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Withdrawer

JET 5/25/2005

File Folder SOVIET UNION: TRADE 5/5

FOIA

F06-114/11

Box Number 37

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3703

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
11750	REPORT	OVERVIEW OF U.S.-SOVIET TRADE ISSUES FOR THE SIG-IEP <i>R</i> 4/14/2011 F2006-114/11	9	ND	B1
11751	REPORT	SIG-IEP ISSUE PAPER ON U.S. EMBARGO OF SOVIET FURSKINS <i>R</i> 4/14/2011 F2006-114/11	5	ND	B1
11752	PAPER	NICKEL CERTIFICATION ARRANGEMENT <i>R</i> 10/3/2012 F2006-114/11	6	12/7/1984	B1
11760	REPORT	AEROFLOT LANDING RIGHTS <i>R</i> 4/14/2011 F2006-114/11	5	11/30/1984	B1
11761	REPORT	MARITIME RELATIONS/PORT ACCESS <i>R</i> 4/14/2011 F2006-114/11	6	ND	B1
11766	MEMO	AMSTUTZ TO OLMER RE COMMENTS ON PORT ACCESS ISSUE FOR SIG IEP REVIEW	4	12/10/1984	B1
11753	MEMO	OLMER TO MCFARLANE RE CREATION OF A DATA BASE FACILITATING ANALYSIS OF TECHNOLOGY TRANSFER INSIDE THE SOVIET UNION	2	ND	B1
11754	MEMO	ROBINSON TO MCFARLANE RE U.S.-USSR ECONOMIC WORKING GROUP MEETINGS IN MOSCOW <i>R</i> 4/14/2011 F2006-114/11	4	1/2/1985	B1

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
11755	MEMO	MCFARLANE TO PRESIDENT REAGAN RE U.S.-USSR ECONOMIC WORKING GROUP OF EXPERTS MEETINGS IN MOSCOW <i>R 4/14/2011 F2006-114/11</i>	3	ND	B1
11756	NSDD	NSDD U.S.-ECONOMIC AND COMMERCIAL RELATIONS <i>R 4/14/2011 F2006-114/11</i>	2	ND	B1
11762	MEMO	HILL TO MCFARLANE RE DISCUSSION OF HUMAN RIGHTS AT THE U.S.-USSR <i>R 4/14/2011 F2006-114/11</i>	4	12/29/1984	B1
11763	MEMO	EMIGRATION <i>R 4/14/2011 F2006-114/11</i>	3	11/23/1984	B1
11757	MEMO	EXECUTIVE SUMMARY SIG-IEP AGENCY VIEWS REGARDING U.S. DELEGATION POSITIONS FOR THE U.S.-USSR WORKING GROUP OF EXPERTS MEETING, MOSCOW <i>R 4/14/2011 F2006-114/11</i>	2	1/8/1985	B1
11758	MEMO	ROBINSON TO MCFARLANE RE SIG-IEP MEETING ON U.S.-USSR WORKING GROUP OF EXPERTS AND OTHER RELATED ISSUES <i>R 4/14/2011 F2006-114/11</i>	5	12/12/1984	B1

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11759	MEMO	WEINBERGER TO REGAN RE U.S.-SOVIET WORKING GROUP OF EXPERTS MEETING IN MOSCOW <i>R 4/14/2011 F2006-114/11</i>	2	12/20/1984	B1
11764	CABLE	180744Z MAY 85 <i>R 4/14/2011 F2006-114/11</i>	2	5/18/1985	B1
11765	CABLE	221633Z MAY 85 <i>R 4/14/2011 F2006-114/11</i>	9	5/22/1985	B1

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White House Guidelines, August 28, 1997

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KEYWORDS: EAST WEST ECONOMICS

USSR

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File US-USSR Trade

SUBJECT: AGENDA & PAPERS FOR 13 DEC SIG-IEP RE US - USSR TRADE ISSUES

ACTION: ANY ACTION NECESSARY

DUE: 13 DEC 84 STATUS S FILES WH

FOR ACTION

FOR CONCURRENCE

FOR INFO

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OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

9002

December 11, 1984

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(With Confidential Attachment)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF TRANSPORTATION
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT & DEPUTY TO THE CHIEF
OF STAFF
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT Senior Interdepartmental Group on
International Economic Policy (SIG-IEP)

A meeting of the SIG-IEP is scheduled to be held on Thursday, December 13, at 10:00 a.m. in the Roosevelt Room.

The agenda is as follows:

1. U.S.-USSR Working Group of Experts Meeting in Moscow.

A discussion paper prepared by the Department of Commerce on U.S.-Soviet trade issues is attached. Attendance will be principal plus one.

Donald T. Regan

Attachment

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OVERVIEW OF U.S.-SOVIET TRADE ISSUES
FOR THE SIG-IEP

(C) The purpose of the SIG-IEP meeting is to review the objectives for the U.S. delegation to the January 8-10 U.S.-U.S.S.R. Working Group of Experts meeting in Moscow and to review current positions on the following policy issues the Soviets are likely to raise at the Experts meeting:

- o U.S. embargo on imports of seven Soviet furskins.
- o A nickel certification arrangement with the U.S.S.R.
- o Aeroflot landing rights.
- o U.S. port access regulations for Soviet ships.
- o U.S.-Soviet draft tax protocol.

(U) These issues are summarized in this overview paper and discussed in detail in the attached SIG-IEP issue papers.

Background

(U) Earlier this year, the President indicated his desire to build a more constructive working relationship with the Soviet Union on a reciprocal basis. To implement this objective, the Administration has initiated a series of steps to show the Soviet leadership that the United States is ready to engage in constructive and peaceful cooperation in a wide range of fields. Non-strategic trade was identified by the President as one such area where cooperation may be possible.

(U) The President offered to extend for another 10 years the Long Term Economic, Industrial and Technical Cooperation Agreement (EITCA) with the Soviet Union, and also to begin a process that may lead to convening a meeting of the Joint U.S.-U.S.S.R. Commercial Commission (JCC)--the first such meeting since 1978. The Soviets agreed to the extension of the EITCA and also agreed to a meeting of the Working Group of Experts provided for in the EITCA. The Expert Group will meet in Moscow January 8-10, with the U.S. side headed by Under Secretary of Commerce Olmer and the Soviet side by Deputy Foreign Trade Minister Manzhulo. The purpose of the meeting is to determine if there is common ground to begin a process that may lead up to a JCC meeting.

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- 2 -

(C) All discussions in the Experts Group will be in the context of present control policies. The U.S. delegation will not be discussing an expansion of goods or technologies available to the Soviet Union under U.S. and COCOM regulations and policies. The Experts Group, moreover, will not be setting any precedent among our allies in holding these meetings. Every major Western country has been having regular cabinet and sub-cabinet level trade meetings with the U.S.S.R.

Experts Group Objectives

(U) The U.S. goal of both an Experts meeting and possible JCC session would be to contribute to the objective enunciated by the President of finding areas for U.S.-Soviet cooperation in order to move toward a more constructive relationship. The Experts meeting, the first in six years, would review the status of overall U.S.-Soviet trade, discuss obstacles, and seek to identify areas in which mutually beneficial non-strategic trade could be expanded in conformity with present export control policies.

(C) The specific aim of the Experts meeting would be to lay the groundwork for a session of the Joint Commercial Commission. The first step should be a discussion of the areas in which each side is interested in expanding trade, and the second step being a matching of those interests where agreeable and acting to build on them. The Experts meeting should aim at finding sufficient ground for mutual agreement so that a Joint Commercial Commission meeting could be held which would result in some concrete steps to facilitate an increase in non-strategic trade. If the Experts Meeting shows that prospects for a successful Commission meeting are not satisfactory, discussions should continue on outstanding differences, and a Joint Commercial Commission meeting should be deferred.

(C) At the Experts meeting, wherever possible the two sides would delineate what steps each could take to facilitate expanded cooperation by U.S. firms and Soviet foreign trade organizations (FTOs). Specifically, we should be able to outline the areas in which we would be supportive of seeing bilateral U.S.-Soviet non-strategic trade growth, to express support for sales for certain projects, and to seek Soviet agreement that the actions we want to result from a JCC meeting will in fact be mutually agreeable.

(C) Within the universe of products and technologies that can be exported to the U.S.S.R., expansion prospects exist for U.S. companies. Most of these products and technologies are fully available from other Western suppliers to the Soviet Union without difficulty. In these areas, U.S. companies are prevented from

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- 3 -

competing in the Soviet Union with their Western competitors by Soviet attitudes and practices, such as:

- o Soviet purchasing agents can not visit the U.S. Commercial Office (USCO) in Moscow.
- o U.S. companies cannot hold sales seminars in USCO.
- o U.S. companies apparently have been eliminated from purchasing and bidding lists.
- o U.S. companies often have problems in getting visas, clerical help, travel, and so on.

(C) Changing these Soviet practices and supporting the efforts of American companies seeking non-strategic business opportunities in the Soviet Union can contribute to increased exports and to our economic well-being on which our national security depends. At the same time, it can help us to achieve the President's objective of "establishing a better working relationship between the U.S.S.R. and the United States" without in any way impairing our national security. Major overall gains are not likely, but for some U.S. products and companies they could be significant.

(U) Most U.S. products can be exported to the Soviet Union G-DEST, not requiring a validated export license. Of those products that are controlled, most are controlled for national security reasons. U.S. policy is to deny all license applications for national security controlled items to the U.S.S.R. which are COCOM-controlled. While oil and gas equipment and technology is under foreign policy export controls, most end-use oil and gas equipment can be exported, but technical data cannot. In addition, foreign policy controls prevent exports of equipment and data destined for Kama and Zil truck manufacturing facilities.

(C) The sectoral areas in which the expansion of non-strategic trade can be supported must be consistent with U.S. national security and foreign policy controls policies. Promotion should be avoided in industry sectors in which a high proportion of products are subject to a licensing policy with a presumption of denial. Pending further policy clarification, oil and gas equipment will not be an area in which the United States would agree to an active program of trade expansion.

JCC Objectives

(C) The U.S. delegation to the Experts Group should explore with the U.S.S.R. possibilities for more constructive trade contacts in the non-strategic area. At the same time, we should explain to the Soviets that the United States wants specific actions to result from

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- 4 -

a JCC meeting, and should seek to achieve Soviet agreement to the following concrete steps which would facilitate the ability of U.S. companies to expand their non-strategic sales in the Soviet Union:

- o A Joint statement by both the United States and the Soviet Union in support of the expansion of mutually beneficial trade.
- o A Soviet policy of beginning to provide bid invitations to U.S. companies.
- o An end to the Soviet ban on seminars at the U.S. Commercial Office in Moscow.
- o Agreement to proceed on certain projects of interest to the United States already under discussion, particularly the Tenneco (formerly International Harvester) combine plant and Abbott baby food plants.
- o Agreement that there are non-strategic industry sectors in which both sides are interested in taking supportive action to facilitate trade expansion.
- o Soviet agreement to have Foreign Trade Ministry publicize to FTOs that they should consider U.S. suppliers equally with other Western suppliers on the economic and technical merits of their products.

POLICY QUESTION:

- (C) Does the SIG-IEP agree that the above objectives for the Working Group of Experts meeting and a possible session of the Joint Commercial Commission are the ones that should be pursued?

POLICY ISSUES

(C) If we are to make progress on achieving our trade objectives with the Soviets, the U.S. delegation should be able to convey to the Soviets that we are willing to examine and discuss the trade problems the Soviets have in non-strategic areas, and to see if solutions to some of our trade differences can be found.

(C) The main Soviet interests at the Expert meeting are likely to be issues that impair Soviet ability to export to the United States and issues relating to Soviet access to U.S. products and technology. The U.S. delegation would tell the Soviets that U.S. technology transfer policies are not subject for discussion. The

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7

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- 5 -

U.S. delegation would be prepared only to explain current U.S. technology transfer policies. Similarly, the Soviets would be told that the extension of MFN and official U.S. credits are not open for discussion. Here also the U.S. delegation would only explain current U.S. policy.

(C) The Soviets have informed us that they plan to raise at the Experts meeting a number of other policy issues summarized below. The U.S. delegation should be prepared to discuss these lesser policy issues with the Soviet delegation. The entire discussion of these issues would be couched in terms of significant Soviet concessions to improve business conditions for U.S. firms and enable them to sell more non-strategic goods in the Soviet Union.

Furskins Ban

(U) Since 1951, the United States has banned imports from the Soviet Union of seven types of furskins. The United States currently has a favorable global trade balance in furskins, with high quality U.S. pelts exported and lower quality foreign pelts imported. A Commerce Department review of the U.S. furskins industry indicates that lifting the embargo from the U.S.S.R. would have little or no effect on domestic production. The Soviets are seeking elimination of the ban more for political rather than economic reasons.

(U) Legislation would have to be introduced in Congress to lift the ban. Congressional attitudes toward any such legislation is unknown, but would probably be based on Congress' view not only of the economic aspect of the U.S.-Soviet relationship, but also on the overall relationship with the Soviet Union--including emigration, forced labor, etc. Depending on circumstances, Congress could be positive or it could be highly negative. The Soviets would read congressional response as a barometer of the overall U.S.-Soviet relationship and feedback effects on other aspects of the relationship would likely result.

POLICY QUESTION:

- (C) Should the U.S. delegation indicate to the Soviets that the Administration would be willing to discuss options with the U.S. Congress to lift the furskins ban, if the Soviets are prepared to improve business conditions for U.S. firms and begin removing some of the trade barriers cited above (e.g., Soviet trade officials apparently have removed U.S. from major projects bid lists)?

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8

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- 6 -

Nickel Certification Arrangement

(U) Under the economic embargo against Cuba, the United States banned the importation of unfabricated nickel-bearing materials from the Soviet Union in December 1983 since that country imports large quantities of Cuban nickel. The Soviet Union was given the opportunity, in advance of the effective date of the import ban, to negotiate a certification arrangement, similar to ones negotiated with our Allies, but failed to accept the U.S. offer for negotiations. The Soviets claim they are not interested in discussing a government-to-government certification agreement, preferring merely to continue existing Soviet certification procedures which do not take account of U.S. Cuban embargo concerns.

(U) At the most recent of several informal discussions with the Soviets in Washington, the Treasury on November 30 indicated that the United States would be willing to consider a written arrangement involving as the signatory Raznoimport (the relevant foreign trade organization) on the condition that any written commitment explicitly state that Raznoimport is acting on behalf of the Ministry of Foreign Trade (MFT). The American Embassy has reiterated the Treasury offer to MFT officials in Moscow. The Treasury recommends that we continue current discussions with the Soviets on the basis of its November 30 offer.

POLICY QUESTION:

- (C) Should the U.S. delegation reiterate the recent Treasury offer to resolve the nickel certification issue?

Aeroflot Landing Rights

(C) As a result of Afghanistan, Poland, and KAL-related sanctions, all scheduled Aeroflot service to the United States and virtually all ties between Aeroflot and the U.S. travel industry have been terminated. Thus far, neither PanAm nor other U.S. carriers have demonstrated interest in a resumption of scheduled U.S. flag service to the U.S.S.R., although there is interest among U.S. tour operators in charter flights to the Soviet Union by U.S. air carriers and PanAm has indicated interest in obtaining overflight rights. Both State and Transportation favor an approach that indicates a willingness to discuss civil aviation matters, but continue to let the Soviets know that before any progress in this area can be made we will need to have a forthcoming response to our proposals on North Pacific safety measures which are designed among other things to help prevent a repetition of the KAL tragedy.

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9

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- 7 -

POLICY QUESTION:

- (C) Should the U.S. delegation be authorized to indicate to the Soviets our willingness to begin discussions on civil aviation matters (a) if we receive a favorable Soviet response to the U.S./Japanese proposal on North Pacific air safety measures and (b) with the understanding that any restoration of Aeroflot service would have to be part of a package which offered a true balance of concessions for U.S. carriers?

Port Access Regulations

(U) The Soviets seek to obtain relief from the port access regulations imposed upon them following termination of the U.S.-U.S.S.R. Maritime Agreement and the imposition of martial law in Poland, and particularly would like an easing of the requirement that their vessels make 14-day advance requests before being given permission to enter U.S. ports.

(U) U.S. agribusiness, in response to Soviet complaints about the 14-day requirement, has voiced the concern that current policy may be having adverse effects on U.S. grain exports to the U.S.S.R. The U.S. maritime industry would vigorously oppose any concessions to the Soviets without some tangible maritime related benefits (e.g., participation in bulk carriage between the United States and the Soviet Union and Soviet pledges not to undercut prevailing conference rates in U.S. liner trades) which would be difficult to obtain under current maritime economic conditions. State and Transportation recommend that we avoid committing ourselves to any change in current practice at the Experts Group, state that any discussions to modify current procedures should take place in the traditional maritime framework, but be prepared to consider reopening discussions on a new maritime agreement in '985. The Department of Agriculture recommends that the U.S. delegation be forthcoming in addressing Soviets concerns about port access regulations.

POLICY QUESTIONS:

- (C) Should the U.S. delegation be authorized to tell the Soviets that any discussions to modify current U.S. port access procedures take place in the traditional maritime framework?

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- 8 -

- (C) Should the U.S. delegation be authorized to tell the Soviets that we are willing to discuss matters in the traditional maritime framework, but caution the Soviets that it could be difficult because of the current economic conditions to satisfy U.S. maritime interests?

OR

- (C) As suggested by the Department of Agriculture: Should the U.S. delegation indicate to the Soviets that the United States will consider relaxing port notification requirements for Soviet grain carriers?

Tax Protocol

(U) A protocol amending various provisions of the U.S.-U.S.S.R. income tax treaty was agreed to in May 1981, but not signed. The Protocol was negotiated to address Soviet criticisms, especially regarding U.S. tax treatment of Soviet employees of Aeroflot working in the United States. A compromise was worked out whereby Aeroflot employees paid back income taxes and interest, and we agreed to exempt Aeroflot employees working in the United States from social security and unemployment taxes, retroactive to 1976 when the basic treaty took effect. This is likely to be an important element in the Soviet position on moving forward on the Protocol. However, it raises for us the difficult issue of making refunds of taxes from the Social Security Trust Fund; we would have to obtain approval from the Social Security Administration (SSA) to sign the provision now. Other changes may also be needed to reflect changes in the U.S. and U.S.S.R. tax laws.

POLICY QUESTION:

- (C) In response to a Soviet inquiry, should the U.S. delegation be authorized to respond to the Soviets that we may willing to move forward on the Protocol, but noting that changes will have to be made?

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Clearances: Commerce/ITA/IEP/EUR: FJVargo/12-07-84
Commerce/ITA: OWethington/12-07-84
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State/EB: DTahtinen/12-10-84
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- 9 -

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DOT: RBourdon.12/10/84
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SIG-IEP ISSUE PAPER ON
U.S. EMBARGO OF SOVIET FURSKINS

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NLRR FOI-114/11 #11751

BY KML NARA DATE 4/21/11

Issue

Lifting of U.S. embargo on the importation of seven types of furskin from the Union of Soviet Socialist Republics (USSR).

Background

As mandated by Section XI of the Trade Agreement Extension Act of 1951, President Truman, by executive proclamation dated August 1, 1951, embargoed the importation into the United States of seven types of furskin -- Ermine, Fox, Kolinsky, Marten, Mink, Muskrat, and Weasel -- from the USSR and the Peoples Republic of China (PRC). As a result of the expiration of the Act and subsequent changes in U.S. trade laws, the import prohibition was incorporated into the Tariff Schedules of the United States, Annotated (TSUSA) which sets forth the embargo on furskins, raw or dressed, in Headnote 4 to Subpart B of Schedule 1.

Throughout the 1970s, the Administration unsuccessfully sought removal of the embargo on furskins of both Soviet and Chinese origin. In the case of the USSR, the most recent attempt was made in 1978 but was overtaken by opposition generated by the invasion of Afghanistan in late 1979. In December 1982, Congress approved lifting of the embargo on furskin imports from the PRC when it passed a miscellaneous tariff bill (H.R. 5707); President Reagan signed it into law (P.L. 97-446) in January 1983. Congressional action had full Administration support and followed overtures, first by Secretary Haig and then by President Reagan, to normalize relations with the PRC and seek removal of impediments to improved commercial ties with that country. In a separate earlier Congressional action, MFN treatment was accorded to the PRC also. The PRC produces only mink in commercial quantities. Although no formal economic impact study was undertaken by the United States International Trade Commission (USITC), in comments on pending legislation it concluded the lifting of the embargo would have no substantial adverse effect upon domestic industry.

At the time the embargo on furskins was imposed, these articles accounted for about one-fourth of total Soviet shipments of undressed furs to the United States, valued at approximately \$20 million; they constituted some 10-15 percent of the total value of all goods exported by the USSR to this country at the time. In 1950, the last full year of unrestricted furskin imports from the Soviet Union, mink pelts numbered 59 thousand.

