. companies were partners in 64 registered joint ventures," making it the country with the third most joint ventures in the Soviet Union. Italy, Austria, and the United Kingdom were fourth, fifth, and sixth, with 36, 35, and 33 respectively.[70] One Soviet source advised the staff that the number of United States-Soviet joint ventures had increased to 97 as of October 1, 1989, although this number was still reportedly third, after West Germany, with 153, and Finland, with 110.[71]

The rate of growth of Soviet joint ventures with U.S. partners has been similar to that of all countries' Soviet joint ventures. Although U.S. companies were partners in only three registered joint ventures in 1987, Americans registered 10 joint ventures in 1988 and 51 through July 18, 1989, of which 29 were registered between April and June of that year.[72] Further, although United States-Soviet joint ventures have undertaken such varied activities as the sale of imported goods and the production of building materials, the majority of American joint ventures are in the services sector. This latter group mostly involves the servicing of computer hardware and software but also includes consultation on marketing and advertising needs, consultants and lawyers to assist foreign companies considering business opportunities in the Soviet Union, management consultants, hotel operations, and tourism-related services.

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e° Although the May 1989 decree regulating foreign economic activity by Soviet citizens is beyond the scope of this report, it is also a fundamental piece in the changing perspective with which the Soviet Government views foreign trade. U.S.S.R. Council of Ministers Decree, "Concerning the Development of the Economic Activity of Soviet Organizations Abroad," (Decree 412) (May 18, 1989).

6° Statement by Leonard Vid, Deputy Chairman of the State Planning Committee of the U.S.S.R., Conference of Nov. 13, 1989.

°' Ibid. Some of these initiatives are under consideration at the time of the drafting of this report.

[62] Statement by Marshall Goldman, Director of Russian Research Center of Harvard University, Conference on "The Soviet Joint Enterprise Decree: Law and Structure", Nov. 13, 1989, jointly sponsored by the Russian Research Center of Harvard University and Heron, Burchette, Ruckert & Rothwell, (hereinafter "Conference of Nov. 13, 1989"). During the course of this study, many sources provided statistics concerning joint ventures. Although these statistics varied somewhat from source to source, the general range, as well as the trends, were consistent with the numbers reported here.

[63] Statement by Yuri Erzhov, Deputy Director of the Institute of External Economic Relations, State Foreign Economic Commission, Conference of Nov. 13, 1989.

[64] "Changes Made in Soviet Joint Venture Law, More in the Works, Soviet Tells Conference," *Regulation, Economics & Law* (BNA), No. 93 (May 16, 1989) p. A-9-10.

[66] Ibid.

" Ibid.

[67] Statement by Yuri Erzhov, Conference of Nov. 13, 1989.

" Exhibit from Conference, attached hereto as app. K.

" Statistics provided by United States-U.S.S.R. Trade and Economic Council.

7° Ibid.

[71] Data obtained from the State Foreign Economic Commission of the U.S.S.R. Council of Ministers, Oct. 19, 1989.

[72] Statistics provided by United States-U.S.S.R. Trade and Economic Council. For a partial list of United States-Soviet joint ventures, see app. L.

Like companies from other countries, most American companies have severely limited their capital investments in Soviet joint ventures. The investment by American companies in joint ventures with the Soviets has fallen mostly in the range of investment of $100,000 to $500,000 or $1 million to $5 million.[73] Fewer than 20 percent of the United States-Soviet joint ventures have involved investment of more than $10 million by American companies .[74]

The largest join venture project to date was recently announced by Combustion Engineering.[75] On November 28, 1989, an agreement was announced by Combustion Engineering and a Finnish company, Neste Corp., to join with Tobolsk Petrochemical Company, a subsidiary of the Ministry of Chemican and Oil Refining Industries, in building a complex at Tobolsk to turn Soviet oil and natural gas into a variety of petrochemicals, including propylene, polypropylene, and thermoplastic elastomers.[78] It is expected that the initial phase of this project will cost $2 billion, although the partners plan to expand the complex later. Initially, Combustion Engineering and its Finnish partner will only own 15 percent of the joint venture, but the agreement permits the two companies to increase their equity participation at a later date."

Even in this project, however, the role of both the American and the foreign partner falls primarily in the services sector. Combustion Engineering will be responsible for overall project management, including design, procurement, and foreign currency financing, while its Finnish partner will be responsible for marketing the share of the petrochemical production to be sold outside the Soviet Union. The plan is to export 60 percent of the output during the first 4 or 5 years the complex is in operation in order to service debt incurred in foreign currencies but to reduce exports significantly after that.

Combustion Engineering's limited equity participation is not typical of the usual ownership distribution in United States-Soviet joint ventures. Although the U.S. partner holds the minority position in most such ventures,[78] this may be because Soviet law required this relationship from January 1987-December 1988. Further, the American partner holds a 49-percent interest in approximately half of the approximately 38 joint ventures in which the American partner has minority ownership.[78] Once the legal limitation barring the foreign partner from having a greater-than-49-percent interest was dropped, the 50:50 arrangement replaced the 49:51 ratio as the most common arra ngement .[88]

Export Controls

Soviet export controls break down into two categories. Controls that aim at restricting the exportation of commodities—particularly consumer goods—in short supply; and controls that aim at protecting intellectual property, enforcing national security policies, and preserving art treasures. Controls under the first category amount to export quotas, restricting foreign sales beyond a certain quantity limit.[81] Controls under the second category intend to keep a close central tab upon the exportation of inventions and other results of research. These controls formally prohibit any shipment abroad of weapons, nuclear items, militarily useful technology, narcotics, poisons, antiques, and "other objects of significant artistic, historical, scientific or other cultural interest."[82]

The overall Soviet export list contains 28 categories. These include fuels, ores, and precious metals; a variety of basic chemicals, grain, cement, cotton; and "inventions and other results of research."[83] Soviet officials indicated that currently 58 organs can issue export licenses in the Soviet Union. The Ministry of Industry and the Council of Ministries at the Republic level are the principal authorities involved in export licensing.[84]

[73] Ibid.
Ibid.
" "Foreign Companies Flood Soviet Union's Opening Gates," *Washington Post,* Nov. 29, 1989.
[1c] Ibid.
n Ibid.

" Statistics obtained from United States-U.S.S.R. Trade and Economic Council.
[79] Ibid.
[93] Ibid.
[9'] According to the Soviet participants, a worsened balance between the population's money balances and the availability of consumer goods in the Soviet Union had necessitated the introduction of stiff new restrictions on exporting consumer goods during 1989. (Decree No. 203 of the U.S.S.R. Council of Ministers, Mar. 7, 1989.) (Interviews.)
[82] Philip Hanson: *"The Soviet Export Control List,"* article published in Report on the U1S.S.R. by Radio Liberty, Vol. 1, No. 15, April, 1989.
[93] Ibid.
[94] Interviews.

Chapter 2

Summary Of Views On The Impact Of MFN Status On U.S. Business

Introduction

This section summarizes the views of individuals interviewed by Commission staff, making formal submissions, or participating in the Commission's hearing on the impact on the business climate for United States-Soviet trade of granting MFN treatment to the Soviet Union.[1] Views regarding the possible effect of MFN status on U.S. imports from and exports to the Soviet Union are presented below. Subsequent sections summarize views on extending export credits to the Soviet Union, export controls, the significance of MFN status for joint ventures, the prospects for market disruption and dumping, U.S. competitiveness in the Soviet market compared with other Western countries, and other issues that arose during the investigation.

Prospects for Overall Trade

The majority of participants expressed the view that if MFN status were granted, bilateral trade would grow. Many U.S. businesspersons mentioned that much of the great potential for a prosperous flow of bilateral trade lies in the Soviet Union's abundance in oil, natural gas, timber, nonferrous metals, and a large variety of other natural resources. Because it has the potential to earn hard currency and has vast unsatisfied demands, they suggested, the Soviet Union would become a growing market for U.S. capital and consumer goods.[2]

Nevertheless, the historical lack of close cooperation between the U.S. and Soviet economies and current difficulties handicapping the growth of United States-Soviet trade left the contours of future bilateral trade uncertain for many participants expressing optimism about the future. A former U.S. Congressman who played a vital role in shaping United States-Soviet commercial relations over the past decades said—

The question is frequently asked, What is the potential of the Soviet market? What do they make? What can they sell? In response to the latter question, let me suggest that the people of the Soviet Union are hungry, indeed very hungry for all and every type of consumer goods. They are especially excited about goods made or designed in America. They covet and desire to duplicate our systems of communication, marketing, and distribution.

There is so much that we can sell. We know so little about the Soviet Union, its many provinces, its multitude of separate and different unhomogenized cultures. As we move toward trade liberalization, I would say that the ingenuity of American business will ferret out and discover exciting opportunities for trade and investment.[3]

Others, however, maintained that prospects for trade expansion are poor, since the Soviets have little to buy with and little to sell. For example, quoting a private ,U.S. economist, the president of a nationwide organization voicing U.S. business concerns said-

. . . one third of Soviet production can be characterized as 'useless goods.' If another 25 percent is devoted to military purposes, this does not leave much for export to the U.S.

Of course, most importantly, the American business community should be made aware that the Soviets have little desire to expand their limited foreign exchange on mass-consumption items. The Soviets want to buy capital equipment to construct their own production facilities. They won't allow the U.S. to create the kind of large export market of finished products that it needs to balance its flow of imports.[4]

One senior U.S. Government official suggested that the United States does not have to fear a major trade deficit with the Soviets since they are by nature bilateral traders. Historically, he said, the Soviets have always attempted to balance trade with individual countries. On the other hand, he pointed out, pressure might be applied later on the United States to import greater amounts of Soviet goods, if U.S. trade surpluses with the Soviet Union became persistently large.

A large number of participants suggested that a political or symbolic benefit of MFN status would probably be greater than immediate economic benefits. Numerous participants predicted slow growth of U.S. exports to the Soviet Union,

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[1] Unless otherwise noted, information in this chapter is drawn from interviews conducted by ITC staff. Comments in quotations are most often drawn from formal submissions and interview notes.In the case of interviews, the Commission endeavored to ensure that the quote accurately reflects the statements of the participant, although verbatim transcriptions were not made.

[2] Some participants indicated that the Soviets are increasingly willing to go into short-term debt to import consumer goods.

[3] Testimony of Mr. Charles A. Vanik, of counsel on behalf on Squires, Sanders and Dempsey, transcript, pp. 15, 16.

[4] Statement by Mr. Anthony Harrigan, President, United States Business and Industrial Council, public submission, dated Oct. 10, 1989.

based on what they saw as limitations imposed by the Soviet economy. For example, an official of a trade association involved in United States-Soviet trade said that, if MFN were granted-

> *U.S. exports are bound to increase, but hard currency availability will remain a strong limit. For a couple of years, grave difficulties on the Soviet Side will limit the growth of U.S.-Soviet trade, but this link will become a prosperous one afterwards.*

Echoing this sentiment, one academic familiar with United States-Soviet relations stated that—

> *The impact of MFN is primarily psychological. Its cumulative effect will be more successful joint ventures, leading to more hard currency earnings for the Soviets, leading to more money available to buy exports from the United States.*

Impact of MFN Status on U.S. Imports

According to most U.S. and Soviet participants, if MFN status were granted to the Soviet Union the likely result would be a minimal increase in U.S. imports over the short to medium term. The general rationale for this conclusion was that although MFN status is an important psychological signal for a normalized bilateral economic relationship, the benefits of reduced duty rates would be overshadowed by the structural problems inherent in the Soviet economy that limit its ability to manufacture and distribute products that are competitive in the U.S. market. A former U.S. ambassador to the Soviet Union speculated that if MFN status were granted, "We'll sell a lot more to them than we'll ever buy. And this will be true for years to come." Any increases in U.S. imports, according to most participants, would be likely to occur in raw materials such as minerals and metals; petroleum, natural gas, and related products; certain agricultural products; and certain textile articles, most of which are currently principal U.S. import items from the Soviet Union. According to many U.S. and Soviet interviewees, long-term Soviet export potential could be significant, particularly if economic reform is pursued.

Some U.S. participants, primarily representatives of U.S. business, indicated that certain U.S. imports from the Soviet Union could increase to such an extent—if MFN status were granted—as to adversely impact U.S. industries, even in the short term. Several U.S. sources expressed the view that the Soviets would emphasize the development of market niches in the United States for which the Soviets would manufacture and export specialty products. A U.S. trade association official underlined this point in the following comment: "There are little pockets, niche markets, whether it is surplus military watches or giftware. In the overall, it is insignificant." [5]

Several Soviet Government officials expressed a desire to expand Soviet export opportunities for semimanufactured goods, at least in the short term, and for more advanced merchandise in the longer run. Soviet exporters generally agreed, citing an interest to increase shipments of chinaware, tractors, ships, heavy machinery, electronic microscopes, excavators, and rubber boots to the United States. One Soviet Government official indicated that an increase in sales to the United States would develop over a long period, since (1) U.S. markets need to be identified, (2) Soviet products would need to meet market demands, and (3) the Soviet Union would need exportable surpluses.

A U.S. banking official provided this perspective:

> *In the near term—say five to seven years—I think you're going to find that the majority of exports that are of any value from the Soviet Union will be in energy or energy-related products and natural resources—primary materials such as sawing lumber, pulp, et cetera. In the middle term, you'll see a movement toward semifinished products and perhaps the emergence of some value-added exports, but again, I'm not optimistic that that's going to be a great number. Then perhaps in the final third of your analysis period, you're looking at a greater volume of value-added products.* [6]

Products

Minerals and metals

Several U.S. interviewees cited minerals and metals as a potential growth area for Soviet exports, particularly steel, aluminum, chrome, gold, manganese, and ferrosilicon, if MFN status were granted. An official with the U.S. Bureau of Mines indicated that of the Soviet Union's nonmilitary exports, minerals and metals account for 10 to 15 percent. The sale of these commodities is often used to generate hard currency, particularly when needed to compensate for the fluctuating revenues from the sale of crude petroleum. The composition of exports could vary because of the Soviet Union's rich mineral base. A former U.S. congressman noted that "They have some minerals that are very critical in America that are in short supply or almost in no supply. It is very important for these things to come here. There is

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a Testimony of Mr. Eugene J. Milosh, President, American Association of Exporters and Importers, transcript, p. 99.

Mr. James H. Giffen, Chairman and President, Mercator Corporation, transcript, p. 73.

a whole litany of special minerals that they have access to that they produce in almost an exclusive market."[7]

Several participants said, however, that the Soviet Union's mineral industries are in need of improved extraction, recycling, and processing technologies, although the level of need is difficult to assess. They speculated that infrastructure development and expansion would be necessary to tap the abundance of natural resources in inaccessible and underdeveloped areas of the Soviet Union.

One U.S. academic indiCated that the Soviets would prefer not to be thought of as primarily a raw materials source, which the Soviets equate with Third World status. In the same vein, one U.S. Government source stated that the Soviet Union is reluctant to develop its natural resources because of its view that great powers should have an industrial-based economy. However, a high-level Soviet official recently suggested that Soviet reliance on manufacturing for its main source of trade, rather than natural resources, especially petroleum, is not productive. An American academic familiar with the Soviet Union speculated, however, that if MFN status were granted, "the U.S. import emphasis would be on raw materials."

Petroleum, natural gas, and related products

Many U.S. participants also cited petroleum, natural gas, and related byproducts, such as fertilizers, as Soviet exports that could increase if MFN status were granted. The Soviet Union's vast petroleum resources, it was noted, contribute to its position as a major petroleum supplier to world markets. Several U.S. companies, however, indicated that U.S. imports of such Soviet products would not be likely to increase significantly if MFN status were granted, since petroleum products are often sold on the world market, not directly to the United States. Environmental concerns could reduce exploration and export opportunities, according to several U.S. participants; there is an increasing awareness in the Soviet Union of the detrimental effects of gas and oil exploration and the depletion of these resources. One U.S. academic who studies the Soviet Union closely said that-

> *U.S. agribusiness, and oil and gas equipment companies might want to get involved [in the U.S.S.R.]. The degree of rapid development of oil and gas sector is under serious discussion in the Soviet Union as a means to enter into foreign markets, because of environmental problems and depletion and the burden these place on future generations.*

In addition, according to a trade association official, "there are major obstacles requiring huge financing, overcoming harsh climatic conditions, environmental problems, technology hurdles such as secondary and tertiary recovery, desulfurization and establishing elaborate transportation systems in remote areas before new Soviet petroleum production can be brought on line."[8] A U.S. banking official indicated that to improve Soviet extraction capabilities, "they need Western equipment and they need Western technology.. . to efficiently and profitably produce new reserves as well as to move into secondary and tertiary recovery methods for existing reserves . . ."[8]

Agricultural products

Several U.S. businessmen and government sources cited fish, such as caviar and sturgeon, and furskins as growth areas for Soviet exports to the United States if MFN status were granted. They speculated that reduced duties with MFN status would encourage some U.S. fish interests to import more from the Soviet Union. One U.S. importer of fish products said, however, that "the Soviet fish industry is not extensive and poses no threat to the U.S. fish industry." Another U.S. company indicated that it would shift processing to the Soviet Union from its current processing facilities in Korea if MFN status were granted because Soviet processed fish exports to the United States would then be subject to the same rate of duty as those from Korea.

Concerning fur, U.S. industry representatives said that the Soviet Union is the sole source for skins such as sable and Russian fox. The reduced duties resulting from MFN status would enable U.S. furriers to import certain Soviet dressed skins at a lower cost and compete on the world market with finished garments manufactured in the United Kingdom and Korea, for example, where duty rates on Soviet furs are lower than in the United States, according to a U.S. industry official. Such finished furs, made from Soviet fur skins, enter the United States duty free or are subject to relatively low duties. Along these lines, one U.S. company involved in the fur business said that "MFN would assist the U.S. fur industry, stimulating employment, with income and tax effects."

Textile articles

The types of Soviet textile products considered by U.S. participants as likely to *be* exported to the U.S. market if MFN status were granted are those of lower price products such as cotton

[7] Testimony of Mr. Charles A. Vanik, of counsel, on behalf of Squires, Sanders and Dempsey, transcript, p. 25.

Testimony of Mr. Eugene J. Milosh, President, American Association of Exporters and Importers, transcript, p. 95.

a Testimony of Mr. James H. Giffen, Chairman and President, Mercator Corp., transcript, p. 75.

sheeting used for drapes, bed sheets, and shop cloths, and viscose, a stable synthetic fiber used in rayon production. One U.S. Government expert on the Soviet Union indicated that the importation of these goods would be likely to occur when customers are "scrounging around" for a certain product, as was the case with cotton sheeting recently imported from the U.S.S.R. U.S. imports of cotton sheeting from the Soviet Union are currently subject to unilateral restraints, according to U.S. interviewees knowledgeable about textiles. A trade association also supported this view, indicating that U.S. mills could use Soviet goods, generally of lower quality and competitive with U.S. imports from Third World countries, to supplement their U.S. production. According to one U.S. company—

> *large shipments of quality Soviet textile products to the U.S.—or to world markets in general—is unlikely. Textile machinery for producing quality goods has to be imported from the West (most recently from Switzerland.) Lowering Soviet export prices to dumping levels would make return on such investment so illusory that even Soviet businessmen would stay away from it.*

A current U.S. exporter indicated that the Soviet Union is a large manufacturer of textile goods and identified Soviet export potential in products for specific market segments, such as rayon. Rayon, which is considered a cheap substitute for silk, is currently in tight supply in the West because of growing demand and environmental constraints to production. The Soviet Union is considered a potential source of many types of synthetics because of its large chemical industry base, the company said. In addition, the source noted that—

> *The Soviets produce a large quantity of textile goods and may show an unexpected strength in specific segments of an ever-shifting world market. For example, the Soviets currently produce large quantities of rayon, for which demand is momentarily growing, since it is considered a cheap substitute for silk. Rayon supplies in the United States, and the West in general, have been tight in recent years. One of the considerations in producing rayon is that toxic substances are released during various phases of its production.*

The Soviet Union could also have long-term potential in wool, having one of the world's largest wool processing industries, according to a U.S. trade association source.

Miscellaneous products

A variety of other products were occasionally mentioned by U.S. sources as having the potential for increased U.S. imports over the long term if MFN status were granted. These included toys, chinaware, machinery (such as electrical power equipment), cultural handicrafts, tractors, automobiles, machine tools, chemicals, instruments, wood products (including furniture), alcoholic beverages (particularly vodka), heavy coats and boots, and airplanes. One current joint venture participant ndicated that imports of medical systems and pharmaceuticals from the Soviet Union could increase with the establishment of future joint ventures. One U.S. business person involved in trading with the Soviet Union suggested that "given the fact that the two economies have never closely cooperated, a host of Soviet products that could be supplied to U.S. markets may gradually emerge as bilateral trade grows."

Soviet tractors were mentioned frequently by both U.S. and Soviet interviewees from both government and industry, as a successful entrant in the U.S. market. One current U.S. exporter and joint-venture participant cited the Belarus tractor as a Soviet export that has met U.S. quality specifications and has been quite competitive in the U.S. market, primarily because of its low price. Another participant indicated that this tractor, being heavy but smaller than most U.S. tractors, successfully fills a niche in the U.S. market. One official with a U.S. trade association had the following comment about Soviet tractors:

> *U.S. firms producing tractors, a product on which there currently is no tariff for Soviet imports, will "keep their mouths closed" for three reasons: (1) the U.S. firms are internationally-oriented; (2) through the years, these firms have sold equipment, such as pipelines, to the Soviets; and (3) these firms sell tractors to U.S. farmers, who, in turn, favor MFN.*

Deterrents to Soviet Exports

Most participants indicated that the Soviet economy's structural problems were the principal factors limiting that country's export capability, and that MFN status and reduced duty rates would not offset these disadvantages. According to a U.S. trade association official, "real progress will only occur with complete reform and the Soviets entering the market system of trade, both internally and externally." [10] Among the structural problems cited by many U.S. sources as impediments to increased Soviet, exports were lower product quality, which could contribute to failure to meet U.S. product standards; lack of an efficient communications network; product design, style, or characteristics uncompetitive in the U.S. market; unavailability and unreliability of import supply; lack of incentive, training, and mobility

[10] Testimony of Mr. Eugene J. Milosh, President, American Association of Exporters and Importers, transcript, p. 96.

for personnel; poor productivity; waste; and lack of capital for investment in state-of-the-art machinery/equipment and plant improvements, which results in the use of outdated equipment and technology in production. As one U.S. importer and future joint-venture participant dicated in a submission, "The Soviet economy is in a desperate position. What was there is not working or has been stopped."

Distribution and transportation deficiencies are rampant in the Soviet Union, according to one current U.S. exporter highly knowledgeable of the Soviet Union. He indicated that most transport of goods within the Soviet Union is by air, *even* for such items as potatoes. In addition, he speculated that a 25-year program would be needed to develop the Soviet transportation infrastructure to the level of the transport network in East Germany today. The concentration on the military sector of the economy has been at the expense of such segments as transportation; this exporter said that "it's a third world country with a first world defense system."

Other deterrents frequently mentioned by U.S. participants are supply dislocations in the economy, bureaucratic inflexibility, the lack of ruble convertibility, and prices that do not reflect market forces. It was also mentioned that Soviet companies are also generally unfamiliar with the marketing and sales techniques needed to penetrate the U.S. market. These include the need to provide after-sales service, to establish a customer relationship, to develop distribution channels, and to supply parts and components when necessary.

In addition to the above issues, one U.S. joint-venture participant said that, in the Soviet Union, "there is the need for real organizational accountability—production and financial and managerial accountability—which might come about if the central planning system were to be dismantled." Other participants have also suggested that Soviet firms could benefit from U.S. managerial expertise.

Several participants suggested that another threat to the long-term capability of the Soviet Union to become a major exporter to the United States is the possible instability generated by economic reform. For example, several U.S. participants raised the concern that income inequities and supply dislocations resulting from reform could create an atmosphere for retrenchment and increased tensions, thereby stagnating or ending economic development. In addition, a U.S. trade association official observed in a submission that the economic, military, and government reforms being undertaken are "an effort that is generating enormous friction and confronting numerous obstacles inherent in the Soviet system." [12]

Soviet Government officials often mentioned internal export controls as a major factor limiting the Soviet Union's ability to export. These controls, which were enacted* in March 1989 under Decree No. 203 of the Council of Ministers, apply varying degrees of restrictions on exports to improve the availability of consumer goods to the Soviet public. Goods included under the controls are refrigerators, washing machines, televisions, watches, clocks, and other items. These export controls are also linked to many U.S. and Soviet sources' comments that Soviet domestic and current export markets need to be satisfied before a significant export push to the United States is attempted.

Inducements to Soviet Exports

Along with the deterrents to increased imports, a number of participants indicated that several factors would be influential in increasing the level of U.S. imports from the Soviet Union, if only for the long term. One idea expressed by a few sources was the issue of balancing trade on a bilateral basis. According to one U.S. Government source at the Eximbank, the Soviet Union historically has attempted to balance trade with individual countries, such as the Council for Mutual Economic Assistance (CMEA) nations. As a result, the Soviet Union may pressure the United States to import greater quantities of Soviet goods to offset the expected increase in exports from the United States. Another perspective was provided in a submission by a U.S. academic:

> *It clearly is the policy of the Soviet Union to balance trade as closely as possible with each country and, since the USSR will remain largely a government-controlled economy, the availability of the Soviet market to any country will be dependent on the ability of the Soviets to market their goods in that country.* [13]

Several participants view the low cost of Soviet merchandise, often resulting from lower labor rates, subsidized inputs, and price controls, as an advantage in the U.S. market, despite the general lower quality and desirability of these goods. One U.S. academic indicated that with these lower cost inputs and a lack of intellectual copyright protection, the Soviet Union could manufacture inexpensive imitations of copyrighted merchandise.

Several U.S. participants suggested that granting MFN status would encourage Soviet companies to consider the U.S. market as a viable, long-

" Mr. Robert G. Lee, President, World Class Products Ltd., public submission dated Nov. 7, 1989.

[12] Mr. Anthony Harrigan, President, United States Business and Industrial Council, public submission dated Oct. 20, 1989.

[13] Mr. James L. Hecht, Adjunct Professor, University of Delaware, public submission dated Oct. 20, 1989.

term export option, and to undertake the efforts in product design, marketing, and quality improvements that are necessary to succeed in that market. As one submission from a U.S. exporter of food ingredients states, "Granting MFN will show new entrepreneurs in the Soviet Union that the U.S. market is open to them and it will encourage them to produce products that can compete in world markets." [14] One U.S. joint-venture participant observed that "when they're [the Soviets] brought up to speed and educated in terms of the requirements of the U.S. market—quality control, primarily—they can manufacture products that equal many of the other imported products here in the United States." [15]

Another factor driving a possible Soviet export push is a Soviet need to reduce its trade deficit with the United States and to generate hard currency to finance the purchase of Western goods and technology, according to several U.S. sources. In a submission by a U.S. firm interested in exporting equipment, the following observation was offered: "Increased exports from the Soviet Union to the United States will be an important consideration in the necessary generation of hard currency . . . .[16] MFN status would place Soviet exports in a more competitive price position with exports from other foreign suppliers. One company indicated in a submission that "We would also be interested in the possibility of purchasing more commodities from the USSR if tariffs are reduced." [17] Raw materials were often mentioned as those products most likely to be exported in increased quantities if MFN status were granted, although in the longer term the composition of Soviet exports could shift to higher priced, more advanced merchandise that could earn more hard currency.

Several interviewees said that Soviet scientific and technological abilities should not be overlooked when assessing Soviet export potential. Several areas of Soviet expertise—software, space-related technology, lasers—were cited by several U.S. sources as possible export areas, but generally on a longer term basis. One U.S. Government official said that—

> *In certain high technology areas, the USSR has good R & D capabilities, such that Western manufacturers might be interested in pursuing its acquisition, particularly for military and scientific applications. The Soviet Union generally has not been able to transfer this R & D from the lab to the marketplace. Such a transfer would require mass production and a knowledge of Western marketing practices, which is not currently possible for the Soviets.*

Joint ventures could also contribute to an increase in imports from the Soviet Union, according to many U.S. and Soviet participants. This increase would occur primarily through the sale of some jointly produced items to the United States—although many U.S. sources indicated that these items, when exported, would often be marketed in Europe—or a countertrade arrangement by which Soviet goods are offered to a U.S. firm in exchange for their exports to or investment in the Soviet Union. A U.S. importer of Soviet goods said that countertrade arrangements appear to be gaining importance in the Soviet Union as Soviet firms with foreign-trade rights seek quick and less restrictive ways to acquire Western goods. One U.S. company voiced its support for MFN by saying that "granting MFN status would improve the position of U.S. producers wishing to enter the Soviet market by making Soviet products taken in countertrade more price competitive in the U.S. market." [18]

Some Soviet participants expressed the hope that the formation of United States-Soviet joint ventures would strengthen Soviet export industries. One U.S. academic stated that Soviet exports of high-technology goods to the U.S. market would be dependent on these types of joint ventures. Although nearly all participants who discussed the issue of Soviet conversion of certain military production lines to consumer goods agreed that any such conversions would be dedicated to the Soviet consumer economy, one U.S. academic warned that Soviet industrial strength lies in these areas and that their export potential should not be overlooked. A U.S. business official with lengthy experience in the Soviet Union noted that these former defense plants are staffed with independent quality inspectors and benefit from better tooling and quality control, and as a result, manufacture products that already meet Western market specifications. A U.S. Government official said the following on this subject—

> *Its efforts to convert manufacturing lines dedicated to military goods to consumer goods for its domestic market will require retooling and reorganizing, which requires a substantial investment. For these reasons it is likely that these production lines will produce items similar to those military articles already being produced (e.g., military aircraft to private planes), not the*

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[14] Mr. Paul H. Hatfield, President, Protein Technologies International, a subsidiary of the Ralston Purina Co, public submission dated Nov. 3, 1989.

[15] Testimony of Mr. William C. Tragen, President, Chesapeake International, transcript, p. 39.

[16] Mr. David J. Bringman, Vice-President for Corporate Marketing, Beloit Corp., public submission dated Oct. 31, 1989.

[17] Ms. Maria V.N. Whitman, Vice President and Group Executive, General Motors Corp., public submission dated Nov. 13, 1989.

[18] Marina V.N. Whitman, Vice President and Group Executive, General Motors Corp., public submission dated Nov. 13, 1989.

types of consumer goods in demand. The point of conversion is to produce goods for Soviet consumption, not for export and world consumption.

Market Disruption/Dumping

Two main issues were raised on the subject of possible market disruption or dumping that could be caused by increased U.S. imports from the Soviet Union if MFN status were granted: First, some commented on the ability of current U.S. laws to handle trade complaints involving U.S. imports from the Soviet Union. Second, several participants speculated as to which U.S. industries could be subject to increased imports giving rise to such complaints if MFN status were granted.