USSR Position

The Soviet Delegation may raise the U.S. embargo on furskins as an impediment to bilateral trade at the Experts meeting. The Soviets have long pushed for removal as a matter of political rather than economic importance to them.

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Options

Option No. 1: Continuation of embargo.

- Pros: 1. Retention of embargo would continue the present status while providing the United States with a bargaining chip in any subsequent trade negotiations with the Soviet Union.
2. Continuation of the embargo would reflect the position of U.S. mink farmers, mink producer associations, and other furskin producer associations opposed to lifting.
- Cons: 1. Of the embargoed seven types of furskin, only mink is produced in significant quantities in the United States.
2. U.S.-produced mink is generally considered superior in quality to foreign mink, including mink of Soviet origin, and thus fully competitive in the U.S. market and markets abroad.
3. Fur wearing apparel manufacturing and marketing associations, national retail organizations, and fur worker unions oppose continuation of the embargo because of raw material supply and cost considerations.
4. Even under the embargo, Russian furskins enter the U.S. market indirectly -- either via Scandinavian auctions or in the form of made-up articles imported from abroad.

Option No. 2: Seek congressional authorization to lift the embargo.

- Pros: 1. Lower furskin prices and a greater variety of furskin types may help rejuvenate the domestic fur wearing apparel manufacturing industry which is labor-intensive and faces stiff competition from low-wage industries abroad.
2. The United States, on a value basis, has a favorable trade balance in furskins, particularly in mink furskins, dressed and undressed.
3. This favorable trade balance is being maintained in the face of the strong U.S. dollar and additional competition by furskin (mink) producers in the PRC since 1982.
4. U.S. mink farm operations, fewer in number but recovering to earlier production levels, appear successful in exploiting marketing opportunities.
5. The apparent high overall U.S. import penetration of mink pelts does not tell the underlying story which sees quality U.S. pelts exported and lower quality foreign pelts imported.
- 5.a. Lifting the embargo would be a small signal to the Soviets that we are prepared to remove barriers to mutually beneficial trade.

6. The availability of USSR furskin production for exportation to the U.S. market, including that of mink pelts, is limited because the capacity of Soviet industry, a mature industry, is considered near its peak and is committed to meeting the requirements of a huge and growing home market which does not allow much leeway for diversion to exports.
7. The lifting of the embargo on Soviet furskins would not be accompanied by an extension of MFN treatment to imports from the USSR. While furskins, raw or undressed, enter the United States duty-free, skins, dressed, whether or not dyed, would be subject to the full statutory rate of 25-30 percent ad valorem when imported from the USSR.

- CONS: 1. The decline in the number of U.S. mink farms since the late nineteen sixties, which was halted in the past few years, could resume with the availability of larger foreign supplies upon lifting of the embargo.
2. If the United States were to lift the embargo unilaterally and without a quid pro quo, we would be perceived as giving a trade benefit to the Soviets without obtaining a reciprocal benefit.
3. Greater raw material supply availabilities as a result of the lifting of the embargo on Soviet furskins would not necessarily boost employment in U.S. fur wearing apparel manufacturing. The exit of skilled labor from the domestic industry is only partly associated with limited employment opportunities; it is also associated with a lack of interest in perpetuating the tradition of passing on the skills from generation to generation through a long period of apprenticeship.

Seek congressional approval to

Option No. 3: Lift the embargo for all types of furskin, except for mink.

- PROS: 1. Terminate an embargo on furskins for which there is little or no U.S. production.
2. Isolate sensitivity by mink farmers to competition from Soviet mink pelts while increasing supply of other types of furskin that cannot be sourced domestically.

- CONS: 1. Availability of Soviet furskins other than mink may allow U.S. consumer preference to shift from quality U.S. mink to other quality fur types of Soviet origin.
2. Even the selective lifting of the Soviet furskin import embargo would reduce the current U.S. furskin trade surplus.
3. There is no economic justification for continuing the embargo.

Option No. 4: Remove the embargo for all types of Russian furskins, but negotiate a ceiling upon the quantity of mink skins that may enter the United States.

- PROS: 1. This would allow the U.S. market to adjust to alternative sources of supply for mink skins along with other types of furskins.
2. Within the ceiling established, a more plentiful supply of lower-quality mink skins would become available to the U.S. fur wearing apparel industry and possibly aid in stemming the decline of the industry.
3. By limiting the quantity of mink skins which could be imported from the USSR, U.S. mink farmers would feel encouraged to keep up high-quality mink production for the domestic as well as foreign markets.
- CONS: 1. Mink imports from the USSR would have some impact upon the future overall U.S. trade balance in furskins with the world.
2. Negotiated quotas are not warranted by economic conditions and are contrary to U.S. trade policy.

Discussion

Lifting the U.S. import embargo on seven types of furskin from the USSR would have little or no effect on domestic production. The USSR competes on world markets with U.S.-produced mink as well as with Scandinavian and, recently, Chinese mink. The high quality of U.S. mink furskins, attributed to superior U.S. breeding and feeding techniques, has been the major factor in sustaining U.S. exports in the face of the strong U.S. dollar.

Although it covered only a fairly small part of U.S. furskin imports when it was imposed, the original embargo on imports from the USSR and the PRC may have contributed to the decline of fur trade in the New York market which had served as an international distribution center. In 1950, the last full year before the U.S. import embargo took effect, marten and muskrat, undressed, were the leading articles among the subsequently embargoed seven types of furskins imported from the USSR; mink imports were of relatively little consequence at the time. (Attachment A)

Furskins, raw or not dressed, enter the United States duty-free. Whole furskins, not dyed, under the staged duty reductions negotiated in the Tokyo Round of GATT negotiations concluded in 1979, will be subject to an MFN duty rate of 2.1 percent ad valorem as of January 1, 1987; furskins, dressed and dyed, to a 3.1 percent ad valorem duty. Imports from the USSR, however, not accorded MFN treatment, would be subject to the full statutory rates of 25 percent and 30 percent ad valorem, respectively.

Mink breeding has emerged in the United States since the early 1950s as the largest fur-raising industry. In 1983, the industry produced 4.1 million pelts valued at \$120.1 million. Following a period of decline beginning in 1969 of both pelt production and the number of mink farms in operation, production has progressively recovered since 1976 while the farm number has stabilized. Domestic production of other furskins covered by the embargo is quite small. The U.S. dressed and dyed furskin industry is relatively small and has shown little or no growth in recent years.

The bulk of U.S. ranch mink production is exported -- 79 percent by quantity and 75 percent by value in 1983. Most countries buying from the United States dress the skins and manufacture them into finished fur wearing apparel. U.S. exports to Canada and the United Kingdom are typically sold at auction in these countries and then re-exported for fabrication elsewhere. Expanding industries in low-wage Korea and Hong Kong purchase increasing quantities of furskins from the United States and other major producing countries. Canada, after Korea and Hong Kong, is the third largest supplier to the United States of mink wearing apparel.

The U.S. fur wearing apparel manufacturing industry has been declining, as evidenced by a shrinkage in the number of companies, reduced shipments, and loss of employment. Imports, on the other hand, have been capturing an increasing share of expanding retail sales of fur apparel. These imports, equaling 50 percent of domestic production, were valued at \$104 million in 1983. While our industry uses, for the most part, imported pelts to manufacture mink wearing apparel, imported apparel is often manufactured from U.S. pelts.

The U.S. ranch mink industry may eventually be affected adversely by the earlier removal of the U.S. ban on Chinese mink because the PRC mink producing industry is only now coming into its own. PRC production and exports are growing rapidly.

Vigorous opposition to the lifting of the U.S. import embargo on Russian furskins can be expected, inter alia, from the National Fur Farm Organization, the Eastern Mink Breeders Association (EMBA), and the Great Lakes Mink Breeders Association (Blackglama). Mink farms are concentrated in Wisconsin, Minnesota, and Utah.

In addition to fur worker unions, dressers, some auction houses, and national retail organizations, the lifting of the embargo would be welcomed by the American Fur Industries Association, representing apparel manufacturers, and the American Fur Merchants Association.

Attachment

Trade Development/Harry Bodansky/377-0672/12/03/84

Clearances: Commerce/ITA/IEP: FJVargo
State/EUR: SDembski
NSC: RRobinson
USDA: LSebranek
Treasury: GClapp
USTR: WTriplett
State/E: EHurwitz

Nickel Certification ArrangementIssue

Should the United States continue its present approach in dealing with the U.S.S.R. on the issue of nickel certification?

Background

1. U.S. Policy on Cuban Nickel. Under the comprehensive economic embargo against Cuba, the United States prohibits importation into the U.S. of merchandise which is produced by Cuba or produced in third countries of Cuban-origin materials (e.g., neither cigars made in Cuba nor cigars produced in Holland from Cuban tobacco are allowed entry into this country). For years we have prohibited the importation into the U.S. of nickel-bearing materials, principally stainless steel, from third countries which are known to import Cuban nickel, on the presumption that some of these materials contain Cuban nickel. When we have discovered that a substantial quantity of Cuban nickel was being imported into a country which in turn exported to the U.S. large amounts of nickel-bearing materials, our consistent practice has been to bar such third-country products from the U.S. Resumption of imports was not permitted unless a certification agreement was reached with the country to ensure that the nickel used in the products was not of Cuban origin. Pursuant to such agreements, a certificate of origin would be required to be issued for each shipment to the U.S. of, e.g., stainless steel, verifying that it had no Cuban content. Under this policy, stainless steel imports into the U.S. were barred from Italy during 1968-1982 and from France between 1965-1970 and again in 1980-1981. We currently have certification agreements in force with each of those countries.

As part of the current policy of tightening the Cuban embargo, the Treasury Department in 1983 initiated talks with three major U.S. trading partners--Japan, the Netherlands, and the Federal Republic of Germany--to discuss those countries' substantial imports of Cuban nickel. Exchanges of notes on this subject were concluded with the governments of Japan and the Netherlands in 1983, and with the F.R.G. on August 10, 1984.

2. Ban on Soviet Nickel. On November 23, 1983, following receipt and verification of information that the U.S.S.R.

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-2-

was importing large quantities of Cuban nickel (approximately 18,000 metric tons annually), Treasury published a notice in the Federal Register which prohibited, effective December 22, 1983: (1) the importation of unfabricated nickel-bearing materials directly from the Soviet Union, and (2) the importation of such Soviet materials when transshipped through or only minimally processed within third countries. As a practical matter, the major effect of the ban is to bar direct imports into the U.S. of Soviet nickel cathode (a high-value and particularly pure form of nickel). Additionally, the prohibition bars the indirect importation of this cathode from third countries in cases where it has undergone only limited processing, such as cutting into 1" x 1" size. The estimated loss to the Soviets from the ban is \$20-30 million annually.

In the 30-day period before the prohibition went into effect, the U.S. communicated, through its embassy in Moscow and through the Soviet embassy in Washington, its willingness to negotiate a certification agreement with the Soviet government. No response to this offer was received prior to December 22, 1983. Subsequently, however, Soviet officials discussed the matter with our embassy in Moscow and also with Treasury representatives in Washington. The Soviet Ministry of Foreign Trade and Raznoimport, the relevant Soviet foreign trading organization, have insisted that they are not interested in discussing a government-to-government certification agreement, despite our explanation that this principle has characterized all other certification arrangements we have previously concluded. Instead, the Soviets have offered to provide certificates of origin issued by Raznoimport and certified by the Soviet Chamber of Commerce and Industry, stressing that this is standard Soviet practice and that no exception should be necessary.

Such general certification procedures, however, do not take into account our Cuban embargo concerns. Moreover, our consistent past practice in negotiating arrangements involving certificates of origin has been to obtain an underlying written arrangement or commitment from the foreign government so that the integrity of that government stands behind the certificates. We have not accepted certificates of origin unless they were issued pursuant to an underlying governmental arrangement, and we have not accepted certificates from private bodies such as steel companies or chambers of commerce.

3. Recent Actions. Throughout our dealings with the Soviets on the nickel issue, Treasury has consistently

-3-

consulted with and kept State advised of all developments. Following informal discussions of the matter initiated by the Soviets this summer, Acting Secretary Sprinkel sought guidance and recommendations from the State Department on further negotiations with the Soviets. In background documents accompanying the guidance request, Treasury noted that all prior Cuban-nickel arrangements concluded with foreign countries have involved as signatories either governmental ministries or embassies of these countries. However, the principle of a government-to-government arrangement could probably be made to accommodate an arrangement with a body such as Raznoimport, a foreign trade organization (FTO). FTO's operate under charters approved by the Council of Ministers and maintain a close relationship with the Ministry of Foreign Trade. FTO charters are subject to modification by the Minister of Foreign Trade, who informs the director of the FTO about the goals and priorities established for the FTO by the current economic plan. The FTO director is responsible to the Minister for the FTO's performance with respect to the plan. In the case of Raznoimport, the Minister appoints the director.

In a responding letter of September 22 to Secretary Regan, Secretary Shultz stated that, while a formal certification arrangement with a ministry such as the Ministry of Foreign Trade or the Ministry of Foreign Affairs was preferable, State would not summarily exclude the possibility of accepting a commitment from Raznoimport, provided that it explicitly stated that Raznoimport was acting on behalf of the Ministry of Foreign Trade.

Treasury representatives met in Washington on November 30 with Albert Melnikov, Counselor (Commercial) and Deputy Trade Representative of the U.S.S.R., and with a member of his staff. At that time Treasury indicated U.S. willingness to discuss a written arrangement with Raznoimport, provided that such an arrangement explicitly stated--among other things--that the foreign trade organization was acting on behalf of the Ministry of Foreign Trade. Treasury also explained that any underlying written document would have to refer to the U.S. embargo against Cuba. However, the individual certificates of origin which would have to accompany individual shipments could be less specific; for example, they could refer to merchandise as being wholly of Soviet origin rather than "not of Cuban origin." The Soviet representatives, noting they were without instructions, gave no immediate response. We have asked the U.S. embassy in Moscow to meet with appropriate Soviet officials to emphasize the seriousness of our proposal.

U.S.S.R. Position

As described above, the Soviets to date have insisted that the United States should simply agree to accept certificates of origin of a type already routinely issued by the U.S.S.R. They have not yet indicated definitively (1) if they would be willing to sign any sort of underlying written agreement which would relate the individual certificates of origin to the Cuban nickel issue, or (2) if they would permit Raznoimport to be a signatory to any such agreement. It is quite possible that they will be unwilling to enter into any written commitment, even with Raznoimport as the signatory.

Discussion

All prior arrangements involving Cuban nickel certification have been concluded with important allies and trading partners of the U.S. (France, Italy, Japan, the Netherlands, and West Germany). In addition, the arrangements have all been characterized by:

- (1) Written documents (either in the form of formal agreements or less formal exchanges of notes)
- (2) Which relate the purpose of the document specifically to the U.S. interest in enforcing its Cuban embargo, and
- (3) Which are concluded between the Treasury Department or a U.S. embassy abroad with either a foreign embassy or an appropriate ministry of the foreign country.

Consistent with the above, in our dealings with the Soviets we have stressed the need for some kind of underlying written agreement to link any certificates of origin to our Cuban nickel embargo. However, as noted earlier, it is by no means certain that the Soviets will be willing to have Raznoimport enter into a written commitment with us. It is possible that the only arrangement they would approve would be for the U.S. simply to accept the standard certificates of origin, issued under existing Soviet procedures which make no reference to the Cuban embargo. Such an approach is not acceptable, as providing the certificates alone would be manifestly less burdensome than the requirements previously placed on our close allies in dealing with Cuban nickel. Also, agreeing to such an approach would mean there would be no underlying arrangement incorporating a governmental commitment.

-5-

Even if the Soviets permit Raznoimport to enter into negotiations with the U.S., there is no guarantee that a arrangement could be reached, since a number of difficult issues would still remain for resolution. Among the most difficult would be obtaining and verifying sufficient information to make credible any certification system which might be adopted. In our past negotiations with other countries, it has been necessary to take into consideration specific facts and circumstances pertaining to such matters as the distribution and use of Cuban nickel within the particular economy; data concerning exports to the U.S. of nickel-bearing materials; and information on organization of relevant industries within foreign countries. Such factors would also have to be considered in the case of the U.S.S.R.

Agency Recommendation: We believe that our dealings with the Soviets to date have taken appropriate account not only of Treasury's past experience in handling this issue with other countries but also of overall U.S. foreign policy interests. Before we communicated to the Soviets on November 30 our proposed accommodation--the offer to consider a written agreement with Raznoimport--the proposal was fully cleared by the highest levels of the State Department. We recognize that it may not be possible to reach an agreement with the Soviets that would protect our own interests in ensuring that the certification agreements are meaningful and that countries are treated fairly and consistently with respect to this issue. In our view, it would be inappropriate to accept any agreement that did not achieve these goals.

Our proposal concerning Raznoimport has been communicated to the Soviet embassy in Washington and will be communicated by the U.S. embassy in Moscow. Any recommendations as to U.S. actions on this issue at the forthcoming January Working Group talks would necessarily be influenced by Soviet actions, if any, prior to that time.

(1) If there has been no official response, we would recommend that Under Secretary Olmer reiterate the proposal made by Treasury--i.e., that we are willing to consider entry into a written arrangement with Raznoimport, provided that there was a statement in writing to the effect that Raznoimport was acting on behalf of the Ministry of Foreign Trade. He could also state that, if such an agreement were reached, individual certificates of origin could be issued that would permit admission of qualifying nickel-bearing Soviet merchandise into the U.S. Such an approach could provide a high-level impetus to consideration of the issue and should emphasize the seriousness of our offer to the Soviets.

(2) If the Soviets are willing to accept in principle the possibility of a written arrangement with Raznoimport, Under Secretary Olmer could offer to have appropriate Treasury Department officials travel to Moscow for more detailed discussions. (This pattern of U.S. officials traveling to the exporting countries for negotiations has characterized our 1983/1984 dealings with Japan, the Federal Republic of Germany, and the Netherlands.) Conversely, Treasury could handle the matter with Soviet officials in Washington (as in the earlier French and Italian cases).

Note: The Cuban nickel area is a highly technical one, and Treasury has built up a number of significant precedents in dealing with this issue. Although the Soviet economy is organized very differently from those of the other countries with which we have dealt, we believe it is extremely important to treat the Soviets, in all essentials, as we have our close trading partners and allies. Therefore, assuming no Soviet response in the interim, we recommend that any high-level discussions of this issue at the January talks be limited to reiteration of the Treasury proposal. To avoid misunderstanding with the Soviets and to ensure consistency with U.S. legal requirements and precedents, it is important that substantive matters such as the language of the agreement and the linkage to the Ministry of Foreign Trade be deferred for negotiation by a Treasury team.

Drafters: Treasury/Office of Foreign Assets Control
Marilyn L. Muench 376-0408
Dennis M. O'Connell 376-0395

Clearances: State Dept. (in draft) EUR/SOV: S. Dembski
EB/ISM : G. Jones
ARA/CCA: J. Modderno
Treasury Dept. (in draft) OS/O - J. M. Walker, Jr.
OS/GI- R. L. Munk
OS/I - A. E. Clapp .

Dated: December 7, 1984

Clearances (in final) NSC/RRobinson/395-3622/12/10-84
DOC/JBrougher/377-4655/12/10/84

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Aeroflot Landing Rights

Issue: The Soviets are very much interested in obtaining U.S. landing rights for Aeroflot, which were terminated following the imposition of martial law in Poland. The lack of regular Aeroflot service to the U.S. is a major inconvenience to the Soviets and requires most official Soviet visitors to the U.S. to use twice weekly Aeroflot service to Montreal. However, it seems unlikely that the Soviets are now ready to offer us the kind of significant concessions we should require in exchange for a resumption of Aeroflot service.

Background: As a result of Afghanistan, Poland and KAL-related sanctions, all scheduled Aeroflot service to the US and virtually all ties between Aeroflot and the US travel industry have been terminated. These measures seem to hurt the Soviets more than any other remaining sanction, probably because the civil air relationship operated heavily in their favor, because they view this as a significant blow to their prestige, and because of the hard currency cost.