Those sources who commented on the first issue, including U.S. law firms, U.S. industry representatives, and a U.S. Government official, generally agreed that current U.S. mechanisms to handle market disruption and dumping cases are adequate. One U.S. law firm with an office in Moscow indicated that the extension of MFN status carried a risk of market disruption, and suggested that an annual review of MFN status would be appropriate to evaluate its effect on dumping and market disruption. A U.S. academic suggested that a set of market-disruption triggers be applied to U.S. imports from the Soviet Union. A few sources also added that orderly marketing arrangements or voluntary restraint agreements could be negotiated, if necessary, to stem a flood of imports. A former Congressman stated, "I think that if it [MFN status] creates problems, then it is something that Congress can address itself to."[19]

Many Soviet and U.S. participants said that Soviet-made goods are not usually priced to reflect market demand or the actual cost of inputs, primarily because of the centrally controlled economy and the lack of ruble convertibility. As a result, Soviet exports that are subsidized, price controlled, or both could be the subject of trade complaints brought by U.S. industries. Although the previously cited U.S. interviewees indicated that current laws could handle any cases of market disruption or dumping, one submission by a major consumer durables manufacturer made the following observation: "U.S. companies and federal agencies would have considerable difficulty in evaluating the merits of an antidumping suit because the exact value of Soviet currency is unknown."[20]

[19] **Testimony of Mr. Charles A. Vanik, of counsel, on behalf of Squires, Sanders and Dempsey, transcript, p. 31.**

[20] **Mr. Michael C. Thompson, Manager of Government Relations, Whirlpool Corp., public submission dated Nov. 2, 1989.**

Although most U.S. industry and Government sources indicated that any increases in U.S. imports of Soviet merchandise would not be sufficient to harm most U.S. industries, several sectors were cited as having the potential to be affected by a significant increase in imports. Those sectors included tractors, fur (particularly mink); fertilizers; ferrosilicon; other minerals and nonferrous metals (e.g., copper, lead, zinc, coal); textiles; paper; chemicals; steel (particularly structural quality); and ball bearings. The extent of possible disruption to most of these industries was not quantified; however, these product areas were identified by various contacts as likely candidates for firm 2.qplacement or financial difficulties, principally :," cause of the low cost of Soviet exports when compared to the cost of similar U.S. merchandise.

Several submissions identified areas that could be subject to increased imports from the Soviet Union if MFN status were granted. A U.S. Government agency suggested that imports of structural steel from the U.S.S.R. could increase if MFN status were granted. The participant said—

> *The granting of MFN status to the U.S.S.R. may result in a problem of excessive imports of structural quality steel from the U.S.S.R, unless a Voluntary Restraint Agreement is signed as well.*[21]

A U.S. processor of zinc oxide expressed the following concern about increased imports of zinc oxide from the Soviet Union:

> *We do not need any additional imports from anywhere. They will simply further reduce production and prices here. The ultimate result of such behavior could be the close down of USA facilities and loss of jobs.*[22]

The largest U.S. producer of Vanadium pentoxide said that—

> *The Soviet Union is a major producer of vanadium pentoxide and, as such, has the potential to effect considerable disruption in the U.S. market. Since vanadium pentoxide is a strategic material, we believe that any significant reduction of duty on imports from the Soviet Union would be counter to the national interest.*[23]

A U.S. manufacturer of home appliances expressed concern over the possibility of MFN status for the Soviet Union.

> *The granting of MFN status is premature. We believe that the Soviet Union heavily subsidizes its manufacturing sector. The*

[21] **David S. Brown, Associate Director, Information and Analysis, Bureau of Mines, U.S. Department of the Interior, submission dated Nov. 17, 1989,**

[22] **T.L. Diamond of T.L. Diamond and Co., New York, NY, submission dated Nov. 14, 1989.**

[23] **W.G. Beattie, President, Stratcor, Danbury, CT, statement dated Nov. 6, 1989.**

granting of MFN status would be a de facto additional subsidy without return concessions. In short, U.S. products could become more vulnerable to (and less competitive with) heavily subsidized Soviet goods if MFN status were granted. [24]

A U.S. trade association opposes the granting of MFN, in the belief that a flood of low-priced ferrosilicon imports from the Soviet Union would cause market disruption in the United States. The association noted that a 1984 section 406 case[25] against U.S. imports of ferrosilicon from the U.S.S.R. lost by a majority vote, and that "U.S.S.R. imports of ferrosilicon have now doubled."[28] A U.S. mining trade association representative indicated that Soviet production subsidies, the state trading mechanism, countertrade experience, and the cycles the minerals markets make the U.S. industry sensitive to market disruption. U.S. imports of certain fertilizers, including urea from the Soviet Union, are currently subject to dumping duties; a current U.S. exporter would oppose granting MFN status should it lead to a reversal of this decision.

Senior Soviet Government officials interviewed in Moscow maintained that U.S. fears of dumping by Soviet firms after the mutual extension of MFN status are unfounded. The range of prices Soviet traders can charge for their products in world markets is strictly controlled; new regulations have reduced the amount of goods Soviet enterprises can sell abroad; Soviet enterprises are at present not geared to sell in U.S. markets; and, if requested, the Soviet Government is willing to enter into orderly marketing arrangements with the United States.

Participants said that the Ministry of Foreign Economic Relations and the Ministry of Finance control the range of prices firms can charge for their products in world markets. Deviation from this range is illegal. The main reasons for controlling export prices are to assure that badly needed hard currency revenues are not lost by underpricing and to prevent illegal market conduct by firms with independent foreign-takes place through export licensing and periodical audit.

The shortage of consumer goods necessitated the restriction of exports in several commodity categories. "Decree 203" restricts the exportation of refrigerators, washing machines, black and white and color TV sets, radio receivers, household sewing machines, vacuum cleaners, watches, clocks, personal cars,[27] among many other items.[28] As a measure of decentralization, some rights to limit exports have been given to the Republics.[28]

Soviet enterprises are not, as of yet, geared to sell in U.S. markets. The participants indicated that Soviet enterprises will need time to identify markets in the United States and adjust products for U.S. consumption. At present, Soviet firms lack the capital, the technical know-how, and general business savvy to sell in U.S. markets.[38]

A high level Soviet official stated that if the U.S. Government requested, the Soviet Government would be willing to enter into orderly marketing arrangements with the U.S. Government to address sectoral concerns. From comments made by Soviet participants, it appeared that Soviet authorities currently are not targeting any U.S. market for post-MFN sales. Soviet officials also emphasized that the dominant method of marketing in the United States would be direct contacts between Soviet firms and U.S. markets.

Impact of MFN Status on U.S. Exports

The following section presents the views of participants on the possible effect that granting MFN status to the U.S.S.R. could have on U.S. exports. Participants expressed their views on the possible overall effect on exports, agricultural exports in particular, and a wide variety of manufactured goods, such as agricultural machinery and equipment, fertilizers, energy and capital equipment, pollution control equipment, communications equipment, construction equipment, printing equipment, dental products, paper machinery, steel mill products, and consumer goods.

A majority of participants did favor MFN status for the Soviet Union; however, with certain exceptions, many of those individuals said that

[24] Michael C. Thompson, Manager, Government Relations, Whirlpool Corp., statement dated Nov. 2, 1989.

[22] Section 406 of the Trade Act of 1974 provides for investigations by the ITC to determine whether or not imports of an article produced in a Communist country are causing market disruption with respect to an article produced by a U.S. industry.

[22] John Oxaal, President, The Ferroalloys Association, statement dated Nov. 9, 1989.

[27] According to the estimates of a Moscow-based European trading company, the Soviets would need a minimum of 50,000 cars per year to enter the U.S. market. This amount currently exceeds their export capacity. (Interview.)

" A member of the Central Committee of the Soviet Union's Communist Party stated that attempts to correct the imbalance between the population's money balances and the stock of consumer goods available to the public will also include the transfer of military production into civilian use and the sale of assets (e.g., houses, capital goods, commercial outlets) to the public. (Briefing of USITC staff, Moscow, Oct. 3, 1989.)

" Soviet officials indicated that currently 58 organs can issue export licenses in the Soviet Union. The Ministry of Industry and the Council of Ministers at the Republic level are the principal authorities involved in export licensing. (Interviews.)

[30] U.S. participants appeared to be divided on the subject of Soviet business know-how. Some said that they are good traders, whereas others commented that their ideas on how to approach Western, particularly U.S., markets are often unrealistic.

MFN status would do little to alter the overall level or composition of U.S. exports to the Soviet Union in the short term. Many individual firms involved in or planning export efforts to the U.S.S.R. said that if MFN status were granted to the Soviet Union, an improvement in the bilateral trading climate would result, and their export opportunities could increase over time. One U.S. Government official said that if MFN status were granted—

> *There would probably be no or minimal change in U.S. exports in the short term. In the longer term, , tariff differentiation and Soviet management of trade may change both the magnitude and composition of trade.* [31]

Impact on Agricultural Exports

Several general viewpoints emerged among participants regarding the possible effect MFN status for the Soviet Union could have on U.S. agricultural exports if it were granted. One view was that MFN status would allow the Soviet Union to increase sales of its goods in the U.S. market, thereby earning additional hard currency for increased purchases of a variety of U.S. export goods. A submission from an agricultural trade association said that—

> *Simply stated, the Soviet Union needs increased access to U.S. markets in order to earn the hard currency necessary to buy additional U.S. products. MFN status, through equal tariff rates with Soviet competitors, would give them the needed hard currency through increased sales to the United States . . . . I can only say that we would have the potential to export much more to the Soviets. The potential for enormous increases of off-take of U.S. corn by the U.S.S.R. is only limited by our policies. An aggressive program encouraging a healthy livestock and poultry industry would raise the standard of Soviet diet and increase the demand for U.S. feed grains.* [32]

Another trade association involved in agricultural trade made a similar argument:

> *The granting of MFN tariff treatment would make Soviet exports to the United States more competitive. U.S. purchases of Soviet goods would increase the availability of hard currency for Soviet purchases of U.S. agricultural commodities.* [33]

[31] Interview.

[32] B. Keith Heard, National Corn Growers Association, Washington, DC, statement dated Nov. 6, 1989.

[33] U.S. Feed Grains Council, Washington, DC, submission dated Oct. 27, 1989.

Other participants suggested that MFN status would have little effect on U.S. agricultural exports to the Soviet Union. These individuals said that if MFN status were granted, the Soviet Union would probably continue its past trends in purchasing agricultural products from the United States, and that determinants of such purchases are not related to MFN status. For example, a U.S. Government official said that—

> *Concerning agricultural exports, MFN status would not have a direct impact. The Soviets need to import grain and will continue to do so without MFN since the U.S. is a reliable supplier.*

Another U.S. Government official said that "the long-term grain agreements account for $9 million in trade. This shows that the Soviets will buy large quantities of U.S. products without MFN. Soviet needs determine their purchase levels." Another official added that "since the grain embargo, the U.S.S.R. has been reluctant to single-source from the United States when many other countries have developed sufficient capacity to supply the Soviet Union's needs." Another participant added that the "U.S. ability to export to Soviet markets would be enhanced by MFN, but increased agricultural sales would not necessarily follow."

Some participants expressed optimism that if MFN status were granted to the Soviet Union, agricultural exports could increase. An official with a U.S. trading company that trades extensively with the Soviet Union said that-

> *MFN would have a positive effect on agricultural exports. The U.S. is* the *supplier with enough quantity to supply the needs of the Soviet market without unduly affecting its own market. Meat, poultry, butter, margarine, semiprocessed, and processed meat probably all have potential for increased exports to the Soviet Union.*

Some participants suggested that agricultural sales to the Soviet Union outside the traditional trading patterns could increase if MFN status were granted. One academic summarized his view as follows:

> *The commodity composition of U.S. agricultural exports may shift. With MFNs mutually extended, and a trade agreement with maximum potential for the improvement of commercial relations in place, Soviet grain production—an old priority of the Soviet leadership—will increase. U.S. sales will decline, but the rising Soviet living standard would increase import demand for finished U.S. agricultural products or for other related commodities, such as food processing equipment [i.e., less wheat and more value-added products]. Agricultural trade will increase*

overall, but the structure of that trade will change as well.

Agricultural trade is not a function of MFN status, but of other factors. Other participants, however, speculated that if MFN status were granted, the main effect on U.S. agricultural exports of such an action would be to change the commodity composition of U.S. agricultural exports away from grains and into other product areas, such as soybeans, soybean meal, corn, livestock, and poultry, for example. A trade association representing soybean farmers stated that a large potential market for soybean sales exists in the U.S.S.R. It concluded that—

The granting of MFN status to the Soviet Union will precipitate a trading environment conducive to substantial sales of U.S. soybeans and soybean products to the Soviet Union. [34]

Grains

Many participants said that Soviet purchases of U.S. grains, if MFN status were granted, would not necessarily increase. These participants stated that, in their view, such purchases are independent of MFN status, and reflect instead Soviet demand. Others speculated that if the Soviet Union were to earn additional hard currency in the United States through increased exports made possible by MFN status, the Soviets would "be selective with their purchases to conserve hard currency. U.S. grain exports would likely continue at current levels." One academic said that—

The change in MFN status would not be likely to increase agricultural exports. The Soviets buy what they need when they need it. Although they have threatened not to buy grain following the embargo, they have in fact continued to make such purchases. Exports most likely to increase are consumer goods, agricultural processing, and food storage and warehousing-related products.

A similar viewpoint was stated by a former high-level government official, who said that—

The general sales opportunities for feed grains will continue. The Soviets currently produce almost enough to feed themselves. Problem is they waste so much. Future opportunities will exist in areas like processing machinery, packaging machinery, and farming techniques, where exchanges of farmers would be very worthwhile.

Other participants said that granting MFN status to the Soviet Union would allow for increased grain sales to the U.S.S.R. Some implied that a lack of MFN status has been a deterrent to increased U.S. grain sales to the Soviet Union. An executive of a major grain company said that-

!! *MFN were granted, there would be 25 percent more grain business immediately and the U.S. would buy more products from the Soviet Union.*

Along these lines, a trade association representing wheat growers said that granting the Soviet Union MFN status would improve trade relations, to the benefit of U.S. agricultural exports. Its representatives noted that—

We believe the U.S. government's refusal to grant MFN has limited the potential for increased wheat sales to the Soviet Unions, as well as for other products. [35]

Value-added agricultural products

A number of participants said they would expect increased U.S. exports of a variety of value-added agricultural products if MFN status were granted. These products included red meats, pork, offals, tallow, blood protein, bull semen, livestock, poultry, margarine, vegetable oils, butter, and hides and skins. One participant suggested that ice cream might be a possible item for export to the Soviet Union. Several interviewees said that Soviet constraints, such as Soviet hard currency shortages, limit the possibility for increases in exports of these products. A representative of a trade association in the meat sector said that—

Lowering the U.S. tariff wouldn't necessarily result in meat export sales, but the commercial implications are exports valued at $100-200 million in red meat plus another $100-150 million of hides and skins, plus unspecified amounts of offals and byproducts such as tallow, blood protein. An item of particular concern to us is how will trade be channeled? If it is done on a government-to-government basis there will be little possibility for improvements or export sales; if the U.S. industry is allowed to deal directly with the Soviet industry then there is much potential. In addition, there would be some potential if the Soviet buying process becomes more transparent—i.e., if they organized tenders with open bidding, rather than the current process, or the U.S. industry might deal directly with the Soviet buying organizations.

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[34] Marlyn Jorgensen, President, American Soybean Association, Washington, DC, statement dated Oct. 23, 1989.

" Carl F. Schwensen, Executive Vice President, National Association of Wheat Growers, and Winston Wilson, President, U.S. Wheat Associates, Washington, DC, statement dated Nov. 9, 1989.

A U.S. Government official familiar with United States-Soviet trade said that "many countries, such as the United States, Australia, and Argentina, would like to sell beef to the Soviet Union, but there isn't enough hard currency to cover these purchases." He added that "the Soviet Union's import situation is unlikely to change unless price and currency reforms are initiated."

Agricultural machinery and equipment

Several participants mentioned the area of agricultural machinery and equipment as a possible sector of increased U.S. exports if MFN status were granted. These individuals identified exports of capital goods and technology to help the Soviet Union revamp its entire agribusiness system, from agricultural equipment, fertilizer production, and storage, to distribution and transportation of harvested goods, as prospective U.S. export and joint-venture areas. One businessperson, for example, said that—

> *such an overhaul could mean massive growth in the future in the agribusiness export area. However, this does not include a significant increase in U.S. agricultural exports to the Soviet Union, but that the granting of MFN will increase the likelihood of more joint ventures in the agribusiness area, which would allow the transfer of U.S. capital equipment and managerial expertise.*

A former high-level U.S. Government official said that "opening up of the Soviet economy would allow other (nongrain trade) types of agribusiness in processing, packaging, canning, and farming techniques."

Fertilizers and pesticides

Along with potential U.S. exports of agricultural machinery and equipment for improving Soviet agricultural production, some interviewees suggested that U.S. exports of fertilizers could increase if MFN status were granted to the Soviet Union. A representative of a trade association in the fertilizer area said that—

> *The U.S. product areas with potential to export to the Soviet Union are phosphates, distribution and processing equipment, and related services, such as bagging and blending. Of course, there is always the danger that the United States could help improve Soviet agribusiness to the extent that it could cause declines in U.S. exports of agricultural products, although this would probably not be for a long time to come.*

In addition to fertilizers, some interviewees said that U.S. exports of pesticides and herbicides could increase if MFN status were granted.

Impact on Manufactured Goods

Participants speculated that a wide variety of U.S. manufactured goods and related technology could be exported to the Soviet Union if MFN status were granted. These included goods to improve Soviet food production, processing, distribution, and storage; energy extraction and processing; and the transportation network in the U.S.S.R. Additionally, pollution-control eql;pment, communications equipment, printing equipment, paper machines, construction equipment, sawmilling and tree-harvesting machinery, packing supplies, fisheries-related equipment, dental products, construction machinery, fabricated metals, furniture, industrial chemicals, and various steel mill products were all cited as areas in which trade could increase if MFN status were granted to the Soviet Union. Areas in which U.S. exports could be used to increase Soviet hard currency earnings were also identified by several interviewees as possible export areas.

Energy-related capital equipment

Several interviewees cited energy-related capital equipment as one area that could experience increased exports to the U.S.S.R. if MFN status were granted. A U.S. banker said that if MFN were granted-

> *U.S. export opportunities, bolstered by an improvement in the commercial climate, are considerable. The Soviets need U.S. products and technology. The greatest Soviet need for U.S. capital goods is in agriculture and energy production. The Soviets would be glad to import 15-20-year-old U.S. technology in most industries.*

In one specific energy area, coal, an official with a U.S. company that exports heavy equipment to the Soviet Union said "they are behind in their goals and are facing another winter. They could use coal extraction machines." Other businesspersons said that the Soviet Union might be a market for technology to assist in development of Soviet petroleum resources. One businessperson in the petroleum industry said that "the Soviets want to improve the efficiency of process technology, which in the oil area means increased cracking technology and capacity." A U.S. Government official said he thought the biggest opportunity to increase exports to the Soviet Union was for energy-related capital goods.

Pollution-control equipment

Some participants suggested that pollution-control equipment was an area for possible U.S. exports if MFN were granted. A Soviet official said that local environmental protection agencies were planning to allocate more than 1 billion rubles to pollution control during the next 5 years, and that such allocations would include imports of pollution-detection, pollution-control, and pollution-abatement equipment.[38] A U.S. businessperson said that an environmental movement is gaining a political base in the Soviet Union and "since the leading country in the world for environmental protection is the United States, that is the likely source for pollution-control equipment."

Steel mill products

One U.S. exporter said that it had sold some steel products to the Soviet Union recently, and spoke favorably of the prospects for more such sales with an improvement in bilateral trade relations. The company sold oil-country tubular goods (OCTG), galvanized steel coil, and cold-rolled steel coil. The exporter said that-

> *U.S. exports have good potential in the short term, since the Soviets purchase high-quality steel imports to manufacture automobiles, refrigerators, and other consumer goods for which appearance is important. The unavailability of hard currency for import purchases remains a problem. A longer term concern is the effect of perestroika on the ability of foreign firms to sell large quantities of merchandise once the Soviet economy is decentralized and end-users negotiate their own-and often smaller volume-purchase arrangements. No duties are imposed on Soviet imports of these products. We are aware of another U.S. steel producer's attempts to sell OCTG to the Soviet Union; however, the firm produces welded pipe, whereas the Soviets want seamless pipe.*

Communications equipment

Some participants said that exports of communications equipment to the Soviet Union offer the potential for increased U.S. exports, and that that potential could be assisted by MFN status. Telephone switchboards, telephone networks, newspaper printing equipment and electronic laser imaging equipment (for producing mass communications), personal computers, diskettes, software, and related products were identified as such prospective areas. An official with a communications company said that—

> *our assessment is that in 10 years or less, the Soviet market will emerge as an increasingly lucrative one. This is based on the assumption that the Soviet economy will take off during the next decade, creating an inevitable demand for the growth of communications services. The U.S.S.R. might over the long run emerge as an economic superpower. Correspondingly, we need to be extremely flexible in approaching and developing its Soviet connections.*
>
> *We do not rule out the possibility of manufacturing equipment outside the United States and selling it in the U.S.S.R., nor the possibility of manufacturing—assembling—in the U.S.S.R. for sale in other markets. We can use our foreign subsidiaries to establish an optimum strategy in dealing with the U.S.S.R.*

Miscellaneous manufactures

A number of other manufactured goods were cited as possible areas for increased exports to the Soviet Union with an improvement in trade relations. These included chemical processing technology, construction equipment, and paper equipment. A participant at the USITC hearing said that "there could also be an increase in Soviet imports of chemical processing technology and equipment, because the Soviets will place a priority on the downstream products."[37]

Some participants said that MFN status for the Soviet Union would facilitate U.S. exports of construction equipment. One company said in a submission that—

> *To promote exports the U.S. should adopt a two pronged policy: (1) ensure that American companies are on an equal footing with non-U.S. competitors; and (2) encourage economic growth in the USSR. Specifically,* Caterpillar recommends that the U.S. should grant MFN status to the USSR and lift Jackson-Vanik restrictions.[38]

Another U.S. exporter of construction equipment said that Soviet purchasers of such goods would like to purchase from other than Japanese and West German suppliers, adding that—

> *With regard to the granting of MFN treatment, the immediate result of MFN would be that the Soviets would begin to buy U.S. construction machinery slowly, somehow "finding" the hard currency to pay. . . . The Soviets can "find" the hard currency when they need to on a case-by-case basis. The likely long-term result of the MFN is that it would foster real growth in U.S. construction machinery exports to the Soviet Union.*

One businessperson mentioned paper equipment as an export product that could benefit from MFN status for the Soviet Union. He said that the Soviets, anticipating increased paper consumption in the next few years, are planning to bring on-line 30 to 35 "state of the art" paper machines. He added that "increased exports

[36] Mr. S.F. Tsirukov, Deputy Director, State Committee on the Environment (Goskompriroda), at a seminar on joint ventures in the Soviet Union, Harvard University, November 13, 1989.

[37] Testimony Mr. Eugene Milosh, President, American Association of Exporters and Importers, transcript, 95.

W.C. Lane, Representative, International Issues, Caterpillar Inc., Peoria, Il., statement dated Nov. 21, 1989, (orginal emphasis).

from the Soviet Union to the United States will be an important consideration in the necessary generation of hard currency to implement this dramatic capital expansion for capacity increase in pulp and paper products."[39]

A variety of other products were also mentioned as possible export items, such as goods and technology for food processing, health and sanitation, and aircraft.

Consumer goods

A variety of views were offered regarding prospects for U.S. exports of consumer goods to the Soviet Union if MFN status is granted. Many participants said that the Soviet market might hold opportunities for U.S. exporters of consumer goods, but probably not in the short term. According to one U.S. exporter, for example, "the Soviet Union is not a place for consumer goods in the next 5 years, but rather for development of the food, energy, and transportation networks," in terms of possible U.S. export opportunities. Other participants, however, saw the Soviet Union as a large potential customer for consumer goods. An official with a U.S. trading company involved in United States-Soviet trade said that—

> *The Soviet Union is not only a large, hungry market, primarily for U.S. consumer goods, but is also the last large market—by some measures industrialized—where U.S. capital is welcome and competition from other industrialized countries has not shut us out.*

A U.S. Government official familiar with the Soviet market said that the Soviet Union has been importing more consumer goods recently, but that—

> *The longstanding Soviet policy has been to spend very little on consumer goods. For the first time, there are strong indications that this policy may soon change. From 1985 to 1987, Soviet imports of consumer goods declined, and then remained level in 1988. This year, the Soviets announced their intention to increase consumer good imports by approximately $1.5 billion, with an additional $1 billion increase the next year.*

Present and prospective consumer goods exports to the Soviet Union cited by some participants were sanitary and personal care products, feminine hygiene products, and pharmaceutical or other medical products.

39. David J. Bringman, Vice President, Corporate Marketing, Beloit Corp., Beloit WI., statement dated Oct. 31, 1989.

Views Regarding Extension of Credit

Most participants, whether in favor of or opposed to MFN status, believed that the availability of credit will play an important role in determining the effect of granting MFN. Some of those who were familiar with the circumstances surrounding the 1972 United State-U.S.S.R. agreement[49] and subsequent developments expressed the view that the Stevenson and Byrd amendments were influential in the Soviet Union's rejection of the 1972 agreement. The significance of the statutory credit restrictions were put into perspective by the president the American Association of Exporters and Importers:

> *In my opinion, the Jackson-Vanik amendment was not the prime reason for the Soviet rejection of the 1974 Agreement. Rather, it was the Stevenson Amendment. The Stevenson Amendment restricted government sponsored credits to the USSR in an aggregate amount of $300 million. More importantly, with no loans permitted for production of fossil fuel energy resources.*
>
> *As I recall, the Soviets rejected the trade agreement when they understood that compliance with Jackson-Vanik still meant no credits under the Stevenson Amendment. From a Soviet perspective, the trade agreement was a bad deal, requiring the Soviets to repay some $750 million in lend-lease in exchange for very limited credits and none for developing their energy resources.'"*

Among the hearing witnesses and other study participants, however, some believed that the credit issue has less meaning today than it did in 1974. The witness quoted above went on to state, "Today, the credit problem is moot since the Eximbank has limited funding."[42] A former Congressman versed in the area agreed that the need to relax the restrictions on the Eximbank is "rather moot" at the moment because there is not much hope of getting resources out of the Eximbank since the bank is beyond its capacity right now. He did, however, believe that reexamination of the Stevenson and Byrd amendments is something for Congress to consider "downstream. "43

As noted, a few participants questioned the direct impact of allowing Eximbank financing, given the bank's limited funds. A representative of the bank indicated, however, that the bank currently is in the process of studying changes in

40 For a discussion of past U.S.-Soviet commercial agreements, including the 1972 accord, see appendix G.

41 Testimony of Mr. Eugene Milosh, President, American Association of Exporters and Importers, transcript, pp. 92-93.

42 Ibid.

42 Statement of Mr. Charles Vanik, of counsel, Squires, Sanders and Demsey, transcript, p. 34.

the Soviet economy, undertaking creditworthiness checks, and assessing U.S. firms' potential export expectations with regard to the U.S.S.R. in the event MFN status is extended.

Notwithstanding concerns about the Eximbank's actual ability to finance Soviet projects, there was a general consensus that private financial organizations would interpret the grant of MFN and the relaxation of credit restrictions as a green light to extend credit to the Soviets, and would respond accordingly. Concomitantly, a majority of those who spoke to the issue believed that U.S. exports would increase if credit restrictions were lifted.

Regarding the economic and trade implications of waiving the Jackson-Vanik amendment, many participants on both sides of the issue expressed the view that the greatest economic impact would come from relaxing credit restrictions. A number of participants cited examples in which they lost a potential Soviet market to European firms due to the unavailability of U.S. credit, or in which they were forced to rely on European banks to fund projects they did establish. For example, a U.S. businessman involved in renovating a Soviet beer brewery testified that his company had to use Governmental credit agreements between European countries and the Soviet government because of the lack of availability of credit and political risk insurance from U.S. facilities." In turn, the French credit facility required the use of engineering and machinery from France. The witness stated that he could have purchased U.S. equipment at a good price and exported that equipment for use in the brewery but was foreclosed from doing so by the terms of his credit agreement with the French bank.

This testimony was consistent with the views expressed by a representative of a large U.S. company involved in several projects in the Soviet Union. This participant opined that relaxing credit restrictions, particularly Eximbank regulations, would make it easier for American engineering companies to compete with German companies that receive government-backed financing.

In a similar vein, a representative of the National Corn Growers Association explained that European countries searching for export markets "are prepared to make sales and/or credit available at a very good price. "[45] In contrast, given the lack of available U.S. credit, "when their [the Soviete] hard currency reserves run low, the buying of [U.S. corn] products slows."[46] The witness stated that his organization doesn't "envision the Soviets borrowing large amounts of money forlong periods of time but rather to use credit as a short term bridge between hard currency shortages. "[47]

A U.S. businessperson with extensive experience in dealing with the Soviet Union agreed that the Soviets are conservative with regard to loans: the Soviets have not fully utilized existing lines of credit, and won't import machinery and equipment on credit terms unless they can recover the cost in 5 years or less. This participant further stated that "credit is part of the price of commercial transactions, and should be made available on competitive terms."

An officer of a U.S. finance company that helps U.S. companies set up joint ventures noted that, despite the efforts of U.S. businesses to get established in the Soviet Union, "we are still losing business to West Germany, Italy, France, the UK,"—where firms enjoy the benefits of export credit programs. In the participant's view, steps should be taken to activate Eximbank, OPIC loans, and investment support; consequently, all the legislation that stands in the way should also be repealed.

Most other businesspeople, investors, government officials, attorneys, and academics interviewed echoed a similar sentiment. Thus, most participants who spoke to the issue viewed the removal of credit restrictions and funding of Eximbank loans and OPIC guarantees as an important and positive aspect of granting MFN status to the Soviet Union.

There were some participants, however, who held a different view. A lobbyist with previous government experience in United States-U.S.S.R. affairs favored the extension of MFN treatment but opposed the relaxation of Eximbank and OPIC credit restrictions. This participant gave four reasons why the Soviet Union should not have access to Eximbank funding:

1. For political reasons, the U.S. should focus its allocation of finite Eximbank funds on its neighbors and allies in Latin America rather than give preferential treatment to the U.S.S.R.;
2. The creditworthiness of the Soviet Union is declining since it has increased its borrowing and dipped into its gold reserves. As an indicator of this, interest rates for loans made to the U.S.S.R. have increased;
3. Soviet technology theft, espionage, and Third World adventurism has accelerated; and
4. Soviet resources are not being adequately diverted from the military to nonmilitary applications.

" Testimony of Mr. Jose L. Valera, of counsel, Bennett and Brooks; and Mr. Everard Marks III, on behalf of Euro Trade, Inc. and International Capital, Inc., transcript, pp. 110, 116-117.

" Testimony of Mr. B. Keith Heard, Executive Vice President, National Corn Growers Association., transcript, p. 141.

" Transcript, p. 140.

[47] Ibid.

Among the few participants who opposed the granting of MFN status, the role of the credit issue was critical. Some opposed the granting of MFN status precisely because of the likely increase of bank credits and exports that would accompany it. One participant, the author of a book on United States-Soviet relations, was troubled by the prospect of encouraging investment of funds in the Soviet Union. In the participant's view, the Soviets are a poor financial risk and are only marginally capable of paying back loans.

Several hearing witnesses expressed similar views. A representative of the U.S. Business and Industrial Council stated that the council believes the Soviet Union's "principal aim is to seek expanded trade with and financial credits from the U.S.," and that the council opposed the granting of MFN status "because it sets the stage for just that."[48] The participant explained the council's view that the Soviets desire credit and hard currency from the United States not to create a large export market for the United States but to offer military assistance to countries like Nicaragua and to buy capital equipment to modernize Soviet techno-industrial military structures.