From 1978, when PanAm ceased serving Moscow, to 1982, Aeroflot had a de facto monopoly on direct air service. Even when it operated to the USSR, PanAm was unable to make a profit on the Moscow run. This was due to Moscow's inherent competitive advantage in being able to control its citizenry and to PanAm's lack of market access, its inability to use wide-bodied aircraft, and its lack of overflight rights to points in Asia. Pan Am's market access was severely restricted because of prohibitions placed on direct ticket sales for local currency. Other doing-business hardships encountered included inadequate sales offices and a wide variety of other pressures for traffic originating in the Soviet Union to fly Aeroflot rather than a U.S. flag carrier. Overall, the Soviets insistently sought to control virtually all aspects of operation in the U.S.-Soviet aviation market. The Soviets have hinted they would be more accommodating this time around on overflights and wide-bodied aircraft. Neither PanAm nor other US carriers have demonstrated any interest in a resumption of scheduled US flag service to the USSR, although there is interest among U.S. tour operators in the charter flights by US air carriers. Moreover, the U.S. aviation community has yet to address the question of balance of economic benefits. PanAm has indicated, however, that it would be interested in obtaining overflight rights, which could save up to several million dollars in fuel costs annually.

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-2-

Bilateral civil aviation relations, already bad, were set back even further by the KAL shootdown and our response. Soviet denial of responsibility for KAL, refusal to consider compensation for the victims, and unwillingness, to date, to respond positively to proposals for new North Pacific safety measures to prevent a repetition of the tragedy have been serious additional complications. Furthermore, there may be one additional obstacle to renewed Aeroflot service. New FAA noise regulations, which go into effect January 1, 1985, will apparently pose a problem for most Soviet airliners. It appears only one Soviet long-range aircraft, the IL-62M, can comply with the new regulations.

U.S.S.R. Position: The Soviets raise the question of restored Aeroflot service regularly, and it almost certainly will be mentioned by them at the Experts' Working Group. In an effort to obtain some leverage for Aeroflot the Soviets have linked it -- as a "practical" rather than "political" matter but nonetheless very clearly and firmly -- with questions not related to civil aviation: the opening of new consulates in Kiev and New York, and conclusion of a new exchanges agreement.

We have rejected the assertion of linkage between the new consulates, bilateral exchanges, and Aeroflot, and maintained that these disparate issues should be discussed separately, on their merits. Specifically, on Aeroflot, we have cited the failure of the Soviets to respond on proposals for technical measures to improve air safety in the North Pacific and the overall unbalanced nature of our previous civil relationship as the major obstacles to a resumption of Aeroflot service. At an early stage of this dialogue, we also raised the matter of our KAL claims, but we have not stressed this point in recent discussions.

Option A:

Give sympathetic consideration to Soviet requests for a resumption of Aeroflot service to the U.S., provided that the Soviets cooperate with us on North Pacific safety measures and are prepared to make meaningful concessions in other areas.

PROS

Would facilitate commercial contacts with the USSR by making it easier for Soviets to travel to and from the U.S.

Might lead to Soviet concessions in other areas of interest to us.

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25

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-3-

CONS

Would be totally contrary to our general policy of strictly avoiding non-aviation trade-offs in exchange for granting foreign carriers U.S. landing rights. Therefore, it would be strongly opposed by the U.S. civil aviation industry.

By giving away our major bargaining chip would make it highly unlikely U.S. air carriers would ever obtain significant concessions from the Soviets.

It is difficult to conceive of economic concessions in areas other than civil aviation which the Soviets might offer us as compensation for a restoration of Aeroflot landing rights. (We should continue to reject any linkage of Aeroflot service to the reopening of Consulates.)

A major concession to the Soviets in the area of civil aviation, given the continued Soviet refusal to accept any responsibility for KAL, could subject the Administration to heavy domestic political flak.

Because Option A is so totally contrary to U.S. international aviation policy, the Department of Transportation opposes Option A and does not consider it as within the realm of consideration as a possible option.

Option B

Indicate to the Soviets that we would be willing to consider follow-up discussions on civil aviation questions of interest if they are ready to respond positively to our proposals on North Pacific Safety measures. However, we would point out at the same time that any restoration of Aeroflot service would have to be part of a package which offered a true balance of concessions for U.S. carriers. These follow-up discussions would be conducted on an expert level and be confined to the usual civil aviation interagency group.

PROS

This approach makes it clear a restoration of Aeroflot service is contingent on a package which would include significant economic benefits for U.S. air carriers.

Would be welcomed by U.S. industry

Would avoid the re-establishment of a one-sided civil aviation relationship in the Soviets' favor.

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26

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-4-

CONS

The Soviets will argue that the lack of regular Aeroflot service will inhibit the development of commercial contacts with us.

The Administration may also be subjected to substantial domestic political criticism for taking this approach, if there is still no Soviet acknowledgment of responsibility for KAL.

Discussion: State and Transportation favor an approach along the lines of option B. While we should indicate a willingness, in principle, to discuss civil aviation matters, we should continue to let the Soviets know that before any progress in this area can be made we will need to have a forthcoming response to our proposals on North Pacific Safety measures. (Transportation believes there is sufficient linkage between safety issues and civil aviation rights to take this position.) We gave these proposals to the Soviets in February 1984 and have yet to receive a reply, although the Soviets have given us some indication recently that they are considering these recommendations. If progress on technical measures is forthcoming, a possible response on our part would be a termination of the KAL sanctions which effectively prohibit contacts between U.S. carriers and travel agents and Aeroflot.

We should continue to reject Soviet efforts to link a resumption of Aeroflot service with the issue of reopening of consulates or cultural exchanges. Progress toward a balanced civil aviation agreement will almost certainly be slower than the Soviets would like and we will have to make a continuing effort to avoid being pressured into a premature settlement which, in effect, would probably result in an agreement heavily balanced in the Soviets' favor.

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27

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-5-

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Cleared: EUR/SOV: TWSimons, Jr.
 EUR: MPalmer
 L/EB:TJohnson
 EB/AVP:RHyams
 E:EHurwitz
 DOT:EOppler

Clearances: NSC/RRobinson/395-3622/12/10/84
 USTR/WTriplett/395-4543/12/10-/84
 USDOC/JBrougher/377-4655/12/10/84

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MARITIME RELATIONS/PORT ACCESS

Issue

The Soviets seek to obtain relief from the port access regulations imposed upon them following termination of the U.S./U.S.S.R. Maritime Agreement and the imposition of martial law in Poland, and particularly would like an easing of the requirement that their vessels make 14-day advance requests before being given permission to enter U.S. ports. They are likely to raise the matter at the Working Group of Experts as an obstacle to trade, even though this question has not been previously addressed in the forum.

Background

For national security reasons merchant ships from Communist countries are subject to advance notification requirements for calls at U.S. ports (Magnuson Act, 50 USC 191, and various executive orders and NSC decisions). These requests are made to the Coast Guard, acting on behalf of U.S. defense and security agencies.

From 1972 to 1981 bilateral maritime agreements with the United States accorded to Soviet merchant vessels 4-day notice access to 40 U.S. ports in exchange for cargo sharing concessions to U.S. merchant ships. At their high point in the late 1970's, Soviet vessels averaged more than 100 port calls a month in the United States and were active participants in the U.S. liner crosstrades. Discussions on a possible renewal of the last agreement were suspended at the end of 1981 as part of the U.S. response to the imposition of martial law in Poland. As a result, the United States reintroduced a 14-day advance request requirement on Soviet merchant vessels.

U.S. agribusiness, in response to Soviet complaints about the 14-day requirement, has voiced the concern that current policy may be having adverse effects on U.S. grain exports to the U.S.S.R. They have shown some sympathy for the argument that the Soviets, who at the moment are the largest customer for U.S. grain, must cope with port access requirements which are more stringent than those applied to other Communist countries. Nevertheless, Soviet efforts to push for liberalization of our port access requirements in bilateral grain consultations have been resisted thus far.

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29

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-2-

The maritime industry would vigorously oppose any concessions to the Soviets on the port access issue without some tangible maritime-related benefits being given in return by the U.S.S.R., such as use of U.S.-flag ships to carry portions of grain and other cargoes and making ironclad pledges not to undercut prevailing conference rates in U.S. liner trades. The industry would be extremely upset to learn that a U.S.-U.S.S.R. trade group was proposing to discuss this matter out of its historic maritime format.

U.S.S.R. Position

The Soviets complain consistently that the 14-day request regime inhibits their ability to carry bilateral cargo, and imply that this may inhibit their grain purchases from us. In our November 1984 grain consultations, they suggested we consider a liberalization of our current requirement for grain carrying vessels only.

Options

A. Consider a relaxation of port notification requirements from 14 to 7 days for Soviet grain carriers only.

Pros: Would demonstrate some U.S. flexibility on an issue which has become a significant irritant in our bilateral grain trade.

Demonstrate to American farmers and the grain trade our willingness to do all we can to promote grain sales to the Soviets.

Cons: Would represent, in effect, a unilateral U.S. concession to the Soviets.

Would give away one of the few pieces of leverage we have in future maritime negotiations with the Soviets.

Would be strongly opposed by the U.S. maritime industry, which would get no benefit from the surrender of a key bargaining chip.

May elicit labor protests.

Could be opposed by Defense and counterintelligence interests.

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-3-

B. Propose a relaxation of pre-clearance requirements in exchange for a Soviet agreement to increase significantly their minimum annual purchase of U.S. grain. (USDA does not agree with this option--see USDA attachments.)

Pros: Would both remove an irritant in our grain trade and produce a concrete benefit for the U.S. agricultural sector.

Would force the Soviets to pay a price for improved port access, albeit not in the maritime area.

Cons: Would create damaging precedent of linking other issues to Soviet grain purchases which would proceed as Soviet needs change.

Would give away U.S. leverage for future maritime negotiations.

Would be strongly resented by the U.S. maritime industry, who would view this as a sellout, at their expense, to placate agricultural interests.

May elicit labor protests.

Could be opposed by Defense and counterintelligence interests.

C. Inform Soviets that we could consider modifying port access procedures for Soviet-flag bulk vessels, in connection with reopening talks restricted to bulk cargo sharing and acceptance of a mutually satisfactory rate for the carriage of grain by U.S.-flag vessels.

Pros: Would keep discussion of this issue in a maritime framework, and avoid industry charges of a sellout.

Would show U.S. willingness to at least consider a change of policy on port notification.

Might hold out the possibility of at least a token return to the Soviet grain trade for U.S. vessels.

Cons: At present, world charter rates are too low for the Soviets to consider paying a differential needed to assure U.S.-flag vessel participation in the trade.

Both the USG and the Soviets are unwilling to subsidize carriage of grain to the U.S.S.R. in U.S.-flag ships.

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31

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-4-

Would be criticized by the U.S. shipping industry, unless substantial concessions in the bulk carriage area were received for U.S.-flag vessels.

D. United States could agree to consider modification of the port access procedures for Soviet liner and bulk vessels in connection with the immediate reopening of talks aimed at producing a new maritime agreement covering both liner and bulk bilateral trade.

Pros: Would be considered, from a foreign relations standpoint, as a step to improve relations.

Since much of the negotiation was completed before imposition of the Presidential suspension in December 1981, resumption of negotiations might not be difficult, assuming the Soviets have not changed their views on major issues.

Cons: U.S. liner shipping segment of industry is strongly opposed to a new agreement giving Soviets facilitated access to crosstrade cargoes.

Current world freight rate market for grain cargoes is too low to expect an accommodation. In order to guarantee U.S.-flag vessel participation, the USG or Soviets would have to subsidize U.S.-flag carriage.

Failure to reach an accommodation, instead of bolstering image of better relations, could produce opposite effect and be seen as another source of friction.

E. We would avoid committing ourselves to any change in current practice at the Working Group of Experts meeting and state that any discussions to modify current procedures should take place in the traditional maritime framework.

Pros: Avoids antagonizing the U.S. shipping industry.

Would preserve the major U.S. bargaining chip (port access) until such time as mutually advantageous maritime concessions are feasible.

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32

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Would minimize the amount of premium or subsidy that would have to be paid by either the USG or Soviets for the carriage of grain by U.S.-flag vessels, thereby improving chances for successful conclusion of an arrangement.

Would give the Administration time to secure support from U.S. liner segment that opposes an arrangement.

Cons: Offers no possibility of negotiated settlement of this question in the near term.

Continued refusal by the Administration to consider any modification of the current system may be viewed as a lack of support for U.S. grain exporters at a time when they are facing intense international competition.

Discussion

The Departments of Transportation and State support Option E for the January Experts meeting, although both agencies agree that we may have to consider other options or approaches if political and economic conditions continue to make a new maritime agreement unfeasible. This option affords the United States the opportunity to await the development of more favorable conditions in the world charter market for the carriage of grain to the U.S.S.R., thus improving the chances of ultimate success in any future maritime negotiations with the Soviets. Most importantly, Option E permits the retention of the major U.S. bargaining chip in future shipping negotiations with the Soviets. Despite continued complaints by the Soviets on port access, there is little evidence to date that our requirements have affected their grain purchases from us. Since vessels in the grain trade must generally notify grain companies at least two weeks prior to their arrival in U.S. ports, for purely commercial reasons, compliance with a 14-day advance notification would not seem to place a meaningful burden on the Soviets. Interestingly, the Soviets now carry a larger percentage of the trade in their ships (about 30 percent) than they did when a maritime agreement was in force. U.S.-flag carriers, which then had a significant portion of this business, now carry none of it.

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The Soviets undoubtedly resent the current situation where they, our best grain customers, are saddled with the most onerous port access regulations. U.S. agribusiness will continue to be receptive to their complaints and can be expected to place more and more pressure on the Administration to ease the present regime. There is likely to be a crescendo of complaints that we are insensitive to the plight of our farmers. Pressures from this source should only be relevant to Soviet ships engaged in our grain trade and should not lead to considering any changes in port access requirements for other Soviet vessels.

MARAD/RABourdon/426-5772/11-27-84
STATE/EUR/SOV/ECON:DBKursch/632-9370/11-27-84

Clearances:

DOT/JBurnley/426-2222/11-28-84
MARAD/HEShear/426-5823/11-28-84
DOT/MVScocozza/426-4544/11-28-84
STATE/EUR/SOV:TWSimons, Jr./632-3738/11-28-84
STATE/E:EHurwitz/632-8854/11-28-84
STATE/OF:SThompson/632-0646/11-28-84
STATE/EB/TT/MA:RRoberts/632-0705/11-28-84

Clearances:

NSC/RRobinson/395-3622/12/10/84
USTR/WTriplett/632-4543/12/10/84
DOC/JBrougher/377-4655/12/10/84

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MEMORANDUM

NATIONAL SECURITY COUNCIL

SYSTEM II
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Matlock
File -
US-USSR -
Trade

11754

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January 2, 1985

ACTION

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MEMORANDUM FOR ROBERT C. MCFARLANE

NLRR *E06-114/11* #11754

FROM: ROGER W. ROBINSON *RWR*

BY *KML* NARA DATE *4/21/11*

SUBJECT: U.S.-USSR Economic Working Group Meetings
in Moscow

Attached (Tab I) is a decision memorandum from you to the President to approve a set of U.S. positions for the U.S.-USSR Economic Working Group of Experts meetings in Moscow January 8-10. Your memo also transmits an NSDD for signature by the President to ensure that clear and comprehensive guidelines are established for the Olmer-led U.S. delegation and to assist with the substantial follow-up efforts.

As you know, preparations for these meetings have gone relatively smoothly after a bumpy start earlier this fall. To review, I believe we preempted a potentially serious problem in the bureaucracy over the issue of oil and gas equipment by commissioning the CIA study on Soviet energy strategy toward the West and by measured but firm NSC presentations at Under Secretary level meetings as well as the working level IG chaired by Commerce. We have clear evidence that the U.S.-Soviet Trade and Economic Council (USTEC) and the Soviets had (and probably still have) excessive expectations for the Moscow meetings that were largely fueled by Commerce. Examples include Commerce indicating to USTEC that a 1985 trade fair in Moscow dedicated, in part, to the sale of sophisticated U.S. energy equipment would be endorsed by the USG at the Moscow meetings and that a brochure entitled "Exporting to the USSR" (with a heavy oil and gas equipment emphasis) would be published prior to the meetings. Other indications of U.S. willingness to move forward in the energy area appear in the cable traffic, particularly dealing with conversations between USTEC representatives and Soviet officials.

In sharp contrast to its original position, Commerce has now accepted that oil and gas equipment will not be an area in which the U.S. would agree to an active program of trade expansion pending "further policy clarification" of this issue. This new position provides time for a comprehensive review of the impressive CIA study of the strategic implications of the Kremlin's energy strategy. The importance of this exercise is further enhanced by the potentially serious slippage of Sleipner and Troll

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development which, if not reversed immediately, will probably undermine the President's major policy success in the IEA.

The other issue on which confusion surfaced only last week was over the handling of human rights issues during the Moscow meetings. At the SIG-IEP meeting of December 18, Lionel Olmer stated that he and Secretary Baldrige saw no reason for the delegation to raise the human rights issue. Defense objected to this abdication of U.S. responsibility over the plight of Soviet dissidents, the pitiful rate of emigration from the USSR, political trials, the treatment of the Sakharovs, etc. I called State on this last week and requested a paper to NSC on its recommendations for appropriate treatment of the human rights issue in Moscow (attached Tab III). We are now confident this disconnect has been resolved and that human rights be made a component of the President's instructions to the delegation. As this supportive State paper was only received today, however, it was not possible to have this package to the President completed sooner.

Process and Agency Positions

At the SIG-IEP meeting of December 18, I had Secretary Regan request that all agencies communicate their positions on the five agenda items likely to be raised by the Soviets (furskins ban, nickel certification arrangement, aeroflot landing rights, port access regulations, and the protocol tax treaty) to Commerce. Commerce was then instructed to prepare an executive summary of agency positions on these issues to be forwarded to Secretary Regan in his capacity as Chairman of the SIG. Don, in turn, prepared a cover memo on the executive summary for the President which we received last Friday (Tab IV).

Commerce, State, Agriculture, Transportation, Treasury and USTR all concurred with approved NSC positions on each of the five agenda issues as outlined in my memo to you of December 12 (attached at Tab V).

Rather than submit Defense positions to Commerce, Cap Weinberger sent a separate memo to Don Regan (Tab VI) which:

- o argues that an "executive summary" does not adequately alert the President to the serious political implications of this trade mission;
- o agrees with the general concept of promoting non-strategic trade;
- o expresses strong doubt that the Soviets are really interested in any aspects of trade other than strategic trade, and they will seek to turn this non-strategic U.S. trade initiative against us;

- o claims that the Olmer mission is likely to stimulate political pressures, particularly among the allies, for more strategic trade despite stated objectives;
- o indicates that even the prospect of the trade mission has triggered an unhelpful response from our COCOM partners;
- o raised the lack of a strong position on human rights;
- o questions whether a compelling case has been made that American business people are systematically treated less favorably than others, although accepts the notion of instances of discrimination against U.S. firms due to our efforts to delay the pipeline and tighten up on the loss of strategic technology;
- o argues that the President should have the opportunity to hear these issues vetted more fully.

Your memo to the President lays out the bottom-line positions on the five agenda items which have been approved by all interested agencies with the exception of Defense. Fred Ikle called me Friday and requested that the President's guidelines to the delegation instruct State to brief the allies on the results of this limited trade exercise in Moscow so that they are less inclined to use the Moscow meetings as a pretext "to open the floodgates on expanded strategic trade, particularly in the energy area." I think Defense can be brought on board if they are reasonably satisfied with the NSDD.

The language in the NSDD concerning human rights was lifted verbatim from the State memo to you at Tab III. The reference to the SIG-IEP was taken directly from Don Regan's report to the President and the language concerning non-promotion of oil and gas equipment was lifted verbatim from the final Commerce position paper to the SIG-IEP.

Don Fortier, Jack Matlock, Bill Martin and Dave Wigg concur.

RECOMMENDATION:

That you sign the memo to the President at Tab I requesting his approval of U.S. positions for the Moscow meetings (January 8-10) and transmitting the NSDD for his signature.

Approve _____ Disapprove _____

That you sign the transmittal memo to the agencies (Tab II).

Approve _____ Disapprove _____

Attachments

Tab I	Memo to President
Tab A	NSDD
Tab II	Transmittal Memo to the Agencies
Tab III	State Memo on Human Rights
Tab IV	Regan Memo
Tab V	Robinson Memo
Tab VI	Weinberger Memo to Regan

MEMORANDUM

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THE WHITE HOUSE
WASHINGTON~~SECRET~~

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ACTION

MEMORANDUM FOR THE PRESIDENT

NLRR E06-114/11 #11755

BY KML NARA DATE 4/21/11

FROM: ROBERT C. MCFARLANE

SUBJECT: U.S.-USSR Economic Working Group of Experts
Meetings in MoscowIssue

Whether to approve a set of U.S. positions for the U.S.-USSR Economic Working Group of Experts meetings in Moscow (January 8-10) and to sign an NSDD which would establish specific guidelines for the U.S. delegation to Moscow.