A representative of the Congress of Russian-Americans opined that the Soviets are a "terrible credit risk" and will undoubtedly default on the loans they receive from the West.[49] The director of the American Foundation for Resistance International likewise expressed concern that the Soviets are a credit risk.[50]

Views Regarding U.S. Export Controls

Several participants stated that export controls are a major factor that inhibit sales to the Soviet Union and called for some liberalization in these controls. A recurring theme among these interviewees was that without some liberalization of export controls, extension of MFN status would have little effect in increasing U.S. export opportunities to the Soviet Union. In general, interviewees who spoke about export controls and COCOM stated that (1) U.S. export controls are more strict than other Western countries and include heavier involvement of the Department of Defense (DOD) than in other COCOM countries; (2) COCOM's effectiveness in preventing technology flows to the Eastern Bloc is limited; and (3) greater predictability, less control, and more uniformity among COCOM members is needed in the export-control process.

A number of participants said that U.S. export controls are more strict and take more time to process export licenses than those of other COCOM countries and other U.S. competitors, the result being that competing firms from other countries are awarded the sale. An official of a trade association that deals with United States-Soviet trade issues said that "export controls have been largely circumvented by the Soviet side and benefited our competition in Soviet markets" for controlled technology. A representative of another trade association gave an example of a U.S. firm that had sold a Soviet customer a system of printing equipment that included a number of computer terminals. When the Soviet client wanted to upgrade the number of workstations, however, the original supplier was unable to obtain a license for the larger computer necessary for the upgraded operation. The Soviet customer, however, procured what it needed from the U.S. firm's foreign competitors through third countries in Europe and Asia.

Several participants observed that granting the U.S.S.R. MFN status without a change in export-control regulations would not be meaningful to U.S. exporters. A representative of a U.S. subsidiary of a European telecommunications firm said that—

> *The granting of MFN status alone, without a realistic reduction of the proscribed product list, controlled by the U.S. Export Administration Act and COCOM regulations, would not be sufficient. The U.S.S.R. would not import simple consumer goods or other general destination products only, as they cannot afford to pay for such items in their present economic situation. They must have an opportunity to upgrade their own products which can be exported to the West and this cannot be achieved without allowing them to improve their plant and infrastructure.*[51]

Another participant stated that "without relaxed export controls, MFN is insignificant."

Some interviewees who discussed the issue of export control also expressed their view on the effectiveness of COCOM. One U.S. businessperson said that "COCOM doesn't work, and has largely forced U.S. companies to sell [to the U.S.S.R.] from offshore." A lawyer involved in bilateral trade issues said that "COCOM is for the birds . . . Trading partners do 'not take it seriously; the Soviets get what they want. If it cannot be abolished, its scope should be reduced."

Some participants pointed out that U.S. competitors use the lack of U.S. MFN status for the Soviet Union, a record of unstable U.S. commercial policies toward the Soviet Union, and the

[48] Testimony of Mr. John Cregan, Director of Government Relations, U.S. Business and Industrial Council, transcript, p. 152.

[49] Testimony of Ms. Eugenia Ordynsky, Executive Director, Congress of Russian Americans, Inc., transcript, p. 126.

[50] Testimony of Mr. Martin Coleman, Director, the American Foundation for Resistance, transcript, pp. 162, 165.

[51] Statement by John G. Rehak, Vice President, Siemens, Washington, DC, dated Nov. 10, 1989.

toughest export controls in COCOM as a "marketing device." One interviewee said that such firms are able to say "Don't consider the U.S. company, since they will never get the export license; the U.S. Government discriminated against your country. Look at us."

Many of the participants who discussed the issue of export controls spoke of the need to increase predictability of the export-control process. One employee of a U.S. trading company said that—

> *Nobody can with a straight face say they want to sell anything to the Soviets that would undermine the defense of the United States. However, U.S. business wants a clear indication of what is and is not allowed and to get the allies to agree on this. This has to be done at the governmental level. Companies have too much self-interest involved to be left to make such decisions.*

A U.S. Government official said that if MFN were granted and export controls relaxed, "the relaxation of export controls could result in an exponential increase in U.S. exports of [currently] controlled goods, and an increased share of total U.S. exports. Changes in export controls, however, would only occur for national security reasons."

Some participants said that DOD involvement in the U.S. export-licensing process was too great. One former government official said that "DOD's role [in export licensing] should be limited to that of technical advisors—not decision-makers about economic warfare." A representative from a U.S. telecommunications firm said that "the problem with export controls is that the defense establishment errs on the side on safety. This is based on the thesis that the U.S.S.R. is controlled by its military-intelligence establishment. The U.S. Government will have to make constantly sure that its controls policy does not needlessly restrict commerce."

Several interviewees speculated that export controls will continue to affect militarily sensitive U.S. exports to the U.S.S.R. for the foreseeable future. However, they also pointed out that MFN status would be likely to give rise to pressure for relaxed export controls- for other items, and to the need for some simplification or relaxation of those controls.

One academic involved in United States-Soviet trade issues summed up the relative importance of export controls in the context of other difficulties in doing business with the Soviet Union by saying that—

> *The export of American machinery and sophisticated products is hampered by the fact that our export licensing controls are more rigid than is the case in Europe or Asia. The biggest obstacle to increased exports to the Soviet Union is first, export licensing, then credit, and then the fact that the ruble is not convertible.*[52]

Views on the Significance of MFN Status on United States-Soviet Joint Ventures

Most participants thought that the primary impact of granting the Soviet Union MFN status on United States-Soviet joint ventures would be the overall improvement in relations with the Soviet Union that the removal of this perceived stigma would stimulate. A few businesspeople indicated that the Soviet Union might respond to such a symbolic act by opening to the American business community sectors of the economy generally thought to be closed to joint ventures, such as the mining of minerals and the extraction of other natural resources. Several members of the academic community stated that the Soviets have valuable technology, which they have been unable to apply, that they might make available to American joint-venture partners if MFN status is granted. Many participants from the business community, including certain trade associations, stated that the removal of this perceived stigma would also be of symbolic importance to many. American multinational companies,[53] which would prefer not to do business with a country viewed with disfavor by the Government. As one businessperson commented, "Why should U.S. firms investigate joint ventures with the Soviet Union when the U.S. Government signals disfavor?"

A few participants, principally businesspeople, disagreed with the consensus that the symbolic nature of granting the Soviet Union MFN status would positively impact United States-Soviet joint ventures, noting that American corporations are already the Soviets' joint-venture partners of preference and that the Soviets generally prefer the joint-venture structure, with or without MFN treatment. Thus, these few participants did not view the absence of MFN status as affecting in any way the willingness of the Soviets to engage in joint ventures with American companies.

In considering how granting MFN status to the Soviet Union may affect United States-Soviet joint ventures, some businesspeople pointed out that American companies evaluate business opportunities by comparing them with other, already-proven markets. Some ' participants questioned why American businesses would undertake

52 Marshall I. Goldman, Associate Director, Harvard University, Russian Research Center, Cambridge, MA, statement dated Oct. 23, 1989.

53 A number of U.S. participants agreed that the change in the Soviet Union's status might induce a number of small-to-midsize corporations to form joint ventures with Soviet partners. (Interviews.) For more on the subject of small-to-midsize businesses, see section entitled "Small-to-medium size U.S. businesses," later in this report.

a joint venture in the Soviet Union under any circumstance when there are existing opportunities in Brazil, Mexico, Latin America, India, or even in some Eastern European countries, where foreign companies have a proven record of making profits and an ability to repatriate them. For example, one businessperson commented, "It's so much easier to do business in Brazil and elsewhere in Latin America by comparison."

Even most participants who believed that the granting of MFN status to the Soviet Union might be symbolically important did not believe that the issue is of real significance from a practical and economic point of view. Several participants observed that if the joint ventures developed to date had been primarily export oriented, the practical importance of MFN might be somewhat greater. One businessperson noted, "Since the bulk of new production is slated for the Soviet market, the effect on the U.S. market is estimated to be minimal." Most of the existing United States-Soviet joint ventures, however, are in the services sector."

Nor was there any expectation among the participants that granting MFN status to the Soviet Union would significantly increase the interest of American companies in undertaking to manufacture goods in United States-Soviet joint ventures for export to the United States. Most participants agreed that the Soviet Union does not currently produce many products that would be competitive in a Western economy. Further, although the Soviet Government originally intended joint ventures as a vehicle to produce goods for export, most joint ventures engaged in manufacturing are currently targeted toward satisfying the tremendous demand for consumer goods in that country. For those joint ventures that do manufacture products for export, however, participants noted that the expectation of joint-venture partners is that they would ship mostly to Western Europe, a far more convenient market than the United States. For example, Dentsply, the largest maker of dental fillings in the world, entered into a joint venture to manufacture modern dental fillings in the Soviet Union." This company reportedly plans to earn some hard currency from sales to European and Third World countries."

Businesspeople, academics, and U.S. officials alike also highlighted obstacles they consider to be far more daunting to the success of manufacturing-oriented joint ventures than the lack of MFN status. Many indicated that the evolution of the Soviet laws governing joint ventures has been and will continue to be of more practical significance to the development of United States-Soviet joint ventures than the presence or absence of MFN status.[57] These participants noted that granting the Soviet Union MFN status will not greatly affect the American business community's interest in Soviet joint ventures if the Soviet domestic legal climate does not continue to become more conducive to making the requisite investments of time and money.

Not only did these participants note the importance of the continuing changes in the Soviet legal structure governing joint ventures, described above, but they also identified numerous operational and other practical obstacles that they deemed crucial to the ability of American companies to undertake successful joint ventures in the Soviet Union. One American businessperson very experienced in trade with the Soviet Union summarized a number of those problems in a recent letter to Congress, stating—

> *The question of encouraging U.S. companies to initiate joint ventures with the Soviet Union in my judgment misses the point. For all the reasons listed, i.e. ruble convertibility, the absence of price reform, the lack of quality goods for export, the absence of labor mobility and the absence of managerial/foreman level personnel, it is very unlikely that U.S.-Soviet joint ventures will ever achieve a significant level within the next decade.*

One lobbyist noted that the interest in joint ventures ". . .will be determined more by the lack of Soviet infrastructure, declining energy supplies, the poor distribution network, and inadequate labor force than by MFN." Problems identified by other participants included the repatriation of profits, the inability to obtain necessary raw materials on a timely basis, and the absence of a transportation infrastructure. The participants did not believe that MFN status for the Soviet Union would assist in easing these problems.

Among the obstacles to successful joint ventures most frequently cited by participants was the difficulty in earning hard currency, as the ruble is not freely convertible. In fact, one lawyer described the inconvertibility of the ruble as "the biggest stumbling block" to increased trade with the Soviet Union. The significance of this problem may be one reason why joint ventures have undertaken activities predominantly in the services sector." Yet, despite the constant chorus of concerns about generating hard currency, it is clear from many participants that if one has a product that has been identified as desirable by,

' For a description of existing U.S.-Soviet joint ventures, see appendix L.

⁵° "Joint Ventures: The Products of Perestroika," Washington Post, Aug. 27, 1989, p. H-1.

em Ibid.

⁶⁷ For a more detailed discussion of Soviet joint venture laws, see appendix L.

a• Because most service oriented joint-ventures entail providing assistance to Westerners, and the Westerners pay in hard currency, these joint-ventures do not confront the convertability problem.

either the Soviet Government or a Ministry that has its own currency, a solution to the currency problem will be made available. Some participants indicated that outright payment for the technology being contributed by the Western partner to a joint venture is possible in such instances. One participant noted that the Soviet Union has an abundance of Indian rupees from military sales to India with which it can pay foreign companies if no other readily convertible currency is available.

In other instances, the Soviet partner may assist the foreign partner to use its rubles to purchase raw materials for export. Two participants cited an instance in which the Soviet Government was so anxious to induce a certain American cosmetic manufacturer to sell its products in Moscow that the Government itself reportedly secured a product for the cosmetic manufacturer to export from the Soviet Union to enable that company to earn hard currency.

Another suggested solution to the currency convertibility problem was developed by the American Trade Consortium (ATC), a group composed of Archer Daniels Midland, Chevron, RJR Nabisco, Eastman Kodak, Johnson & Johnson, and Mercator, a New York merchant bank.[50] These companies together intend to negotiate as many as two dozen joint ventures with the Soviet Union. The key to their arrangement is a system allowing members to trade rubles and currency among themselves. The goal is for export-oriented joint ventures, such as Chevron's planned venture to export oil, to sell their cash to the joint ventures focused primarily on the Soviet market. The cash pool created by Chevron and its partners is also planned to satisfy the requirement that joint ventures earn enough hard currency to cover any profits they repatriate.[80] No participants indicated that MFN status for the Soviet Union is a necessary factor to the success of the consortium's plans.

For smaller businesses or for businesses that do not have a product or service of such obvious appeal to the Soviet Government, however, currency convertibility remains a serious issue. Some Soviet officials have suggested that they have no intention of addressing the convertibility issue until the end of the 1990s.[61] Others have suggested that this problem would be addressed much sooner; whereas one Soviet official indicated the late 1990s is an optimistic estimate. As a practical matter, participants noted that this is likely to limit joint-venture activity in the Soviet Union until that time, whether or not MFN status is granted.

" "The Deal of the Decade May Get Done in Moscow," ***Business Week,*** **Feb. 27, 1989. Ford Motor Co., listed in this article as a member of the Consortium, dropped out of the group before the agreements were signed.**
" Ibid.
" Statement of Yuri Erzhov, Conference of Nov. 13, 1989.

The lack of trained middle-level management is a problem that both the Soviet and American participants identified. In fact, Soviet officials have listed the development of Western management methods as one of the chief benefits they hope to obtain from joint ventures.[62] Soviet officials have also indicated that one reason for converting military manufacturing facilities to facilities for manufacturing consumer goods is to make the trained factory personnel from the military sector available to the civilian sector.[63] No participant cited the Soviet Union's lack of MFN status as a factor in solving this problem.

Participants noted that foreign partners in joint ventures that are having difficulty obtaining the necessary components for their enterprises on a timely basis are also finding solutions that minimize the significance of MFN status. This quality problem arises from the Soviet policy requiring joint ventures to source their needs from within the Soviet Union whenever possible and the lack of availability of such materials manufactured with the requisite quality .standards. Many participants explained that foreign companies are vertically integrating their Soviet operations, so that they control all aspects of their operation, in order to avoid this issue.[64] For example, several sources indicated that McDonald's had been forced to delay its planned opening of a Moscow store in September because the company had been unable to secure beef of the requisite quality. Some participants reported their belief that McDonald's will soon be operating its own cattle farm in the Soviet Union.[66]

Timely delivery of goods was also cited by many participants as an obstacle to the smooth operation of joint ventures.[68] Although the joint ventures themselves are not subject to the Five Year Plans, the Soviet partners, on which the joint ventures must rely for Soviet supplies, must operate within the plan, as must the entities from which they obtain materials. Vertical integration, which ensures control by the joint venture of the timely delivery of components, was cited by many participants as one solution to the delivery problems; other solutions noted included paying for needed components with hard currency, which tends to guarantee one's production a priority, and carrying a larger inventory than one would normally maintain. Even in those instances in which joint ventures are permitted to import needed materials, this may be difficult in the early years because the joint venture may lack the requisite hard currency to make purchases abroad.[87]

" Conference of Nov. 13, 1989.
" Ibid.
[64] Ibid.
" Ibid.
" Ibid.
[67] Ibid.

Lack of adequate transportation was another frequently cited obstacle to the success of joint ventures. In fact, one participant cited inadequate transportation as the principal factor in the failure of joint ventures to date. Participants noted that, therefore, it is important to locate the joint venture close to the geographic areas that one needs to access. This may be one reason why the vast majority of joint ventures continue to be located in Moscow.[68]

In support of their position that a 1-year waiver of the Jackson-Vanik requirements would be virtually meaningless to the American business community, the participants noted the amount of time it takes to negotiate, plan, and bring into operation most joint ventures in the Soviet Union, despite the Soviets' efforts in simplifying registration procedures. One businessperson commented "the time for MFN would have to be relatively long 3 year minimum is ideal—to improve the conditions of joint-venture establishment in the Soviet Union. A period of this length provides time to plan for business continuity and improves the conditions under which lenders will offer financial support for joint-venture arrangements." The top executive of a large U.S. business organization involved in the ATC also pointed out that a 1-year waiver would not be acceptable to Soviet organizations when considering whether to get involved in substantial long-term projects."

Several participants also identified the need for changes in American laws that they believe are more serious obstacles to the success of United States-Soviet joint ventures than the lack of MFN status, such as the easing of export-control restrictions and the repeal of the Byrd and Stevenson Amendments, as well as the Johnson Act.[70] The absence of sufficient protection for intellectual property rights in the Soviet Union was another target of legal reform that participants maintained is important to United States-Soviet joint ventures. Bilateral investment-protection treaties and a tax treaty to prevent double taxation of the profits of Soviet joint ventures were also repeatedly cited by participants as more significant than MFN status for the Soviet Union.

The statistics set forth above, as well as the recent signing of the Combustion Engineering agreement, support the consensus of the participants that the presence or absence of MFN status is not what is dictating the degree of interest in joint ventures in the Soviet Union. As stated above, most Soviet joint ventures in which a U.S. company is a partner were registered in 1989. According to the participants, this may be largely explainable by the fact that it often takes at least a year to negotiate a joint venture. Thus, most participants stated that the passage of time since the inception of the legal status of joint ventures and the continuing legal and other reforms in the Soviet Union are already inspiring at least a limited confidence in the American business community in undertaking joint ventures in that country.

A few participants, including some trade associations and members of the Soviet Government, disagreed with this general consensus that MFN status is of limited economic significance. One Soviet official commented, "MFN will have a good effect on forming joint ventures, since joint ventures will have a better potential for making sales in United States markets than they have now." The National Association of Manufacturers' policy statement on the subject of granting the Soviet Union MFN status specifically states that such an action would " . .facilitate the pursuit of U.S.-Soviet joint ventures. . . ."[71] The United States Hide, Skin & Leather Association stated that a number of its members would pursue joint ventures if the Soviet Union were granted MFN status.[72] A few American businesses that would like to import some Soviet goods from their joint ventures also indicated that high tariffs in the United States create an insurmountable price barrier for Soviet products, making them unable to compete in this marketplace.[73] One lawyer agreed, stating, "U.S. companies in joint ventures with Soviet firms, or wanting to enter into such agreements, would benefit by being able to export back to the United States some of the jointly produced goods." The President of Chesapeake International, which is involved in a number of Soviet joint ventures, publicly testified that "exports of U.S. goods and services through our joint venture mechanisms could be almost doubled were MFN status granted to the Soviet Union. . ."[74] Another participant, planning a joint venture that will export beer, stated, ". . . on the beer, we'd be paying an extra $1 in taxes and it causes us to reduce the cost of the product one dollar a case to be competitive with other imported beers..."[76]

Both countertrade and barter trade are important methods by which American participants in Soviet joint ventures can earn hard currency from their enterprises. To the extent that tariffs limit the marketability in the United States of products available for these purposes, participants in the study acknowledged that the lack' of MFN status threatens the success of a few joint ventures. To demonstrate the significance of the different tariff

" See app. K.

" Testimony Mr. James Giffen, Chairman of the Mercator Corp., transcript, p. 60.

[70] For more on the Byrd and Stevenson amendments, as well as on the Johnson Act, see ch. 1.

National Association of Manufacturers policy statement on "U.S. Trade with the Soviet Union." (September 1989).

[72] Public submission, dated Nov. 7, 1989.

[73] Transcript, pp. 36, 112-113.

[74] Testimony of W. Tragert, transcript, p. 36.

[78] Testimony of E. Marks, transcript, pp. 112-113.

treatment for column 1 countries and column 2 countries one participant noted that the tariff on hockey sticks currently being used by one United States-Soviet joint venture for countertrade would fall from 30 percent to zero, whereas the tariff on costume jewelry, used in countertrade by another joint venture, reportedly would decline from 110 percent to 10 percent. These interview subjects also indicated, however, that a company generally has the option to select an alternative market for its goods.

Another economic issue cited by some as a concern for U.S. companies engaged in Soviet joint ventures involved the Customs Tariff law that the Soviet Union is currently drafting. It is anticipated that the Soviet law will have 1,600 different items, corresponding to the Harmonized Code, and that it will also have two columns-MFN and non-MFN countries. Column 2 tariffs are expected to be 2-1/2 times the rate of column 1. All participants addressing the issue agreed that the United States will be treated like a column 2 country by the Soviet Union if the United States continues to withhold MFN status from the Soviet Union. For most joint ventures, however, participants believed that the ultimate effect of such treatment would probably be limited. Soviet law specifically permits goods imported by a foreign company for its capital contribution to a joint venture to enter the Soviet Union duty free.[76] The Soviets also require joint ventures to purchase the materials they need from within the Soviet Union to the maximum extent possible. Further, no participant in this report currently involved in a Soviet joint venture is being required to pay tariffs on the components or raw materials imported for use in a joint venture. In some cases individuals said that whatever they were importing was being allowed into the Soviet Union duty free, no matter what the country of origin. In other cases, participants said that joint-venture participants were being encouraged to find a basis for declaring these goods to have a European country of origin because goods from Europe could be imported for use in joint ventures duty free. One businessperson, commenting on this subject, noted, " [i]f the Russians want something badly, they will not put anything in the way." Most participants appeared confident that they would not actually have to pay a duty on imported components even if the United States were a column 2 country. One lawyer disagreed, stating that although Soviet tariffs have not been ". . .very significant in establishing joint ventures in the U.S.S.R. . . .," the new tariff laws ". . .might be enforced more uniformly. . . ."

[75] "Decree of the USSR Council of Ministers," Jan. 13, 1987, Par. 2.

Views on the Effect of MFN Status on United States-Soviet Commercial Relations

Practically all participants believed that the mutual extension of MFN status, as a part of the overall bilateral commercial agreement, would further improve the climate for U.S. firms doing business with the Soviets. The overwhelming majority of participants shared the view that the improved climate would encourage many more U.S. firms to trade with the Soviets, help U.S. firms engaged in joint-venture operations in the Soviet Union, and make U.S. firms more competitive in Soviet markets. The reason for expecting such a large impact from MFN treatment goes beyond the material benefits the Soviets may gain from it. According to several participants, MFN status would remove a major psychological irritant from United States-Soviet relations, since the Soviets had always considered the lack of MFN status an insult to their national pride, a sign of their non-acceptance by the United States.

Many U.S. businesspeople apparently view recent improvements in United States-Soviet relations as a removal of political constraints from improving bilateral commercial relations. The top executive of a large U.S. business organization who, specializes in trade with the Soviet Union, said that, if in the past, political relations constrained the improvement in commercial relations, currently "the atmosphere is more positive, and political relations should no longer be a constraining factor. "[77]

Many U.S. participants urged the separation of politics from commerce in the future to safeguard commercial ties. For example, the top executive of an association, representing U.S. grain exporters said, "U.S.-Soviet trade is a significant and emotional matter for U.S. agriculture. The Nation's agriculture still reels from the effects of the 1980 foreign policy grain embargo against the Soviet Union; and the effect of earlier short supply embargoes." Several participants said, or implied, that it is time to relinquish a questionable lever on human rights by holding commercial relations hostage over Soviet domestic policies, so much the more so since these policies are evolving in the desired direction.

One U.S. trader pointed out that as commercial relations expand, the need for U.S. assistance to the Soviet economy will become apparent. Despite the generally upbeat view about the future of United States-Soviet commercial relations, most U.S. participants did not advocate the abandoning of export controls.

" Testimony of Mr. James Giffen, Chairman of the Mercator Corp., transcript, p. 57.

[78] Mr. Steven A. McCoy, President of the North American Export Grain Association, public submission, dated Nov. 6, 1989.

Views on the Effect of MFN Status on Soviet Reforms

The overwhelming majority of the participants believed that an exchange of MFN status, along with a further improvement in United States-Soviet relations, would support Soviet economic reforms, both economically and politically. Economic support would be manifest through an increase of Soviet hard currency revenues and Western credit and through an increase in direct contacts between Western and Soviet firms, catalyzing the related processes of decentralization and marketization. By expressing approval of the current democratization process to the Soviet public and the world at large, MFN status would also mean political support. One senior U.S. business executive pointed out that granting MFN status to Hungary in 1978 helped that country's reform movement, and another commented that failure to act quickly on Soviet MFN status now could undermine progress in the U.S.S.R.

Some participants shared the view that regardless of outside support, the implementation of Soviet economic reforms will take years, and only after the reform's clear success, which includes the ruble's convertibility, will it make sense for U.S. firms to invest large amounts of capital in the Soviet Union.[79] Some U.S. businesspeople commented that decentralization of the country's foreign-trade apparatus has made doing business with the Soviets more difficult than before, at least over the short term. Managers in charge of enterprises with foreign-trade rights do not know the exact extent and limits of their authority. Consequently, they are afraid to make decisions, and this slows business.

A small minority expressed the opinion that, rather than helping, MFN status would tend to retard the successful implementation of reform. These participants argued that MFN status would send an indirect signal of U.S. Government approval of Soviet creditworthiness to Western commercial banks, resulting in an outpouring of credit to the U.S.S.R. The increased availability of hard currency—from both credits and export revenues—would largely be wasted on the Soviet military-intelligence complex or guzzled by the country's still-unreformed, inefficient economic system.[80]

[79] For a complete analysis of Soviet economic reforms, see Ed A. Hewett, *Reforming the Soviet Economy, Equality versus Efficiency:* (Washington, DC, The Brookings Institution, 1988).

[80] During an interview, the staff's attention was drawn to a speech by Mr. Roger W. Robinson Jr., former Senior Director for International Economic Affairs at the National Security Council (1982-85), which expressed a similar view in greater detail. Mr. Robinson argued, "Indeed, it is ironic that the healthiest economies in the East bloc—East Germany and Czechoslovakia—are among the most rigidly controlled. Far from approving Stalinism, I am merely pointing out—as Poland, Hungary, and the Soviet Union have discovered the hard way—that half way economic reforms can be worse than no reforms at all. They raise false expectations, impose painful social costs without measurable returns, and squander valuable capital, time, political momentum, and the good will of suppliers and creditors." (Speech entitled "Trade with the Soviet Union: Country Risks and Global Markets," Los Angeles, Oct. 3, 1989.)

Views on the Reaction of U.S. Trading Partners

According to the general view, favorable official rhetoric from trading partners will follow the extension of MFN status. Some Western governments have already reproached the U.S. Government for not having done enough to support Soviet reforms. But many non-U.S. firms doing business with the Soviets—having no or little U.S. competition thus far—will be predictably unhappy. One participant—with a long, active past in international affairs—said that certain business interests in some foreign countries may not shrink from spending huge sums of money to lobby in the United States against improvement in United States-Soviet relations in an attempt to shut out U.S. firms from the Soviet market as long as possible.

The consensus view was that, pushed by business interests, foreign- trading-partner governments will intensify their efforts to maintain the competitive edge their firms currently enjoy over U.S. firms. They will probably offer more government credit for export and investment—an area in which the United States can be easily outcompeted. A senior U.S. business executive, currently one of the principals of a United States-Soviet nonprofit organization dedicated to expanding bilateral trade, claimed that with the help of their Governments, some Italian and West German firms already offer machinery to the Soviets with subsidized loans and long grace and payback periods. One U.S. businessperson predicted that granting U.S. MFN status to the U.S.S.R. will be followed by a breakthrough in Russo-Japanese relations, resolving the dispute over the Kurile Islands.

Several participants voiced their conviction that a natural affinity between Americans and Soviets will make competition easier for U.S. businesses after MFN status is granted. But a U.S. business executive, involved in a joint-venture operation in the Soviet Union, warned that U.S. businesses should not think that they will be an automatic pick. The Soviets have their sight on Europe, which enjoys a geographic advantage over most U.S. businesses. Others also pointed out that Europe's attraction to the Soviets over the United States in commercial matters is augmented by two general factors: a more accommodating disposition over export controls and a greater public financial support accorded to private firms doing business with the Soviet Union.

Views on the Effect of MFN Status on Competitiveness in the Soviet Union

The majority of participants perceived the lack of reciprocal MFN status between the United States and the Soviet Union as a hindrance for U.S. firms trying to compete against foreign firms in Soviet markets. For example, a representative of the U.S. grain industry said that the issue of MFN status comes up at every session during negotiations over the new, long-term grain agreement with the Soviet Union. In the view of this participant, the Soviets' lack of MFN status impedes the United States in achieving its negotiating objectives in these negotiations.al A representative of the U.S. soybean industry stated that the Soviet Union understandably prefers to trade with nations that provide reciprocal access to Soviet exports.[82] The same source also stated that the U.S. soybean industry's major competitors—Brazil, Argentina, and various member countries in the European Community—all extended MFN treatment to the Soviet Union a long time ago. This source also stated that granting MFN status could result in a $1 billion increase in annual U.S. exports to the U.S.S.R. over the next few years. A U.S. businessman who trades with the Soviet Union also stated that the issue of MFN status is raised in negotiations with their Soviet customers and that he, as well as other U.S. businesspeople, considers it an inhibitor to successful marketing in the Soviet Union.

A U.S. businessman said that denial of competitive access to the U.S. market—the largest contiguous market in the world—forces the Soviets to turn to others, who afford them equal opportunity to compete.[83] This in turn, another U.S. businessman testified, leads to a Soviet favoring of suppliers from Europe and Asia." Several sources commented that continued denial of mutual MFN status will create an even greater disadvantage for U.S. companies in the future. For example, a U.S. businessman stated that as "the Soviet market grows, it is possible that the Soviet Government may impose punitive tariffs on American exports," if MFN status is not granted.as Other U.S. sources referred to the new Soviet tariff schedule, which reportedly will have non-MFN rates that are approximately 2.5 times higher than MFN rates. An academic source maintained that if the United States continues applying high tariffs to Soviet goods, the Soviets will increasingly take their business to the EC and Japan, and the United States "will sit on the sidelines."

The majority of U.S. sources maintained that the granting of MFN to the Soviet Union would improve the competitiveness of U.S. companies in the Soviet market with regard to European and Japanese companies. A U.S. businessman, whose company is involved with joint ventures in the Soviet Union, stated—

> It *(granting MFN) would also provide a signal to potential Soviet partners that there is change afoot and that concerns relative to dependability of U.S. firms as trading partners bears re-examination on their parts."*

Counsel for a U.S. company that trades with the Soviet Union stated—

> *As it is apparent that the Soviet Union intends to increase its trade with the world community in order* to *meet the needs of Soviet consumers, the elimination of discriminatory duty rates for products of Russian origin would enable United States exporters to compete on a more equal basis with producers located in member countries of the European Economic Community and Japan."*

Expressing a similar point of view, a U.S. academic expert stated—

> *Granting MFN treatment would put the United States on an even playing field with Japan and the European Community in the next several years. If the United States continues high tariffs on Soviet goods, the Soviet Union will concentrate its trade negotiations on the European Community and Japan. If the United States sits on the sidelines, there is a chance of serious harm to long term U.S. international trade prospects in both areas. If liberalization continues in Eastern Europe, there is the possibility that Eastern and Western Europe will unite in an expanded European Community. If the Soviet Union is willing to return the disputed northern islands to Japan, Japan in turn might make extremely favorable trade concessions to the Soviet Union."*

An academic expert brought up the Soviet policy for balanced trade and its effect on U.S. competitiveness.aa He stated that it is clearly the

°' Statement of Mr. Steven A. McCoy, President of the North American Export Grain Association, Inc., transcript, p. 43.

" Marlyn Jorgensen, President, American Soybean Association, public submission dated Oct. 23, 1989.

" Testimony of Mr. John A. Chambers, Exec. Vice-President, Satra Corp., transcript, p. 84.

" Statement by Mr. William C. Tragert, President, Chesapeake International, transcript, p. 36.

es Milivoj "Mild" Pavletic, MIA International Corp., public submission dated Nov. 6, 1989.

°° Statement by Mr. John A. Chambers, Satra Corp., transcript, pp. 81-82.