Facts

In May 1984, you renewed for 10 years the U.S.-USSR Long-Term Agreement for Economic, Industrial and Technical Cooperation and approved resurrecting, under Article III of the agreement, periodic meetings of a bilateral working group of experts to exchange information and forecasts of basic economic, industrial and commercial trends. The meetings in Moscow scheduled for January 8-10 would be the first meeting of the working group of experts in six years. A major objective of these working level meetings is to determine if there are sufficient grounds for a meeting of the U.S.-USSR Joint Commercial Commission (JCC) which would be chaired on the U.S. side by Secretary Baldrige and on the Soviet side by Trade Minister Patolichev. The SIG-IEP has been responsible for coordinating preparations for the working group meetings, identifying potential opportunities for expanding non-strategic trade relations with the USSR, and coordinating recommended agency positions for the U.S. delegation on five issues likely to be raised by the Soviets. In addition, it was agreed at the SIG that the U.S. delegation to Moscow should seek changes in discriminatory Soviet practices against U.S. firms.

The SIG-IEP concurred that the delegation should express a U.S. willingness to discuss possible resolution of five specific issues in the appropriate fora if there is a reciprocal Soviet willingness to improve prospects for expanded U.S. non-strategic exports to the USSR. These five issues are: the ban on Soviet furskins, a Cuban nickel certification arrangements, aeroflot landing rights, port access regulations, and the bilateral protocol tax treaty.

Discussion

The SIG-IEP has been effective in developing a consensus among the agencies on the positions the U.S. delegation should take on each of

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these five issues. Commerce, State, Treasury, NSC, Agriculture, Transportation, and USTR all concurred that the U.S. delegation should:

- o Indicate to the Soviets a willingness to discuss options with the U.S. Congress to lift the furskins ban if the Soviets are prepared to improve business conditions and prospects for U.S. firms.
- o Reiterate a recent Treasury offer to resolve the Cuban nickel certification issue.
- o Indicate a U.S. willingness to begin discussion of civil aviation matters, but only after receiving a favorable Soviet response to U.S.-Japan proposals on North Pacific safety measures, and with the understanding that any restoration of Aeroflot service would have to be part of a package offering a true balance of concessions for U.S. carriers.
- o Respond to any Soviet inquiry on port access procedures by informing them of our willingness to discuss this question in our traditional maritime framework. (Transportation stressed that the Soviets must be told such discussions would have to encompass U.S. maritime industry interests.)
- o Indicate to the Soviets a U.S. willingness to move forward on the unsigned 1981 tax protocol, but noting that changes may have to be made.

Defense did not provide specific views on these five issues. Instead, Secretary Weinberger sent a separate letter to Secretary Regan, in his capacity as Chairman of the SIG-IEP, expressing serious reservations about the merit of a U.S. trade mission to Moscow at this time. A number of valid cautionary points are made in Cap's correspondence in which he:

- o Agrees with the general concept of promoting non-strategic trade but strongly doubts that the Soviets are really interested in aspects of trade other than strategic technology and that they will seek to turn this non-strategic U.S. trade initiative against us.
- o Claims that a U.S. trade mission to Moscow is likely to stimulate political pressures, particularly among the allies, for more strategic trade despite the stated objectives of this mission.
- o Indicates that even the prospects of U.S.-Soviet trade talks has already triggered a reaction among our COCOM partners unhelpful to our interest in strengthening the COCOM process and enforcement measures against the diversion of strategic technology.
- o Expresses strong support for the U.S. delegation taking a firm position on human rights issues in its meetings with Soviet officials in Moscow.

In the initial planning stages for these Moscow meetings, Commerce, with the support of some other agencies, was interested in actively promoting expanded sales of U.S. oil and gas equipment to the USSR. This objective is being aggressively pursued by the Soviets as well as the U.S.-Soviet Trade and Economic Council (USTEC). Over the course of the preparatory meetings, it was pointed out to Commerce that we are walking a very fine line in the energy area between expanding U.S. energy equipment sales to the USSR and preserving the integrity of our security-minded allied consensus on the strategic aspects of East-West economic relations including a strict limit on Soviet gas deliveries to Western Europe (to interrupt the Soviet strategy of dominating European gas markets while earning large amounts of hard currency), the termination of subsidized terms on credits, and an overall strengthening of COCOM. It was agreed that to avoid sending inconsistent signals to the allies and the USSR, oil and gas equipment will not be an area in which the U.S. should agree to an active program of trade expansion pending further policy clarification by you. My staff is now preparing a policy assessment of a comprehensive CIA study on the strategic implications of the Soviet energy strategy toward the West as well as other key aspects of East-West economic relations. Finally, a strong U.S. position on human rights issues has been formulated for inclusion in the U.S. delegation's discussion in Moscow. It should be recalled that controls on U.S. oil and gas equipment sales to the USSR have traditionally been linked to human rights conditions in the Soviet Union.

RecommendationOK No

_____ _____

That you approve the U.S. positions on the five issues likely to be raised by the Soviets during the Moscow meetings (furskins ban, nickel certification arrangement, aeroflot landing rights, port access regulations and the protocol tax treaty). Commerce, State, NSC, Agricultural, Transportation, Treasury and USTR support approval. Defense takes no specific position.

_____ _____

That you sign the NSDD at Tab A which provides specific instructions and guidelines for the U.S. delegation to the Moscow meetings on January 8-10.

Attachment
Tab A

NSDD

Prepared by:
Roger W. Robinson

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THE WHITE HOUSE
WASHINGTON

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NLRR E06-114/11 #11756

NATIONAL SECURITY DECISION
DIRECTIVE NUMBER

BY KML NARA DATE 4/21/11

U.S.-SOVIET ECONOMIC AND COMMERCIAL RELATIONS (U)

In May 1984, I approved the renewal for 10 years of the U.S.-USSR Long-Term Agreement for Economic, Industrial and Technical Cooperation. I also approved reinstating, under Article III of the agreement, periodic meetings of a bilateral economic working group of experts to exchange information and forecasts of basic economic, industrial and commercial trends. As the working group meetings on January 8-10, 1985 in Moscow will be the first meetings of their kind in six years, it is important to have a unified Administration position on what these meetings are designed to accomplish and the policy framework in which they are taking place.

I view the objectives of these working group meetings to be as follows:

- o To review the status of overall U.S.-Soviet economic and commercial relations.
- o To discuss present obstacles to our trade relations in an effort to identify areas in which mutually beneficial non-strategic trade could be expanded in conformity with present export control policies.
- o To help determine if there are sufficient grounds for a meeting of the U.S.-USSR Joint Commercial Commission. (S)

I have received a report through the SIG-IEP on proposed U.S. positions on five issues likely to be raised by the Soviets. These issues are: the ban on Soviet furskins, a Cuban nickel certification arrangement, aeroflot landing rights, port access regulations, and the bilateral protocol tax treaty. (S)

After reviewing this report, I have decided that the U.S. delegation to Moscow should:

- o Indicate to the Soviets a willingness to discuss options with the U.S. Congress to lift the furskins ban if the Soviets are prepared to improve business conditions and prospects for U.S. firms.
- o Reiterate a recent Treasury offer to resolve the Cuban nickel certification issue.
- o Indicate a U.S. willingness to begin discussion of civil aviation matters, but only after receiving a favorable Soviet response to U.S.-Japan proposals on North Pacific

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safety measures, and with the understanding that any restoration of Aeroflot service would have to be part of a package offering a true balance of concessions for U.S. carriers.

- o Respond to any Soviet inquiry on port access procedures by informing them of our willingness to discuss this question in our traditional maritime framework. The Soviets should be told such discussions would have to encompass U.S. maritime industry interests.
- o Indicate to the Soviets a U.S. willingness to move forward on the unsigned 1981 tax protocol, but noting that changes may have to be made. (S)

On the issue of U.S. energy equipment sales to the USSR, we must maintain the delicate balance between expanding such sales by U.S. firms and preserving our security-minded allied consensus on the strategic aspects of East-West economic relations outlined in NSDD-66. My concern is reinforced by potential slippage in the timely development of the Sleipner and Troll gas fields. If a commitment to the accelerated development of these projects is not made soon, the Soviet Union would be provided with the opportunity to further expand its deliveries of natural gas to Western Europe thereby potentially undermining the May 1983 IEA Agreement. To avoid sending inconsistent signals to the allies and the USSR, U.S. oil and gas equipment sales should not be an area in which the U.S. should agree to an active program of trade expansion pending further policy clarification by me. (S)

I also approve using these working group meetings in Moscow to express our serious concerns about Soviet human rights abuses and emigration policy. We must make it clear to the Soviets that their continued poor performance in these areas will have a serious negative effect on any effort to establish a more constructive bilateral relationship, including our economic and commercial relations. (S)

At the conclusion of the meetings in Moscow, the State Department should brief the allies concerning what transpired during these meetings to avoid the possibility of their misinterpreting these bilateral trade talks in a way harmful to U.S. interests in COCOM and other strategic trade areas. The SIG-IEP shall continue to serve as the Cabinet-level body to integrate and review the various components of U.S.-Soviet economic and commercial relations. The SIG-IEP should also coordinate recommendations to me concerning the advisability of a meeting of the Joint Commercial Commission. (S)

THE WHITE HOUSE
WASHINGTON

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SECRET ATTACHMENT

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF INTERIOR
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF ENERGY
THE DIRECTOR, OFFICE OF MANAGEMENT AND
BUDGET
THE DIRECTOR OF CENTRAL INTELLIGENCE
THE UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR POLICY
DEVELOPMENT
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

SUBJECT: U.S.-Soviet Economic and Commercial
Relations

The President has approved the attached National Security
Decision Directive on U.S.-Soviet Economic and Commercial
Relations.

FOR THE PRESIDENT:

Attachment
NSDD

UNCLASSIFIED with
SECRET ATTACHMENT

CWS 8/8/02



United States Department of State

Washington, D.C. 20520

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December 29, 1984

MEMORANDUM FOR MR. ROBERT C. MCFARLANE
THE WHITE HOUSESUBJECT: Discussion of Human Rights at the U.S.-U.S.S.R Working
Group of Experts Meeting

As our representative noted at the November 13 preparatory session for the Working Group of Experts meeting, we believe that it is very important that we use this meeting as an opportunity to express our concerns about Soviet human rights abuses and emigration policy. We must make it clear to the Soviets that their continued poor performance in these areas will have a serious negative effect on any effort to establish a more constructive bilateral relationship, including our economic/commercial relations. We should note, in particular, our dismay at the large number of arrests, psychiatric committals and political trials which have taken place since the conclusion of the Madrid CSCE conference, the treatment of the Sakharovs, the severe harassment of Hebrew teachers and other Jewish cultural activists, and the dramatic decline in levels of emigration.

Our manner of raising these issues is critical if we hope to produce an improvement in Soviet performance. We believe that these issues will be handled most effectively, from our perspective, if they are raised by our head of delegation in his private meetings with Deputy Minister Sushkov and other Soviet officials. We also should be prepared to discuss human rights and emigration in our plenary sessions in response to Soviet complaints concerning our denial of Most Favored Nation treatment. If the Soviets do not raise MFN, our delegation should be prepared in any case to state in the plenary our position on the connection between human rights and our bilateral relationship as well as making more specific points in the restricted meetings with Sushkov.

We have prepared background papers with talking points on emigration and human rights as guidance for the delegation. Copies of both papers are attached.

Charles Hill
Executive Secretary

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NLRR E06-114/11 # 11762

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DECL: OADR

BY KML NARA DATE 4/21/11

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Human Rights

Issue

Improvement in the human rights situation in the Soviet Union continues to be an important objective of U.S. foreign policy. We continue to speak out publicly against repressive Soviet policies and regularly raise the subject of human rights in bilateral exchanges and in multilateral fora. We have made it clear to the Soviets that their repressive behavior constitutes a serious obstacle to improved U.S.-Soviet relations. By keeping up the pressure, and this includes raising the subject in contexts such as the Experts Working Group, we seek to underline our resolve and commitment to human rights.

Talking Points

- Human rights continues to be an important part of the U.S. agenda in our bilateral relations and will remain so. Such emphasis is an accurate reflection of the importance the American people and all levels of the American Government attach to this issue.
- Soviet actions toward political prisoners and dissidents continue to present a serious obstacle to improved U.S.-Soviet relations, including economic commercial relations.
- We are dismayed at the large number of arrests, psychiatric committals and political trials that have taken place since the conclusion of the Madrid CSCE conference and which continue unabated. We do not believe that the Soviet Union is living up to its undertakings in the field of human rights.
- We are particularly troubled by the recent wave of arrests of Hebrew teachers and other Jewish cultural activists. These arrests appear to be part of an officially sanctioned campaign of anti-Semitism.
- We continue to be concerned about the welfare of Dr. Andrey Sakharov and his wife, Yelena Bonner, who have been forcibly cut off from contact with the outside world. The cases of Anatoliy Shcharanskiy and Yuriy Orlov also continue to be of great interest to the United States.
- Nothing could do more to improve the atmosphere of U.S.-Soviet relations than Soviet responsiveness to our human rights concerns.

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U.S. Position

The Soviet Union has signed a number of international covenants, including the Helsinki Final Act and the Madrid Concluding Document, in which they agree to respect basic human rights. The U.S. Government considers the Soviet Union to be in substantial violation of these undertakings in its persecution of human rights activists.

U.S.S.R. Position

The Soviets have consistently maintained that U.S. interest in human rights issues is self-serving, propagandistic and constitutes "interference in Soviet internal affairs." They deny that dissidents are persecuted for their human rights or religious beliefs, insisting that they are only charged when they engage in "anti-Soviet" or other illegal activities. The Soviets almost always refuse to discuss human rights during bilateral exchanges and are likely to regard raising the issue in the context of trade talks as particularly inappropriate.

Background

The situation for human rights activists in the Soviet Union is grim and has been deteriorating since the arrest and trials of Helsinki monitors Yuriy Orlov, Anatoliy Shcharanskiy and others in 1977-78. The Soviet authorities have moved decisively against the entire spectrum of dissent in the Soviet Union; Helsinki monitors, human rights and religious activists, nationalists, and independent peace and labor groups. Dissidents are usually charged with "anti-Soviet agitation and propaganda" or "anti-Soviet slander" and sentenced to long terms in primitive labor camps followed by internal exile in remote areas. Many others have been incarcerated in psychiatric hospitals where they are treated with powerful and often painful drugs. Noted human rights activist Andrey Sakharov has been held incommunicado in the closed city of Gor'kiy since his detention following a hunger strike begun in May. In August, his wife, Yelena Bonner, was herself sentenced to five years of internal exile in Gor'kiy. Anatoliy Shcharanskiy was recently transferred from prison to one of the most brutal labor camps in the Soviet Union. His colleague, Yuriy Orlov, is in internal exile in Siberia. Recent targets for arrest have included Baptists, Catholics, Ukrainian and Baltic nationalists and Jewish refuseniks. Since late August, six prominent Jewish cultural activists in Moscow, Odessa and Leningrad have been arrested in what appears to be a mounting campaign against the revival of Jewish culture. We estimate that as many as 10,000 religious and political dissidents may be imprisoned in the Soviet Union.

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EUR/SOV:BLPascoe for
EUR:MPalmer for
HA/HR:BConnors for

EMIGRATIONIssue

Since 1979-80 there has been a precipitous decline in emigration from the Soviet Union.

Talking Points

- The rate of emigration from the USSR is now at its lowest point since the 1960's.
- The sharp decline in emigration from the Soviet Union remains a matter of great concern to our government and people. We receive thousands of appeals from Americans on behalf of Soviet citizens who wish to emigrate.
- Soviet policy on this issue, especially in the face of clear, broadly-based concern on the part of the American public, is a serious obstacle to improved U.S.-Soviet relations.
- We urge the Soviet Union to adopt a more forthcoming attitude toward emigration applications, in accordance with its CSCE undertakings.
- Some positive movement on this issue would do much to improve relations between our two countries.

U.S. Position

The Soviets are not meeting obligations they freely undertook by signing the U.N. Charter and other international documents, including the Helsinki Final Act. Because of the international nature of these documents we reject the Soviet claim that emigration policy is an internal affair.

U.S.S.R. Position

The U.S.S.R. generally claims that its emigration policy is an internal matter. While they will sometimes respond to queries concerning emigration from the U.S.S.R. to the U.S., they refuse to discuss with us the broader question of emigration or any question of emigration from the U.S.S.R. to a third country, such as Israel. In order to explain the sharp drop in emigration, they have frequently stated that all Soviet citizens who wish to emigrate have done so. We reject this claim; estimates of Soviet Jews who wish to emigrate range up to 440,000. The West German Government has estimated that hundreds of thousands of Soviet ethnic Germans still wish to emigrate.

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NLRR F06-114/11 # 11763

BY KML NARA DATE 4/21/11

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Background

Soviet law does not recognize the right of citizens to emigrate by choice. Reunification of divided families is the only recognized basis for emigration, and the Soviets are currently trying to erode this principle by claiming that if more members of a particular family are inside the U.S.S.R. than outside, the family is not divided.

During the 1970's, emigration increased significantly, although it was limited primarily to three groups -- Soviet Jews, Armenians, and ethnic Germans -- and the formal grounds remained unchanged (reunification of families). The peak year of Jewish emigration was 1979 when 51,320 Jews left the Soviet Union; by comparison, only 1,315 left in 1983, and only 721 had left through September 1984. The peak year for Soviet Armenians was 1980, when 6,109 Armenians emigrated; in 1983, the figure was down to 193, and in the first nine months of 1984 only 67 Armenians were permitted to leave. The peak for ethnic German emigration occurred in 1976, when 9,626 departed; last year only 1,447 Germans emigrated. Only 655 ethnic Germans have emigrated through September of 1984.

The overwhelming evidence is that the precipitous drop in emigration is a result of deliberately restrictive emigration policy. The mere attempt to submit an emigration application frequently involves a variety of administrative and extra-legal sanctions, including loss of employment, harassment, social ostracism, and long delays. Many Soviet Jews have waited in vain for more than ten years for permission to emigrate.

The situation of Soviet Jews wishing to emigrate has been aggravated by an anti-Semitic campaign led by the Soviet Government. Hebrew teachers and practicing Jews have been subjected to especially harsh treatment by the Government, and many have been arrested. Secretary Shultz addressed this issue in his October 22 speech to the National Conference on Soviet Jewry-(published by the Department of State Bureau of Public Affairs as Current Policy Item No. 628).

Many American citizens have family in the U.S.S.R. who wish to emigrate to the U.S. Specific cases of most concern to us are presented periodically to the Soviet authorities in the form of representation lists. These lists include the names of 104 divided families, 20 separated spouses, and 21 American citizens who wish to emigrate and have been repeatedly denied exit permission. We also present a list of over 3,000 Soviet Jews seeking to emigrate to Israel.

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Drafted: EUR/ SOV/ SOBI: SMWagner *SMW*
11/23/84 x8720 #4739b
Cleared: EUR/ SOV/ SOBI: JFSchumaker *J*
EUR/ SOV: BLPascoe *BLP*
EUR: RMPalmer *RMP*
HA/HR: BConnuck *B*



OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

9343

December 27, 1984

UNCLASSIFIED
(With Confidential Attachment)

MEMORANDUM FOR ROBERT M. KIMMITT
DEPUTY ASSISTANT TO THE PRESIDENT
FOR NATIONAL SECURITY AFFAIRS
THE WHITE HOUSE

FROM: CHRISTOPHER HICKS *Edward J. Study*
EXECUTIVE SECRETARY AND *for*
EXECUTIVE ASSISTANT TO THE SECRETARY

Attached is Secretary Regan's report to the President on deliberations of the SIG-IEP regarding the U.S.-U.S.S.R. Working Group.

UNCLASSIFIED
(With Confidential Attachment)

cc: Roger Robinson



CONFIDENTIAL ATTACHMENT

THE SECRETARY OF THE TREASURY
WASHINGTON

December 27, 1984

MEMORANDUM FOR THE PRESIDENT

Subject: SIG-IEP Meeting on U.S.-U.S.S.R. Working Group

Pursuant to your decision in June that preparation should begin for a meeting of the Cabinet-level U.S.-U.S.S.R. Joint Commercial Commission, a Working Group of Experts will meet in Moscow January 8-10 to determine if there is mutual agreement that there are sufficient grounds for such a meeting. The SIG-IEP met on December 18 to discuss U.S. objectives for the January 8-10 meeting. After the discussion, I asked the agencies to provide their views in writing for presentation to you. Attached is an executive summary of the views of agencies which responded.

The results of the Moscow meeting will also be discussed in the SIG-IEP, which will make a recommendation to you on the advisability of a meeting of the Joint Commercial Commission.

Donald T. Regan

Attachment

CONFIDENTIAL ATTACHMENT

CSS 8/8/02

~~CONFIDENTIAL~~

11757

EXECUTIVE SUMMARY

SIG-IEP AGENCY VIEWS REGARDING U.S. DELEGATION POSITIONS FOR THE
U.S.-U.S.S.R. WORKING GROUP OF EXPERTS MEETING
MOSCOW, JANUARY 8-10, 1985

The overall objectives for the U.S. delegation to the Working Group of Experts, chaired by Under Secretary of Commerce Lionel Olmer, were reviewed and approved at the SIG-IEP meeting December 18. Those objectives, along with agency views on specific issues which had been enumerated at the meeting, are summarized below:

OVERALL OBJECTIVES

In June the President announced that preparations should begin for a meeting of the Cabinet-level U.S.-U.S.S.R. Joint Commercial Commission (JCC). The SIG-IEP concurred that the purpose of the Experts meeting in January should be to determine if there are sufficient grounds for a successful meeting of the JCC. If the Experts meeting shows the prospects are not satisfactory, a JCC meeting should be deferred while discussions continue on outstanding differences.

The SIG-IEP took note that there are opportunities for an expansion of non-strategic trade. The Soviets have curbed U.S. exports to the U.S.S.R., for example by removing U.S. firms from bid lists, curtailing U.S. company promotion efforts, and instructing purchasing officials to avoid buying American products whenever possible. The SIG-IEP concurred that the U.S. delegation should aim at changing such Soviet practices and at supporting the efforts of U.S. companies seeking non-strategic business opportunities.

All exploration of opportunities for expanding peaceful trade will be within the context of present export control policies. Changes in those policies will not be discussed by the delegation. In addition, changes in U.S. policies regarding extension of MFN and official U.S. credits will not be discussed by the U.S. delegation, which will only reiterate current U.S. policies.

SPECIFIC POSITIONS

The SIG-IEP took note that there were five specific issues that the Soviets were likely to raise. SIG-IEP concurrence was sought that the delegation should express a U.S. willingness to discuss possible resolution of these issues in the appropriate forums if there were to be a reciprocal Soviet willingness to improve the prospects for U.S. non-strategic business. Agencies were asked to provide their views on the issues enumerated. Agriculture, State, Transportation, Treasury, and USTR have done so. They, along with Commerce, have all concurred that the U.S. delegation should:

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NLRR F06-114/11 # 11757

BY KML NARA DATE 4/21/11

~~CONFIDENTIAL~~

-2-

1. Indicate to the Soviets a willingness to discuss options with the U.S. Congress to lift the furskins ban if the Soviets are prepared to improve business conditions and prospects for U.S. firms.
2. Reiterate a recent Treasury offer to resolve the Cuban nickel certification issue.
3. Indicate a U.S. willingness to begin discussion of civil aviation matters, but only after receiving a favorable Soviet response to U.S.-Japan proposals on North Pacific safety measures, and with the understanding that any restoration of Aeroflot service would have to be part of a package offering a true balance of concession for U.S. carriers.
4. Respond to any Soviet inquiry on port access procedures by informing them of our willingness to discuss this question in our traditional maritime framework. (Transportation stressed that the Soviets must be told such discussions would have to encompass U.S. maritime industry interests. Agriculture emphasized that since there was not a consensus to restore 4 or 7 day port notification for Soviet grain ships -- 14 days are now required -- the delegation should be careful to avoid raising Soviet expectations in a counterproductive manner that might harm U.S. grain exports.)
5. Indicate to the Soviets a U.S. willingness to move forward on the unsigned 1981 tax protocol, but noting that changes may have to be made.

The Department of Defense did not provide views for inclusion in the Executive Summary. In a separate letter to Secretary Regan, however, Secretary Weinberger agreed with the concept of promoting non-strategic trade with the U.S.S.R., but expressed concern that the Experts Group may stimulate pressure for strategic trade despite its stated objectives. He also said that a strong position on human rights must be made known to the Soviets and that the mission should not go in silence on this issue.^{1/}

^{1/} The Commerce Department notes that Human Rights has been a stated discussion item for the U.S. delegation throughout the planning process, and that a Talking Points paper and guidance for Human Rights was prepared by the State Department November 26 and was cleared by all interested agencies.

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NATIONAL SECURITY COUNCIL

ACTION

December 12, 1984

11758

DECLASSIFIED

MEMORANDUM FOR ROBERT C. McFARLANE

NLRR Folio-114/11 #11758

FROM: ROGER W. ROBINSON *RWR*BY KML NARA DATE 4/21/11

SUBJECT: SIG-IEP Meeting on U.S.-USSR Economic Working Group of Experts and Other Related Issues

The first SIG-IEP meeting on the above subject is scheduled to be held at 10:00 a.m., Thursday, December 13. We have just *now set for 20* been informed that Secretary Baldrige now wishes to have this meeting postponed even though Commerce has been aware of this date for some two weeks. Nevertheless, attached (Tab A) are the papers prepared for SIG discussion which already incorporate all of our comments and proposed changes. The purpose of this memo is to 1) review the recommended bottom-line positions which I believe NSC should take on the proposed agenda of issues (not necessarily at the SIG-IEP meeting but internally); 2) explain the favorable resolution of the issue of publication of the Commerce brochure "Exporting to the USSR" and 3) discuss the matter of NSC participation on the U.S. delegation to Moscow for the meetings on January 8-10.

I. SIG-IEP Papers/NSC Internal Positions

The ten page overview paper provides a good summary of this package of papers on the following subjects:

- o U.S. embargo on imports of Soviet furskins
- o A nickel certification arrangement with the USSR
- o Aeroflot landing rights
- o U.S. port access regulations for Soviet ships
- o U.S.-Soviet draft tax protocol.

Prior to running through these issues, it is interesting to note that on p. 3 of the Overview, Commerce states, "Pending further policy clarification, oil and gas equipment will not be an area in which the United States would agree to an active program of trade expansion". This understanding is the outgrowth of interagency meetings chaired by Commerce where I explained the delicate balance which exists between the positive aspects of expanding non-strategic trade and the preservation of our security-minded allied consensus on East-West economic relations including a strict limit on further Soviet gas deliveries to West Europe. Thus far, we

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consider our strategy for handling the energy issue a success. By removing this item from the Moscow meetings (at last on our side), we have provided the NSC and interagency process time to digest and carefully evaluate the rather voluminous CIA study on Soviet energy strategy which we received only last week (originally tasked by NSC on September 10, 1985.)

Policy Issues

A. Furskins Ban

Should the U.S. delegation indicate to the Soviets that the Administration would be willing to discuss options with the U.S. Congress to lift the furskins ban, if the Soviets are prepared to improve business conditions for U.S. firms and begin eliminating trade barriers (such as the practice of removing U.S. suppliers from major project bid lists.)?

Recommended NSC position: This is not a priority issue. Either options 3 or 4 would be acceptable and would involve seeking Congressional approval to lift the embargo for all types of furskins except mink (or a negotiated ceiling on the quantity of mink skins) if the above conditions are met.

B. Nickel Certification Arrangement

(absence of Cuban nickel)

Should the U.S. delegation reiterate the recent Treasury offer to resolve the nickel certification issue?

Recommended NSC position: Have Lionel Olmer merely reiterate Treasury's proposal that U.S. is willing to consider entry into a written arrangement with Raznoimport (Soviet foreign trade organization), provided that there was a statement in writing to the effect that Raznoimport was acting on behalf of Ministry of Foreign Trade. The bottom-line is that the Soviets should be required to basically accept the same conditions for certification that have been agreed to by other countries with the U.S.

C. Aeroflot Landing Rights

Should the U.S. delegation be authorized to indicate to the Soviets our willingness to begin discussion on civil aviation matters a) if we receive a favorable Soviet response to the U.S./Japanese proposal on North Pacific air safety measures and b) with the understanding that any restoration of Aeroflot service would have to be part of a package which offers a true balance of concessions for U.S. carriers?

Recommended NSC position: First, we recommended adding Section B to this policy question. This issue has political content. We support Option B in the issue

paper which would confine these talks to the usual civil aviation channel consistent with past precedent (avoiding non-aviation trade-offs). Option B also requires Soviet agreement to the two preconditions listed in the above question (A and B).

D. Port Access Regulations

Should the U.S. delegation be authorized to tell the Soviets that any discussion to modify current U.S. port access procedures take place in the traditional maritime framework?

Recommended NSC position: We strongly recommend against any linkage of port access with U.S. grain sales. We support Option E which avoids committing ourselves to any change in current practice at the Moscow meetings and states that any discussions to modify current procedures should take place in the traditional maritime framework. State and Transportation also support this option.

E. Protocol Tax Treaty

In response to a Soviet inquiry, should the U.S. delegation be authorized to respond to the Soviets that we may be willing to move forward on the Protocol, but noting that changes will have to be made?

Recommended NSC position: This is not a priority issue. Treasury should make the judgment concerning whether this is an appropriate time to negotiate a tax agreement with the U.S.S.R. When and if such discussions begin, the second question is whether the U.S. is still willing to honor the provision in the protocol which exempts from U.S. social security and unemployment taxes employees of Aeroflot stationed in the U.S. Currently, there are no Aeroflot employees in the U.S.

II. Commerce Brochure "Exporting to the USSR"

Attached Tab B is a memo to you from Charlie Hill which explains that Commerce now plans to delay publication of its draft brochure "Exporting to the USSR" until the results of the COCOM list review are published in the Federal Register and the brochure is determined to be in conformity with our foreign policy controls. These were our precise objections to the Commerce effort to stampede this document into publication last month. At the time, we requested that the Office of East-West Trade at State critique the Commerce brochure and the attached bootleg report (Tab C) makes clear that not only were the preconditions mentioned above not observed, but there were also technical errors in the publication. As you recall, Secretary Baldrige placed an unhappy call to you in response to your memo requesting that the publication of this brochure be deferred pending more careful review.

III. NSC Participation on U.S. Delegation

At a recent 0730, you indicated a strong interest in having NSC represented on the U.S. delegation to Moscow. Attached (Tab D) is a cable from Ambassador Hartman with comments by Secretary Baldrige underneath. Jack Matlock and I had previously discussed this matter in terms of past precedent (NSC has not been a participant in the past) and whether we could consider not participating in these meetings in favor of the upcoming Baldrige-chaired Joint Commercial Commission meetings. Other questions might include: 1) Should the NSC participate in what is essentially a trade promotion exercise? 2) Do we want to upgrade the political stature of these meetings? 3) Can we exercise better control over proceedings from Washington (by issuing clear guidelines to the delegation) or in Moscow? and 4) Will the press tend to direct more attention to the White House representative than to Commerce or seek to play off one against the other etc.?

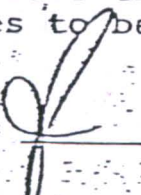
After discussing this matter with Don, I would be prepared to represent us on the delegation if you determine that the advantages outweigh the potential disadvantages. If you should decide in favor of my participation on the delegation, I believe it is essential that you make clear to Secretary Baldrige and through State to Ambassador Hartman that I would attend all private meetings arranged for Lionel Olmer in Moscow including private dinners or luncheons. In addition, it would be helpful for me to secure the No. 2 position on the delegation (in protocol). This should not present a problem as the next ranking official to Olmer is Bill Archery (DAS). It may also interest you to know that there are eleven officials from Washington on the present delegation (6 from Commerce, 3 State, 1 Treasury, 1 USTR). This group is expected to be joined by at least three attaches from Embassy Moscow. Beside Olmer and Archery all of these officials are at the level of Office Director, Deputy Office Director or below.

The two conditions for my participation mentioned above seem sensible, and constitute the only way in which we can truly monitor what transpires in Moscow. Finally, we should issue a clear directive for the delegation which reflects the President's decisions on the SIG-IEP recommendations (whether or not NSC is represented).

Don Fortier, Jack Matlock, Bill Martin, Ken deGraffenreid and Dave Wigg concur. *and Diane Dora not available*

RECOMMENDATIONS

1. That you approve the recommended internal NSC positions on the issues to be raised in the SIG-IEP for the Moscow meetings.

Approve 

Disapprove _____

2. That you approve my participation on the U.S. delegation based on the conditions referenced.

Approve _____

Disapprove _____

Attachments

Tab A SIG discussion papers
B Hill memo to McFarlane dtd 11/30
C Bootleg Commerce Brochure
D Cable from Ambassador Hartman

cc: Chris Lehman
Ron Lehman
Karna Small

I think with more of an understanding of the situation here, you should not go.

J

~~CONFIDENTIAL~~



THE SECRETARY OF DEFENSE

WASHINGTON, THE DISTRICT OF COLUMBIA

11759
20 DEC 1984

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

SUBJECT: U.S.-Soviet Working Group of Experts Meeting in Moscow

You have asked me to prepare the Defense Department position on the papers prepared for the U.S.-Soviet Experts Meeting in Moscow on economic issues.

According to your Memorandum to me, our position is to be communicated to Under Secretary of Commerce Lionel Olmer who will then prepare an executive summary for the President.

As you know, Mr. Olmer and Secretary Baldrige did not accept our views as expressed at the most recent SIG-IEP meeting. I believe this matter cannot be handled in the form of an executive summary to the President because serious political problems may arise and the President may be misled about the purpose of this mission and about the depth of preparation in carrying it out.

It is no secret that I have serious reservations about the merit of this venture at this time. While I agree there is nothing wrong in promoting non-strategic trade with the Soviet Union, I doubt very much that the Soviets have any interest in that direction. The major thrust of their effort to acquire our technology through any means, fair and foul, suggests that they will want to turn this initiative against us. The Olmer mission is likely to stimulate the political pressure for more strategic trade between the United States and the USSR, despite its stated objectives. Even the prospect of the Olmer trip has triggered a reaction among our COCOM partners which is not helpful in the context of our desire to stabilize the COCOM process and strengthen enforcement against diversion. In the cooperating non-COCOM countries, as for example Sweden, Switzerland and Austria, the Olmer visit may lead to serious backtracking.

Moreover, I doubt seriously there is anything more we can do to promote most genuine non-strategic trade. If we want to sell more agricultural products and purely agriculture-related technology, then we should be sending the Agriculture Department on this mission, not the Commerce Department.

If this program is aimed at selling additional non-controlled oil and gas equipment to the Soviets, we could best do that by sending oil and gas industry people to the USSR, although that will almost certainly lead to a strengthening of Soviet leverage over Western Europe and Japan in the long term. Furthermore, much more than half of our licensed exports to the Soviet Union are now oil and gas equipment. There is probably no real room for further expansion.

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NLRR EOL-114/11 #11759

BY KML NARA DATE 4/24/11

There are, as well, major shortcomings in the policy prepared for the Olmer mission. Perhaps the most serious error, as we expressed at the SIG-IEP meeting, is the lack of a strong position on human rights that must be made known to the Soviet Union. If we do not raise the issue and speak out on behalf of the dissidents and refuseniks and those, like Sakharov, who are suffering, then their condition will become even less secure and the Soviets will read us as retreating from the policy we have stood by for many years.

I cannot believe that the President would want such a mission to go and return in silence on the human rights issue. The net of such a performance will be to lower the President's standing among the Soviet leadership and in the world at large.

There is another matter that troubles me and this is the stated objective of the mission to better the condition of American business people operating in the Soviet Union.

I have yet to see a compelling case that American business people are systematically treated less favorably than others, though there are certainly instances of discrimination coming about because of our effort to tighten up on the loss of strategic technology, halt the West Siberian pipeline, and challenge the Soviets in Afghanistan, Poland and Central America.

We are not going to cure this by calling attention to it. We are going to improve Soviet leverage over us and over our business people. A predictable result of such an initiative may be to endanger our business people, not aid them.

There is no lucid assessment of any of this in the Commerce papers.

Likewise, there are other matters that have been left hanging, such as Aeroflot landing rights and port calls. Neither of these are really in our economic interest or political interest and both are used for Soviet intelligence gathering (electronic and photographic). Furthermore, there is no assessment of what we might get in return (if anything).

It seems to me the mission needs rethinking. I believe the President should have the opportunity to hear the entire matter vetted fully.

Will you join me in suggesting that this be done?

[Handwritten signature]

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NATIONAL SECURITY COUNCIL
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BY KML NARA DATE 4/21/11

TO ALL NATO CAPITALS IMMEDIATE

AMEMBASSY TOKYO 0000

AMEMBASSY DUBLIN 0000

AMEMBASSY MADRID 0000

AMEMBASSY BERN 0000

AMEMBASSY WELLINGTON 0000

AMEMBASSY STOCKHOLM 0000

AMEMBASSY CANBERRA 0000

AMEMBASSY VIENNA 0000

INFO AMEMBASSY MOSCOW PRIORITY 0000

AMEMBASSY HELSINKI 0000

~~CONFIDENTIAL~~ STATE 153114

E.O. 12356: DECL: OADR

TAGS: ECON, ETRD, UR, US

SUBJECT: US-USSR JOINT COMMERCIAL COMMISSION MEETING

REF: STATE 54020

1. US-SOVIET JOINT COMMERCIAL COMMISSION (JCC) WILL MEET IN MOSCOW MAY 20-21. THIS MEETING WILL BE THE FIRST SESSION OF THE JCC SINCE 1978. US DELEGATION WILL BE LED BY SECRETARY OF COMMERCE MALCOLM BALDRIGE WHILE SOVIET DELEGATION WILL BE HEADED BY FOREIGN TRADE MINISTER PATOLICHEV. PRIMARY PURPOSE OF THE MEETING WILL BE TO IDENTIFY POSSIBILITIES FOR THE EXPANSION OF NON-STRATEGIC TRADE, IMPROVE OPERATING CONDITIONS FOR BUSINESSMEN, AND DISCUSS THE REMOVAL OF CERTAIN OBSTACLES TO TRADE. WE HAVE NOT MADE ANY CHANGES IN OUR POSITION REGARDING TRADE IN NATIONAL SECURITY ITEMS OR IN ENERGY EQUIPMENT AND TECHNOLOGY.

2. WE EXPECT THAT THE BALDRIGE VISIT IS LIKELY TO RECEIVE CONSIDERABLE PUBLICITY AND WISH TO INSURE THAT OUR ALLIES ARE FULLY INFORMED REGARDING THE PARAMETERS OF OUR DISCUSSIONS IN ORDER TO AVOID ANY POSSIBLE MISUNDERSTANDINGS. POSTS ARE REQUESTED TO BRIEF ALLIED GOVERNMENTS AS SOON AS POSSIBLE REGARDING OUR EXPECTATIONS AND GOALS FOR THE JCC. DEPARTMENT ALSO INTENDS TO SEND REPORTING CABLE TO ALL ADDRESSEE POSTS AT THE CONCLUSION OF THE JCC SO THAT HOST GOVERNMENTS MAY BE PROPERLY BRIEFED ON THE OUTCOME OF THIS MEETING. IN CARRYING OUT BRIEFING POSTS SHOULD USE THE FOLLOWING TALKING POINTS:

2. TALKING POINTS:

-- EARLIER THIS YEAR, WE BRIEFED YOUR GOVERNMENT ON THE RESULTS OF THE JANUARY MEETING OF THE U.S.-U.S.S.R. WORKING GROUP OF EXPERTS MEETING AND ON OUR PLANS TO HOLD A MEETING OF THE U.S.-U.S.S.R. JOINT COMMERCIAL COMMISSION. WE NOTED THAT WE WOULD PROVIDE DETAILS ON JCC DATES AND AGENDA WHEN AVAILABLE.

-- THE MEETING OF THE JCC WILL BE HELD IN MOSCOW MAY 20-21. THE MEETING WILL BE CHAIRED BY COMMERCE SECRETARY BALDRIGE AND FOREIGN TRADE MINISTER PATOLICHEV.

THE AGENDA FOR THE MEETING COVERS A BROAD RANGE OF TRADE ISSUES. THE U.S. DELEGATION WILL ATTEMPT TO IDENTIFY AREAS WITHIN EXISTING EXPORT CONTROL POLICIES WHERE SOME INCREASE IN TRADE WILL BE POSSIBLE.

-- IN ADDITION TO IDENTIFYING SPECIFIC AREAS IN WHICH WE COULD INCREASE MUTUALLY BENEFICIAL TRADE, WE HOPE THAT THE MINISTERS WILL BE ABLE TO AGREE ON A JOINT STATEMENT OF SUPPORT FOR NON-STRATEGIC TRADE.

-- WE EXPECT THAT THE SOVIETS WILL FOCUS ON ISSUES WHICH THEY CONSIDER TO BE OBSTACLES TO INCREASED TRADE. MAJOR CONCERNS THEY ARE LIKELY TO RAISE INCLUDE THE LACK OF MOST FAVORED NATION TREATMENT FOR SOVIET EXPORTS TO THE UNITED STATES, THE LACK OF GOVERNMENT EXPORT CREDITS, AND EXPORT CONTROL REGULATIONS.