⁴⁷ Louis S. Shoichet, counsel for The Bradford Exchange, Ltd., public submission dated Nov. 13, 1989.

" Peter B. Maggs, Corman Professor of Law, Univ. of IL, public submission dated Oct. 15, 1989.

e° James L. Hecht, Adjunct Professor, Department of Political Science, Univ. of DE, public submission dated Oct. 20, 1989.

policy of the Soviet Union to try to balance trade with each trading partner. Since the U.S.S.R. will remain largely a government-controlled economy, the availability of the Soviet market to any country will be dependent on the ability of the Soviets to market their goods in that country.

The participants agreed that MFN status for the Soviets would enhance U.S. competitiveness not so much because lower duties would trigger a major increase in trade but because of the improved economic and political relations between the two countries.[90] The consensus view among the participants was that the enhancement of U.S. competitiveness in Soviet markets would depend on the contents of the bilateral trade treaty that would accompany the reciprocal extension of MFN status. A few U.S. participants pointed out that granting MFN status would bolster U.S. competitiveness, only if the accompanying commercial treaty succeeded in assuring the same treatment to U.S. firms that is extended to other foreign firms in the U.S.S.R.

All participants agreed that competition in the Soviet market is intense. The president of a prominent U.S. business organization specializing in trade with the Soviet Union[91] said that our Western European and Japanese competitors are eager to gain market shares in the Soviet market. He stated—

> *That's what the name of the game is all about over there today. It's who can get the resources fastest and the good resources? Also understand the profitable resources.*[92]

This same source also discussed the competitive disadvantage created by the lack of a United States-Soviet trade agreement. He said—

> *If the restrictions of the Jackson-Vanik amendment are removed, the United States should commence negotiations with the Soviet Union immediately on establishing a legal framework for an expansion of trade. A new comprehensive U.S.-Soviet trade agreement should be negotiated and concluded, which would facilitate an expansion of trade, allow for the settlement of Kerensky and lend-lease debts, and help solve problems such as visa delays and travel.*
>
> *The United States should also negotiate an investment protection treaty similar to what the Soviet Union has negotiated with other countries. The United States should negotiate a tax treaty with the Soviet Union to take into account the recent changes in Soviet foreign economic trade practices and procedures, particularly with respect to joint ventures. American partners in Soviet joint ventures need protection from double taxation.*
>
> *Our Western European and Japanese competitors are eager to gain market share in the new and expanding Soviet market. The EEC is studying an ambitious ten-year trade and cooperative agreement with the Soviet Union* at *the present time. Why should the United States leave the market to Europe and Japan because of a lack of a trade agreement? The American business community wants to be competitive with these countries in the Soviet market, and to do that, we need a comprehensive trade agreement.*[93]

Several U.S. business and academic contacts pointed to the fact that most European countries and Japan granted a type of MFN treatment to the Soviets a long time ago and, at present, they administer imports from the Soviet Union through various types of bilateral trade treaties. Other developed countries have also supplemented their granting of MFN status with a variety of investment and tax treaties. An academic expert reminded that in June 1989, West Germany signed an investment treaty with the Soviets that provides investment protection for joint ventures. "This type of agreement adds confidence to the trading relationship."

According to a U.S. businessperson with extensive experience in trading with the Soviet Union, European socialism with state ownership and nationalized banks allows for an understanding of the Soviet system and a closer intermixing of political relations and economic ties with the Soviet Union.

Some participants discussed the different emphasis European and Japanese companies place on the Soviet market. European companies have a stronger presence in the Soviet Union than do the Japanese, partly because their supply lines are shorter and partly because Japanese companies currently do not enjoy as much' state support as do European companies. Both an academic expert and a Japanese businessperson discussed past Japanese sensitivities to possible U.S. criticism of Japan's developing closer ties to the U.S.S.R. In the past, to avoid angering the United States, many Japanese firms assumed dummy names when they traded with the Soviets. But now, the

[90] Most participants predicted that even if MFN status were granted, U.S. exports to the Soviet Union would not increase dramatically over the short-to-medium run. (Interviews.) See section entitled "Impact of MFN status on U.S. Exports," earlier in this report.

[91] Testimony of Mr. James Giffen, President, Mercator Bank, transcript, pp. 60-61.

[92] Ibid., p. 76.

[93] Ibid., p. 61.

Japanese are showing a growing interest in both Eastern Europe and the Soviet Union. Currently, the focus is on Eastern Europe. One source reported that there are six Japanese businesspeople in Budapest to every one U.S. businessperson.

A number of sources predicted that granting MFN status to the Soviets would be a signal to the Japanese that closer relations with the Soviets are appropriate. Consequently, the Japanese may aggressively pursue business in the U.S.S.R in the future. A Japanese businessman stated that a lack of a peace treaty between the Soviet Union and Japan is handicapping these two countries' trading relationship, although, he expects such a treaty to be concluded within 5 years. To illustrate what a formidable competition Japan might offer, one U.S. businessperson pointed out that Soviet raw materials combined with Japanese productivity could satisfy the vast Soviet demand for consumer goods. Another U.S. businessperson underlined the success of the Japanese approach to conquer market shares in foreign countries, in general. The Japanese, according to this source, undertake multifaceted projects, to which they will become the major suppliers, as well as exporters of the resulting products.

According to one source, Japanese firms are currently studying the possibility of setting up export bases in the Soviet Union and Eastern Europe to access the post-1992 EC market. If the Soviet Union returns the disputed Kurile Islands to Japan, Japan may make extremely favorable trade concessions to the Soviets. Some sources also predict that South Korea, which has a trade presence in Budapest, is likely to go into the Soviet market. Both Eastern Europe and the Soviet Union see South Korea as a market for their low-cost goods and raw materials.

Another source stated that if the United States and the Soviet Union had reciprocally extended MFN treatment to one another, European and Japanese firms would intensify competition in Soviet markets. They might even cooperate among themselves as United States-Soviet relations improve.

A U.S. businessperson who has traded with the Soviet Union for many years expressed a sense of urgency about the need to bolster U.S. competitiveness in the U.S.S.R. or quickly lose the opportunities available in the vast Soviet market. This participant stated that, as illustrated by trade deals between the EC and Poland, Hungary, Czechoslovakia, and the U.S.S.R, the current trend points towards the establishment of "a common European home, reaching from the Atlantic to the Urals?" This interviewee mentioned that Poland and Hungary are developing closer associations with the EC and that European Free Trade Agreement (EFTA) might join in an EC-Soviet Trade Pact. The businessperson reported that 17 Latin American countries had signed trade agreements with the U.S.S.R. and that China has trade with the Soviets reaching $6 billion.

A former U.S. Congressman expressed a similar sense of urgency." He discussed the trade loss that could result from granting MFN status now versus at some deferred date. He stated—

> ***While we debate and defer action on MFN, our trading partners are positioning themselves to feast on commerce and trade, which we disregard. If they see a great potential for business in the Soviet Union and in Eastern Europe, are we correct in acting with lesser vision? Russia is no longer the evil empire. Its leader is heading the movement in the Eastern Bloc that is pointed in the direction of free markets, and at least to some extent, free enterprise. That policy should be encouraged and not ignored. . . . The granting of MFN deferred for one year or two will have a different impact from such action in the immediate months ahead.***
>
> ***While we are debating this issue, the com-, mon market countries are moving with a sense of urgency and dispatch in opening markets in developing trade relations with Poland, Hungary, the Soviet Union, and other Eastern European countries. They are developing agreements and extending MFN for as much as a ten-year period. They are tremendously busy developing new joint ventures and extensive commercial trade. It would be natural for the EC members to be moving rapidly to take advantage of the radically changing conditions in Eastern Europe and in the Soviet Union. They are in the European neighborhood. However, America should not be left out or abandon these business opportunities. The Japanese and Koreans also are extremely active in this area, and their negotiations and capital investment are not restricted by government policy. If America is to be a player in this marketplace, it must move before the better opportunities are staked out by the early participants.***

A representative of U.S. manufacturing elaborated on this theme.[95] He said the United States will be left behind if it does not move quickly in responding to the dramatic changes currently taking place in the Soviet Union.

" Testimony of Mr. Charles Vanik, former U.S. Congressman. transcript, pp. 13-15.

Howard Lewis III, Vice-President of International Affairs, National Association of Manufacturers, public submission dated Nov. 9, 1989.

Some participants stated that the U.S. policy to mix politics, trade, and business places the United States at a distinct competitive disadvantage when compared with other developed countries.[96] A former high-ranking U.S. Government official who currently does business with the Soviet Union stated that the Jackson-Vanik amendment has always been viewed by the Soviets as an interference in their internal affairs and that it handicapped U.S. businesses. Consequently, European and Japanese firms got ahead, developed contacts first, and established themselves in the Soviet market.

Another example of what "politicized commerce" (as one source called it) can do to market shares was well illustrated by the 1979 grain embargo. This source maintained that since the Carter embargo the Soviets have diversified their trading partners. The United States permanently lost sales in the Soviet market and helped build up the agricultural sectors in Argentina, the EC, and Australia. A U.S. businessman stated that his company almost lost a construction project to the French and the British, "who were eagerly waiting to rush in," when United States-Soviet relations soured in the 1970s. Another U.S. source stated that "the United States lost ground utilizing trade as a weapon." A representative from the U.S. printing- equipment industry explained that the Soviets fear becoming hostage to the U.S. political system.

The majority of the participants said that the U.S. Government does not integrate politics and commerce as successfully as do European Governments. For example, one participant mentioned, when Prime Minister Thatcher went to Moscow, she was accompanied by 250 British businesspeople. A U.S. businessperson also stated that recent state visits to the Soviet Union by heads of the West German and French Governments included private-sector representatives with specific business proposals.[96] A couple of participants representing U.S. businesses said that the U.S. Government needs to play a greater role in improving business ties with Eastern Europe and the Soviet Union. "The West German and Japanese Governments are much more aggressive, pushing into markets all over the world."

Many participants discussed another key area affecting U.S. competitiveness—the lack of government-backed financing provided to U.S. companies that wish to trade with the Soviet Union. In fact, many participants, including U.S. business representatives and academic experts, said that improved financing in addition to granting MFN status would have the greatest impact on U.S. competitiveness.[97] An academic expert mentioned that the financial disadvantage faced by U.S. companies—particularly the smaller and medium-sized firms—might be the overriding factor affecting U.S. competitiveness in the Soviet market.

In spite of the competitive advantages held by European and Japanese companies discussed above, numerous participants indicated that the Soviets would prefer in many instances U.S. over European or Japanese companies. One U.S. businessperson with experience in trading with the Soviet Union stated that the Soviets show an obvious preference for U.S. companies and products. Another U.S. businessperson reported that, if all things were equal, the Soviets would choose to do business with the United States. Reasons cited by various participants included a lingering of historical animosities towards West Germany and Japan; European companies' relative inexperience in transporting commodities over long distances; a desire by the Soviets to spread the risk away from European and Japanese sources; and an affinity for the United States stemming from the two countries' shared superpower status. In addition, a U.S. businessperson stated that the United States has the best of what the Soviets need—business management and technical expertise.

Some participants expressed the view that if the United States and the Soviet Union had mutually extended ,MFN tariff treatment to one another, and relations improved, U.S. firms may become stronger than European and Japanese firms in Soviet markets. Pertaining to a specific product area, a representative of the U.S. grain industry stated that the Soviets would prefer to do business with the United States, because of U.S. ability to deliver grain in volume on contract terms.[98]

A few participants, including U.S. businesspeople and academic experts, believed that the granting of MFN status to the Soviet Union would not affect U.S. competitiveness in the Soviet market. A former U.S. Government official who currently trades with the Soviets stated that U.S. companies are at a competitive disadvantage in the Soviet market not because of a lack of MFN status, but because they tend to base their investment decisions on the short term, rather than on long-term returns, as do European and Japanese companies. This is an important difference, since profits on investment in the Soviet Union are generally made only over the long haul. A U.S. businessperson who currently trades with the Soviet Union stated that granting MFN status would have little or no effect since U.S. companies are being treated well by the Soviets as there is a general preference for U.S. goods.

a° Views of interviewees and individuals testifying at public hearing and submitting written testimony.

" Federal Affairs Office, DuPont, public submission dated Nov. 9, 1989.

"" See section of ch. 1 of this report entitled "Credit", for further information on how increased U.S. financial opportunities can increase U.S. competitiveness.

Views on the Conditionality of Granting MFN Status

In the context of this report, "conditionality" refers to the provisions that may be attached to the granting of MFN status to the Soviet Union. These terms may address the period of time for which MFN status could be granted initially, or they could include other trade-related conditions that might accompany the elevated status. Both the timing and the elements of a bilateral trade agreement will be addressed in this section.

Timing

The timing associated with granting MFN status is inevitably associated with the Jackson-Vanik amendment. Either a waiver of the amendment or its outright repeal would be required before MFN could be granted to the Soviet Union. Because a 1-year waiver has been the most commonly accepted mechanism in the recent past,[100] many participants assumed that such would be the case if a decision were made to extend MFN status to the Soviet Union.

A knowledgeable U.S. Government participant commented that for obvious reasons the Soviets would like to see Jackson-Vanik repealed, thus eliminating the need for any consideration of a timeframe associated with granting of MFN status. Repeal in effect would remove the linkage between Soviet emigration policy and U.S. trade policy. The same expert pointed out that the President cannot unilaterally announce a waiver; he needs a trade agreement as well.[101] Another U.S. Government source commented that the law mandates a 1-year waiver, and that any extension of this time period would require Congressional action.

The academic experts who commented on this issue generally supported a repeal of the Jackson-Vanik amendment. A few commented on the political viability of outright repeal and argued for a waiver for the longest period possible, often citing 3 years as the shortest acceptable length of time. There was general consensus that any waiver should be for a period longer than 1 year. Some academics expressed the opinion that the 1-year period made the process too political. In this connection, a business consultant with long experience in the Soviet Union commented that the review hearings raise the political visibility of the issue, and generally at a time that is not favorable to rational consideration. The consultant said that the hearings also act as a lightning rod for the "lunatic fringe who will always find a refusnik or some individual that they can use as an example of a human rights violation." The consultant maintained that repeal is in the interest of the President as well as of 535 Congressional legislators.

The need for long-term planning as an ingredient in successful commercial contacts with the Soviets was also cited as a reason for a longer waiver. A 1-year waiver, it was felt, would not provide sufficient certainty for U.S. businesses that may be interested in joint ventures or other projects that may require several years before becoming profitable.

Sentiment for repeal of the Jackson-Vanik amendment was not confined to the academic community. Some of the representations to the Commission by business participants and trade associations contained positions similar to those stated by academics.[102] "MFN status must have some permanence. Temporary waivers will not give American firms the planning assistance they need to go out and negotiate enlarged contracts."[103]

The political difficulty of obtaining a repeal of the amendment was recognized by spokesmen for an agricultural trade association—

> *While we support a full repeal of the Jackson-Vanik amendment to the Trade Act of 1974, we understand the political difficulty of such a move, even in today's environment. Therefore, we suggest and support a waiver of the Jackson-Vanik provisions as an interim measure."*[104]

Among prospective businesspeople, a common sentiment expressed was that a 1-year waiver was "too short"; "it will show no results"; "it will have a chilling effect." A business consultant described the situation of a 1-year waiver as a short-term "pull-the-plug sort of a relationship." These views were expressed in support of a longer term agreement. Support for repeal of the Jackson-Vanik amendment was most often accompanied by similar sentiments concerning the Byrd and Stevenson amendments.

Among businesses having an existing commercial relationship with the Soviet Union, there Was a strong opinion that more than a year would be needed to indicate a desire to establish serious commercial ties with the Soviets. A spokesman for a broad spectrum of trade associations of U.S.

es Testimony of Mr. Steven A. McCoy, President, North American Export Grain Association, Inc., transcript, p. 46.

[100] One-year waivers are currently in effect for some nonmarket economy countries, such as China. Others, such as Hungary, have been exempted from the waiver entirely.

[101] Views on the elements of such an agreement are contained in the following section.

[102] Public submissions dated Nov. 21, 1989 from Caterpillar, Inc. and Nov. 7, 1989 from World Class Products, Ltd.

[103] Margaret Chapman, American Committee on U.S.-Soviet Relations, public submission, dated Nov. 1, 1989.

[104] The National Association of Wheat Growers, public submission, dated Nov. 9, 1989.

businesses stated that a 1-year waiver would put American firms at a disadvantage. It would mean, in his opinion, that commercial relations were "faucetlike, interruptible." The shorter waiver would also imply an element of distrust—not the best basis from which to erect solid trading relationships. A former U.S. Government official familiar with past United States-Soviet trade negotiations argued that most business decisions involving the Soviet Union are realistically based on a 5-year effort before profits are anticipated. This being the case, he questioned why a U.S. business should invest in something requiring a 5-year return when the terms of the underlying agreement could only be guaranteed for 1 year. Two other participants believed that a 5- to 10-year timeframe provided the best possibilities for "serious business relationships."[105] Others currently trading with the Soviet Union argued for an unlimited waiver. One argued that the United States is perceived internationally as "unreliable, opportunistic and interested only in the short term. To say in advance 'I like you, I want to do business with you—but only for 1 year' reinforces this negative view. Thus, granting MFN for 1 year sends the wrong signal." In addition, this participant said that "we are significantly behind the Europeans in trade with the Soviet Union. It will take some time before we catch up to the EC. For these reasons a 1-or 2-year waiver is not good enough."

A current joint-venture participant argued in favor of a longer waiver by pointing out that "stability and longevity sustain a trade relationship." Such elements, he said, would be more probable the longer the term of the MFN grant.

A majority of participants commenting on the issue of timing and a waiver expressed the view that 3 years was a more acceptable period of time for the granting of a waiver. Because most serious business decisions require an extended period of time to be carried out, and because a lot of the structural difficulties in the Soviet Union cannot be resolved quickly, a number of participants said that a minimum of 3 years was necessary for the initial granting of MFN status. An official of a law firm that has experience in establishing United States-Soviet commercial contacts remarked, "The longer the waiver, the better. For planning purposes 1 year is nothing. Year-by-year is even worse. Three years would be the minimum." The rationale for business planning was particularly strong for joint ventures. Anything less than 3 years would not provide a joint-venture partner with the time necessary to structure a meaningful agreement.

Several persons testifying at the ITC public hearing addressed the issue of timing. A former Congressman testified to his support of a waiver "for at least one year."[106] He noted that the discretion on this matter rests with the President, but he said that the administration's decision on the issue would be supported by the Congress and the public. In response to a question from one of the Commissioners, he said that "a waiver of a year or two might be the sort of thing that the American people could accept. . .."[107] While acknowledging the long-term nature of the economic impact of MFN status as well as the business community's support for a multiyear waiver, he stated that his sense of "the political reality" of the issue was such that a 1-year waiver would be acceptable, whereas a multiyear waiver would not.[108]

Two representatives of the private sectorva who testified at the hearing endorsed a multiyear waiver. They supported a waiver for the most generous period of time possible. One of these individuals, the president of a bank that has a number of dealings with United States-Soviet business ventures, testified that a 1-year waiver would not be acceptable to "most of us in the American business community."[110] He voiced strong opposition to a 1-year waiver. He said that most of the projects the Soviets are interested in are rather large and require an investment of considerable sums. To assume such risk on the basis of a limited 1-year MFN waiver, he termed "insanity."[111] In commenting on the need for a multiyear waiver, this same businessman provided the following description of the evolution of a typical joint-venture agreement:

> *It takes a year to 2 years to negotiate a joint venture agreement, or a substantial joint venture agreement. It takes 1 to 3 years to begin production, and then it will take another 1 to 2 years to begin breaking into new markets. So, when we talk about a 1-year waiver, it just doesn't make any sense to us, and having it conditional every year doesn't seem to us to make any sense either.*[112]

Elements of Bilateral Trade Agreement

A government economist from Eximbank commented that granting MFN status would be conditional almost by definition, since the action would come about by means of a bilateral trade treaty. Thus, the elements of the treaty would determine the conditions that would surround the granting of MFN.

[105] A current importer argued in this regard that even a longer term waiver (5 years) could be accompanied by annual Congressional human rights reviews.

[106] Charles Vanik, transcript, p. 24.
[107] Ibid., p. 25.
[108] Ibid., p. 32.
[109] James H. Giffen, Chairman and President of The Mercator Corp., transcript, p. 55ff, and Eugene J. Milosh, President of the American Association of Exporters and Importers, transcript, p. 91ff.
[110] Mr. Giffen, transcript, p. 60.
[111] Ibid., p. 63.
[112] Ibid., p. 64.

Reciprocity in the granting of MFN was assumed by most interviewees)[13] Differences of opinion were expressed on what other conditions might be attached. Some experts asserted that U.S. insistence on any conditions at all would assure repudiation of the agreement by the Soviets. One academic noted that "the grant of MFN has already been tied once to the Jackson-Vanik amendment under the 1972 bilateral trade agreement. It was effectively taken away by the Jackson-Vanik amendment. A grant of MFN status at this point should not be made conditional in any way." Others maintained that the gesture on the part of the United States should be accompanied by requirements for further ethnic autonomy in the Soviet Union, increased freedom for enterprises, ruble convertibility,[14] or greater self-accounting. One suggestion was for MFN status to be granted to individual Soviet republics, the Baltic States of Lithuania, Estonia, and Latvia being specifically mentioned. Any such action, however, would greatly complicate reciprocity, according to an academic. The same individual also suggested that the agreement should include a dispute-settlement mechanism for the bilateral resolution of the "inevitable" problems that will occur as trade between two very large and different countries proceeds. One element of the mechanism could be a market-disruption trigger.

A European-based American businessman, engaged in the sale of agricultural equipment and machinery, suggested that MFN status should be introduced in stages, with groups of tariff items being declared eligible for MFN treatment by the United States, followed by reciprocal action on the part of the Soviets. The "list" of column 1 eligible items could be continually expanded as long as reciprocal action was maintained. In his opinion, staged MFN had a built-in safeguard mechanism, and the process allowed for controlled duty reductions and minimized the likelihood of market disruption following any move to MFN status.

The 1972 bilateral trade agreement between the United States and the Soviet Union was occasionally mentioned by interviewees as a starting point for negotiations on a new bilateral trade accord. One viewpoint was expressed by a private businessperson who stated that the agreement could be "dusted off" and updated to address current needs. Another point of view was offered by a U.S. Goverment economist who acknowledged the idea of returning to the earlier agreement:

> *There has been some discussion of reviving the trade treaty drafted in 1972. In addition, numerous conditions to the treaty have been suggested, some of which include the issues of slave labor, free unions, etc. It is unlikely the Soviets will wish to procede on the basis of the '72 agreement. They will argue that they are no longer a state-trading country. If we start afresh, some major, tough negotiations are in store.*

An academic argued that "the agreement should only be conditioned on commercial issues, not political at all." Contrasted to this point of view was the idea expressed by the director of a major think tank that does work in the area of United States-Soviet commercial relations:

> *The trade agreement with the Soviets should primarily concern itself with the general conditions and environment for doing business, and not get into particular sectors. It should have the usual technical conditions, include access to communications, banking facilities, and some way to get around inconvertibility of the ruble.*

Views on Other Issues

Ruble Convertibility and Countertrade

Most U.S. participants have stated that the ruble's inconvertibility and the consequent necessity to enter into barter and countertrade deals with Soviet firms represent a serious deterrent in expanding bilateral trade. Some participants indicated that after a decline in Soviet demand for barter and countertrade, these non-currency-based methods of trade are gaining ground again. The main reason: Enterprises with foreign trade rights find barter and countertrade a surer, shorter, and less cumbersome way to acquire Western capital goods than going through the steps of (a) reporting their hard currency export earnings to the state supervisory organ and risking part or all of their earnings withdrawn; (b) asking for an import licence, risking to get it slowly or not at all.

Some participants pointed out that if MFN status were granted, barter' and countertrade would expand in United States-Soviet commerce, partly because the absolute volume of trade would increase and partly because the reduction of duties would permit the profitable marketing of more commodities in the United States.

Two participants—each speaking for an association of numerous major U.S. companies doing or interested in doing business in the U.S.S.R.—said that the granting of MFN status

[13] While in Moscow, Commission staff interviewed the principal Soviet negotiator for the EC-U.S.S.R. trade agreement currently being negotiated. He indicated that the agreement will embody such reciprocity. An EC-U.S.S.R. agreement was announced in late November 1989, but it did not include reciprocal extension of MFN status.

[14] Testimony and questioning of Mr. William C. Tragert, President, North American Export Grain Association, Inc., transcript, p. 37.

and the consequent progress in bilateral relations should help improve conditions for repatriating profits to the United States. Underlining the importance of the overall climate in repatriation, one participant commented that if they want, the authorities will either have the hard currency the company wants or they will assist in finding easily salable raw materials for export on a barter-and-countertrade basis.

Nevertheless, there was no indication in the course of the survey that U.S. experts on United States-Soviet relations believed that the mere granting of MFN status would lead to a quick, comprehensive relief from the problems of ruble inconvertibility.' [15]

Small-to-Medium-Size U.S. Businesses

Several participants touched upon the opportunities small-to-medium size U.S. firms might have in trade with the Soviet Union if MFN status is extended. According to a U.S. finance company senior executive involved in helping U.S. firms set up joint ventures in the U.S.S.R., the big push to extend United States-Soviet trade will come from this segment of U.S. business, since large corporations interested in trading with the Soviet Union are already there. The roughly 40 large U.S. companies, which currently account for 97 percent of United States-Soviet trade, according to this source, established business relations with the Soviets prior to 1980.

Various participants pointed out that smaller U.S. companies have the kind of flexibility that corporate giants, with large administrations and quarterly obligations to report to their stockholders, may be unable to emulate. Using its venture capital freely, a smaller firm could zero in on a small Soviet company or cooperative where work morale is relatively good, and minor improvements on the production facilities, plus Western managerial influence, could result in the production of exportable goods. Smaller businesses also face less bureaucratic entanglement in entering into joint-venture agreements with small firms or cooperatives in the U.S.S.R.

But participants also pointed out potential handicaps smaller companies might have in comparison with large corporations. The Soviets are primarily interested in dealing with large firms, and this may work to the disadvantage of smaller businesses when they ask Soviet Government agencies for support. Through their foreign subsidiaries, large, multinational corporations can benefit from the economic support foreign governments accord their firms to increase their market shares in the Soviet Union. Generally, smaller companies have less staying power than large corporations and are less able to absorb initial losses.

Other Arguments Against MFN Status

Among participants in the study, there was not unanimity concerning the idea of granting MFN status to the Soviet Union. [117] Some of this opposition was tied to certain actions on the part of the Soviet Union and could be considered "conditional: in the sense that a particular viewpoint was expressly linked to a particular course of action." Views expressed in this regard were political rather than economic. For example, a representative of an exile organization, arguing against MFN trade status for the Soviet Union, said, "Until leaders of the Soviet Union cease and desist from its [sic] illegal occupation, trade concessions should not be granted." [118]

A trade association involved in exporting motion pictures said that MFN status should not be granted to the Soviet Union because of what it described as its experience with the Soviet Government in not living up to agreements made with the association in September 1988:

> *Our dealings with the Soviets on the trade front have not been felicitous. They have failed repeatedly to acknowledge or live up to the terms of a 1988 agreement we signed with them on film exhibitions, despite our protests. Because of this failure, the Motion Picture Association of America cannot recommend that they be rewarded with MFN* status. [116]

[16] During an interview, a high-ranking Soviet official indicated that the country's exchange-rate policy continues to aim at creating the preconditions for convertibility. Steps during the early 1990s will include the ruble's further devaluation and an attempt to consolidate the roughly 2,000 so-called multipliers used as exchange rates into 4 exchange rates: (1) An official exchange rate for general commercial transactions; (2) one for the trade of raw materials; (3) one for the trade of machinery; (4) one for non-conventional transactions, e.g., tourism. But Soviet economists caution against expecting full convertibility before the year 2000.

[116] Jack Valenti, President and Chief Executive Officer, Motion Picture Association of America, Washington, DC, submission dated Nov. 10, 1989.

[117] Opposition to the notion is expressed in other sections of the report.

[16] Baiba Rudzitis-Pinnis, American Latvian Association, public submission, dated Nov. 13, 1989.

APPENDIX A
Ltd i ER OF REQUEST FROM SENATE COMMITTEE ON FINANCE

enited States senate

COMMITTEE ON FINANCE

WAINNNOTON. OC 20510-0200

September 19, 1989

OFFICE OF THE CHAIRMAN

All: 07

The Honorable
Anne Brunsdale
Chairman
United States International
Trade commission
500 "E" Street, S.W.
Washington, D.C. 20436

Dear Madam Chairman:

In early May, President Bush indicated his willingness to work with Congress toward granting most-favored-nation (MFN) trade status to the Soviet Union. This would allow the Soviets to be accorded the same status as that of the majority of our other trading partners, including some non-market economy countries, such as China, Poland, and Hungary.

In order to adequately understand the implications of granting MFN status to the Soviet Union, the Commission is requested, pursuant to section 332(g) of the Tariff Act of 1930, to institute an investigation for the purpose of providing the Committee with a survey of the views of recognized authorities on U.S. -Soviet trade on the impact such an action would have on the business climate for U.S.-Soviet trade. The survey should include an assessment of the commercial implications of such an action, including to the extent possible, the potential for U.S. agricultural exports, and opportunities for joint ventures.

The report should also identify the products that would be most affected by this change in the trading status of the Soviet Union. We would also like to know the extent, it any, the action is likely to have on the ability of the United States to compete with other exporters (i.e., Japan and the European Community) for sales in the Soviet market.

It is expected that the CAsmission's report on this investigation will reflect the views of U.S. companies and private commercial officials that are doing business with the Soviet Union, scholars, knowledgeable Government officials who have worked in the area of U.S.-Soviet trade, and other experts on this issue.

Sincerely,

Lloyd Bentsen

Lloyd Bentsen
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APPENDIX B
FEDERAL REGISTER NOTICE

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

Investigation No. 332-280

Survey of Views on the Impact of Granting Most Favored Nation Status to the Soviet Union

AGENCY: U. S. International Trade Commission

ACTION: Institution of investigation, scheduling of hearing, and request for comments.

EFFECTIVE DATE: September 28, 1989

FOR FURTHER INFORMATION CONTACT: Thomas F. Jennings (202-252-1260), Trade Reports Division, Office of Economics, U.S. International Trade Commission, Washington, D.C. 20436.

BACKGROUND : The Commission instituted investigation No. 332-280 following receipt of a letter dated September 19, 1989 from the Senate Committee on Finance, requesting that the Commission conduct an investigation under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) to provide a survey of the views of business persons and recognized authorities on U.S.-Soviet trade relations on the impact of granting most-favored-nation (MFN) trade status to the Soviet Union on the business climate for U.S.-Soviet trade. The Commission plans to forward its report to the Senate Finance Committee on January 16, 1990.

As requested by the Committee, in its report the Commission will seek to include an assessment of the commercial implications of granting MFN status to the Soviet Union including the potential for U.S. agricultural exports, Ind opportunities for joint ventures. The Commission will also seek to identify products that would be most affected by the change in the trading status of the Soviet Union, and indicate the extent if any, the action is likely to have on the ability of the U.S. to compete with other exporters (i.e., Japan and the European Community) for sales in the Soviet market.

PUBLIC HEARING: A public hearing in connection with this investigation will be held in the Commission Hearing Room, 500 E Street, SW, Washington, D.C. 20436, beginning at 9:30 a.m. on November 6, 1989. All persons shall have the right to appear by counsel or in person, to present information, and to be heard. Requests to appear at the public hearing should be filed with the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, D.C. 20436, no later than noon, October 23, 1989. Prehearing briefs (original and 14 copies) should be filed not later than noon, October 23, 1989. Post-hearing briefs are due by 5:15 pm, November 13, 1989.