-- OTHER SOVIET CONCERNS LIKELY TO COME UP INCLUDE A LONG STANDING EMBARGO ON THE EXPORT OF CERTAIN SOVIET FUR SKINS, A BAN ON SOVIET NICKEL SHIPMENTS DUE TO SOVIET IMPORTS OF CUBAN NICKEL, ADVANCE NOTIFICATION REQUIREMENTS FOR SOVIET VESSELS CALLING AT US PORTS, AND THE SOVIET DESIRE TO RESUME DIRECT AIR LINKS WITH THE US.

-- PRIMARY US OBJECTIVES ARE TO END THE DE FACTO DISCRIMINATION AGAINST US FIRMS IN COMPETING FOR SOVIET CONTRACTS, HAVE US FIRMS RESTORED TO SOVIET BID LISTS, AND GENERALLY MAKE OUR COMPANIES MORE COMPETITIVE IN THE SOVIET MARKET.

-- WE WOULD ALSO LIKE TO REACH AGREEMENT TO PERMIT THE RESUMPTION OF OFFICIAL GOVERNMENT TRADE PROMOTION PROGRAMS IN THOSE AREAS WHICH WE HAVE IDENTIFIED AS BEING SUITABLE FOR TRADE DEVELOPMENT. THIS DOES NOT INCLUDE THE PROMOTION OF ENERGY EQUIPMENT AND TECHNOLOGY.

-- WE DO NOT EXPECT ANY BREAKTHROUGHS ON LONG STANDING ISSUES SUCH AS MFN OR CREDITS AT THE JCC MEETING.

-- WE HAVE ALSO NOT CHANGED OUR POSITION ON SALES OF HIGH TECHNOLOGY CONTROLLED FOR NATIONAL SECURITY PURPOSES (PRINCIPALLY COCOM CONTROLS) OR ENERGY EQUIPMENT AND TECHNOLOGY.

-- WITH RESPECT TO HIGH TECHNOLOGY WE CONTINUE TO SUPPORT STRONGLY THE NO EXCEPTIONS POLICY ADOPTED BY COCOM FOLLOWING THE INVASION OF AFGHANISTAN.

-- WE WILL CONTINUE TO PROHIBIT SALES OF HIGH TECHNOLOGY ITEMS THAT COULD BENEFIT THE SOVIETS MILITARILY, AND WE WILL WORK CLOSELY WITH OUR COCOM PARTNERS AND OTHER COOPERATING COUNTRIES TO STRENGTHEN CONTROLS ON SUCH SALES.

-- OUR UNILATERAL LICENSING REQUIREMENTS FOR THE SALE OF OIL AND GAS EXPLORATION AND PRODUCTION EQUIPMENT AND

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NATIONAL SECURITY COUNCIL SECRETARIAT

PAGE 02 OF 02 SECSTATE WASHDC 3114 DTG:180744Z MAY 85 PSN:016964

TECHNOLOGY REMAIN IN FORCE. WE GENERALLY APPROVE APPLICATIONS FOR THE EXPORT OF EQUIPMENT NOT CONTROLLED FOR NATIONAL SECURITY REASONS, BUT GENERALLY DENY APPLICATIONS FOR THE EXPORT OF TECHNOLOGY.

- WHILE OUR EXPECTATIONS FOR THIS MEETING ARE MODEST, WE HOPE THAT PROGRESS CAN BE MADE ON REMOVING SOME OBSTACLES TO TRADE AS NOTED ABOVE. WE BELIEVE THAT THERE IS POTENTIAL FOR GROWTH OF US-SOVIET NON-STRATEGIC TRADE WITHIN THE LIMITS OF OUR CURRENT EXPORT CONTROLS.

-- WE RECOGNIZE THAT OUR DISCUSSIONS ON TRADE CANNOT BE ISOLATED FROM OTHER ASPECTS OF OUR OVERALL

RELATIONSHIP. IN ORDER TO BUILD A BROAD BASE FOR MORE CONSTRUCTIVE RELATIONS, WE MUST MOVE FORWARD IN MANY AREAS AT ONCE INCLUDING IN THE AREAS OF HUMAN RIGHTS AND EMIGRATION. WE INTEND TO MAKE THIS POINT TO THE SOVIETS DURING THE COURSE OF OUR MEETINGS. DAM
BT

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TAGS: ETRD BEXP UR OVIP
SUBJECT: JOINT U.S.-U.S.S.R COMMERCIAL COMMISSION
MEETING1. ~~CONFIDENTIAL~~ - ENTIRE TEXT.

2. BEGIN SUMMARY. THE EIGHTH SESSION OF THE JOINT US-USSR COMMERCIAL COMMISSION ACCOMPLISHED ITS BASIC OBJECTIVE OF RE-ESTABLISHING A FRAMEWORK FOR THE DEVELOPMENT OF U.S.-SOVIET NON-STRATEGIC TRADE AND THE RESOLUTION OF SOME OUTSTANDING ECONOMIC/COMMERCIAL ISSUES. BOTH SIDES APPROACHED THE MEETING WITH REALISTIC EXPECTATIONS OF WHAT MIGHT BE ACCOMPLISHED. EXCHANGES WERE FRANK AND SOMETIMES CONTENTIOUS, BUT THE OVERALL DISCUSSIONS WERE CHARACTERIZED BY A POSITIVE SPIRIT AND A WILLINGNESS TO TAKE A PATIENT STEP-BY-STEP APPROACH TOWARDS THE SOLUTION OF OUTSTANDING PROBLEMS. AS EXPECTED, THE SOVIET SIDE EMPHASIZED THE QUESTION OF CONTRACT SANCTITY, STRESSING THAT THIS WOULD BE A CRITICAL ELEMENT IN THE FUTURE DEVELOPMENT OF BILATERAL TRADE RELATIONS. THEY ALSO MADE AN ALMOST RITUALISTIC APPEAL FOR MFN, COMPLAINED ABOUT THE SIZEABLE U.S. EXPORT SURPLUS IN THE BILATERAL TRADING RELATIONSHIP, AND CALLED FOR THE END OF THE U.S. EMBARGO ON SOVIET NICKEL AND A RESTORATION OF BILATERAL AIR SERVICE BETWEEN THE TWO COUNTRIES.

3. SECRETARY BALDRIGE AND HIS COLLEAGUES STRESSED THROUGHOUT THEIR DISCUSSIONS THAT TRADE COULD NOT PROCEED INDEPENDENTLY OF THE OTHER ASPECTS OF OUR BILATERAL RELATIONSHIP. THE SECRETARY POINTED OUT THAT HIS VISIT TO MOSCOW WAS AN IMPORTANT PART OF THE PRESIDENT'S POLICY TO FIND AREAS WHERE MORE COOPERATION BETWEEN OUR TWO COUNTRIES WAS POSSIBLE. HE EMPHASIZED STRONGLY THAT WE INTENDED TO MAKE NO MODIFICATIONS OF OUR POLICIES ON NATIONAL SECURITY EXPORT CONTROLS AND THAT PROGRESS ON LONG STANDING OBSTACLES SUCH AS MOST FAVORED NATION TREATMENT (MFN) WOULD ONLY BE POSSIBLE IF THE SOVIETS CHANGED THEIR APPROACH TO EMIGRATION AND HUMAN RIGHTS. AT THE SAME TIME HE EXPRESSED THE BELIEF THAT THERE WAS CONSIDERABLE POTENTIAL FOR EXPANDING TRADE UNDER CURRENT

LAWS AND PRACTICES. THE QUESTION OF OIL AND GAS EQUIPMENT AND TECHNOLOGY EXPORTS WAS TOUCHED UPON ONLY BRIEFLY DURING THE TWO-DAY SESSION, WITH THE U.S. SIDE RESTATING CURRENT LICENSING POLICY IN RESPONSE TO SOVIET INQUIRIES AND MAKING NO COMMITMENTS TO ANY CHANGES IN THIS APPROACH.

4. U.S. DEL PRESENTED AN EYE-OPENING DETAILED PRESENTATION TO SOVIETS REGARDING APPLICATION OF EXPORT CONTROLS TO 33 PROJECTS PROPOSED BY SOVIETS. IN ALMOST EVERY PROJECT, EITHER NO LICENSES WOULD BE REQUIRED -- OR, IF REQUIRED, WOULD ALMOST CERTAINLY BE GRANTED. SOVIET SIDE WAS OVERWHELMED BY THE EXTENT OF U.S. PREPARATION AND ABILITY OF U.S. SIDE TO ANSWER EVERY QUESTION THEY RAISED. SOVIETS LEARNED THAT ALL PROCESS CONTROLS THAT WOULD BE REASONABLE FOR U.S. FACTORIES OF THE TYPES THEY WERE PROPOSING COULD BE LICENSED. U.S. DEL BELIEVES WE HAVE ANSWERED THE LONG-STANDING SOVIET COMPLAINT THAT QUOTE WE DON'T KNOW WHAT YOU WILL SELL US UNQUOTE.

5. THE MOST CONCRETE ACCOMPLISHMENT OF THE JCC, IN THE VIEW OF THE DELEGATION, WAS THE CLEAR SOVIET COMMITMENT TO ACCORD U.S. FIRMS ACCESS TO MARKETS AND INFORMATION ON A PAR WITH THAT GIVEN TO OTHER WESTERN COMPANIES. THE SOVIETS ALSO AGREED TO SUPPORT A RESUMPTION OF TRADE PROMOTION ACTIVITIES AT THE U.S. COMMERCIAL OFFICE. FOR ITS PART, THE U.S. SIDE ANNOUNCED THAT THE ADMINISTRATION WOULD PROPOSE LEGISLATION TO TERMINATE THE 1951 BAN ON IMPORTS OF CERTAIN SOVIET FURSKINS. SATISFACTION WAS EXPRESSED WITH THE IMPROVED ATMOSPHERE FOR U.S. FIRMS IN THE USSR WHICH HAD BEEN EVIDENT SINCE THE JANUARY MEETING OF THE WORKING GROUP OF EXPERTS AND WHICH HAD MANIFESTED ITSELF IN OVER DOLLARS U.S. 42 MILLION IN CONTRACTS FOR U.S. NON-STRATEGIC INDUSTRIAL PRODUCTS. NOTING MINISTER PATOLICHEV'S ASSURANCES REGARDING MARKET ACCESS, THE U.S. SIDE ALSO ANNOUNCED THAT IT WOULD RESUME A MODEST OFFICIAL USG TRADE PROMOTION PROGRAM IN THE U.S.S.R., INCLUDING PARTICIPATION IN APPROPRIATE SOVIET TRADE EXHIBITIONS AND THE STAGING OF SEMINARS AND MINI-EXHIBITIONS AT THE U.S. COMMERCIAL OFFICE. BOTH SIDES ALSO AGREED TO BEGIN MARITIME DISCUSSIONS, TO CREATE A PROJECTS SUBCOMMITTEE TO FOLLOW UP ON U.S. PROJECT PROPOSALS, AND TO REINSTITUTE THE BUSINESS FACILITATION

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71

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COMMITTEE. END SUMMARY.

6. U.S.-SOVIET JOINT COMMERCIAL COMMISSION PLENARY
AND WORKING GROUP SESSIONS.

PLENARY, MORNING, MAY 20 - MINISTER PATOLICHEV OPENED THE PLENARY SESSION NOTING THAT THIS MEETING WAS TAKING PLACE AT A COMPLICATED AND TENSE TIME IN U.S.-SOVIET RELATIONS. FOR THIS REASON, THE JCC WAS ESPECIALLY IMPORTANT, AND HE EXPRESSED THE HOPE THAT IT WOULD BE SEEN BY BUSINESS CIRCLES AS A POSITIVE SIGN FOR THE FUTURE. AFTER BOTH SIDES INTRODUCED THE MEMBERS OF THEIR DELEGATIONS, PATOLICHEV CONTINUED WITH HIS PRESENTATION. HE NOTED THAT ALTHOUGH THERE HAD NOT BEEN A JCC MEETING SINCE 1978, THE JCC FRAMEWORK HAD AT LEAST BEEN MAINTAINED THROUGH MANY YEARS OF STRAINED RELATIONS. HE RITUALISTICALLY BLAMED THE U.S. SIDE FOR THE FAILURE OF OUR BILATERAL TRADE TO LIVE UP TO THE EXPECTATIONS WHICH HAD EXISTED AT THE TIME OF THE FIRST JCC MEETING IN 1972. THE FAILURE OF THE SENATE TO RATIFY THE 1972 TRADE AGREEMENT AND THE LINKAGE OF ISSUES SUCH AS EMIGRATION AND HUMAN RIGHTS TO TRADE HAD CAUSED OUR AGREEMENT TO BECOME NULL AND VOID. SUBSEQUENT U.S. EMBARGOES OF GRAIN AND OTHER PRODUCTS HAD CAUSED THE U.S. SHARE OF TOTAL SOVIET GRAIN IMPORTS TO DROP FROM A HIGH OF 75 PERCENT TO 17 PERCENT. THE CANCELLATION OF THE ARMCO/NIPPON STEEL PLANT CONTRACT IN 1979 HAD RESULTED IN THE SOVIETS BUYING THE FACILITY FROM FRANCE INSTEAD. HE ASSERTED THAT U.S. EFFORTS TO BLOCK SOVIET PIPELINE CONSTRUCTION PROJECTS HAD BEEN EQUALLY UNSUCCESSFUL, NOTING THAT THE URENGOI PIPELINE HAD ACTUALLY BEEN COMPLETED A YEAR AHEAD OF SCHEDULE. HE CITED THE ABOVE AS PROOF OF THE INEFFECTIVENESS OF U.S. EXPORT CONTROL POLICIES, WHICH ONLY GAVE THE SOVIETS THE IMPETUS TO WORK HARDER AND GO IT ALONE IF NECESSARY.

7. IN PATOLICHEV'S JUDGMENT, THE KEY TASKS FACING THE JCC WERE IMPROVING THE STRUCTURE OF OUR TRADE AND THE REMOVAL OF OBSTACLES. WHILE TRADE TURNOVER WAS OVER 3 BILLION RUBLES, THIS FIGURE WAS MISLEADING SINCE IT CONSISTED PRIMARILY OF U.S. EXPORTS OF AGRICULTURAL COMMODITIES. PATOLICHEV BLAMED THE SIZEABLE SOVIET TRADE DEFICIT WITH UNITED STATES ON THE LACK OF MFN, POINTING OUT THAT THE UNITED STATES WAS THE ONLY WESTERN COUNTRY WHICH REFUSED TO EXTEND SUCH TREATMENT TO THE USSR. HOWEVER, HE CONTINUED, THE RUSSIANS WERE PATIENT PEOPLE AND WERE PREPARED TO WAIT IF NECESSARY. HE QUIPPED THAT AFTER ALL THE CATHOLIC CHURCH HAD TAKEN 400 YEARS TO ADMIT ITS MISTREATMENT OF COPERNICUS (SIC). PATOLICHEV STRESSED THAT IT WAS CRITICAL TO RESTORE A CLIMATE OF CONFIDENCE. WITHOUT SUCH A CLIMATE, SERIOUS TRADE WAS UNTHINKABLE. WORDS AND STATEMENTS WERE NOT ENOUGH TO REBUILD CONFIDENCE AFTER MANY YEARS OF DISAPPOINTMENT; DEEDS WERE CRITICAL. PARTIES TO BUSINESS TRANSACTIONS MUST HAVE THE FULL CONFIDENCE THAT ALL THAT IS PUT INTO CONTRACTS WILL BE REALIZED. THE SOVIET UNION WAS NOT INTERESTED IN PURCHASING OBSOLETE TECHNOLOGY AND EQUIPMENT. TAKING ISSUE WITH U.S. EFFORTS TO DISTINGUISH BETWEEN QUOTE STRATEGIC AND NON-STRATEGIC TRADE UNQUOTE, PATOLICHEV QUIPPED THAT BUTTONS COULD BE STRATEGIC SINCE THEY ALLOW SOLDIERS TO FIGHT. AS FAR AS QUOTE TRULY UNQUOTE STRATEGIC EQUIPMENT WAS CONCERNED, HE ASSERTED THAT THE USSR WOULD NOT BECOME DEPENDENT ON ANY FOREIGN SOURCE OF SUPPLY. PATOLICHEV TOOK ISSUE WITH U.S. STATEMENTS MADE AT THE JANUARY WORKING GROUP OF EXPERTS MEETING THAT TRADE MUST NOT PROCEED FASTER THAN OTHER AREAS OF THE BILATERAL RELATIONSHIP. HE SAID HE COULD NOT ACCEPT THIS CONCEPT AND COMMENTED THAT THERE WERE

MANY EXAMPLES WHERE TRADE HAD ACTUALLY PROVIDED A BASIS FOR ESTABLISHING DIPLOMATIC RELATIONS. A BETTER ATTITUDE WOULD BE TO HAVE TRADE PROCEED A BIT AHEAD OF THE REST OF THE RELATIONSHIP. HE DENIED THAT HIS MINISTRY HAD EVER GIVEN AN ORDER TELLING FOREIGN TRADE ORGANIZATIONS NOT TO BUY FROM U.S. COMPANIES OR SEND INQUIRIES TO U.S. FIRMS. DESPITE THE DIFFICULTIES IN OUR TRADE RELATIONS IN RECENT YEARS, PATOLICHEV INSISTED THAT U.S. FIRMS HAD BEEN BT

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72

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TREATED SIMILARLY TO THOSE OF OTHER WESTERN COUNTRIES. HOWEVER, IT WAS UNDERSTANDABLE THAT TRADE ORGANIZATIONS WOULD BE VERY CAUTIOUS IN DEALING WITH AMERICAN COMPANIES IF THEY DID NOT HAVE GUARANTEES THAT LONG-TERM CONTRACTS WOULD BE HONORED. IN CLOSING, PATOLICHEV REFERRED TO GENERAL SECRETARY GORBACHEV'S APRIL SPEECH TO THE PARTY PLENUM WHERE HE STATED THAT THE USSR WAS READY TO IMPROVE RELATIONS WITH THE UNITED STATES BUT WITHOUT INTRUDING ON THE INTERNAL AFFAIRS OF EACH OTHER.

8. SECRETARY BALDRIGE OPENED HIS PRESENTATION BY POINTING OUT THAT BOTH SIDES HAD AGREED TO TALK DIRECTLY AND PLAINLY. ATTEMPTS TO ASSIGN BLAME FOR PAST PROBLEMS IN THE RELATIONSHIP IN A ONE-SIDED WAY WERE NOT HELPFUL. IT WAS UNREALISTIC TO EXPECT THAT U.S.-SOVIET TRADE COULD BE EXPLAINED INDEPENDENTLY OF OTHER PARTS OF OUR BILATERAL RELATIONSHIP. A CONNECTION BETWEEN THE TWO WAS THE WILL OF THE U.S. PEOPLE. THE SECRETARY NOTED THAT THE JCC MEETING IS ONE ASPECT OF PRESIDENT REAGAN'S POLICY INITIATED OVER A YEAR AGO TO FIND AREAS WHERE MORE COOPERATION WITH THE SOVIET UNION WAS POSSIBLE. THE UNITED STATES WAS SERIOUS ABOUT EXPANDING TRADE WITH THE USSR. THE PRESIDENT'S POLICY WAS NOT ONE OF ECONOMIC WARFARE, DISCOURAGING TRADE OR MERELY TOLERATING IT. OUR APPROACH WAS TO SUPPORT THE DEVELOPMENT OF PEACEFUL TRADE, WHICH WE BELIEVED COULD MAKE A SIGNIFICANT CONTRIBUTION TO A MORE CONSTRUCTIVE OVERALL RELATIONSHIP. HOWEVER, IT WAS IMPORTANT THAT WE BE REALISTIC IN OUR EXPECTATIONS AND ENSURE THAT TRADE GROWTH WAS CONSISTENT WITH OUR POLICIES, LAWS AND REGULATIONS.

9. IN THE AREA OF STRATEGIC OR DUAL-USE TECHNOLOGY, THE SECRETARY FORESAW NO POSSIBILITY OF CHANGES IN U.S. POLICY. WE WERE NOT INTERESTED IN DISCUSSING ANY CHANGES IN STRATEGIC TRADE CONTROLS FOR THE SAKE

OF ECONOMIC GAIN. THERE WAS A SECOND AREA WHERE MAJOR CHANGES COULD TAKE PLACE IF CHANGES IN OTHER ASPECTS OF OUR RELATIONS WERE TO OCCUR. THE QUESTION OF MFN WAS IN THIS CATEGORY. HOWEVER, THE SECRETARY FORESAW NO PROSPECT FOR IMPROVEMENT UNTIL A MAJOR IMPROVEMENT IN OTHER ASPECTS OF OUR OVERALL BILATERAL RELATIONSHIP TOOK PLACE. HE NOTED THAT EMIGRATION, IN PARTICULAR, REMAINED A MATTER OF GREAT INTEREST TO THE AMERICAN PUBLIC. PATOLICHEV INTERRUPTED AT THIS POINT, ASKING RHETORICALLY, "EMIGRATION OF WHOM? GEORGIANS? UKRAINIANS? TARTARS?" HE DID NOT MENTION SOVIET JEWS, PENTACOSTALISTS OR ARMENIANS. BALDRIGE CONTINUED. THE THIRD AREA IS ONE IN WHICH TRADE CAN ALREADY TAKE PLACE UNDER EXISTING LAWS AND PRACTICES, AND IT WAS WHERE WE BELIEVED THE GREATEST SHORT-TERM GAINS COULD OCCUR. THERE WAS REAL POTENTIAL FOR GROWTH IN OUR COMMERCIAL RELATIONSHIP IF THE PRAGMATIC APPROACH BEGUN AT JANUARY'S MEETING OF THE WORKING GROUP OF EXPERTS WERE CONTINUED. WE NEEDED TO TAKE CONCRETE STEPS TO PROMOTE AND DEVELOP OUR TRADE, TO REMOVE BARRIERS WHERE POSSIBLE, AND TO DEFINE COMMERCIAL OPPORTUNITIES THAT CAN BE REALIZED IN THE NEAR FUTURE.

10. SPECIFICALLY, THE SECRETARY SAID THAT AMERICAN COMPANIES NEEDED BETTER ACCESS TO SOVIET PURCHASERS, INVITATIONS TO BID ON CONTRACTS AND THE EXPECTATION THAT THEIR PROPOSALS WOULD BE REGARDED SERIOUSLY BY SOVIET ORGANIZATIONS. IN VIEW OF THE EXCLUSION OF MANY U.S. FIRMS FROM SOVIET SUPPLIER LISTS FOR SOME TIME, HE SAW THE NEED FOR A LETTER FROM BOTH HIMSELF AND MINISTER PATOLICHEV TO OUR RESPECTIVE BUSINESS COMMUNITIES POINTING OUT THAT INTERESTED AMERICAN FIRMS WILL BE INVITED TO BID ON SOVIET PROJECTS AND WILL RECEIVE FULL AND COMPLETE CONSIDERATION. HE EXPRESSED HIS ENCOURAGEMENT THAT SOVIET FTO'S HAVE BEGUN TO EXTEND INVITATIONS TO AMERICAN COMPANIES IN THE WAKE OF THE JANUARY EXPERTS GROUP MEETING AS WELL AS SOVIET AGREEMENT, IN PRINCIPLE, TO A U.S. RESUMPTION OF A PROGRAM OF SEMINARS AND EXHIBITIONS AT THE U.S. COMMERCIAL OFFICE. HE HOPED THAT IT WOULD BE POSSIBLE TO WORK OUT AGREEMENT ON THESE MATTERS IN A FORM WHICH WOULD BE PUBLICIZED

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13

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E.O. 12356: DECL: OADR
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TO SOVIET FTO'S AND END-USER MINISTRIES AS WELL AS U.S. COMPANIES. IF AGREEMENT CAN BE REACHED, THE SECRETARY STATED THAT HE WOULD BE PREPARED TO ANNOUNCE A RESUMPTION OF A U.S. GOVERNMENT TRADE PROMOTION PROGRAM IN THE USSR WHICH WOULD INCLUDE PARTICIPATION AT APPROPRIATE TRADE FAIRS, TRADE MISSIONS, AND A FULL RANGE OF SEMINARS AND EXHIBITIONS AT THE U.S. COMMERCIAL OFFICE. IN ADDITION, HE WOULD ALSO BE PREPARED TO BEGIN ACTION TO REMOVE THE 34-YEAR-OLD EMBARGO ON CERTAIN SOVIET FURSKIN EXPORTS TO THE UNITED STATES.

11. SUMMING UP, SECRETARY BALDRIGE SAID THAT IT WOULD BE UNREALISTIC TO THINK IN TERMS OF A VAST NEAR-TERM EXPANSION IN TRADE. HOWEVER, IT WAS POSSIBLE TO LOOK FOR NEW TRADE OPPORTUNITIES, BOTH IN AREAS WHERE WE HAVE ALREADY BEEN SUCCESSFUL, AS WELL AS IN NEW FIELDS. THE GOOD RESULTS WE HAVE ACHIEVED IN AGRICULTURE SHOULD BE EXTENDED INTO THE FIELD OF NON-STRATEGIC INDUSTRIAL GOODS, AND HE NOTED THAT THE DELEGATIONS WOULD BE REVIEWING NINE INDUSTRIAL SECTORS AND OVER 50 SPECIAL PROJECTS. WE WISHED TO DISCUSS HOW THESE AND OTHER PROJECTS WOULD FIT INTO THE NEXT SOVIET FIVE-YEAR PLAN. ON THE QUESTION OF CONTRACT SANCTITY, HE POINTED OUT THAT, GIVEN THE PROVISION OF THE EXPORT ADMINISTRATION ACT CURRENTLY UNDER CONSIDERATION, IT WAS INCORRECT TO CATEGORIZE U.S. COMPANIES AS UNRELIABLE SUPPLIERS, AND OFFERED TO HAVE ADDITIONAL DISCUSSIONS WITH THE SOVIET SIDE ON THIS IMPORTANT QUESTION.

12. AFTER REPORTS ON THE RESULTS OF THE JANUARY WORKING GROUP OF EXPERTS MEETING BY UNDER SECRETARY OLMER AND DEPUTY MINISTER SUSHKOV, MINISTER PATOLICHEV PROPOSED THAT THE NEXT MEETING OF THIS WORKING GROUP SHOULD BE HELD IN WASHINGTON IN 1986. SECRETARY BALDRIGE ACCEPTED THIS SUGGESTION AND THE MORNING SESSION ADJOURNED.

13. WORKING GROUP, AFTERNOON MAY 20, EXPANSION OF TRADE, INCLUDING PROJECTS

DEPUTY MINISTER SUSHKOV, WHO CHAIRED THE SOVIET DELEGATION AT THIS SESSION, STARTED OFF THE DISCUSSION WITH A SOVIET LITANY OF THE BASIC OBSTACLES TO USING U.S. COS. AS SUPPLIERS FOR EQUIPMENT AND TECHNOLOGY FOR KEY PROJECTS. HE NOTED THE LACK OF GUARANTEED CONTRACT SANCTITY, CONFUSION ABOUT WHAT THE U.S. WOULD LICENSE AND GENERAL UNCOMPETITIVENESS OF U.S. COMPANIES. SUSHKOV NOTED U.S. INTEREST IN PROJECTS IN AGRICULTURAL AND FOOD INDUSTRY PROJECTS AND MADE A PITCH FOR U.S. INTEREST IN OTHER INDUSTRIAL AREAS AS WELL. HE REITERATED THAT THE SOVIETS WANT COMPLETE SYSTEMS WITH STATE-OF-THE-ART EQUIPMENT, AND IF THEY CAN'T GET THIS FROM U.S. SUPPLIERS, THEY WILL OBTAIN IT ELSEWHERE. ILLUSTRATING THE DECLINE IN U.S. COMPANY ACTIVITY, SUSHKOV NOTED THAT EIGHT YEARS AGO 90 PERCENT OF THE COMPANIES AT OIL AND GAS EXHIBITIONS IN THE SOVIET UNION WERE AMERICAN, BUT THAT LAST YEAR LESS THAN 3 PERCENT WERE U.S. FIRMS. HE ADDED THAT U.S. COMPANIES NO LONGER HAVE AN EXCLUSIVE LEAD IN THOSE TECHNOLOGIES THAT THE SOVIETS DESIRE MOST. HE GAVE A LIST OF ABOUT 20 U.S. FIRMS WHICH RECENTLY RECEIVED BIDS FROM SOVIET FOREIGN TRADE COMPANIES INCLUDING COOPER, CATERPILLAR, HUGHES, GE, ALLIANCE TOOL, MONSANTO, ABBOTT, DEERE, DOW, FIAT ALLIS, CORNING, UNION CARBIDE, AND WORTHINGTON.

14. ASST/SEC DENNIN, WHO CHAIRED THE U.S. SIDE AT THIS SESSION, DID NOT RESPOND TO IT AGAIN HERE. HE FOCUSED ON MARKET ACCESS FOR U.S. COMPANIES AND DE FACTO DISCRIMINATION AGAINST U.S. SUPPLIERS BY SOVIET FOREIGN

TRADE COMPANIES.

15. DENNIN NOTED THAT U.S. COMPANIES HAVE BEEN TOLD BY SOVIET FOREIGN TRADE COMPANIES THAT THEY ARE CONSIDERED SUPPLIERS OF LAST RESORT. HE SAID SOVIET COMPANIES DO NOT INCLUDE AMERICAN COMPANIES ON BID LISTS AND A REVERSAL OF THESE POLICIES WAS A NECESSARY FIRST STEP TOWARDS REBUILDING TRADE TIES. DENNIN ASKED FOR EXPLICIT MFT ASSURANCES THAT IT WILL NOT DISCRIMINATE AGAINST U.S. COMPANIES AND THAT THEIR PROPOSALS WOULD BE CONSIDERED ON THEIR ECONOMIC MERITS. TURNING TO ANOTHER SUBJECT, DENNIN SAID THE UNITED STATES IS
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PREPARED TO RESUME EXPORT SEMINARS IN ITS COMMERCIAL OFFICE (USCO) IN MOSCOW WITH SOVIET MFT SUPPORT. COMMERCE WAS ALSO READY TO SPONSOR MISSIONS AND SALES SEMINARS AT APPROPRIATE SOVIET TRADE FAIRS. HOWEVER HE CAUTIONED THAT SUCH PLANS WOULD GO FORWARD ONLY IF THE SOVIET SIDE AGREED AND IDENTIFIED SPECIFIC PRODUCT AREAS IN WHICH THERE IS GENUINE INTEREST IN PURCHASING AMERICAN GOODS. DENNIN REGRETTED THE LONG DELAYS THAT ARE TYPICAL BEFORE SOVIET FOREIGN TRADE COMPANIES DECIDE ON PROJECTS AND SIGN ACTUAL CONTRACTS. HE MENTIONED SEVERAL PROJECTS WHICH HAVE LONG BEEN UNDER DISCUSSION AND URGED THE SOVIETS TO SPEED UP THEIR DECISION MAKING PROCESS.

16. CONCLUDING HIS PRESENTATION, DENNIN PROPOSED THAT A PROJECT WORKING GROUP COULD BE STARTED AND WOULD PROVIDE A VEHICLE FOR A REGULAR EXAMINATION OF INFORMATION ON PROJECTS, WHY THEY ARE NOT MOVING AND WHAT CAN BE DONE TO OVERCOME PROBLEMS. THE SOVIETS AGREED TO CONSIDER THIS PROPOSAL.

17. ACTING ASSISTANT ARCHEY THEN REVIEWED IN DETAIL U.S. EXPORT LICENSING POLICY TOWARDS THE SOVIET UNION AND THE IMPLICATIONS OF U.S. EXPORT LICENSING REGULATIONS FOR A LIST OF 33 PROJECTS WHICH WAS PROVIDED TO THE COMMERCE DEPARTMENT THIS SPRING BY THE SOVIET TRADE REPRESENTATIVE IN WASHINGTON. HE ASSERTED HIS BELIEF THAT THERE IS A BASIS FOR TRADE EXPANSION ACROSS A BROAD SPECTRUM OF NON-STRATEGIC TRADE AREAS DURING THE SOVIET 1986-90 FIVE-YEAR PLAN. ARCHEY NOTED THAT THE UNITED STATES, WHEN IT SAYS TRADE EXPANSION, IMPLICITLY MEANS EXPANSION OF QUOTE NON-STRATEGIC TRADE UNQUOTE. HE NOTED THAT THE UNITED STATES WILL NOT APPROVE COMMODITY EXPORTS TO THE USSR FOR END USERS ENGAGED IN MILITARILY-RELATED ACTIVITIES. ALSO, AS A MATTER OF POLICY, THE UNITED STATES WILL NOT LICENSE COMMODITIES WHICH WOULD REQUIRE AN EXCEPTION TO THE COCOM EMBARGO LIST, WITH RARE EXCEPTIONS.

GENERALLY, THE UNITED STATES WILL NOT APPROVE TECHNOLOGY TO DESIGN AND MANUFACTURE MULTILATERALLY

CONTROLLED COMMODITIES OR MANUFACTURE OF EQUIPMENT USED IN OIL AND GAS EXPLORATION AND PRODUCTION. TECH DATA ASSOCIATED WITH PROCESS CONTROL SYSTEMS FOR PLANTS IN MILITARILY-RELATED SECTORS ALSO WILL NOT BE LICENSED. ARCHEY THEN REVIEWED U.S. EFFORTS TO CLARIFY WHAT THE UNITED STATES WILL AND WILL NOT LICENSE AND NOTED THE JANUARY EFFORT TO CLARIFY U.S. POLICY AS IT AFFECTS 15 SECTORS SUBMITTED BY THE U.S.-USSR TRADE AND ECONOMIC COUNCIL (USTEC).

18. HE CONCLUDED WITH AN EXTENSIVE BRIEFING ON U.S. EXPORT CONTROLS, SPECIFICALLY ON PROCESS CONTROLLERS, ON 33 PROJECTS OF INTEREST TO THE SOVIETS WHICH HAD BEEN GIVEN TO THE COMMERCE DEPARTMENT IN APRIL. (ARCHEY LATER PROVIDED A TYPEWRITTEN COPY OF HIS ANALYSIS OF THE LIST OF 33 PROJECTS. COPIES WILL BE POUCHED AND HANDCARRIED BACK TO USDOC FOR THE RECORD.)

19. THE SOVIETS WERE VISIBLY STRUCK BY THE EXTENT OF THE U.S. EFFORT TO RESPOND TO THEIR QUESTIONS ON U.S. EXPORT CONTROL POLICY. THEY APPEARED PLEASED TO LEARN THAT MOST OF THE PROJECTS REVIEWED BY ARCHEY CAN PROBABLY BE EXPORTED TO THE SOVIET UNION UNDER GENERAL OR VALIDATED EXPORT LICENSES.

20. THE U.S. SIDE CONCLUDED THIS PRESENTATION BY PROVIDING THE SOVIETS WITH A LIST OF AT LEAST 20 ADDITIONAL PROJECTS WHICH WE BELIEVE, AFTER A PRELIMINARY REVIEW, CAN ALSO BE SUPPORTED.

BILATERAL CIVIL AIR AGREEMENT.

21. SAMARUKOV OF THE MINISTRY OF CIVIL AVIATION THEN PRESENTED THE SOVIET POSITION ON THIS QUESTION. HE NOTED THAT PEOPLE CONTINUED TO TRAVEL BETWEEN THE TWO COUNTRIES DESPITE THE LACK OF DIRECT AIR SERVICE. SAMORUKOV ARGUED THAT DIRECT SERVICE WAS NECESSARY TO FACILITATE INCREASED TRADE BECAUSE BUSINESS PEOPLE AND SOVIET FOREIGN TRADE REPRESENTATIVES WOULD NEED TO TRAVEL BETWEEN THE TWO COUNTRIES. HE NOTED THAT PAN AM AND AEROFLOT HAD BEGUN EXCHANGES OF VIEWS IN MARCH BT

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75

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AND THAT RESUMPTION OF PAN AM AND AEROFLOT FLIGHTS BETWEEN THE TWO COUNTRIES WOULD BE BENEFICIAL TO BOTH SIDES. HE HOPED THE JCC WOULD PROVIDE THE NECESSARY STIMULUS. ASSISTANT SECRETARY DENNIN RESPONDED THAT THE UNITED STATES ALSO BELIEVED THAT A NEW CIVIL AIR AGREEMENT COULD BE BENEFICIAL, BUT THAT ANY NEW ARRANGEMENT WOULD HAVE TO INCLUDE A SATISFACTORY BALANCE OF CONCESSIONS. HE ADDED THAT GOVERNMENT-TO-GOVERNMENT DISCUSSIONS ON A RESUMPTION OF BILATERAL AIR SERVICE COULD NOT BEGIN UNTIL THERE WAS AN AGREEMENT ON THE QUESTION OF NORTH PACIFIC AIR SAFETY.

22. BUSINESS FACILITATION AND TRADE POLICIES - MAY 21

DEPUTY MINISTER MANZHULO OPENED THE TUESDAY MORNING BUSINESS FACILITATION SESSION NOTING THAT THE CURRENT FACILITATION MECHANISM HAS HAD SERIOUS SHORTCOMINGS. HE DENIED U.S. CHARGES THAT THE MFT HAD INSTRUCTED ITS FTOS NOT TO ORDER FROM U.S. FIRMS OR PREVENTED THEIR SPECIALISTS FROM VISITING THE U.S. COMMERCIAL OFFICE (USCO). SOMEWHAT PARADOXICALLY, HE MUSED THAT PERHAPS THE REASON THE SOVIETS HAD NOT UTILIZED USCO WAS DUE TO ITS OFFICIAL STATUS AS A U.S. GOVERNMENT OFFICE AT A TIME WHEN IT WAS NOT USG POLICY TO SUPPORT TRADE WITH THE U.S.S.R. SINCE THE ATTITUDE OF THE US-USSR TRADE AND ECONOMIC COUNCIL (USTEC) HAD BEEN MUCH MORE POSITIVE, THE MINISTRY HAD BEEN MORE COMFORTABLE USING USTEC AS ITS PARTNER. IF THE USG WAS NOW READY TO SUPPORT TRADE PROMOTION ACTIVITIES AT USCO, THE MINISTRY WOULD BE PREPARED TO OFFER ITS ASSISTANCE IN ASSURING SOVIET COOPERATION.

23. MANZHULO THEN COMPLAINED ABOUT DISCRIMINATION AGAINST SOVIET COMMERCIAL ACTIVITIES IN THE UNITED STATES. HE NOTED THAT LOUISIANA AND MISSISSIPPI HAD LAWS WHICH PREVENTED THE SOVIETS FROM SUBMITTING BIDS ON STATE CONTRACTS. THE BELARUS TRACTOR COMPANY HAD NOT BEEN ALLOWED TO MOVE ITS HEADQUARTERS FROM NEW YORK

TO MILWAUKEE. IN ADDITION, THERE WERE THE EMBARGOS ON THE IMPORT OF CERTAIN SOVIET FURS AND NICKEL AND, OF COURSE, THE ABSENCE OF MFN. MANZHULO ALSO NOTED THAT THE U.S.S.R. WAS TRYING TO BECOME MORE FAMILIAR WITH GATT AND WOULD LIKE TO OBTAIN GATT OBSERVER STATUS. THEY WERE PREPARED TO FULLY ABIDE BY GATT RULES AND HOPED THAT THEIR REQUEST WOULD GENERATE A POSITIVE RESPONSE FROM THE U.S. SIDE.

24. IN RESPONSE, COMMERCE ASSISTANT SECRETARY DENNIN, HEADING THE U.S. DELEGATION TO THE SESSION, NOTED THAT THE EIGHT ITEMS RAISED BY THE SOVIETS AT THE JANUARY MEETINGS OF THE WORKING GROUP OF EXPERTS HAD BEEN RAISED TO THE HIGHEST LEVEL OF THE U.S. GOVERNMENT IN AN EFFORT TO FIND SOLUTIONS. GIVEN THE MORE POSITIVE ATTITUDE THAT THE SOVIETS HAD EXHIBITED TOWARD U.S. FIRMS SINCE THE JANUARY MEETING AND ASSURANCES THAT OUR COMPANIES WILL HAVE THE OPPORTUNITY TO SUBMIT BIDS ON SOVIET PROJECTS ON THE SAME BASIS AS OTHER FOREIGN FIRMS, THE SECRETARY WAS PREPARED TO ANNOUNCE OUR READINESS TO PROPOSE LEGISLATION TO THE CONGRESS WHICH WOULD TERMINATE THE 34-YEAR-OLD FURSKIN BAN. DENNIN NOTED THAT WE WERE ALSO PREPARED TO RESUME DISCUSSIONS ON THE 1981 TAX PROTOCOL. HOWEVER, THE SITUATION WAS COMPLICATED BY CHANGES IN U.S. LAW WHICH WOULD REQUIRE SIGNIFICANT RENEGOTIATION BEFORE A NEW PROTOCOL MIGHT BE SIGNED.

25. NICKEL. ON THE NICKEL EMBARGO, DENNIN POINTED OUT THAT IT HAD BEEN CUSTOMARY FOR THE USG TO OBTAIN AN UNDERLYING COMMITMENT FROM GOVERNMENTS ON THIS QUESTION. WE HAD INSISTED ON GOVERNMENT ASSURANCES FROM FRANCE, ITALY, JAPAN, THE FRG AND OTHERS.