WRITTEN SUBMISSIONS: In lieu of or in addition to appearances at the public hearing, interested persons are invited to submit written statements concerning the matters to be addressed in the report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for public inspection during official business hours (8:45 am to 5:15 pm) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street, S.W., Washington, DC 20436, telephone 202-252-1000. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest practical date and should be received no later than November 13, 1989. All submissions should be addressed to the Secretary to the Commission at the Commission's office in Washington, D.C. Hearing impaired individuals are advised that information on this matter can be obtained by contacting the TDD terminal on 202-252-1107.

By order of the Commission.

Kenneth R. Mason

Kenneth R. Mason
Secretary

Issued: September 29, 1989

APPENDIX C
LIST OF SUBMISSIONS

SUBMISSIONS FOR THE RECORD 332-280

W.G. Beattie,
President, Strategic Minerals Corp.

Joseph S. Berliner,
Professor, Russian Research Center, Harvard University

Jerome J. Breiter,
President, United States Hide, Skin & Leather Association

David J. Bringman,
Vice President, Corporate Marketing, Beloit Corp.

David S. Brown,
Associate Director, Information and Analysis, U.S. Department of the Interior, Bureau of Mines

Sumner Burrows,
President, Haas Brothers

John A. Chambers,
Executive Vice President, Sacra Corp.

Margaret Chapman,
Director, US-USSR Trade Program, American Committee on U.S.-Soviet Relations

Theodore L. Diamond,
T.L. Diamond & Co., Inc.

Thomas J. Downey,
Member of Congress, House of Representatives

Steven W. Easter,
Vice President, Member and Government Relations, Blue Diamond Growers

L. Alonso Flores,
Director, Korus International Co., Ltd.

Michael J. Frank,
Vice President, Great Southern Liquor Co.

Gerald Gidwitz,
Chairman of the Board, Helene Curtis, Inc.

James H. Giffen,
Chairman and President, The Mercator Corporation

Don Gingerich,
President, National Pork Producers Council

Marshall I. Goldman,
Associate Director, Harvard University, Russian Research Center

John A. Grunwald,
President, David R. Webb Co., Inc.

Anthony Harrigan,
President, United States Business and Industrial Council

Paul H. Hatfield,
President, Protein Technologies International, a subsidiary of the Ralston Purina Co.

James L. Hecht,
Adjunct Professor, Dept. of Political Science, University of Delaware

Richard N. Hopper,
Director of Government Affairs, The Carpet and Rug Institute

Marlyn Jorgensen,
President, American Soybean Association

Abraham Katz,
President, United States Council for International Business

Alan Kemper,
First Vice President, National Corn Growers Association

W.C. Lane,
Representative, International Issues Governmental Affairs, Caterpillar Inc.

Robert G. Lee,
President, World Class Products Ltd.

Jacques Leviant,
President, ICD Group Inc.

James C. Levinson,
President and Chairman of the Board, Autoclave Engineers, Inc.

Howard Lewis, III,
Vice President, International Economic Affairs, National Association of Manufacturers

Peter B. Maggs,
Corman Professor of Law, University of Illinois

Steven A. McCoy,
President, North American Export Grain Association

Eugene J. Milosh,
President, American Association of Exporters and Importers

Edward B. Minning,
President, Monsieur Henri Wines, Ltd.

Stacy J. Mobley,
Vice President, Federal Affairs, E.I. dupont de Nemours, and Co.

Andrew Moichan,
President, National Association of Federally Licensed Firearms Dealers

Eugenia Ordynsky,
Executive Director, Congress of Russian-Americans, Inc.

John G. Oxaal,
President, The Ferroalloys Association

Roland D. Paegle, MD. & Scott Cohen,
Coordinators, West-East Retail Trade Study Group

Milivoj "Miki" Pavletic,
President, MIA International Corp.

Howard Phillips,
Chairman, The Conservative Caucus, Inc.

Robert A. Prezzano,
President, Allied Plywood Corp.

John G. Rehak,
Vice President, Siemens Corp.

Baiba Rudzitis-Pinnis,
Vice President-Public Information, American Latvian Association in the United States, Inc.

Carl F. Schwensen,
Executive Vice President, National Association of Wheat Growers

William A. Shields,
Chairman, American Film Marketing Association

Louis S. Shoichet,
Siegel, Mandell & Davidson, P.C., on behalf of The Bradford Exchange, Ltd.

Michael C. Thompson,
Manager, Government Relations, Whirlpool Corp.

William C. Tragert,
President, Chesapeake International

Jack Valenti,
President and Chief Executive Officer, Motion Picture Association of America, Inc.

Kent Vanamburg,
U.S. Feed Grains Council

Charles A. Vanik,
Squires, Sanders & Dempsey, Counselors at Law

Robert A. Weaver, Jr.
Robert A. Weaver Jr. & Associates, Inc.

Marina v. N. Whitman,
Vice President & Group Executive, General Motors Corp.

Winston Wilson,
President, U.S. Wheat Associates, National Association of Wheat Growers

APPENDIX D
LIST OF HEARING PARTICIPANTS

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject: SURVEY **OF VIEWS ON THE IMPACT OF GRANTING MOST FAVORED NATION STATUS TO THE SOVIET UNION**

Inv. No.: 332-280

Date and Time: November 6, 1989 - 9:30 a.m.

Sessions were held in connection with the investigation in the Main Hearing Room 101 of the United States International Trade Commission, 500 E Street, S.W., in Washington, D.C.

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APPENDIX E
HISTORICAL EVOLUTION OF THE U.S. TWO-COLUMN TARIFF STRUCTURE

This section discusses changes in the U.S. tariff system and how those changes affected the Soviet Union over time and resulted in a two-column tariff structure.

Historically, the United States has maintained a single "tariff wall" to protect its domestic interests and has only occasionally lowered that wall to give preferential treatment to products of certain countries, usually in exchange for reciprocal privileges.[1] For example, preferential treatment was extended to certain products of Hawaii, Cuba, and the Philippines, among others. A significant change in policy occurred in 1923 when the United States announced that it would henceforth demand "unconditional" MFN treatment in all future trade agreement negotiations.[2] For U.S. imports this meant that, as future trade agreements lowered U.S. rates on particular products, all countries that enjoyed unconditional MFN status with the United States would benefit from U.S. reductions and vice versa.

This policy was interrupted by the Tariff Act of 1930,[3] which put in place the highest general tariff rate structure that the United States had ever experienced.[4] The Reciprocal Trade Agreements Act of 1930 re-established the policy of negotiating reciprocal unconditional MFN agreements. Thus, when the United States negotiated its first reciprocal trade agreement extending *unconditional* MFN status[8] to the U.S.S.R. in 1937,[7] all countries were subject to the same rates of duty.[8] During World War II, the President reaffirmed that "all foreign countries" would continue to enjoy trade agreement rates with the obvious exception of those countries subject to the Trading With the Enemy Act.[9] The MFN principle is a basic tenet of the General Agreement on Tariffs and Trade (GATT), which was negotiated in 1947 and which became effective for the United States in January 1948.[10]

The resulting U.S. tariff structure was essentially a single-column tariff; i.e., rate differentials generally were not made on the basis of the country of origin of the goods. The published tariff in effect prior to 1951 did have two columns—the first showed the "1930 rate" for all articles and the second indicated the "modified rate" applicable to certain articles for which a trade agreement concession had been negotiated—but either column was applicable to all countries."[11] This situation changed with enactment of the Trade Agreements Extension Act of 1951 (1951 Act).[12] Section 5 of that act directed the President to suspend or withdraw the benefit of trade agreement rates applicable to imports from the U.S.S.R. and from "any nation or area dominated or controlled by the foreign government or foreign organization controlling the world Communist movement."[13] However, the legislative history of the 1951 Act indicated that Congress intended that the President be able to restore MFN status to "countries which appear to be throwing off the yoke of communism."[14]

' Talks leading to the first successful agreement began with Great Britain with respect to its Canadian possessions in 1846 but were not concluded until 1854. John M. Dobson, *Two Centuries of Tariffs* (Washington, DC: GPO, 1976), p. 71.

² Ibid. p. 73.

• *Act of* June 17, 1930, Public Law No. 361, ch. 497, 46 Stat. 590.

• Dobson, *Two Centuries of Tariffs,* p. 34.

• Act of June 12, 1934, Public Law 316, ch. 474, 48 Stat. 943. (Hereafter, the 1934 Act.)

A commercial agreement between the United States and the U.S.S.R. was signed July 13, 1935 (49 Stat. 3805-3807). The agreement was extended for 1 year by an exchange of notes dated July 9 through July 13, 1936. (50 Stat. 1433-1435) However, it was later held that the 1935 agreement did not extend *unconditional MFN treatment* to imports from the U.S.S.R. *Warren Corp. v. U.S.,* 25 CCPA 450; 73 Treas. Dec. 723 at 737 (T.D. 49533, 1938); *cert. den.* 305 U.S. 600 (1938).

• Commercial Agreement Between the United States of America and the Union of Soviet Socialist Republics, signed at Moscow, Aug. 4, 1937, and proclaimed by the President and made effective Aug. 6, 1937. 50 Stat. 1619-1623; Related Notes at 50 Stat. 1623 1625 (1937). The 1937 Agreement was extended from year toyear and finally continued in force by an exchange of notes on July 31, 1942. 56 Stat. 1575-1577 (1942).

• Although, as the 1937 Agreement with the U.S.S.R. notes, the United States preserved its right to grant preferential treatment to the Philippines, the Panama Canal Zone, and Cuba. 50 Stat. 1619, 1620 (1937).

• 77 Treas. Dec. 341-342 (T.D. 50650, 1942).

¹⁰ 82 Treas. Dec. 305 and following (T.D. 51802, 1947).

" See, e.g., U.S. Tariff Commission, *United States Import Duties,* p. vii, p. 40 (1950).

¹² Act of June 16, 1951, Public Law No. 50, ch. 141, 65 Stat. 72 75. (Hereafter, the 1951 Act.)

¹³ 65 Stat. 73; 19 U.S.C. 1362 (1951). The President stated that it would not be practicable to apply sec. 5, consistent with our international obligations, to all such nations and areas at the same time. Consequently, *he* determined that sec. 5 would be applied to various countries and areas in future notifications to the Secretary of the Treasury. Proc. No. 2935, Aug. 1, 1951, 65 Stat. c25-c26.

'⁴ Sen. Rept. No. 299, Apr. 27, 1951, in *U.S. Code Cong. & Admin. News,* pp. 1465, 1467 (1951).

This resulted in a two-column tariff commencing September 1, 1951, which assessed different rates for the same merchandise based upon the country of origin. [16] The "1930 rate" column was redesignated as the "full rate" column and made applicable to 19 Communist nations or areas (including the U.S.S.R. and "Poland and areas under Polish domination or control" [16]) by July 14, 1952. [17] Two additions brought the total to 21 nations or areas by February 19, 1953. [18] MFN status for "Poland and areas under the provisional administration of Poland" was reinstated effective December 16, 1960. [19] Cuba was added to the list as of May 24, 1962 [20] and Afghanistan has been added more recently.[21] The "modified rate" column was redesignated as the "reduced rate" column and applied only to MFN countries.[22]

The countries that were designated under section 5 of the 1951 Act and that may be of interest in any study of MFN for the Soviet Union are listed below, together with some explanation of their location (where it is thought necessary) and an explanation of their "relationship" to the U.S.S.R. This relationship may have some bearing on the manner in which section 401. of the Trade Act of 1974 [23] (which denies MFN status to certain countries) is interpreted. These countries listed as-

> *Estonia,[24] the Kurile Islands,[25] Latvia, Lithuania, Southern Sakhalin Island, Tanna (or Tannu) Tuva,[26] the U.S.S.R. itself, and "the area in East Prussia under the provisional administration of the (USSR)" [27].*

In 1962, the Congress repealed section 5 of the 1951 Act but reenacted the substance of the earlier measure as section 231 of the Trade Expansion Act of 1962. [28] The principal changes in language occurred when the explicit reference to "imports from the [USSR] and.. . . imports from any nation or area dominated or controlled" etc., was replaced by "products, whether imported directly or indirectly, of any country or area dominated or controlled by Communism."[29] The specific inclusion of "indirect" imports strengthened the language of the 1951 Act. The Finance Committee had stated its belief that the revised language in the House-passed bill would prevent continuation of MFN treatment for Yugoslavia and Poland. [30] However, the Senate receded from its position in

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¶[8] Some of the first "nations or areas" designated included Estonia, the Kurile Islands, Latvia, Lithuania, Southern Sakhalin, and Tanna (or Tannu) Tuva. 86 Treas. Dec. 300 303 (T.D. 52788, 1951). Bulgaria was added effective Oct. 18, 1951. 86 Treas. Dec. 349 (T.D. 52828, 1951). Permission was obtained from the Contracting Parties to the GATT to suspend application of that agreement to Czechoslovakia (Dept. of *State, Bulletin,* **No. 642, p. 621, Oct. 5, 1951), and it was added to the list effective Nov. 2, 1951. 86 Treas. Dec. 359-360 (T.D. 52837, 1951). Hungary was added effective July 5, 1952. 87 Treas. Dec. 362 (T.D. 53012, 1952).**

'° The U.S.S.R.. Poland, and areas under Polish control initially became subject to the "full rate" effective Jan. 5, 1952. 86 Treas. Dec. 414-415 (T.D. 52877, 1951).

" 87 Treas. Dec. 179-180 (T.D. 53024, 1952) adding Tibet to the list of Comniimist nations or areas.

'I The description for Poland was changed to read "Poland, and areas under the provisional administration of Poland (the former Free City of Danzig, and areas in Germany including the area in East Prussia)" and the description for the U.S.S.R. was expanded by adding "and the area in East Prussia under the provisional administration of the [U.S.S.R.]". 88 Treas. Dec. 26 27 (T.D. 53191, 1953).

° 95 Treas. Dec. 502 (T.D. 55268, 1960).

" Sec. 401, Public Law No. 87-456, May 24, 1962, 76 Stat. 72, 78.

[21] Sec. 118, Public Law No. 99-190, Dec. 19, 1985, 99 Stat. 1319.

[22] See U.S. Tariff Commission, *United States Import Duties* **(1952), p. 1.**

" 19 U.S.C. 2431.

[24] "On the basis of the Soviet German agreement of Aug. 23, 1939, the U.S.S.R. occupied Estonia, Latvia, and Lithuania in June 1940; these were incorporated (into the U.S.S.R.] by decrees in August 1940." Congress, House, Committee on Foreign Relations, *Background Information on the Soviet Union in International Relations,* **87th Cong., 1st sess. p. 90. (Hereafter** *Background Information.)*

[2°] "The USSR incorporated [Southern Sakhalin Island and the Kurile Islands into the U.S.S.R.] following the defeat of Japan [in World War 11)". Congress, Background Information, pp. 28-29, 90.

***is* This area is located along the northwest border of Outer Mongolia with the U.S.S.R. The area was claimed by Outer Mongolia and not ceded in a "secret treaty" with the U.S.S.R. in November 1921. D. J. Dallin,** *The Rise of Russia in Asia* **(New Haven: Yale University Press, 1949), p. 189. It had been regarded as an integral part of Outer Mongolia. S. Topping,** *Journey Between Two Chinas* **(New York: Haper and Row, 1972), p. 352. "The list of electoral distracts published in the Soviet press October 17, 1946 disclosed that the nominally independent republic of Tannu Tuva had been incorporated into the USSR as the Tuva Autonomous Region." Congress,** *Background Information,* **p. 90.**

[27] "In 1945 the USSR occupied this area of East Prussia, containing the important cities of Koenigsberg, Tilsit, and Insterburg, and following the Potsdam meetings the area was annexed as a special *okrug* **of the USSR without the authorization of a peace treaty." Congress,** *Background Information,* **pp. 7, 90.**

[2°] Public Law No. 87-794, 76 Stat. 872, pp. 87- 877 (1962); 19 U.S.C. 1861 (1962).

" Ibid.

[3°] Sen. Rept. No. 2059 in *U.S. Code Cong. & Admin. News,* **1962 pp. 3110, 3113.**

the conference on the bill and the House-passed language was retained in the enacted version of the bill.[31] In 1963 Congress amended section 231 of the Trade Expansion Act of 1962 by adding a new subsection that provided that MFN status need not be withdrawn from "a country or area . . . which on [December 16, 1963), was receiving trade concessions"[32] i.e., Yugoslavia and Poland. The President was required to report to the Congress his determination that continued MFN treatment for these countries "would be important to the national interest and would promote the independence of such country or area from domination or control by international communism."[33] The President subsequently made such determination effective March 26, 1964.[34]

Today, in theory, the United States has a two-column tariff.[35] In fact, the tariff rates for many items are much more complicated. As an example, the rates applicable to certain boneless fresh beef (HTS subheading 0201.30.60) are as follows—

Rate	*Countries subject to the* rate
Free	**Israel and certain CBI countries**
3.9 cents/kilogram	**Canada**
4.4 cents/kilogram	**All other MFN countries (except the EC)**
13.2 cents/kilogram	**Column 2 countries**
100% ad valorem	**The countries of the EC"**

Thus it is not always clear which countries are "most favored" and which are "least favored."

Although column 1 rates have been established primarily as a result of trade negotiations, in some instances they have been established by legislative action.[37] These rates are, on a nominal basis, either less than or equal to the column 2 rate[38] Column 1 (MFN) rates are often referred to as trade agreement (or "proclaimed") rates; whereas column 2 rates are generally the result of statutory enactment and are thus referred to as "statutory" rates. The President may, however, increase the column 2 rate to a level equal to the column 1 rate if the column 1 rate would otherwise be higher than the existing column 2 rate[39] Although OTCA does not require the President to take such action, international obligations (such as the GATT) would normally dictate that the column 2 rate be maintained at, or above, the column 1 rate.

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a' Conf. Rept. No. 2518, ibid., p. 3135.

[32] Foreign Assistance Act of 1963, sec. 402, Public Law No. 88 205, 77 Stat. 379, 390 (1963).

[33] Ibid.

[34] 29 F.R. 4851 (1964).

" Actions affecting the U.S. tariff schedule from 1962 to the present are discussed in the ch. 1 section entitled "Tariff Schedules."

" This rate results from an action pursuant to sec. 301 of the Trade Act of 1974.

[37] Both temporary and permanent changes in the column 1 (or column 2) rate of duty are enacted directly by the Congress in legislative packages often referred to as "miscellaneous tariff and trade amendments." E.g., title I of the Trade and Tariff Act of 1984, Pubic Law No. 98-573, 98 Stat. 2948, pp. 2951-2972; subtitle G of title I of Omnibus Trade and Competitiveness Act (OTCA).

" When compared on an ad valorem equivalent (AVE) basis, however, there are instances in which the column 2 rate is actually lower than the column 1 rate.

"Sec. 1204(c)(3) of OTCA; 19 U.S.C. 3004(c)(3).

APPENDIX F
DIFFERENCES BETWEEN COLUMNS 1 AND 2

Trade between the United States and the Soviet Union during the first 6 months of 1989 was examined by the Commission from the vantage point of duty-rate differences. Between January and June 1989 there were imports in 298 of the nearly 8,800 HTS 8-digit subheadings. Sixty-eight of these subheadings, accounting for 52 percent of total trade in the period, were free of duty. Column 2 rates having a duty less than 5 percent accounted for 84 items or 91 percent of overall imports from the Soviet Union during the period.

Out of almost 8,800 HTS 8-digit subheadings, there were 1,866 subheadings that had either a specific or compound column 2 rate for which an Ad Valorem Equivalent (AVE) had to be estimated. 108 of these items had trade from countries subject to column 2 rates in the first 6 months of 1989. For these 108 subheadings, AVEs were derived by dividing calculated duties by dutiable value. For the other column 2 rates requiring AVEs, the MFN rate AVE was multiplied by the estimated proportional difference between the MFN and column 2 rates. All of the estimated AVEs were calculated using the best information available, but should be considered raw approximations.

The differences calculated between MFN rates and column 2 rates for all HTS subheadings give a reasonable idea of the effect of granting MFN treatment. (Most of the differences are between two ad valorem rates, and not differences between estimated AVEs). The following tabulation shows the number of subheadings falling in specified ranges of differences between MFN and column 2 rates:

Difference range	*Number*	*Percent of total*
0.0[1]	733	8.4
0.0[2]	137	1.6
0.1-10.0	1015	11.6
10.1-20.0	1008	11.5
20.1-30.0	1757	20.0
30.1-40.0	2034	23.2
40.1-50.0	796	9.1
50.1-60.0	482	5.5
60.1-70.0	364	4.2
70.1-80.0	275	3.1
80.1-90.0	79	0.9
90.1-100.0	46	0.5
100.1-125.0	20	0.2
125.1-150.0	14	0.2
150.1-175.0	3	[3]
175.1-200.0	1	I
Greater than 200.0	2	
Totals	6766	100.0

[1] Both the MFN and column 2 rates of duty were free.
[2] The MFN and column 2 rates were equal but not free.
[3] Less than 0.05 percent.

As the tabulation shows, there is no difference in the rates of duty **between column 1 and column 2 for 10 percent of the subheadings.**

Table F-1 shows the leading items imported from the Soviet Union during the first 6 months of 1989 and the calculated column 1 and **column 2 rates of duty for these items, as well as the difference between the rates.Any assessment of the prohibitive effect of column 2 rates and the likely impact of a move to MFN status for such items is beyond the scope of the investigation.**

Table F-1

U.S. Imports from the Soviet Union, valued over $1 million, January-June 1989, with columns 1 and 2 ad valorem equivalents, and differences

HTS subheading	Description	Value	General	Col. 2	Difference
			Percent		
2710.00.10	Distillate and residual fuel oils (including blends)	$74,158,227	0.5	1.1	0.6
2710.00.05	Distillate and residual fuel oils (including blends)	49,541,777	0.4	1.5	1.1
2814.10.00	Anhydrous ammonia	41,011,832	0.0	0.0	0.0
7110.29.00	Palladium, in semimanufactured forms	32,033,382	0.0	0.0	0.0
7110.31.00	Rhodium, unwrought or in powdered form	22,539,092	0.0	0.0	0.0
7110.39.00	Rhodium, In semimanufactured forms	18,904,265	0.0	0.0	0.0
2902.43.00	p-xylene	11,609,686	0.0	0.0	0.0
2844.20.00	Uranium enriched In U235 and plutonium and their corn	10,800,000	0.0	0.0	0.0
9701.10.00	Paintings, drawings and pastels, other than those of	10,482,107	0.0	0.0	0.0
2709.00.10	Petroleum oils and oils from bituminous minerals, cr	10,439,149	0.4	1.5	1.1
7202 .29.00	Ferrosilicon not containing by weight more than 55%	8,805,741	0.0	4.5	4.5
3104.20.00	Potassium chloride	7,980,566	0.0	0.0	0.0
4301.80.00	Raw furskins, whole, with or without head, tall or	7,606,226	0.0	0.0	0.0
2208.90 .65	Vodka, In containers each holding not over 4 liters, ...	6,793,175	2.9	50.4	47.5
8701.90.10	Tractors n.e.s.l., suitable for agricultural use	6,494,223	0.0	0.0	0.0
7110.21.00	Palladium, unwrought or in powder form	4,679,163	0.0	0.0	0.0
5208.12.40	Woven cotton fabric, 85% or more cotton by weight	4,262,316	7.0	16.9	9.9
7110.11.00	Platinum, unwrought or in powder form	4,084,392	0.0	0.0	0.0
7602.00.00	Aluminum waste and scrap	3,910,557	0.0	0.0	0.0
5201.00.20	Cotton, not carded or combed, having a staple length	2,634,838	0.5	4.9	4.4
7601.20.90	Unwrought aluminum alloys, n.e s 1.....	2,249,402	0.0	10.5	10.5
6913.10.50	Statuettes and other ornamental articles of porcelain	2,013,315	9.0	70.0	61.0
9706.00.00	Antiques of an age exceeding 100 years	1,536,659	0.0	0.0	0.0
1604.30.20	Caviar	1,481,920	15.0	30.0	15.0
2208.90.60	Vodka, in containers each holding not over 4 liters, ...	1,389,350	68.2	78.3	10.1
0306. 14.40	Crabs, cooked in shell or uncooked (whether in shell)	1,296,304	0.0	0.0	0.0
2207.10.60	Undenatured ethyl alcohol of 80% volume alcohol	1,264,328	3.0	20.0	17.0
7118.90.00	Coins, n.e s I.....	1,219,185	0.0	0.0	0.0
4411.19.20	Fiberboard, of a density exceeding 0.8 g/cm ^{3}, mechan	1,122,228	3.0	30.0	27.0
3104.90.00	Mineral or chemical fertilizers, potassic, n.e.s.i	1,046,229	0.0	0.0	0.0

Source: Compiled from official statistics of the U.S. Department of Commerce. Ad valorem equivalents computed by the Office of Tariff Affairs and Trade Agreements, U.S. International Trade Commission.

APPENDIX G
HISTORY OF UNITED STATES-SOVIET COMMERCIAL AGREEMENTS

The United States and the U.S.S.R. have negotiated numerous agreements that touch upon bilateral economic and commercial relations. Although there is no operative agreement dealing with the tariff treatment accorded goods originating in the U.S.S.R. and imported into the United States, the two countries have in the past negotiated three such agreements: the 1935 Commercial Agreement) (1935 Agreement, the 1937 Commercial Agreement[2] (1937 Agreement), and the unratified 1972 Trade Agreement.[3] Other agreements negotiated between the two countries include the Grains Agreement;[4] the Maritime Agreement;[5] the protocol relating to the possibility of establishing a United State-U.S.S.R. Chamber of Commerce protocols relating to the establishment of commercial facilities and trade representation offices in the two capitals?; and an agreement with the U.S.S.R. on Economic, Industrial, and Technical Cooperation.[8] This section will discuss only the three agreements addressing tariff matters.

The 1935 Agreement was not a "reciprocal" trade agreement.[8] The United States declared that it would apply the duties proclaimed by the President in other trade agreements negotiated under the authority of the 1934 act to imports from the U.S.S.R. (with the usual exception for our Cuban preferential rates). In exchange for the U.S. tariff commitment, the Soviets promised to "take steps to increase substantially the amount of purchases in the United States.") This promise was implemented by the U.S.S.R. in a side letter stating its intention to purchase U.S. goods valued at $30 million during 1935-36." The U.S.S.R. did not make any declarations with respect to duties on U.S. goods entering the Soviet Union. The 1935 Agreement was extended for 1 year in an exchange of notes in July 1936.[12]

In 1936, the U.S. Customs Service assessed an import "tax .. . in the nature of an import duty" on imports of Russian coal, under the 1935 Agreement even though coal was on the "free" list under the Tariff Act of 1930.[13] The importer challenged the imposition of the duty, but he did not prevail on his claim that the 1935 Agreement had conferred "unconditional [MFN) treatment"[14] upon imports from the U.S.S.R. This litigation may have motivated the negotiations that produced the 1937 Agreement.

The 1937 Agreement was reciprocal: each side extended "unconditional and unrestricted [MFN) treatment" to the other.[15] Further, unlike the 1935 Agreement, the 1937 Agreement was proclaimed by the President pursuant to his authority under the 1934 act. The U.S.S.R. again promised to "increase substantially" its purchases from the United States, which it valued at no less than $40 million." The United States declared its opinion that Russian coal would no longer be subjected to the import tax previously assessed, in return for which the U.S.S.R. promised to limit its exports of coal to 400,000 tons per year." The United States reserved its right to regulate foreign commerce in

' Commercial Agreement Between the United States and the U.S.S.R.; signed at Moscow, July 13, 1935 (49 Stat. 3805-3807). The agreement was extended for 1 year by an exchange of notes dated July 9 through July 13, 1936. (50 Stat. 1433-1435).

² Commercial Agreement Between the United States of America and the Union of Soviet Socialist Republics, signed at Moscow, Aug. 4, 1937, and proclaimed by the President and made effective Aug. 6, 1937. 50 Stat. 1619 1623; Related notes at 50 Stat. 1623-1625 (1937). The 1937 agreement was extended from year to year and finally continued in force by an exchange of notes on July 31, 1942. 56 Stat. 1575-1577 (1942).

Trade Agreement With the Soviet Union, signed at Washington, Oct. 18, 1972, and related side letters, *International Legal Materials*, Vol. 11, (November 1972), pp. 1321-1345 .

• Grains Agreement With the Soviet Union, July 8, 1972, 23 U.S.T. 1447, T.I.A.S. No. 7423.

o Maritime Agreement With the Soviet Union, Nov. 22, 1972, 23 U.S.T. 3573, T.I.A.S. No. 7513.

o Protocol . . ., June 22, 1973, 24 U.S.T. 1498, T.I.A.S. No. 7656.

' Protocol . . ., June 22, 1973, 24 U.S.T. 1501, T.I.A.S. No. 7657; and Protocol ....Oct. 3, 1973, 24 U.S.T. 2222, T.I.A.S. No. 7738.

• Agreement ..., June 29, 1974, 25 U.S.T. 1782, T.I.A.S. No. 7910.

o The State Department had stated that this agreement "although intimately related to the trade agreements program . . ., was not concluded pursuant to the authority of *(the* 1934 Act]. It does not involve any reciprocal concessions in respect of tariff rates." *Warren Corp. v. United State*, 25 CCPA 450; 73 Treas. Dec. 723 pp. 728-729 (T.D. 49533, 1938); cert. denied 305 U.S. 600 (1938).

¹⁰ 49 Stat. 3805.

" 49 Stat. 3807.

¹² 50 Stat. 1433-1435.

¹³ *Warren Corp. v. United States*, p. 732.

'⁴ !bid p. 736.

50 Stat. 1619.

'° Side letter dated Aug. 5, 1937 50 Stat. 1624.

50 Stat. 1624 1625.

gold, silver, arms, ammunition, or implements of war, and other military supplies, as well as its rights under the Neutrality Act of 1937 with respect to exports to the U.S.S.R. The United States also reserved the right to impose import restrictions "on moral or humanitarian grounds, . . . to protect human, animal, or plant life, . . . [to restrict] prison-made goods, or ... [to enforce] police or revenue laws." [15]

The 1937 Agreement was extended for successive 1-year periods until 1942. [19] Most of the extensions were couched in the same language as the 1937 Agreement; however the Soviets citing U.S. export restrictions, did not "guarantee" the purchase of $40 million of U.S. goods in the 1940 extension. The 1942 extension provided that the 1937 Agreement would continue beyond the usual 1-year period "unless superseded by a more comprehensive commercial agreement. " [20] Both governments retained the right to terminate the 1937 Agreement upon 6 months written notice. This agreement continued in force until stispended by the United States pursuant to the Trade Agreement Extensions Act of 1951. [21]

Section 5 of the 1951 Trade Agreements Extension Act directed the President to withdraw or suspend MFN status from all countries controlled or dominated by the World Communist movement. This action was prompted by the outbreak of the Korean War and the support that these countries were giving to North Korea and China. This directive was applied to all then-existing Communist countries, except Yugoslavia.

In December 1960, President Eisenhower revoked the suspension of MFN treatment with respect to Poland. In 1962, Congress enacted the Tariff Classification Act of 1962, [22] and the Trade Expansion Act of 1962. Section 231 of the Trade Expansion Act of 1962 required the denial of MFN treatment to all countries dominated or controlled by communism. [23] That provision was amended by section 402 of the Foreign Assistance Act of 1963, [24] which provided that MFN treatment did not have to be withdrawn from Yugoslavia and Poland if the President determined that the continued application of MFN treatment to those countries was in the national interest. The President made such determinations for both countries in 1964.

In 1972, the United States entered into a trade agreement with the U.S.S.R. that provided that Soviet exports to the United State were to receive MFN treatment. [25] It was understood that implementation of that part of the trade agreement would require congressional action. The President proposed approval of the MFN agreement as part of the general trade bill introduced in 1973, which eventually was adopted as the Trade Act of 1974.

The provisions dealing with MFN treatment for the U.S.S.R. and othir Communist countries were among the most controversial during the legislative process, and resulted in the Jackson-Vanik amendment. [26] The impetus for that amendment was the U.S.S.R.'s imposition of a "free education" tax ranging from $5,000 to $30,000 on persons wishing to emigrate, a policy that was seen as being directed at Soviet Jews. The Trade Act, as passed with the Jackson-Vanik amendment, linked MFN treatment for Communist countries with free emigration. With the passage of the Trade Act of 1974, the U.S.S.R. announced that the 1972 United State-U.S.S.R. trade agreement was terminated beeause the act contradicted the commitments of the agreement. Accordingly, the 1972 agreement has never been implemented, and imports into the United States from the U.S.S.R. are currently ineligible for MFN treatment.

'° 50 Stat. 1620.

'° Exchange of notes, signed at Moscow, Aug. 5, 1938, 53 Stat. 1947-1950; Aug. 2, 1939, 53 Stat. 2404-2407; Aug. 6, 1940, 54 Stat. 2366-2374; and signed at Washington, August 2, 1941, 55 Stat. 1316-1318, and July 31, 1942, 56 Stat. 1575-1577.

n 56 Stat. 1575.

Pub.L. No. 50, ch. 141; 65 Stat. 73 (1951). The agreement ceased to be effective Jan. 5, 1952. 86 Treas. Dec. 414-415 (T.D. 52877, 1951). It is worth noting that the President, pursuant to his authority in the 1951 Act, proclaimed the suspension (rather than the termination) of reduced rates of duty for imports from the U.S.S.R. Proc. No. 2935, Aug. 1, 1951, 65 Stat. c25-c26.

²² Pub.L. No. 87-456 (1962).

" Pub.L. No. 87-794, §231.

²⁴ Pub.L. No. 88 205 §402, 77 Stat. 390 (1963).

²⁶ United States-U.S.S.R. Agreement Regarding Trade, with annexes and exchanges of letters; signed at Washington, DC, October 1972.

²⁶ 19 U.S.C. §2432.

Article I of the 1972 treaty would have provided reciprocal unconditional MFN treatment with regard to customs duties and other charges; internal taxation, sale, distribution, storage, and use; charges on the international transfer of payments for imports and exports; and other formalities in connection with imports and exports.

Unlike the Commercial Agreements of 1935 and 1937 (which were silent on the subject of quantitative restrictions (QRs)), the 1972 Trade Agreement would have required each government to "afford . . . equitable treatment vis-a-vis" the QRs applied to "like products" imported from third countries.[27] Equitable application of QRs would be mandatory for both imports and exports.[28] Exceptions to the general MFN principles in article 1, paragraphs 1 and 2, included (1) "privileges . . . granted .. . neighboring countries with a view toward facilitating frontier traffic"; (2) UNCTAD preferences for Less Developed Countries; (3) actions permitted by multilateral agreements to which either govemmeht was a party on October 18, 1972; and (4) exercise[29] of the rights reserved by both governments under articles 3 and 8 of the agreement.

Article 2, paragraph 2, preserved U.S. rights with respect to its system of export controls for national security reasons. Article 3 provided an "escape clause" procedure that was spelled out in more detail in Annex 1.[30] The U.S.S.R., in a side letter dated October 18, 1972, agreed to "limit . . . exports of any product . . . if requested to do so in accordance with Annex 1."[31] Article 4 assured that payments could be made in freely convertible currency. Articles 5 and 6 dealt with the establishment of reciprocal trade representation in each capital and the waiver of sovereign immunity for corporations, foreign trade organizations, etc., in each other's territory. Article 7 encouraged the use of arbitration to settle commercial disputes. Article 8 reserved the right of each government to take action to protect its "security interests."

The 1972 agreement stated that both governments envisioned the tripling of total bilateral trade over the 3-year life of the agreement.[32] A side letter to the Agreement stated that "United States companies will receive treatment no less favorable than that accorded to business entities of any third country in all matters relating to accreditation and business facilitation. "33

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27 Art. 1, par. 2.
" Ibid.
29 Art. 1, par. 3.
30 Annex 1 required prompt consultation whenever either government determined that "actual or prospective imports of a product . . under certain conditions or in certain quantities could cause, threaten or contribute to disruption of the market" in the importing country. Annex 1, Par. 1, 1972 Trade Agreement.
31 *International Legal Materials , vol.* 11 , No. 6, (November 1972), pp. 1321; 1333.
32 Art. 2, Par. 1.
" *International Legal Materials , vol.* 11, No. 6, (November 1972), pp. 1321, 1339.

APPENDIX H
MFN AND OTHER NONMARICET ECONOMY COUNTRIES

The MFN status[1] of all nonmarket economy countries (NMEs) was suspended in accordance with section 5 of the Trade Agreements Extension Act of 1951, which provided that the benefits of concessions granted through trade agreements should be denied to such countries.[2] In retaliation, the NMEs used various tariff and non-tariff measures to discriminate against U.S. imports, using the United States as a supplier of the last resor .[3] Since 1960, the United States restored reciprocal MFN treatment with Poland, Romania, Hungary, and China.

The United States restored Poland's MFN treatment in December 1960 in response to the Eastern European country's political and economic rapprochement with the West, including its acquisition of observer status in the GATT, during the second half of the 1950s.[4] In return, the Polish Government pledged to settle U.S. citizens' claims against property under its control. In the early 1980's, however, in protest against certain actions taken by Poland,[5] the United States introduced a number of economic sanctions, one of which was the suspension of MFN status in November 1982.[6] The reinstatement of MFN treatment in February 1987 was the last step in removing these economic sanctions on the long path of gradual improvement in overall United States-Polish relations.?

In the aftermath of the Trade Act of 1974, waivers of the Jackson-Vanik amendment resulted in the extension of annually renewable MFN status to Romania in 1975, to Hungary in 1978, and to China in 1980.[8] As required by statute,[0] MFN treatment to these countries was extended in conjunction with the conclusion of bilateral commercial agreements with them. The agreements included the reciprocal extension of MFN treatment for U.S. goods by the NMEs in question and provided for a general framework to resolve commercial disputes. The eligibility of these countries for credits from the U.S. Eximbank and the Commodity Credit Corporation was also restored. Since Romania and Hungary acceded to full membership in the GATT prior to the restoration of their U.S. MFN status, their extension of MFN status to the United States occurred in accordance with GATT rules.

Romania's MFN tariff treatment was restored in August **1975 in the wake** of improved bilateral relations,[1°] but—as reflected mainly by congressional reaction to testimony given at House and Senate hearings during the annual review process—U.S. concern over Romania's emigration and general human rights policies gradually intensified." In the first half of 1987, both Houses of Congress adopted resolutions to suspend the country's MFN status for 6 months.[12] In February 1988, the Government of Romania informed the U.S. Government that it had decided to renounce the continuation of MFN status under the terms of the Trade Act of 1974.[13] The Presidential waiver to Romania was accordingly allowed to expire on July 3, 1988. Since then, consultations have taken place between the two governments in accordance with the United States-Romanian trade agreement, and Romania has not withdrawn MFN status from the United States.[14]

' This review is restricted to the postwar period and excludes Yugoslavia, which is considered a market economy, and countries with which U.S. trade is relatively insignificant. For more details on the legislative-historical background of granting MFN status to the NMEs, see Congressional Research Service, The Library of Congress (CRS), ***CRS Issue Brief,*** **June 30, 1987 (Order Code 1E74139) and** ***CRS Report for Congress*** **No. 87-241 E, March 1987.**

² ***57th Quarterly Report to the Congress and the Trade Policy Committee on Trade Between the United States and the Nonmarket Economy Countries during January-March 1989,*** **USITC Publication 2209, August 1989, p. 1, hereafter** ***57th Quarterly Report...***

* ***27th Quarterly Report...,*** **p. 60.**

⁴ **Reinstatement of Poland's MFN status occurred within the scope of the limited discretion allowed by sec. 5 of the Trade Agreements Extension Act of 1951. See CRS,** ***CRS Report for Congress,*** **p. 3;** ***27th Quarterly Report...,*** **p. 60; and** ***28th Quarterly Report...,*** **p. 45.**

• **In particular, the declaration of martial law in December 1981 and the banning of the independent trade union Solidarity in October 1982.** ***33d Quarterly Report...,*** **pp. 77 79.**

• **The official suspension proclamation cited Poland's failure since 1978 to meet its commitment, undertaken in the protocol for the country's accession to the GATT, to increase the total value of its imports from GATT members by not less than 7 percent per year; but from public statements at the time it was clear that the suspension meant to express U.S. displeasure over actions against Solidarity.** ***33d Quarter!y Report..., pp*****p. 76, 77.**

⁷ ***53d Quarterly Report...,*** **pp. 41, 42.**

• **Since Poland's MFN status predated the Trade Act, it has never been subject to these criteria.**

° **Secs. 404 and 405 of the Trade Act of 1974, 19 U.S.0 §§2434, 2435.**

"° ***3d Quarterly Report..., p. 1.***

" ***45th Quarterly Report...,*** **pp. 53, 54, and** ***49th Quarterly Report...,*** **pp. 48, 49.**

¹* ***53d Quarterly Report...,*** **pp. 43, 44.**

¹* ***55th Quarterly Report...,*** **pp. 14, 15.**

Interview with U.S. Department of Commerce, International Trade Administration, USSR/East European Division, Aug. 23, 1989.

MFN treatment for Hungary was restored in Juiv 1978.[15] Since that time, commercial and political relations between the two countnes have improved. In October 1989, Hungary became the first NME country to receive permanent MFN status since passage of the 1974 Trade Act.[18]

The United States and China extended MFN tariff status to one another in February 1980, approximately 1 year after the establishment of diplomatic relations between the two countries.[17] This was followed by the conclusion of several bilateral commercial agreements.[18] Since the granting of MFN treatment to China, trade and other forms of economic cooperation have expanded rapidly between the two countries.[19] Although China's MFN status was extended for another year in 1989, events of early June 1989 in Tiananmen Square prompted some demands in the U.S. Congress to revoke China's MFN status or extend it in 1990 only if the Chinese authorities acted to restore political rights.[20]

In analyzing the effects of extending MFN status on U.S. trade, meaningful comparisons are circumscribed by differences among the economies of Poland, Romania, Hungary, and China—particularly those between the countries of Eastern Europe and China—and differences in their economic situation at the time of the extension. China's unique success in increasing sales to U.S. markets after the extension of MFN status in 1980 may be explained by a number of factors, including its proximity to Hong Kong, the significant Chinese population outside of China, and its low production costs in a number of traditional U.S. import categories.

Nevertheless, it is safe to conclude that trade turnover (exports plus imports) increases after the extension of MFN status (tables H-1 to H-4). This is the result of both the improved commercial and political climate that led up to and followed the extension of MFN status and the trade-increasing effects of lower tariffs. Figures H-1 to H-6 illustrate the growth of U.S. trade with the NMEs during the 5 years that preceded and the 5 years that followed extension of MFN treatment.

Both the frequency and size of annual U.S. deficits in trade with Romania, Hungary, and China increased from the 5-year period that preceded extension of MFN status to the 5-year period that followed it. The NMEs, generally short of foreign exchange and limited in their ability to contract new credit, first earn the hard currency, which later enables them to increase their purchases from the West.

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[15] *17th Quarterly Report...,* p. 60.

'a *USITC, International Economic Review (IER), December 1989, pp. 9-10*

[17] *25th Quarterly Report...,* p. 35.

'B E.g., Agreement on trade relations, 31 UST 4651, TIAS 9630; Agreement relating to investment guaranties, 32 UST 4010, TIAS 9924; Agreement relating to relief from double income tax on shipping profits, TIAS 10297; and the Agreement for the avoidance of double taxation and the prevention of tax evasion with respect to taxes on income, with protocol and exchange of notes.

[15] For a description of commercial relations between the two countries see *57th Quarterly Report...,* pp. 13, 14.

" CRS, *CRS Report to Congress,* 89 424 E, July 24, 1989, p. 3.

Table H-1

U.S. trade with Poland during the 5 years preceding and the 5 years following the granting of most-favored-nation tariff status in 1960

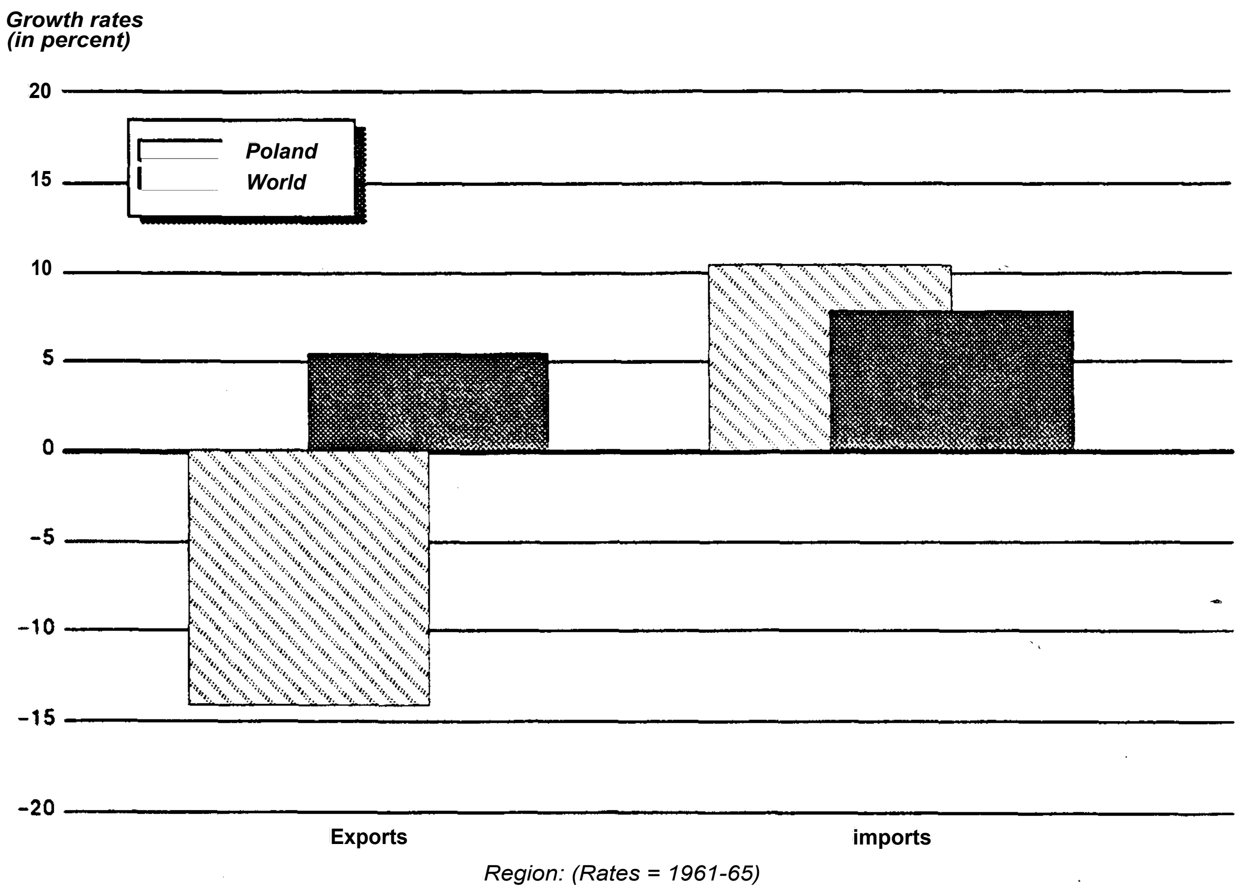
(In millions of dollars)

Year	*U.S. exports*	*U.S. imports*	*Trade turnover*	*Trade balance*
1955	**3.0**	**28.0**	**31.0**	**-25.0**
1956	**4.0**	**30.0**	**34.0**	**-26.0**
1957	**73.0**	**33.0**	**106.0**	**+40.0**
1958	**105.0**	**33.0**	**138.0**	**+72.0**
1959	**75.0**	**34.0**	**109.0**	**+41.0**
1960	**143.0**	**41.0**	**184.0**	**+102.0**
1961	**75.0**	**44.0**	**119.0**	**+31.0**
1962	**95.0**	**50.0**	**145.0**	**+45.0**
1963	**109.0**	**46.0**	**155.0**	**+63.0**
1964	**138.0**	**59.0**	**197.0**	**+79.0**
1965	**35.0**	**72.0**	**107.0**	**-37.0**

Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure H-1

Growth of U.S. trade with Poland and the world during the 5 years (1961-65) that followed extension of MFN to Poland in 1960



Source: Complied from official statistics of the U.S. Department of Commerce.

Table H-2

U.S. trade with Romania during the 5 years preceding and the 5 years following the granting of most-favored-nation tariff status In 1975

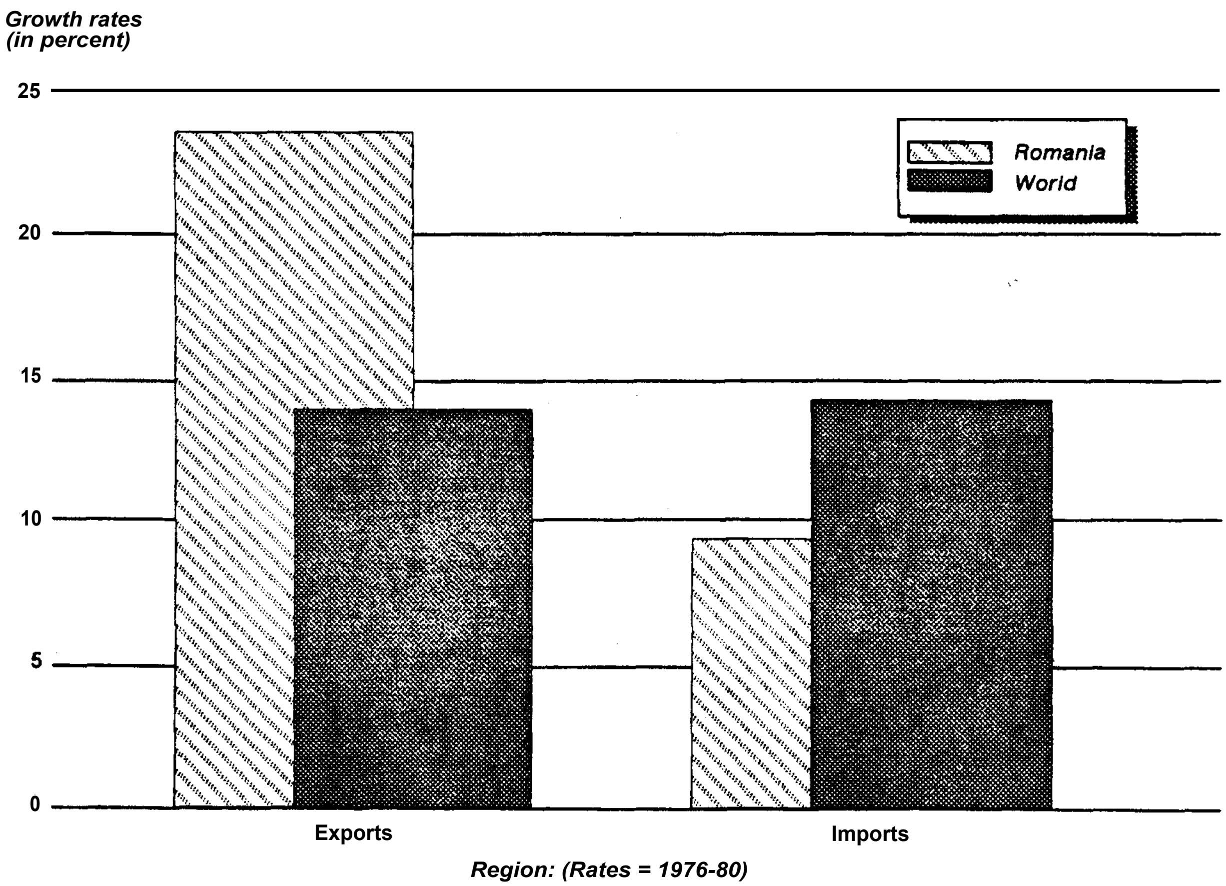
(In millions of dollars)

Year	U.S. exports	U.S. imports	Trade turnover	Trade balance
1970	66.0	14.0	80.0	+52.0
1971	53.0	14.0	67.0	+39.0
1972	69.0	34.7	103.7	+34.3
1973	117.0	62.3	179.3	+54.7
1974	278.0	139.2	417.2	+138.8
1975	191.0	147.0	338.0	+44.0
1976	250.0	218.0	468.0	+32.0
1977	259.6	253.9	513.5	+5.7
1978	318.9	375.7	694.6	-56.8
1979	501.2	381.5	882.7	+119.7
1980	722.0	341.0	1,063.0	+381.0

Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure H-2

Growth of U.S. trade with Romania and the world during the 5 years (1976-80) that followed extension of MFN to Romania in 1975



Source: Complied from official statistics of the U.S. Department of Commerce.

Table H-3

U.S. trade with Hungary during the 5 years preceding and the 5 years following the granting of most-favored-nation tariff status in 1978

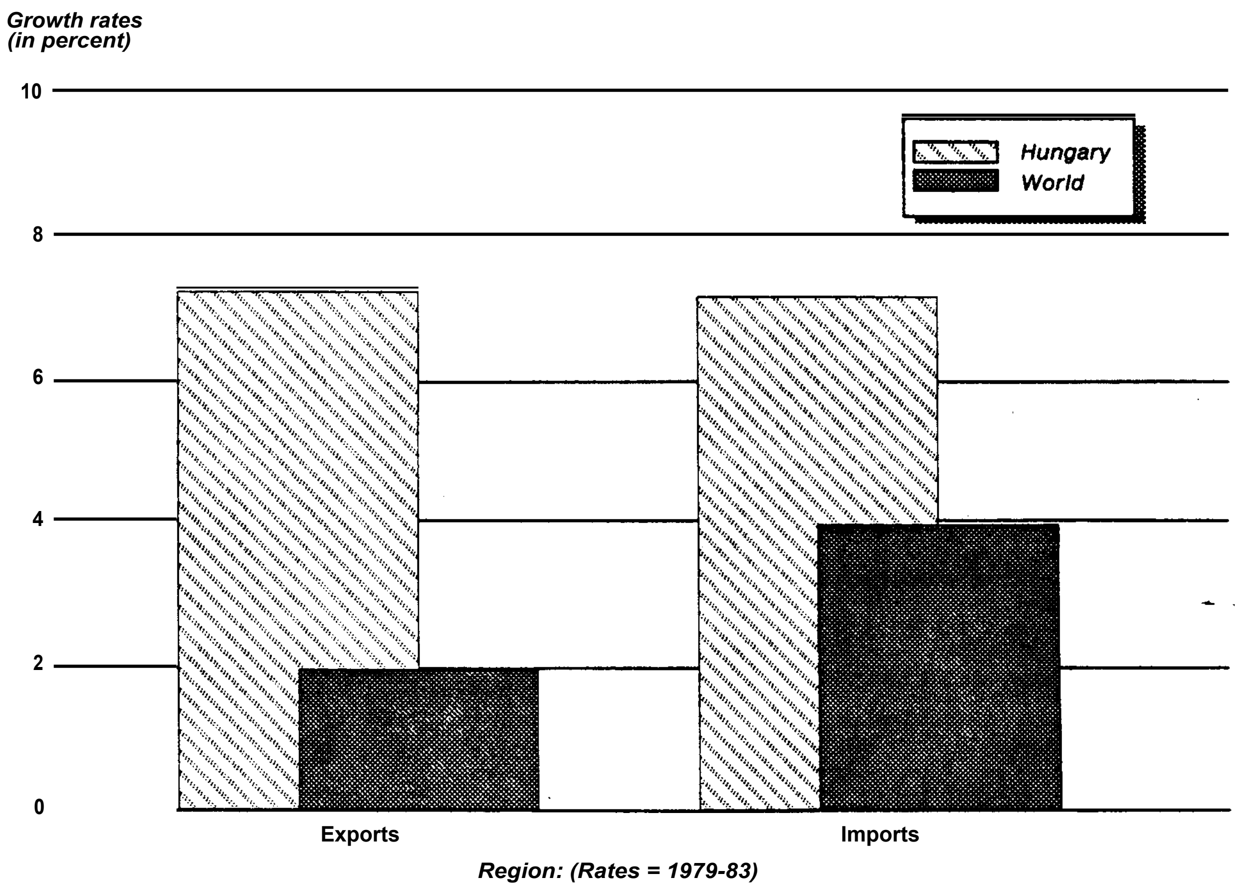
(In millions of dollars)

Year	U.S. exports	U.S. Imports	Trade turnover	Trade balance
1973	33.0	18.1	51.1	+14.9
1974	56.0	79.0	135.0	-23.0
1975	76.0	38.0	114.0	+38.0
1976	63.0	53.0	116.0	+10.0
1977	80.4	50.3	130.7	+30.1
1978	98.2	74.1	172.3	+24.1
1979	77.9	121.8	199.7	-43.9
1980	79.9	117.9	197.8	-38.0
1981	78.0	140.4	218.4	-62.4
1982	68.4	145.4	213.8	-77.0
1983	110.4	172.0	282.4	-61.6

Source: Complied from official statistics of the U.S. Department of Commerce.

Figure H-3

Growth of U.S. trade with Hungary and the world during the 5 years (1979-83) that followed extension of MFN to Hungary in 1978



Source: Compiled from official statistics of the U.S. Department of Commerce.

Table H-4

U.S. trade with China during the 5 years preceding and the 5 years following the granting of most-favored-nation tariff status in 1980

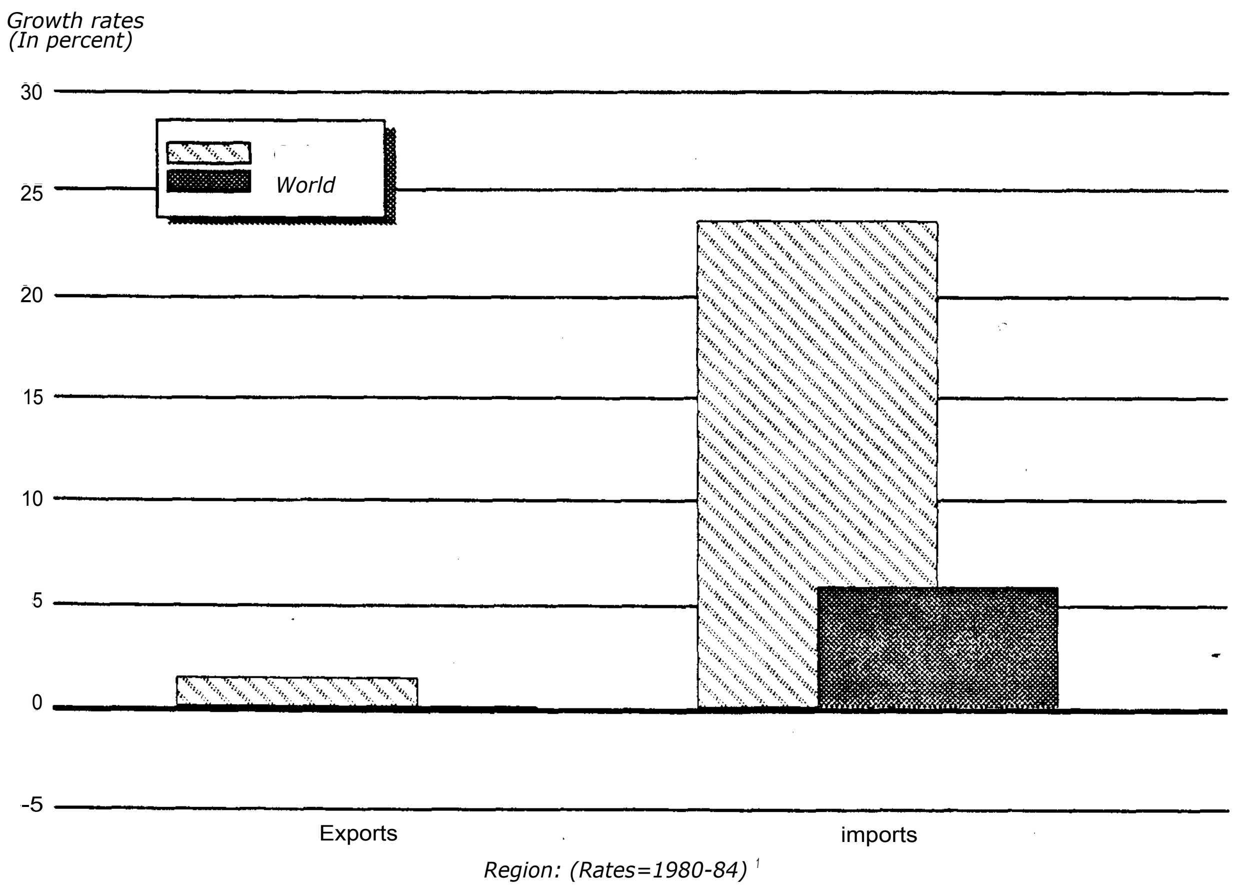
(In millions of dollars)

Year	*U.S. exports*	*U.S. imports*	*Trade turnover*	*Trade balance*
1975	304.0	171.0	475.0	+133.0
1976	135.0	222.5	357.5	-87.5
1977	171.3	224.4	395.7	-53.1
1978	823.6	357.3	1,180.9	+466.3
1979	1,723.8	656.4	2,380.2	+1,067.6
1980	3,755.0	1,164.4	4,919.4	+2,590.6
1981	3,602.7	2,062.4	5,665.1	+1,540.3
1982	2,912.0	2,502.4	5,414.4	+409.6
1983	2,173.1	2,476.8	4,649.9	-303.7
1984	3,004.3	3,381.4	6,385.7	-377.1
1985	3,855.7	4,224.2	8.079.9	-368.5

Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure H-4

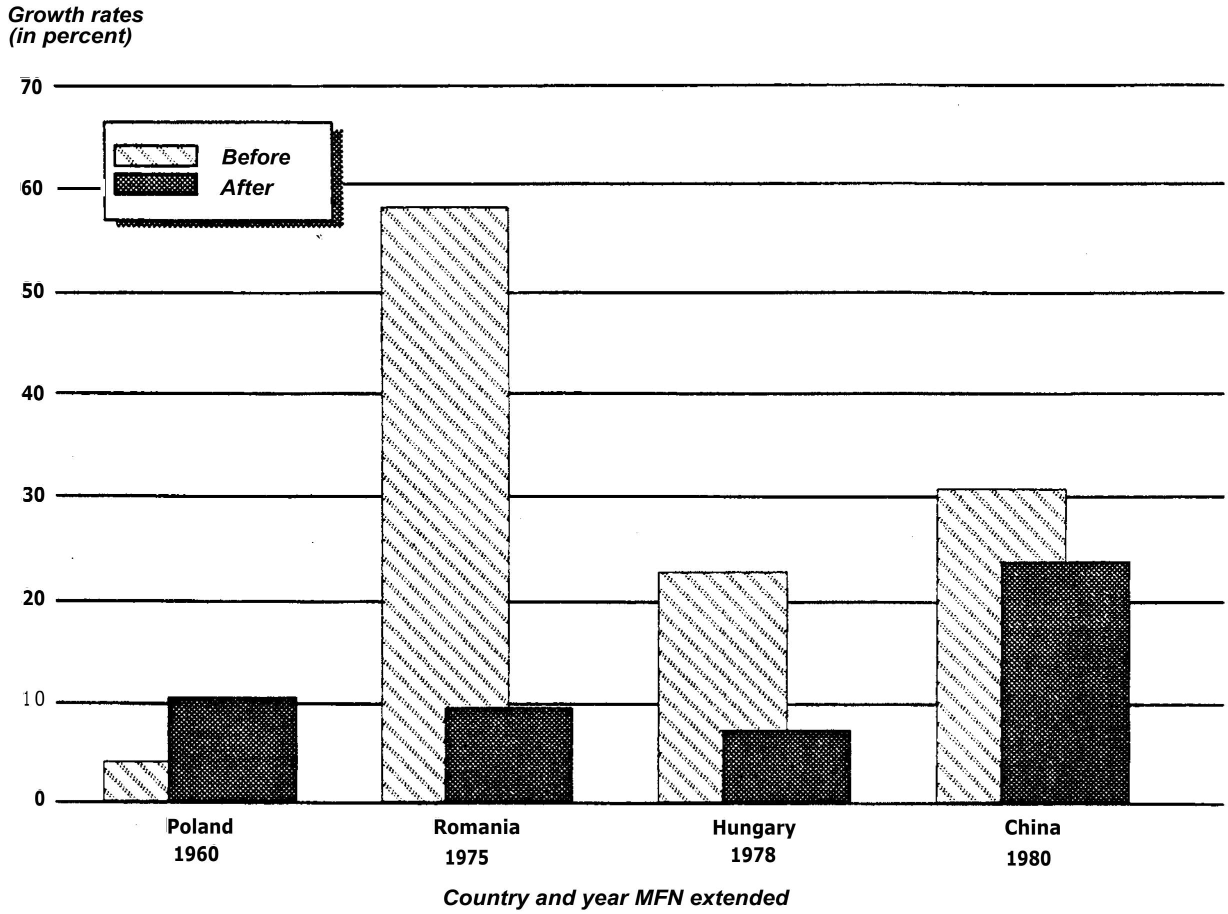
Growth of U.S. trade with China and the world during the 5 years (1980-84) that followed extension of MFN to China In 1980



[1] 1980 was considered the first year when China had MFN since MFN went into effect on February 1, 1980.

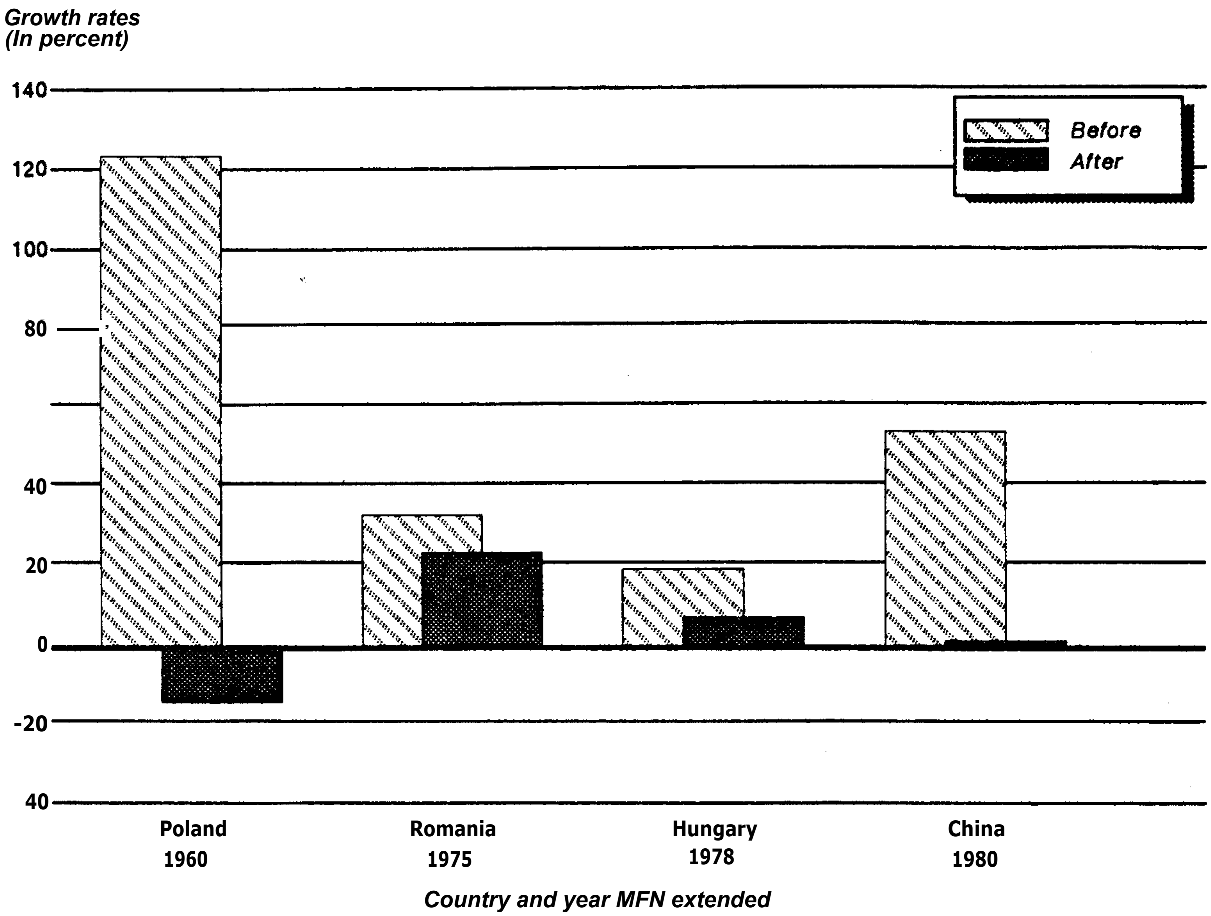
Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure H-5
Growth of U.S. Imports from nonmarket economy countries during the 5 years that preceded and during the 5 years that followed extension of most-favored-nation tariff status



Source: Complied from official statistics of the U.S. Department of Commece.

Figure H-6
Growth of U.S. exports to nonmarket economy countries during the 6 years that preceded and during the 5 years that followed extension of most-favored-nation tariff status



Source: Complied from official statistics of the U.S. Department of Commece.

APPENDIX I
U.S. TRADE WITH THE U.S.S.R.

From 1948 until the early 1970s, there was very little growth in either U.S. imports or exports to the Soviet Union. In 1972, U.S. exports began to increase substantially but followed a fluctuating trend. U.S. imports followed a similar trend, but at consistently lower levels, as shown in figure I-1.

More recently, during 1984-88, United States-U.S.S.R. trade continued to fluctuate widely. Two-way merchandise trade between the two countries declined from $3.9 billion in 1984 to lows of approximately $1.9 billion in 1986 and 1987 before rising to $3.4 billion in 1988. Even at its highest level, U.S. trade with the Soviet Union accounted for less than 1 percent of total U.S.-world trade. U.S. exports to the Soviet Union dominated the trade, creating a surplus, which also fluctuated widely during the period, as shown in the following tabulation (in thousands of dollars):

Item	*1984*	*1985*	*1986*	*1987*	*1988*
U.S. exports	3,282,652	2,421,948	1,246,831	1,477,399	2,762.754
U.S. Imports	616,607	455,677	620,715	474,840	659,528
Trade surplus	2,666,045	1,966,271	626,116	1,002,559	2,103,226
Two-way merchandise trade	3,899,259	2,877,625	1,867,546	1,952,239	3,422,282

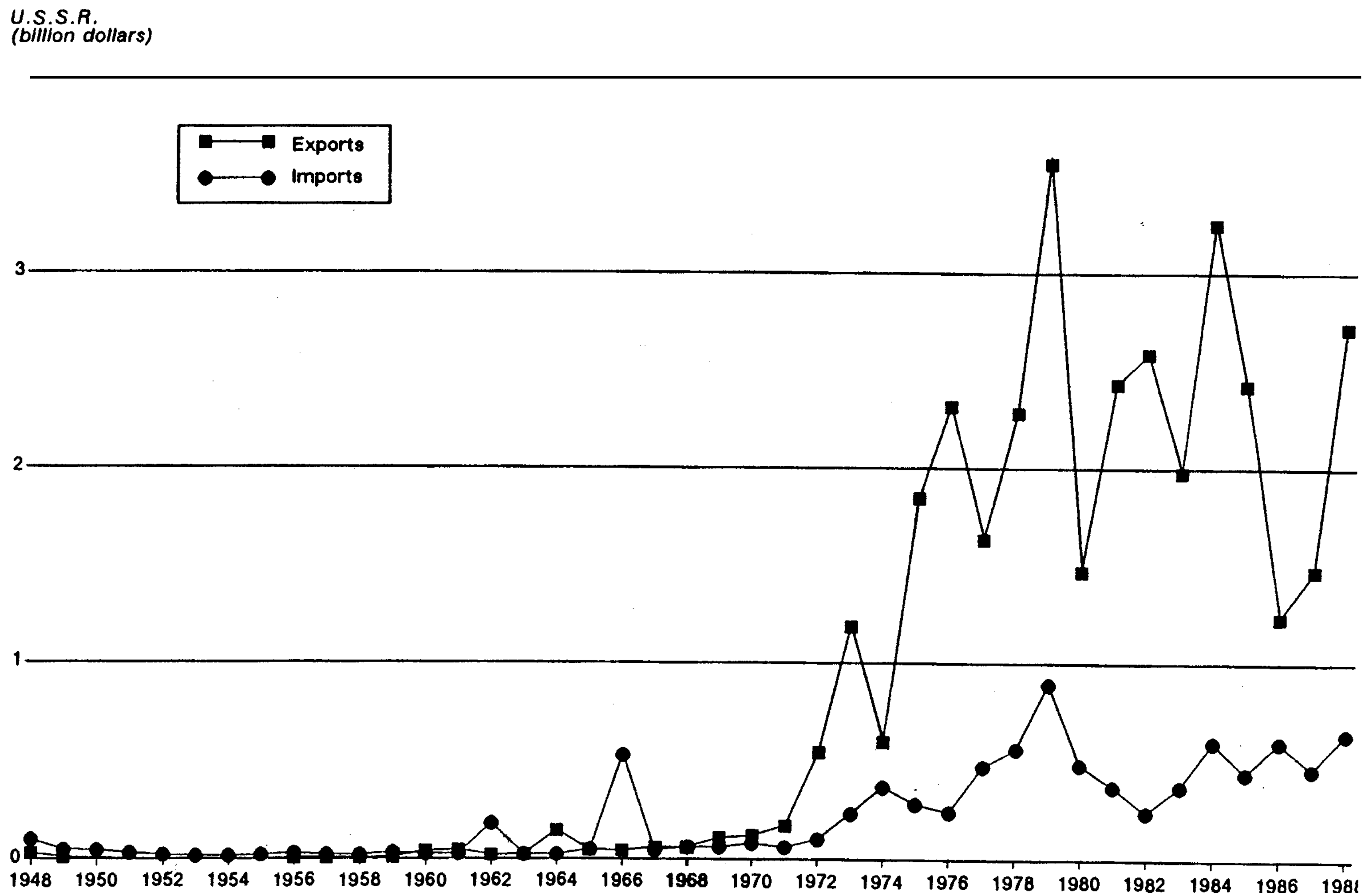
The trend in U.S. exports to the Soviet Union largely reflected the pattern of in-grain shipments. Agricultural and agricultural related products (SIC secs. 01, 20, and 28) dominated U.S. exports, accounting for almost 87 percent of the total 'value of exports shipped to the U.S.S.R. in 1988. The primary agricultural and related products exported were yellow corn, unmilled wheat, soybean oil cake, soybeans, shelled almonds, raw cotton, grain sorghum, tallow, and fertilizer and fertilizer materials. Other leading exported items included machinery, paper and paper products, and petroleum refining and related products. (See tables I-1 and 1-2 for leading export items).

U.S. exports that showed significant gains during 1984-88 were concentrated in construction, farm machinery and equipment, and scientific and professional instruments. Some of the specific exported items showing large increases were printing machines; air and gas compressors; fans and blowers; radio and television sets; phonographs; motor vehicle-parts; environmental controls and parts; orthopedic, prosthetic, and surgical equipment; and blast furnace, steel works, and rolling-mill products.

U.S. imports from the Soviet Union also fluctuated widely during 1984-88, declining from $616.6 million in 1984 to $455.7 million in 1985 before rising to $620.7 million in 1986. These imports then declined again in 1987, to $474.8 million, before rising to their highest level in 1988 at $659.5 million. These fluctuations largely reflected a considerable decline in imports of refined petroleum products, the largest imported product category, during 1985-87. The increase in imports in 1986 was explained not by increased purchases of petroleum products but by very large purchases of Soviet gold bullion, valued at $154.3 million in 1986. The sale of refined gold bullion that year occurred at a time when Soviet hardcurrency earnings were reduced owing to a decline in the price of oil. There were no imports of Soviet gold bullion in 1987. U.S. imports peaked in 1988 when U.S. purchases of refined petroleum products increased.

Tables 1-3 and 1-4 show the leading product categories and specific items imported from the Soviet Union. Other than refined petroleum products, the leading imports from the Soviet Union included chemicals and allied products (SIC 28), primarily anhydrous ammonia used in the production of fertilizer, and potassium chloride; and primary metal products (SIC 33), including rhodium, palladium, aluminum waste and scrap, and platinum sponge. Other important imports from the Soviet Union during the period included undressed sable furskins, vodka, and agricultural tractors.

U.S. imports from the U.S.S.R. that showed considerable gains during the period covered a wide variety of products, including construction machinery (which increased dramatically during the first 4 years that this category was imported, reaching $10.7 million in 1988), undressed sable furskins, canned and cured seafood, wood products, pulp and paper mill products, furniture, electrical machinery, and photographic equipment and supplies.



Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 1-1

Leading Items exported to the U.S.S.R.,' by Schedule B Nos., 1984-88

(In thousands of dollars)

Schedule B No.	*Description*	*1984*	*1985*	*1986*	*1987*	*1988*
130.3465	Yellow corn not donated for relief or charity	$1,389,842	$1,502,148	$280,589	$381,460	$886,082
130.6540	Wheat, unmliled, not donated for relief or charity	1,170,572	158,712	0	389,148	750,323
184.5260	Soybean, oil cake, and oil-cake meal	0	0	0	57,547	246,260
480.1000	Fertilizer and fertilizer materials	0	151,730	261,478	228,634	222,811
175.4100	Soybeans, other than seed for planting	14,039	0	312,981	42,705	157,879
790.5510	Pressure-sensitive tape having a plastic backing	54,920	59,811	54,290	55,959	48,367
145.4300	Shelled almonds, not blanched	24,501	66,341	37,611	27,360	46,848
300.1060	Cotton, not carded, not combed, staple length 1 to 1-1/8 inches	148,668	55,863	0	0	31,033
177.5640	Tallow, inedible	29,745	30,943	15,468	18,787	26,382
475.4555	Insulating or transformer oils	16,449	7,827	18,462	16,055	24,002
610.3910	Standard pipe, of Iron or steel, seamless, not alloyed	0	0	0	0	15,364
130.4040	Grain sorghum, other than **seed for planting purposes**	**0**	**0**	**0**	0	13,566
250.0284	Wood pulp, special alpha and dissolving grades	2,382	0	3,271	4,015	12,965
664.0584	Parts, not elsewhere specified, of oil and gas field drilling machines	1.384	756	12,034	997	12,261
433.1035	Compound catalysts, n.s p f	2,828	2,450	2,961	1,045	12,188
517.6100	Electrodes, In part of carbon or graphite, for electric furnace or electrolyte purposes	1,609	7,390	9,282	7,777	11,918
475.4510	Aviation engine lubricating oil, except Jet engine lubricating oil	0	0	3,252	5,743	11,761
711.8750	Electrical (including electronic) not physical analysis equipment, specifically provided for, and parts thereof	1,812	1,676	**4,442**	**39,040**	**10,072**
517.5120	**Petroleum** coke, calcined	8,178	21,694	13,898	13,637	9,676
609.1620	Plates, sheets, and strip of iron or **steel, galvanized**	**0**	**0**	**0**	**0**	**9,588**
	Other	**415,723**	**354,606**	**216,811**	**187,490**	**203,406**
	Total	**3,282,652**	**2,421,948**	**1,246,831**	**1,477,399**	2 762,754

Includes Estonia, Latvia, and Lithuania.

Source: Complied from official statistics of the U.S. **Department of Commerce.**

Table 1-2
Leading products exported to the U.S.S.R.', by SIC sections, 1984-88
(In thousands of dollars)

SIC section	Description	1984	1985	1986	1987	1988
01	Agricultural products	2,767,500	1,798,309	631,439	813,313	1,840,734
20	Food and kindred	49,224	65,271	15,497	117,315	329,134
28	Chemicals and allied products	229,442	303,704	290,137	218,712	226,266
35	Machinery, except electrical	101,479	95,279	129,629	64,018	86,563
26	Paper and allied products	61,338	61,451	61,945	75,546	74,589
29	Petroleum refining and related products	31,191	56,369	58,687	53,292	52,186
38	Scientific and professional Instruments; photographic and optical goods	8,672	6,917	9,617	56,296	38,939
14	Nonmetallic minerals, except fuels	0	0	87	29,776	29,052
33	Primary metal products	4,177	871	1,542	3,122	27,825
36	Electrical machinery	7,635	15,607	22,960	12,964	22,319
	Other	21,994	18,170	25,291	33,045	35,147
	Total	3.282,652	2,421,948	1,246,831	1,477,399	2,762,754

' Includes Estonia, Latvia, and Lithuania.

Source: Complied from official statistics of the U.S. Department of Commerce.

1988

000 dollars

168,040	31,578	0
139,604	116,224	79,641
3,674	10,700	29,226

[1] The value data are imports for consumption, customs value.

[2] Includes Estonia, Latvia, and Lithuania.

[3] The totals shown here differ from the totals shown in the trade balance tabu[illegible] paid values.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 1-4

Leading products Imported from the U.S.S.R.,' by SIC sections, 1984-88

(In thousands of dollars)

SIC section	Description	1984	1985	1986	1987	1988
29	Petroleum refining and related products	212,330	125,004	100,542	106,391	209,318
28	Chemicals and allied products	217,701	200,649	164,786	113,845	147,615
33	Primary metal products	99,640	58,710	249,701	116,799	137,425
20	Food and kindred products	17,331	20,993	27,362	35,960	43,063
91	Scrap and waste	6,088	7,293	21,037	26,709	30,755
02	Livestock **and livestock products**	10,256	7,947	14,489	20,110	17,367
35	Machinery, except electrical	1,307	1,927	4,368	8,254	12,972
13	Crude petroleum and natural gas	0	0	6,429	1,594	12,628
24	Lumber and wood products, except furniture	10,555	9,684	13,153	14,502	10,197
32	Stone, clay, glass, and concrete products	659	545	2,761	4,789	6,754
	Other	40,740	22,925	16,087	25,887	31,434
	Total	616,607	455,677	620,715	474,840	659,528

includes Estonia. Latvia, and Uthuania.

Source: Compiled from official statistics of the U.S. Department of Commerce.

APPENDIX J
SOVIET TRADE WITH OTHER WESTERN INDUSTRIALIZED COUNTRIES

Two-way merchandise trade between the Soviet Union and member countries of the Organization for Economic Cooperation and Development (OECD),[1] which represents Western industrialized countries, declined from $44.4 billion in 1983 to $40.9 billion in 1987, representing a fall of nearly 10 percent. Trade with the OECD countries represented between 70 and 86 percent of world totals, rising in proportion to the total during the period.

Aggregate Soviet-OECD trade, as estimated by the staff of the USITC on the basis of data compiled by the OECD on member-country trade with the Soviet Union, is shown in the following tabulation, (in millions of U.S. dollars):

Year	*Imports*	*Exports*	*Trade balance*
1983	21,208	23,239	2,031
1984	20,846	24,254	3,408
1985	21,897	21,047	(850)
1986	20,030	18,324	(1,706)
1987	20,087	20,857	770

The $40-45 billion trade level is relatively low for a country the size of the Soviet Union and reflects the Soviet Union's policy of autarky, which has kept it outside the international trading system. Whereas Western economies are described as "demand constrained" (i.e., cyclical fluctuations in economic conditions are generated by fluctuations in overall demand), the planned economy is more appropriately characterized as "resource constrained" (i.e., the planning authorities cannot meet the constant demand from enterprises for all inputs, consequently average growth and fluctuations in economic activity are determined by constraints stemming from the availability of resources).[2] The basic incompatibility between the structures of the centrally planned economy of the Soviet Union and the market economies of the OECD members has contributed to the slow growth and relatively low levels of East-West trade.[3] The composition of trade from a Soviet standpoint is determined by hard currency restraints (the ruble is not currently convertible in international trade). These restraints lead to a bilateralism, or balancing, of hard currency transactions in various currencies. The desired import product mix is given priority through allocations of hard currency by central planners and financial authorities. Expenditures for imports are balanced by export revenues. The Soviet Union's exports (commodity raw materials) are relatively more price sensitive than its imports (differentiated goods), and thus more sensitive to short-term business cycle effects. During the 1980s, structural problems in the Soviet Union manifested themselves in a secular decline in growth, depletion of some of the original sources of growth, and a lack of technical progress to offset the increasingly scarce resources.

Fuels (including crude petroleum, distillate and residual fuels, natural gas, and electricity) constitute the main items in Soviet exports to the OECD countries (see table J-1), accounting for between 63 percent and 78 percent of the total value on a yearly basis during 1983-87. In addition, exports of minerals, ores, and metals (including diamonds and platinum group metals) accounted for an additional 13 percent in that time period, with exports of raw wood, pulpwood and sawn lumber also accounting for a large (4 precent to 7.5 percent) and rising share of exports. The concentration of Soviet exports in the minerals, metals, and timber or forestry products lines reflects the large natural resource base of the Soviet Union. As prices for crude petroleum, distillate, and

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[1] OECD member countries currently Include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Sweden, Spain, Switzerland, Turkey, the United States, the United Kingdom, and West Germany. Yugoslavia participates in certain work of the OECD.

[2] Friedrich Levcik and Jan Stankovsky, "Eastern Europe's Trade Problems: Between the USSR and the West," ch. in John P. Hardt and Carl H. McMillan ed., *Planned Economies: Confronting the Challenges of the 1980s,* (Cambridge: Cambridge University Press, 1988), p. 155.

[3] Institute for East-West Security Studies "Managing the Transition: Integrating the Reforming Socialist Countries Into the World Economy," (New York: Institute for East-West Security Studies, 1989), p. 16. Also see Abel G. Aganbegyan, "Economic Reforms," *Perestroika* 1989 (New York: Scribners, 1988), pp. 73-105, for a discussion of the experiments made during 1987 and 1988 in enterprise self financing, contractual relations, managerial accountability, and changes in the planning system. Although these changes are still evolving, even a limited market orientation or a decrease of state intervention in the production and distribution systems has not yet been achieved.

Table J-1
OECD imports from the Soviet Union, by commodity group, 1983-87
(In thousands of dollars)

Commodity group	*1983*	*1984*	*1985*	*1986*	*1987*
Live animals, meats, and dairy products	35,911	35,371	33,734	9,576	10,065
Fish and shellfish	138,591	175,438	171,992	240,951	305.530
Subtotal	174,502	210.809	205,726	250,527	315,595
Grains and pulses	8.420	10,004	19,321	7,640	13,422
Fruits and vegetables	15.932	14.525	18,144	18,455	20,338
Sugars and syrups	9,267	15,318	14,617	13,845	14,824
Coffee, tea, spices, tobacco	48,402	34,546	38,508	42,265	50,938
Fats and oils	14,687	13.953	31,137	7,468	5,208
Miscellaneous	17,126	17,032	18,964	19,236	26,543
Subtotal	113,834	105,378	140,881	108,909	131,273
Hides and skins	91,130	104,424	102,460	138,610	219,246
Natural and synthetic fibers	309,420	208,257	139,372	239,789	339,219
Leather, dressed furs	6,652	8,807	6,526	11,261	14,385
Textiles, made-up articles	41,194	31,973	33,822	46,372	94,679
Subtotal	448,396	353,461	282,180	436,032	667,529
Wood and lumber	1,076,832	1,044,247	918,231	1,269,259	1,604,466
Manufacturer of wood	94,768	98.676	98,311	161,726	201,103
Subtotal	1,171,600	1,142,923	1,016,542	1,430,985	1,805,569
Minerals, ores, scrap	346,636	382.492	386,580	457,973	459,577
Stone and glass	250.398	399,432	370,702	566,522	609.208
Iron and steel-mill products, ferroalloys	197.349	122.417	123,385	228,617	301,936
Nonferrous metals	723,205	808,228	561.946	787,526	1.201,958
Articles of metal	9,650	24,654	20,135	16.479	19.117
Subtotal	1,527,238	1,737.223	1.462.728	2,057,117	2.591,796
Fuels, oils, grease	18,225,254	18,987,985	18.336.964	12,062,789	13.256,008
Chemicals, gases, plastic raw materials	951,558	1.080,918	1,061,836	1,035,947	1,058,217
Rubber, and articles	24,360	22.811	21,289	28,834	36,224
Subtotal	19,201,172	20.091,714	17,420,089	13,125,570	14,350,449
Machinery and equipment	170,116	250,861	183,371	397,293	294,674
Machine tools	29,487	23.255	35,634	35,597	41,908
Transportation vehicles	227,108	194,938	220,786	382,758	529,560
Subtotal	426,711	469.054	439,791	815,648	866,142
Miscellaneous	175,116	143,198	79,545	99,288	128,860
Total	23,238,569	24,253.760	21,047,282	18,324,076	20,857,213

Source: Estimated by the staff of the USITC on the basis of data comp6ed by the OECD on member-country trade with the Soviet Union.

residual fuels fell during the 1980s, the Soviets exported more of these types of raw materials and tried to maintain a trade surplus with the OECD.[4] Some of the fastest rising exports included fish and shellfish, undressed furskins,. cotton fibers, coniferous lumber, uncut diamonds, passenger cars, and platinum group metals, the value of which each increased by 100 percent during 1983-87.

The structure of Soviet imports from OECD countries reflects the relative scarcities of imported products (which act as resource constraints) and their value as an agent of technical progress.[5] Imports are generally capital-intensive goods (machinery, equipment, and parts); articles utilized in the extraction and transportation of raw materials (construction and mining equipment, mechanical handling equipment, gas turbines, steel pipe and tube), and articles that the Soviet economy produces in insufficient quantities-[5] There are four groups of imports that dominate: machinery and equipment, including machine tools ($5.7 billion, or 29 percent of total imports in 1987); iron and steel products ($3.8 billion), which are mostly pipe and tube for the transportation of liquid hydrocarbons and petrochemicals; chemicals, petrochemicals, and plastic raw materials ($2.8 billion); and grains, pulses, and oilseeds, including vegetable oils ($2.3 billion, or 11 percent of total imports). (See table J-2.) Grain imports have generally risen during the decade, reflecting the continued commitment to increase the amount of animal protein in the diet of the Soviet citizenry. Wide fluctuations in the values of imported grains, pulses, and oilseeds reflect variations in Soviet harvests and, at times, changes in the import mix between wheat, maize, and the complexes of oilseeds (chiefly soybeans).

• **These groups, raw wood/sawn wood products, and minerals, ores, and metals constitute a basket of goods from which exports may be regulated according to hard currency needs to balance fluctuations in revenues from sales of fuels.**

Levcik and Stankovsky, "Eastern Europe's Trade Problems," p. 155. See also, Antony C. Sutton, *Western Technology and Soviet Economic Development, 1917 to 1945* (Stanford: Hoover Institution Press, 1971), which discusses technology transfers to the new Soviet economy during the period of the Concession Agreements (1924-32), which are similar to the current joint ventures. More recently, much of the development of the Soviet petrochemical and plastics industries has taken place because of purchases of plant and equipment from the West on purchase and/or compensation arrangements.

• **Soviet experts have spoken of the need to improve production efficiencies, rather than continuing to rely on development of new sources of raw materials (i.e., extensive development) for economic expansion. For example, in the petroleum sector "intensive production" means secondary refining processes. The Soviet Union exports crude petroleum, distillate fuels, and residual fuel oils that are obtained by using mostly straight-run distillation processes (primary refining) with yields in accordance with the natural fraction content of the crude; the Soviet petroleum industry suffers from a deficiency of secondary refining processes (i.e., cracking), which convert heavy products to more valuable light products such as gasoline, types of light oils and petrochemical feedstocks and which allow different types of petroleum to be refined simultaneously. Some of the products which the Soviets currently import could be produced if additional cracking capacity were installed. Another example is provided by the textile industry: the Soviets export cotton fibers and hides and skins but import the value-added products, textiles, and leather goods.**

Table J-2
OECD exports to the U.S.S.R., by commodity group, 1983-87
(In thousands of dollars)

Commodity group	*1983*	*1984*	*1985*	*1986*	*1987*
Live animals	4,113	8,753	10,196	12,504	14,490
Meat	362,868	151,506	126,774	183,373	99,390
Dairy and eggs	238,598	186,171	264,737	153,129	194,477
Fish and shellfish	83,696	74,600	70,245	83,764	81,217
Subtotal	689,275	421,030	471,952	432,770	389,574
Grains and pulses	3,663,932	5,374,439	4,237,294	2,203,668	2,126,690
Fruits and vegetables	143,890	182,564	180,170	137,762	120,964
Sugars and syrups	236,510	154,191	517	2,792	952
Coffee, tea, spices, tobacco	78,577	76,327	83,314	35,314	30,482
Fats and oils	259,947	156,828	206,712	408,906	163,053
Miscellaneous	41,017	32,227	38,965	54,648	86,836
Subtotal	4,423,873	5,976,576	4,746,972	2,843,090	2,529,977
Hides and skins	52,317	46,236	17,087	479	1,397
Natural and synthetic fibers	584,507	560,503	522,538	386,651	560,212
Leather, made-up articles	84,206	115,646	119,076	67,574	119,867
Textiles, apparel articles	1,116,618	1,118,863	1,206,230	1,146,265	1,023,381
Subtotal	1,837,648	1,841,248	1,864,931	1,600,969	1,704,857
Wood and lumber	138,460	105,835	81,710	108,754	149,271
Manufacturer of wood and paper	738.733	633,337	713,530	805,316	809,360
Subtotal	877,193	739,172	795,240	914,070	958,631
Minerals, ores, **scrap**	**95,000**	**87,042**	**93,013**	**174,689**	**121,017**
Stone and glass	**116,681**	**87,304**	**92,642**	**96,153**	**113,196**
Nonferrous metals	**124,624**	**338.773**	**184,806**	**113,898**	**128,975**
Iron and steel-mill products ferroalloys	3,704,672	3,375,187	3,569,645	3,588,965	3,819,681
Articles of metal	622,779	156,828	329,083	448,526	537,390
Subtotal	4,663,756	4,045,134	4,269,189	4,422,231	4,720,259
Fuels, oils, greases	187,099	203,859	215,635	196,232	165,232
Chemicals, gases, and plastic raw materials	1,749,108	1,801,570	2,254,428	2,313,697	2,846,183
Rubber and articles	184,204	162,415	182,161	170,640	155,945
Subtotal	2,120,411	2,167,844	2,652,224	2,680,569	3,167,360
Machinery and equipment	3,584,325	3,455,819	4,698,177	4,518,910	4,418,910
Machine tools	705,301	532,789	473,860	537,232	621,138
Transportation vehicles	1,570,680	1,012,768	1,156,596	1,329,557	710,448
Subtotal	5,860,306	5,001,376	6,328,633	6,385,699	5,750,496
Miscellaneous articles, special transactions	735,068	653,280	767,505	750,550	866,774
Total	21,207,530	20,845,660	21,896,646	20,029,948	20,086,928

Source: Estimated by the staff of the USITC on the basis of data compiled by the OECD on member-country trade with the Soviet Union.

APPENDIX K
INFORMATION ON SOVIET JOINT VENTURES

INFO" RMATION ON SOVIET JOINT VENTURES
as of June 5, 1989[1]

I. FOREIGN PARTNERS AND THE NUMBER OF JOINT VENTURES SIGNED WITH USSR PARTNERS:

West Germany	89	Japan	12
Finland	71	Cyprus	8
United State	5	Liechtenstein	7
Italy	36	Spain	6
Austria	35	Venezuela	6
United Kingdom	33	Netherlands	6
Switzerland	24	Belgium	5
France	23	Singapore	5
Bulgaria	21	China	5
India	19	Australia	4
Hungary	19	Czechoslovakia	3
Sweden	15	Brazil	3
Canada	14	Greece	3
Poland	13	North Korea	3
Yugoslavia	13		

Each of the following countries has two joint ventures: Ireland, Denmark, Kuwait, Panama.

Each of the following countries has one joint venture: Saudi Arabia, Syria, South Korea, Norway, Iran, Malta, Lebanon, Viet Nam, East Germany, New Zealand, Dubai, Thailand, Hong Kong.

II. JOINT VENTURES DISTRIBUTED BY CAPITAL INVESTMENT (MILLION RUBLES)

Capital Investment (million rubles)	0-1	1-5	5-10	10-20	20-40	40-60	98	306	800
Number of joint ventures	262	133	33	24	1	3	1	1	1

III. JOINT VENTURES DISTRIBUTED WITHIN SOVIET REPUBLICS

RSFSR (Russian)	387	Armenia	6
Estonia	36	Uzbekistan	5
Ukraine	28	Azerbaijan	4
Georgia	20	Moldavia	4
Latvia	12	Kazakhstan	3
Belorussia	9	Tadjikistan	1
Lithuania	8		

[1] Statistics provided by Marshall Goldman, Director, Russian Research Center, Harvard University.

APPENDIX L
UNITED STATES-SOVIET JOINT VENTURES

UNITED STATES-SOVIET JOINT VENTURES 1
(registered with the Soviet Ministry of Finance, through July 18, 1989)

1. *Combustion Engineering, Inc.* with *NPO Neftekhimavtomatika—a* joint venture *(Applied Engineering Systems* or *PRIS)* in Moscow to provide design, engineering, production, and installation of automated control systems for the oil, petrochemical, and chemical industries. Founding capital was $8 million plus 5.15 million rubles; the American partner owns 49 percent and the Soviet partner, 51 percent Registered November 26, 1987 (No. 13).

2. *Management Partnership International with* six Soviet organizations *(PO Kamaz, MGU, IKI, TsEMI, GDIV7's VDNKh, VIO Vneshtekhnika)—a* joint venture *(Dialog)* in Moscow for the production and sale of software, assembly and sale of personal computers, production, processing, and sale of other products, and provision of related services. Founding capital 15.35 million rubles (approximately $24.5 million); the American partner owns 21.8 percent of the venture and the Soviet partners together hold 78.2 percent. Registered November 26, 1987 (No. 21).

3. *Elan International* with the *All-Union Research Institute on Marine Fisheries and Oceanography—a* joint venture *(SovElanAroma)* in Moscow for the production of flavorings. Founding capital was $500,000; the American partner owns 20 percent and the Soviet partner, 80 percent. Registered December 4, 1987 (No. 37)

4. *Honeywell, Inc.* with *Ministry of Mineral Fertilizers (Orgminudobreniya)* and *OKB Mineral—a* joint venture *(STERKh Avtomatizatsiya)* in Moscow toprovide programming support for administration, engineering, and increasing production efficiency of chemical fertilizer manufacturing plants. Founding capital was 950,000 rubles (approximately $1.52 million); the American partner owns 49 percent of the venture and the Soviet partners, 51 percent. Registered May 13, 1988 (No. 46).

5. *Delphi International* with three Soviet organizations *(Mossoviet Main Administration for Construction, Department of High-Rise Buildings and Hotels* and the *Main Administration for Architecture and Urban Development)* and the United States-Soviet joint venture Dialog (see No. 2, above) —a joint venture *(Perestroika) in* Moscow to construct and rehabilitate buildings and other structures, and to provide related services. Founding capital was 7.5 million rubles (approximately $12 million); the American partner owns 20 percent of the joint venture, the Soviet partners a total of 73 percent, and Dialog, 7 percent. Registered June 16, 1988 (No. 56). *[Note.—Delphi* subsequently sold their share in the venture to another company.]

6. *Considar Inc.* with the *Institute of Electronics and Computer Science of the Academy of Sciences of the Latvian SSR and VIO InterLatvia* of the Latvian SSR Council of Ministers—a joint venture *(Laiks)* in Riga to develop task-oriented information systems. Founding capital was 320,000 rubles (approximately $512,000). Considar owns 25 percent of the venture; the Institute, 50 percent; and InterLativa, the remaining 25 percent. Registered July 6, 1988 (No. 65).

7. *Unicorn Seminars, Inc.* with three Soviet organizations *(Mir Publishers, Rekord and Sintez Cooperative)—a* joint venture *(Sovaminco)* in Moscow to do publishing and printing; publishing and sales of graphics, audiovisual materials and consumer goods; to provide editorial services; and to organize exhibitions. Founding capital was 2 million rubles (approximately $3.2 million); the American partner owns 49 percent of the venture and the Soviet partners together own 51 percent. Registered September 21, 1988 (No. 104).

8. *Interconcepts, Inc.* with the *Oktyabr Leningrad Chemical & Pharmaceutical Enterprise* and the *Universervis Cooperative—a* joint venture *(Intermedbio) in* Moscow for marketing, advertising, and export of industrial, agricultural, scientific, and other products and services as well as industrial byproducts and secondary resources; and for importing, design, and rental of PCs and software development. Founding capital was 4 million rubles (approximately $6.4 million); the U.S. partner holds 49 percent of the venture and the Soviet partners a total of 51 percent. Registered October 10, 1988 (No. 108).

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[1] Statistics provided by the U.S.-U.S.S.R. Trade and Economic Council.

9. *Robert A. Weaver, Jakko Leyto* of Finland and *Simeno Finance S.A.* of Italy with the *Moscow Bar Association* and the *Union of Scientific and Engineering Societies—a* joint venture *(Inform-pravo) in* Moscow that provides services to foreign firms and Soviet organizations in concluding foreign trade agreements, forming joint ventures, drafting legal documents, consulting, marketing, and advertising. Founding capital was 125,000 rubles (approximately $200,000); the Western partners own a total of 49 percent of the venture and the Soviet partners, 51 percent. Registered November 11, 1988 (No. 116).

10. *Dresser Industries, Inc.* with four Soviet organizations *(NOP Kazankompressormash, NPO Bolshevik, VIO Soyuzkhimexport* and *V/O Stankoimport)—a* joint venture *(Dresser Soviet Engineering) in* Moscow for the management and coordination of the creation of joint production facilities in the U.S.S.R. and other coutries, and related engineering services. Founding capital was 375,000 rubles (approximately $600,000); Dresser owns 40 percent and the Soviet parties together hold 60 percent. Registered December 2, 1988 (No. 172).

11. *USKO Investment Enterprises* with eight Soviet organizations *(Primorrybprom, IMEMO, PO Foton, PO Azot, PO Orbita-Servis, Tsentralnoye Agricultural Firm, RPO Rosagroprominform, Uzbektekstilmash, GzSDF Goskino SSSR, Vsesoyuz. Tsentr MZHK)—a* joint venture *(SovInterInvest)* in Moscow to produce competitive goods, provide services related to the introduction of advanced technology, retooling and reengineering of Soviet enterprises. Founding capital was 375,000 rubles (approximately $600,000); the US partner owns 12.3 percent of the •venture and the Soviet partners, a total of 87.7 percent. Registered December 26, 1988 (No. 172).

12. *Foster Willard Intercontinental with NPO Grozneftkhim* of the USSR Ministry of the Oil Industry—a joint venture *(Khaitek)* in Grozny for design, engineering, supply, and management of oil and petrochemical facilities in the U.S.S.R. and abroad. Founding capital was 700,000 rubles (approximately $1.12 million); the American partner owns 45 percent of the venture and the Soviet partner, 55 percent. Registered December 28, 1988 (No. 179).

13. *American General Resources* with *Primorskoye PO* of the Fishing Industry, *PO Estrenrybflot* and *PO Murmanskaya Sudoverf—a* joint venture **(Interscrap) in Moscow** to salvage ship scrap metal. Founding capital was 63,000 rubles (approximately 100,800); the U.S. firm owns 49 percent of the venture and the. Soviet partners a total of 51 percent. Registered December 28, 1988 (No. 183).

14. *Ogilvy & Mather Worldwide* with *SP Tissa—a* joint venture *(Tissa-Ogilvy & Mather) in* Moscow to provide advertising and marketing services. Founding capital was 430,000 rubles (approximately $688,000); Ogilvy owns 35 percent and Tissa 65 percent. Registered January 1, 1989. (No. 203).

15. *Mobile Fidelity Sound Lab* with three Soviet organizations *(Music Information* of the Union of Composers, *VIO Soyuzkontsert* of the Soviet Ministry of Culture, and *Elektronika Advertising Enterprise* of the Ministry of the Electronics Industry)—a joint venture *(Iskusstvo i Elektronika)* in Moscow for the development of concert halls and publicity centers, computer centers and advertising. Founding capital was 750,000 (approximately $1.2 million); the U.S. partner owns 50 percent of the venture and the Soviet partners split ownership of the other 50 percent. Registered January 24, 1989 (No. 223).

16. *Phoenix Radiology International, Inc.* with *NPO Ekran* of the Soviet Ministry of Health and the *All-Union Research Institute of the Medical Instruments Industry—a* joint venture *(Komed)* in Moscow for design and production of computerized medical systems and programming support, production of medical equipment, and commercial representation for other medical equipment manufactures. Founding capital was 200,000 rubles (approximately $320,000); Phoenix owns 50 percent of the venture, and the Soviet partners split the rest. Registered February 7, 1989 (240).

17. *Sibir, Inc.* with the *Parus* cooperative—a software *(Parus-Sibir Torg International)* in Tashkent for software and PC assembly. Founding capital was 100,000 rubles (approximately $160,000); the American partner **owns** 49 percent of the venture and the Soviet partner, 51 percent. Registered February 27, 1989 (No. 274).

18. *Ergo Group, Inc.* with the *Georgian Polytechnic Institute* of the Georgian SSR Ministry of Education—a joint venture *(Tbilisoft)* in Tbilisi for the development and support of task-oriented data processing systems, design and provision of systems for engineering and management on a turnkey basis, and assembly and test of imported computer hardware. Founding capital was 64,000 rubles (approximately $102,400); the U.S. partner owns 25 percent of the venture and the Soviet organization, 75 percent. Registered March 1, 1989 (No. 281).

19. *Global Technology Group, Ltd.* with *K. Pozhela Printers* of the Lithuanian SSR State Committee on Publishing—a joint venture *(Spinduris)* in Kaunas to provide services in advertising design, printing of books and magazines, and production of color slides. Founding capital was 11.98 million rubles (approximately $19.17 million); the U.S. partner owns 48 percent of the venture and the Soviet partner 52 percent. Registered March 1, 1989 (No. 282).

20. *Berusa International Corporation with the Lechenie i Konsultatsia* cooperative—a joint venture *(Interlik)* in Moscow to provide medical services including examination, diagnosis, and treatment; to produce and sell medical equipment and other products; to establish their own stores and provide transportation. Founding capital was 506,000 rubles (approximately $809,600) Berusa owns 49 percent of the venture; the Soviet cooperative, 51 percent. Registered March 2, 1989 (No. 284).

21. *Brownstone Productions* with the *USSR Union of Cinematographers—a* joint venture *(ASK) in* Moscow to produce, sell, export, and import videos, films, and animated features; to organize festivals; to provide services in film advertising and marketing and in construction and management of hotels and entertainment centers. Founding caital was 50,000 rubles (approximately $80,000); the U.S. partner owns 49 percent of the venture and the Soviet partner 51 percent. Registered March 6, 1989 (No. 287).

22. *Eugene Enterprises, Inc. with Rantarin, Gosagroprom SSSR—a* joint venture *(Rantarin)* in Khabarovsk to purchase, process, and sell reindeer antlers. Founding capital was 424,000 rubles (approximately $678,400); each party owns 50 percent. Registered March 15, 1989 (No. 301).

23. *GJE, Inc.* with the *Interbranch Consulting and Diagnostic Center of the Central Council of the All-Union Society of Inventors and Innovators—a* joint venture *(Sovamtest) in* Moscow for production of process diagnostics and non-invasive, nondestructive testing, consulting services, and training of specialists; research and development; and production, testing, and sale of equipment. Founding capital was 20,000 rubles (approximately $32,000); the U.S. partner owns 49 percent of the venture and the Soviet partner, 51 percent (20,000 rubles). Registered March 17, 1989 (No. 310).

24. *Transatlantic Agency* with the *State Hermitage Museum—a* joint venture *(Ermitazh)* in Leningrad for commercial cooperation in the arts: organization of exhibition in the United States, the U.S.S.R. and other countries, publishing, advertising, marketing and other services for the Hermitage. Founding capital was 950,000 rubles (approximately $1.52 million); the U.S. partner owns 65 percent of the venture and the Soviet partner, 45 percent. Registered March 20, 1989 (No. 313).

25. *Thurston Sales, Inc.* with the *Akvamarin* cooperative—a joint venture *(Akvaton)* in Odessa to produce yacht sails and sailing equipment. Founding capital was 100,000 rubles (approximately $160,000); the U.S. partner holds 49 percent and the Soviet partner 51 percent. Registered March 21, 1989 (No. 315).

26. *Ketvak* with the *Moscow Institute of Steel and Alloys* of the Soviet State Committee on Education—a joint venture *(Internet Engineering) in* Moscow for the sale of patent rights, licensing, the development of efficient metal manufacturing and machining production, and the development of advanced industrial materials, processes, and equipment. Founding capital was 670,000 rubles (approximately $1.07 million); each party holds 50 percent. Registered March 23, 1989 (No. 317).

27. *US-USSR Marine Resources Co.* with the *Lenin Fishing Kolkhoz* of the Union Fishing Kolkhoz Association of the Soviet Ministry of Fisheries—a joint venture *(Kamchatka Pacific Co.)* in Vladivostok to do work in fishing, fish processing and hatching,

seafood including crabs, shipbuilding and repair, design and construction of port and refrigerated storage facilities, and rental of Soviet and Foreign ships. Founding capital was $250,000 (approximately $400,000); the U.S. partner owns 49 percent and the Soviet partner 51 percent. Registered March 24, 1989 (No. 33).

28. *Hemisphere Publishing Corp.* with the *A.V. Lykava Institute of Heat and Mass Transfer* of the Byelorussian SSR Academy of Sciences—a joint venture **(Tempo)** in Minsk for the development and sale of scientific and technical literature and software, the production of scientific instrumentation, and copying and printing services. Founding capital was 300,000 rubles (approximately $480,000); each party owns 50 percent. Registered March 27, 1989 (No. 339).

29. *Pepsico Eurasia Ltd. with the Moscow Restaurant Service* of the Moscow City Council—a joint venture *(Moskovskaya Pitstsa)* in Moscow for the construction and management of Pizza Hut restaurants in Moscow. Founding capital was $2.96 million; Pepsico owns 49 percent and Moscow Restaurant Service, 51 percent. Registered March 28, 1989 (No. 346).

30. *AmSovInvest, Inc.* with three Soviet organizations *(Komsomol Central Committee, Uzinbank and MK Sovremennik)* and the Variant joint venture—a joint venture (AmSovInvest) in Moscow for the management of electronic, chemical, and petrochemical enterprises; automated controls for processing agricultural products and peat; containers and packing materials; and reprocessing of industrial byproducts. Founding capital was 1.2 million rubles (approximately $1.92 million); the U.S. partner owns 25 percent of the venture and the Soviet partners and the joint venture own a total of 75 percent. Registered March 31, 1989 (No. 363).

31. Amex *Import-Export with Avtozapchast of Sumgait* and the *Glans Cooperative Association of Moscow —a* joint venture **(ADAN)** in Sumgait to produce consumer goods, test scientific and industrial equipment, and do importing and exporting. Founding capital was 3.5 million rubles (approximately $5.6 million); the U.S. partner owns 60 percent of the venture, and the Soviet partners, 40 percent. Registered April 17, 1989 (No. 387)

32. *Olsten Trading with PK Russkaya Pchela and MO Malakhovka —a* joint venture *(PGD)* in Moscow for hardware, software, and computer servicing, computer-aided design, and translation services. Founding capital was 12,000 rubles (appromixately $19,200); the U.S. partner owns 50 percent of the venture, and the Soviet partners split the other 50 percent. Registered April 19, 1989 (No. 389).

33. *American Laboratories, Inc.* with *MONO cooperative —a* joint venture *(MONO-Al)* in Riga to produce disposable syringes, insulation, and packaging products from recycled materials. Founding capital was 2,235,000 rubles (approximately $3,576 million); American Laboratories owns 60 percent of the venture, and *MONO,* 40 percent. Registered April 20, 1989 (No. 393).

34. *Berusa International Corp.* with the *USSR Research Center for Technical Documentation (NIITsTD SSSR)* of the USSR Central Archive—a joint venture *(Intersignal)* in Moscow for development, sale and provision on a turnkey basis of automated systems using microprocessor technology for word processing and audiovisual data processing. Founding capital was 100,000 rubles (approximately $160,000); each party owns 50 percent of the venture. Registered January 27, 1989 (No. 411).

35. *World Ethnic Arts and Entertainment* with *V/O Tekhnoexport* and the all-Union arts association *Soyurteatr—a* joint venture *(SAAVK)* in Moscow for entertainment management; theater, concert hall, restaurant, and hotel renovation; technical services for entertainment centers; art exhibitions and auctions; services related to filmmaking, and advertising. Founding capital was 353,000 rubles (approximately $564,800); the U.S. partner owns 49 percent of the venture, and the Soviet partners, a total of 51 percent. Registered April 14, 1989 (No. 412).

36. *Global Technology Group, Tabakhi Corp. of Pakistan and Ramadon Investments* of Singapore, with three Soviet organizations *(Gosplan RSFSR Central Computing Center, I.M. Sechenov First Medical Institute and the Sotrudnichestvo* cooperative)—a joint venture (Quorum) in Moscow for the production of computer

systems using imported components; PC assembly; software development; building design; maintenance and outfitting; medicines, biotechnology, hygiene and medical products. Founding capital was 8.2 million rubles (aproximately $13.12 million); Global and its Asian partners together hold 40.9 percent of the venture; the Soviet organizations hold 51.9 percent. Registered April 14, 1989 (No. 415).

37. *Considar Project Development International with PO Vtornefteprodukta RSFSR—a* joint venture *(Novolub) in* Moscow to reprocess used industrial and motor oils in the U.S.S.R. to produce lubricants for sale in the U.S.S.R. and abroad. Founding capital was 6 million rubles (approximately $9.6 million; each party owns 50 percent of the venture. Registered May 13, 1989 (No. 429).

38. *Young & Rubicam with VIO Vneshtorgreklama* of the Soviet Chamber of Commerce and Industry—a joint venture (Y&R/Sovero) in Moscow to provide consulting services and information related to commercial advertising. Founding capital was 741,200 rubles (approximately $1.186 million); each party owns 50 percent of the venture. Registered May 17, 1989 (No. 455).

39. *Ruff Fur Dressing with Dushanbinskoye Kozhevenno-Obuvnoye PO—a* joint venture *(American-Tadzhik Fur Production Association)* in Dushanbe to process fur pelts, sheepskin and hides, and produce clothing for sale in the U.S.S.R. and abroad. Founding capital was 1,432,000 rubles (approximately $2.29 million); each party owns 50 percent of the venture. Registered May 17, 1989 (No. 456).

40. *East-West Arts and Entertainment Group* with the *Rustaveli Interbranch Self-Financing Society—a* joint venture *(Limo-Arts)* in Tbilisi to do concert tour organization; performing arts management; arts club organization and management; production and sale of souvenirs; production and distribution of sound recordings, videos, and films; and sports management in the U.S.S.R. and abroad. Founding capital was 100,000 rubles (approximately $160,000); each partner owns 50 percent of the venture. Registered May 24, 1989 (No. 478).

41. *Winsome Food Technology, Inc.* with *Proiz. APO Dagvino Gosagroprom DASSR—a* joint venture *(Daguineks) in Makhachkala* to produce and market fruit juice concentrates and provide services related to production, sale, and distribution. Founding capital was $6 million; the U.S. partner owns 25 percent of the venture, and the Soviet partner, 75 percent. Registered May 24, 1989 (No. 483).

42. *Douglas Productions International* with *three Soviet organizations (Kinotsentr All-Union Arts Association of the USSR Union of Cinematographers, the Ekran Arts Cooperative and the Kinotsentr Arts Association of Leningrad)—a* joint venture *(Start Arts Association)* in Moscow to do advertising, publishing, and printing; audiovisual program, film, and video production; computer software and hardware production; marketing, trade, barter, and licensing services; liaison operations. Founding capital was 100,000 rubles (approximately $160,000); the U.S. partner owns 40 percent of the venture, and the Soviet partners together own 60 percent. Registered May 29, 1989 (No. 497).

43. *Carlisle Corp. International* with *PO Soyuzpromstroikomplekt—a* joint venture in Moscow for the development and production of sheeting for use in roofing and waterproofing, application kits, adhesives and sealers. Founding capital was 48.1 million rubles (approximately $76.96 million); Carlisle holds 49 percent of the venture, and the Soviet organization, 51 percent. Registered May 29, 1989 (No. 509).

44. *Hudson Street International* with *the Goskomizobretaniya All-Union Patenting Center and the Sintez Cooperative—a* joint venture *(Mebinvest)* for cooperation in the protection of industrial property and in the introduction of medical, biological, and zoological technology in the U.S.S.R. and abroad, and information services. Founding capital was 100,000 rubles (approximately $160,000); the U.S. partner owns 40 percent of the venture, and the Soviet partners, 60 percent. Registered May 30, 1989 (No. 514).

45. *Crystaltech International* with *the Mayak Research Management Center* of V/O Mashpriborintorg and the *Kontest Cooperative—a* joint venture *(Intervest) in* Moscow for computer sale and repair; instruction; consulting, computing services; liaison

services; research and development; design and assembly marketing and advertising. Founding capital was 100,000 rubles (approximately $160,000); the U.S. partner owns half of the venture, and the two Soviet partners share the other half. Registered June 1, 1989 (No. 529).

46. *Sheldon Trading Co.* with the *all-Union association Zarubezhgas—a joint venture (Soviet-American Petroleum and Natural Gas Resources) in* Moscow to design, assemble, and maintain natural gas production and processing plants in the U.S.S.R. and elsewhere, and to produce spare parts for West German petroleum and natural gas equipment. Founding capital was 186,000 rubles (approximately $297,600); each party owns 50 percent of the venture. Registered June 1, 1989 (No. 538).

47. *Neva, Ltd. with Municipal Food Services of Petrogradsky District,* Leningrad—a joint venture *(Bistro)* in Leningrad to develop and operate fast-food establishments, export and import foods, equipment and natural resources, and act as trade representatives. Founding capital was 48,000 rubles (approximately $76,800); the U.S. partner owns 40 percent of the venture, and the Soviet partner, 60 percent. Registered June 2, 1989 (No. 542).

48. *Yuzef International with the Moskva Cooperative—a* joint venture *(Sovmestny Put)* in Moscow to develop and sell computer and data processing systems, recycle and sell materials, and provide services, transportation, and consulting. Founding capital was 1.2 million rubles (approximately $1.92 million); Yuzef owns 70 percent of the ventue, and Moskva, 30 percent. Registered June 2, 1989 (No. 546).

49. *Transisco Industries, Inc. and A10 Haka of Finland,* with *V/O Zheldorexport and V/O Neftekhimexport—a* joint venture *(Sovfinantrans)* in Moscow for rental of railway freight and tank cars to Soviet and foreign customers; development and introduction of rail transport know-how and technology; and modernization of Soviet freight and tank cars. Founding capital was 1,591,010 rubles (approximately $2.54 million); the Western partners own 35 percent of the venture, and the Soviet partners, 65 percent. Registered June 6, 1989 (No. 562).

50. *Kent Management Group with MISI Central Interadministration Institute for the Advanced Training of Managers and Specialists in Construction—a* joint venture *(Moscow Prospect Management)* in Moscow for capital investment management, including building construction and maintenance; marketing and consulting services; employee retraining and specialization programs in investment; and representative services. Founding capital was 100,000 rubles (approximately $160,000); Kent owns 75 percent of the venture and MIMI, 25 percent. Registered June 6, 1989 (No. 613).

51. *JVT with BMMT Sputnik and the PKT-Systema Cooperative—a* joint venture *(Siantek)* in Moscow to produce promotional souvenirs for sale in the U.S.S.R. and for export, and to provide advertising services for Soviet partners. Founding capital was 82,720 rubles (approximately $132,352); JVT owns 45 percent of the venture and the Soviet parties together own 55 percent. Registered June 16, 1989 (No. 614).

52. *Cook Products International, Inc.* with *GUM and Detsky Mir—a* joint venture *(Stim)* in Moscow to provide marketing and trading services at free-market rates, subject to MFER approval. Founding capital was 270,000 rubles (approximately $432,000); Cook owns 50 percent of the venture, and the Soviet partners split the rest. Registered June 20, 1989 (No. 626).

53. *Economic Development Partnerships* with *the Soviet-Danish joint venture Chelek—a* joint venture *(Falkon)* in Moscow for the construction and operation of hotels, motels, campgrounds, sports facilities, and housing units; the construction of restaurants, cafes, utility, and cable TV networks; professional sports teams; sports medicine facilities; and tourism. Founding capital was 34 million rubles (approximately $54.4 million); the U.S. partner owns 70 percent of the venture, and the Soviet joint venture, 30 percent. Registered June 26, 1989 (No. 627).

54. *Kaufmann Equities, Ltd.* with *the Fiton Cooperative of the Soviet Peace Committee—a* joint venture (FIKO) in Saratov for polymer reprocessing, including skins and hides; scrap metals; manufacture and sale of plumbing equipment; and renovation and management of industrial buildings, housing, and offices. Founding

capital was 865,000 rubles (approximately $1.38 million); the U.S. partner owns 17 percent of the venture and the Soviet partner, 83 percent. Registered June 20, 1989 (No. 629).

55. *Slava International* with *TPO Magadanoblmestprom,* Magadannerud State Cooperative—a joint venture *(Soviet Broker)* in Magadan to provide services in joint-venture organization, tourism, cultural exchanges, public health contacts, reequipping of factories, exhibition organization, location of business partners and arrangement of business meetings, and industrial investment. Founding capital was 63,000 rubles (approximately $100,800); each party owns 50 percent of the venture. Registered June 20, 1989 (No. 632).

56. *IT1 Trading International Inc.* with *the Novy Byt Cooperative union—a* joint venture *(Had-Don)* in Rostov-on-Don to manufacture and sell consumer goods, construction materials, wood products, clothing, PCs, medical products, hides and skins, recycling, medical rehabilitation, and tourist centers. Founding capital was 8.5 million rubles (approximately $13.6 million); the U.S. partner owns 58 percent of the venture and the Soviet partner 42 percent. Register June 23, 1989 (No. 649).

57. *King Furniture Manufacturers, Inc.* with *the Oktyabr Cooperative—a* joint venture *(King Manufaktura Oktyabr)* in Kharkov to produce and sell consumer goods. Founding capital was 153,000 rubles (approximately $244,000); the U.S. partner owns 70 percent of the venture and the Soviet partner, 30 percent. Registered June 23, 1989 (No. 651).

58. *Hemisfera* with the *G.M. Kryzhanovsky Institute of Power Engineering—a* joint venture *(Ekoenergetika) in* Moscow for the production and sales, mainly abroad, of printed materials (reference works, seminar and conference materials, monographs of specialized subjects in power engineering, articles). Founding capital was 200,000 rubles (approximately $320,000); the U.S. partner owns 49 percent of the venture, and the Soviet partner 51 percent. Registered June 27,1987 (No. 659).

59. *Slays Commerce Corp.* with the *Main Administration for the Development* and *Use of Space Technology for Commercial and Scientific Purposes—a* joint venture *(SKK) in* Moscow to launch commercial and scientific satellites on Soviet rockets and provide related services; scientific research on Soviet space missions; components and equipment; models; technical literature; conferences. Founding capital was 182,000 rubles (approximately $291,200); each partner owns 50 percent of the venture. Registered June 28, 1987 (No. 675).

60. *Matrix Corp.* with the *Commission for the Study of Production Capacity and Natural Resources* of the Presidium of the Soviet Academy of Sciences and the *Central Institute of Economics and Mathematics* of the Soviet Academy of Sciences—a joint venture *(ParaGraph)* in Moscow to produce educational hardware and software, high-tech computer games for children, database systems, and training materials; to produce, assemble, and sell computers, peripherals and packages; and to provide consulting services. Founding capital was $600,000 rubles (approximately $960,000); the U.S. partner owns 25 percent of the venture and the Soviet partners, 50 percent. Registered June 28, 1989 (No. 677).

61. *ANSAT* with *Literaturnaya Gazeta—a* joint venture *(Literary Gazette International) in* Moscow to produce and distribute a biweekly English edition of Literary Gazette and relatea products. Founding capital was 1.4 million rubles (approximately $2.24 million); the U.S. partner owns 30 percent of the venture and the Soviet partner, 70 percent. Registered July 5, 1989 (No. 691).

62. *Sabey Corp. with the Georgian Union of Journalists—a* joint venture *(S 'and T)* in Tbilisi to print advertising logos on sportswear, sweaters, and t-shirts, to produce consumer goods, and do printing. Founding capital was 2 million rubles (approximately $3.2 million); the U.S. partner owns 60 percent of the venture and the Soviet partner, 40 percent. Registered July 7, 1989 (No. 698).

63. *Dyson English Associates* with *Solnechny Hotel and Campground—a* joint venture *(Rus-Hotel)* in Moscow to modernize, outfit, and operate the Solnechny Hotel and Campground. Founding capital was 2.56 million rubles (approximately $4.1 million); the U.S. partner owns 49 percent of the venture and the Soviet partner, 51 percent. Registered July 14, 1989 (No. 713).

64. *Condenheim Hotel Corp.* and *Skanska* of Sweden with four Soviet organizations (V/O *Estimpleks, Gosstroi ESSR, Tallin Water Works and Sewage Treatment PR* and the *Estonian SSR Ministry of Health)—a* joint venture *(Amerest Hotels)* in Tallin to construct and operate five-star hotels for foreign tourists. Founding capital was 12.75 million rules (approximately $20.4 million); U.S. and Soviet shares in the venture are unspecified. Registered July 18, 1989 (No. 714).