WE HAVE NEVER CONSIDERED CERTIFICATES OF ORIGIN TO BE SIGNIFICANT BY THEMSELVES TO REMOVE EMBARGOS UNLESS THEY WERE BACKED BY SPECIFIC GOVERNMENT ASSURANCES. HE POINTED OUT THAT IN NOVEMBER WE HAD EXPLORED THE POSSIBILITY OF OBTAINING ASSURANCE FROM RAZNOIMPORT THAT ANY NICKEL EXPORTED TO THE UNITED STATES WAS OF WHOLLY SOVIET ORIGIN. HOWEVER, WE WOULD NEED SOME INDICATION THAT RAZNOIMPORT WAS ACTING ON BEHALF OF THE MINISTRY OF FOREIGN TRADE IN ISSUING THESE ASSURANCES. DENNIN BELIEVED THAT THIS ISSUE COULD BE RESOLVED THROUGH AN EXCHANGE OF LETTERS IF THE SOVIET SIDE WOULD SHOW FLEXIBILITY AND IF THE MFT WAS PREPARED TO INDICATE BT

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76

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E.O. 12356: DECL: OADR
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THAT RAZNOIMPORT WAS ACTING ON ITS BEHALF.

26. ANTIDUMPING - ON ANTIDUMPING DENNIN POINTED OUT THAT SINCE OUR JANUARY MEETING THE INTERNATIONAL TRADE COMMISSION HAD MADE A DETERMINATION OF NO INJURY IN THE CASE OF SOVIET POTASH EXPORTS. AS A RESULT THE CASE HAD BEEN TERMINATED. THE SOVIET EXPORTER HAD PARTICIPATED ACTIVELY IN THIS CASE AND GENERALLY PLAYED A USEFUL ROLE. OUR EXPERIENCE IN THE TITANIUM SPONGE ANTIDUMPING CASE HAD BEEN LESS SATISFACTORY. IN THIS INSTANCE THE SOVIETS PROVIDED INADEQUATE RESPONSES TO THE USG QUESTIONNAIRE. THE MOST COMPLETE INFORMATION GIVEN WAS THAT OF THE PETITIONER. THE RESULT HAD BEEN THE IMPOSITION OF AN ANTIDUMPING DUTY OF 83.96 PERCENT. THE EARLIEST THIS DETERMINATION COULD BE REVIEWED WAS APRIL 1986. IF THE SOVIETS WISH TO HAVE SUCH A REVIEW, THEY MUST ASK FOR IT BETWEEN APRIL 25-MAY 25, 1986. HE SAID THAT IF THE SOVIETS WANTED THEIR INTERESTS PROTECTED AT SUCH PROCEDURES, THEY MUST BE PREPARED TO PARTICIPATE ACTIVELY AND COOPERATE FULLY.

27. MFN - ON MFN DENNIN SAW LITTLE NEED TO RESPOND IN DETAIL TO THE SOVIET COMPLAINT WHICH HAD ALREADY BEEN COVERED AT SOME LENGTH BY THE SECRETARY AT THE OPENING PLENARY SESSION. THE SOVIETS WERE WELL AWARE OF THE RELATIONSHIP BETWEEN TRADE AND EMIGRATION SET FORTH IN THE JACKSON-VANIK AMENDMENT OF THE TRADE ACT OF 1974. THE CONCERNS WHICH GAVE RISE TO JACKSON-VANIK ARE STILL WITH US AND THE POSITION OF BOTH SIDES ON THIS QUESTION ARE WELL KNOWN.

28. MARITIME - ON MARITIME MATTERS MARAD REPRESENTATIVE BOURDON REPORTED ON THE RESULTS OF HIS MAY 20 MEETING WITH MORFLOT (SEE SEPTEL). HE NOTED BOTH SIDES HAD CONCURRED THAT A RESUMPTION OF TALKS WOULD BE BENEFICIAL AND THAT THERE WOULD BE CONSULTATIONS IN

THE NEAR FUTURE REGARDING THE DATE AND VENUE FOR SUCH TALKS. THE QUESTION OF PORT ACCESS WOULD BE ONE SUBJECT TO BE COVERED IN SUCH DISCUSSIONS.

29. CONTRACT SANCTITY - DENNIN ADDRESSED SOVIET CONCERNS ON CONTRACT SANCTITY, POINTING OUT PENDING CHANGES IN THE EXPORT ADMINISTRATION ACT (EAA). THESE CHANGES SHOW THAT CONTRACT SANCTITY IS NOT SOMETHING WE TAKE LIGHTLY. UNDER THE NEW LAW EXISTING CONTRACTS CAN BE BROKEN FOR FOREIGN POLICY REASONS ONLY IF THERE IS A "BREACH OF THE PEACE" AND EVEN THEN, CERTAIN SPECIAL CONDITIONS WOULD HAVE TO BE MET. WE WERE PARTICULARLY PLEASED THAT THIS PROVISION OF THE NEW EAA WAS A JOINT EFFORT BY THE ADMINISTRATION AND CONGRESS TO DEVELOP A SOLUTION WHICH WOULD GIVE REASSURANCE TO OUR TRADING PARTNERS ON THE QUESTION OF CONTRACT SANCTITY.

30. BELARUS - CONCLUDING HIS RESPONSE TO THE SOVIETS, DENNIN NOTED THAT IN THE INTEREST OF BUSINESS FACILITATION WE HAD DECIDED TO APPROVE THE LONG-STANDING SOVIET REQUEST TO MOVE THE HEADQUARTERS OF BELARUS TRACTOR CO. FROM NEW YORK TO MILWAUKEE. THIS APPROVAL WAS SUBJECT TO CERTAIN CONDITIONS WHICH WE WOULD BE PROVIDING.

31. ACCREDITATION AND VISAS - AFTER HAVING ADDRESSED THE ISSUES RAISED BY THE SOVIET SIDE MR. DENNIN POINTED OUT THAT A POSITIVE WORKING RELATIONSHIP WAS DEPENDENT ON SOVIET WILLINGNESS TO TAKE U.S. CONCERNS INTO CONSIDERATION. ALTHOUGH IT WAS TRUE THAT 26 U.S. FIRMS WERE ACCREDITED TO DO BUSINESS IN THE SOVIET UNION,

THE ACCREDITATION PROCESS REQUIRED A LENGTHY ONE, FREQUENTLY LASTING MORE THAN ONE YEAR. IN ADDITION, THERE HAD BEEN THE QUESTIONABLE REMOVAL OF ACCREDITATION LAST NOVEMBER FROM THE FIRM CALIFORNIA INTERNATIONAL TRADE (CIT). CASES SUCH AS THIS ONE COULD ONLY ERODE THE CONFIDENCE OF THE U.S. BUSINESS COMMUNITY. WE ALSO RECEIVED FREQUENT COMPLAINTS ON DELAYS OF PROCESSING VISA APPLICATIONS, THE ISSUANCE OF VISA FOR SHORTER PERIODS THAN THOSE REQUESTED BY THE COMPANY, THE RANDOM DENIAL OF VISA AND THE FAILURE OF FTO'S AND OTHER APPROPRIATE SOVIET ORGANIZATIONS TO RENDER THE NECESSARY VISA SUPPORT. THIS SOMETIMES FORCED COMPANY REPRESENTATIVES TO TRY AND ENTER U.S.S.R. ON TOURIST VISAS. FINALLY, WE HOPED TO SEE A MORE LIBERAL SOVIET BT

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77

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E.O. 12356: DECL: OADR
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POLICY TO PERMIT TRAVEL BY U.S. COMPANY REPRESENTATIVES TO REMOVE SITES THROUGHOUT THE SOVIET UNION, WHEN APPROPRIATE. DENNIN NOTED THAT WE WERE HAPPY TO SEE PROGRESS ON THE QUESTION OF DIRECT DIAL ACCESS FOR U.S. COMPANIES SINCE WE HAD RAISED THIS QUESTION IN JANUARY. ONE FIRM'S SERVICE HAD ALREADY BEEN RESTORED, THE RESTORATION OF ANOTHER'S WAS IN PROGRESS, AND WE UNDERSTOOD THAT AN ADDITIONAL NUMBER OF APPLICATIONS HAD BEEN MADE. GETTING MORE SOVIET STAFF TO SUPPORT OUR FIRMS' ACTIVITIES CONTINUES TO BE A PROBLEM AS A RESULT OF PROCEDURES ESTABLISHED BY UPDK. FOR EXAMPLE, USCO HAD BEEN WAITING NINE MONTHS TO FILL A KEY VACANCY AND A NUMBER OF FIRMS HAD BEEN WAITING EVEN LONG THAN THIS.

32. BUSINESS FACILITATION/ASSISTANCE TO SMALL MEDIUM-SIZED FIRMS. ON THE QUESTION OF BUSINESS FACILITATION, DENNIN ANNOUNCED OUR READINESS TO HOLD MEETINGS OF SPECIAL WORKING GROUPS IN MOSCOW OR WASHINGTON. THE SOVIET SIDE HAD MADE SOME HELPFUL SUGGESTIONS WITH REGARD TO ASSISTING SMALL AND MEDIUM-SIZED FIRMS, AND WE BELIEVED THAT IT WOULD BE USEFUL IF DESIGNATED STAFF MEMBERS OF OUR TWO TRADE MINISTRIES COULD PLAY AN OMBUDSMAN'S ROLE ON BEHALF OF SMALL BUSINESS. SMALL FIRMS COULD THEN SEND COPIES OF THEIR PROPOSALS TO THESE INDIVIDUALS IN THE HOPES OF GETTING PROMPT RESPONSES. ONE OF THE MOST FREQUENT COMPLAINTS WE HEARD FROM SMALL U.S. FIRMS WAS THEIR FAILURE TO OBTAIN TIMELY RESPONSES FROM SOVIET TRADE ORGANIZATIONS. THE U.S. FELT THAT THE MINISTRY OF FO

IGN TRADE, UNDER CERTAIN CONDITIONS, MIGHT ESTABLISH A "CANDIDATE STATUS" FOR COMPANIES WHICH HAD NOT YET MET SOVIET REQUIREMENTS FOR FULL ACCREDITATION. FIRMS IN THIS CATEGORY MIGHT BE MADE ELIGIBLE FOR UPDK ASSISTANCE REGARDING OFFICE SHARING, LOCAL EMPLOYEES, CAR PURCHASE AND REGISTRATION, ETC. DENNIN ALSO SUGGESTED THE ESTABLISHMENT OF BUSINESS FACILITATION CENTERS AT SOVIET EXHIBITIONS TO PROVIDE COUNSELING

SERVICES AND OTHER SUPPORT FOR SMALL COMPANIES. THE EXPENSES OF SUCH UNDERTAKINGS MIGHT BE DIVIDED ON A 50/50 BASIS. MR. DENNIN CONCLUDED BY STRESSING THAT WHAT HE HAD MENTIONED WERE ONLY IDEAS AND ADDED THAT THEY COULD BE DISCUSSED IN GREATER DETAIL BY THE RECONSTITUTED BUSINESS FACILITATION GROUP AS WELL AS USTEC.

33. MANZHULO ACKNOWLEDGED THAT SOME PROGRESS HAD BEEN MADE SINCE JANUARY AND THAT MORE DIFFICULT PROGRAMS COULD BE TACKLED EFFECTIVELY WITH PERSISTENCE AND GOOD WILL. HE NOTED, HOWEVER, THAT WE HAD NOT RESOLVED THE SERIOUS QUESTION OF MFN AND THAT THE UNITED STATES STANCE ON THIS ISSUE REMAINED UNCHANGED. OBTAINING ACCREDITATION TO OPEN A PERMANENT OFFICE IN THE U.S.S.R. GENERALLY REQUIRED ABOUT A YEAR, AS IT WAS NECESSARY FOR THE MINISTRY TO POLL APPROPRIATE FTOS. CASES WERE CONSIDERED CAREFULLY AND APPROVAL WAS NOT ALWAYS GIVEN. REFERRING TO THE CASE OF CALIFORNIA INTERNATIONAL TRADE, MANZHULO COMMENTED THAT THE MINISTRY CLOSED OFFICES WHEN COMPANIES VIOLATED SOVIET LAWS. IT WAS FOR THIS REASON THAT CIT ACCREDITATION HAD BEEN TERMINATED. ON VISAS, 14 DAYS WAS THE NORMAL PERIOD NEEDED TO OBTAIN APPROVAL OF BUSINESS APPLICATIONS. FTOS WOULD NORMALLY SUPPORT THESE APPLICATIONS. HOWEVER, IF A COMPANY HAD NO POTENTIAL BUSINESS TO TRANSACT, SUCH SUPPORT WOULD NOT BE FORTHCOMING. HE ACKNOWLEDGED THAT DIFFICULTIES WITH UPDK DID SURFACE FROM TIME TO TIME AND INVITED THE UNITED STATES TO BRING PARTICULAR PROBLEMS TO THE MINISTRY'S ATTENTION WHEN THEY AROSE.

34. MANZHULO AGREED THAT A PATTERN OF REGULAR MEETINGS BETWEEN SOVIET AND U.S. TRADE REPRESENTATIVES AND THEIR RESPECTIVE COUNTERPARTS AT COMMERCE AND AT THE MINISTRY OF FOREIGN TRADE, WOULD BE USEFUL TO DEAL WITH SMALL, NAGGING PROBLEMS. HE FELT THAT THE SMALL BUSINESS PROPOSALS SET FORTH BY THE U.S. SIDE WERE WORTHY OF MORE STUDY AND PROMISED A REPLY IF WE WOULD FORWARD THESE RECOMMENDATIONS TO HIM IN WRITING. ON THE QUESTION OF A POSSIBLE OMBUDSMAN, HE EXPRESSED THE FEAR THAT NO SINGLE OFFICIAL IN HIS MINISTRY WOULD BE ABLE TO COPE WITH THE AVALANCHE OF INQUIRIES WHICH WOULD BE STIMULATED BY SMALL FIRMS. HE SUGGESTED THAT ALTERNATE POSSIBILITIES BE CONSIDERED
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A REFERENCE TO HIS PRECARIOUS STATE OF HEALTH, PATOLICHEV SAID HE WAS AMENABLE TO ACCEPT ON THE CONDITION THAT HE WAS "TRANSPORTABLE AT THAT TIME." HE LATER COMMENTED THAT HIS DOCTORS HAD INSTRUCTED HIM NOT TO TRAVEL BY AIRCRAFT.

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E.O. 12356: DECL: OADR
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AND NOTED THAT IN SOVIET TRADE WITH FINLAND, THE SOVIET FINNISH CHAMBER OF COMMERCE HAD BEEN ABLE TO EFFECTIVELY SUPPORT SMALL BUSINESS. SIMILAR ARRANGEMENTS WERE IN EFFECT WITH THE FRG AND ITALY.

35. DENNIN PROMISED THAT COMMERCE WOULD SUPPLY THE SOVIET SIDE WITH FORMAL WRITTEN PROPOSALS ON THE QUESTION OF ASSISTANCE TO SMALL AND MEDIUM-SIZED COMPANIES. A PATTERN OF REGULAR CONTACTS ON THIS WOULD MEAN THAT LESS TIME WOULD HAVE TO BE DEVOTED TO SMALL BUSINESS ISSUES AT FUTURE JCC MEETINGS.

36. CLOSING SESSION - AFTERNOON - MAY 21.
MINISTER PATOLICHEV OPENED THE FINAL AFTERNOON CLOSING SESSION WITH THE PROPOSAL THAT BOTH SIDES DISPENSE WITH LONG CLOSING STATEMENTS AND DETAILED REPORTS ON THE RESULTS OF THE WORKING GROUP. HE EXPRESSED SATISFACTION WITH THE OVERALL OUTCOME OF THE JCC SESSION NOTING THAT WHILE MANY OF OUR EXCHANGES HAD BEEN RATHER HARSH, THE OVERALL SPIRIT OF THE MEETING HAD BEEN REALISTIC AND POSITIVE. EXPLICITLY ACKNOWLEDGING THE LINK BETWEEN TRADE AND OTHER ISSUES, PATOLICHEV COMMENTED THAT THE POSSIBILITY FOR FURTHER DEVELOPMENT OF OUR ECONOMIC RELATIONS DEPENDED ON THE OVERALL STATE OF OUR RELATIONS.

37. IN HIS CLOSING REMARKS, SECRETARY BALDRIGE SAID THAT WE HAD MADE PROGRESS BY REESTABLISHING AN ORGANIZED WAY TO RESOLVE PROBLEMS IN OUR TRADE RELATIONSHIP AFTER A SEVEN-YEAR HIATUS. WHILE THERE WERE MANY OBSTACLES TO BE OVERCOME, THE APPROACH OF TAKING ONE STEP AT A TIME WAS THE WAY TO BUILD CONFIDENCE AND TRUST. NOTING THAT HE WAS AN OPTIMIST, THE SECRETARY EXPRESSED HIS WISH TO WORK WITH HIS SOVIET COUNTERPART ON DEALING WITH THE PROBLEMS AND OPPORTUNITIES AHEAD OF US AND INVITED PATOLICHEV TO WASHINGTON FOR THE NEXT MEETING OF THE JCC IN 1986. IN

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File

79

USSR -
Computers

88

US PERSONAL COMPUTER EXPORT POLICIES THE EFFECT ON THE USSR

It is our belief that the United States has a unique opportunity to have a significant and positive influence on the USSR. We believe that the appearance of large numbers of personal computers in the USSR must necessarily result in changes in Soviet society that are positive with respect to the interests of the United States. Further, we believe that US export policy for personal computers can be the determining factor in producing those positive changes.

Within the USSR, there are different schools of thought about the future evolution of computation in the Soviet Union. One school believes that the paradigm of central computing facility, using timesharing, will best meet all their needs. The other school believes that much of the future lies with personal computers, (PCs). It has been forcefully pointed out to Soviet scientific leaders, that the personal computer route, if pursued, must lead to a serious loss of control over the copying, printing and distribution of written information. In addition, personal computers are so well suited to the task of local and distributed decision making as to precipitate a movement away from centralization.

The reaction of some Soviets is to conclude that the PC, like the office copier, is a luxury that they can do without. They believe that the risks they face from the introduction of PCs are too great; PCs should be used only under carefully controlled conditions.

The reaction of others can be stated as follows: PCs are the wave of the future and the Soviet Union must embark on the fastest route towards the widespread introduction of PCs into every aspect of Soviet society. If moving into the modern computational age is incompatible with current controls on the copying and printing of written material, then so be it! The leader of those expressing this position is Academician E. P. Velikhov. Of course the Soviets may try to impose controls on who can use PCs, and on what their citizens may do with them, but everyone understands that if millions of such systems are distributed throughout the country, they will lose effective control nevertheless.

We believe that the PC is a peculiar engine for the American Way. This is supported by the incredible growth of the industry in the United States. Every small business can profit from the efficiency of using a personal computer: a spreadsheet program to do financial modeling, a word-processing program to generate professional quality correspondence, a data base program for inventory, and an accounting package for payables, receivables, payroll, etc. Everything is done locally, under the control of the local manager. While Americans have long been offered the opportunity to accomplish the same objectives by using a

81
timeshared central computer, via phone connections, that paradigm has never gained the success for small businesses that has occurred with the personal computer. Today, the current plan for the future of computing in the USSR is the model of the central timesharing facility. This model fits in well with the desires of the Soviets to maintain very tight controls on who can do what with which information.

The Soviets have the capability to manufacture PCs similar to the IBM-PC-XT. They would use the 16 bit 8086 chip, which is currently in production in the USSR. The appropriate Soviet agencies have indicated a willingness to manufacture PCs, without Western help, in whatever quantities that Soviet planners might desire. However, Velikhov and others have more faith in the ability of the West to provide the excess manufacturing capability that they believe is necessary. Velikhov proposed that a plant be purchased from the West with a capacity of 1,000,000 units per year. This proposal has seems to have become accepted by other parts of the Soviet government, but the project has been sized down to 500,000 units per year.

By actually helping those in the Soviet Union who agree with Velikhov, we can accomplish several things. We can strengthen the hands of those who are trying to move the Soviet Union in directions which are more favorable to our interests. We can increase the possibility that the Soviets will have to give up its ironclad and obsessive controls on the printing, copying and distribution of written material. We can make it easier for those Soviets who want to bring about decentralized decision making to industry, business and government.

Most interesting, we can't accomplish these things by pleading with the Soviets, by arguing with them or by threatening them. We can accomplish these things by allowing the Soviets to introduce into their society agents of change designed by us! Every personal computer that runs Lotus-123 will be working from within the Soviet Union to help bring about societal changes that we would applaud. All we need to do is to grudgingly agree to let Western companies help the Soviets to build a PC plant. We don't have to give them any important technology, as they will supply the high tech micro-computer chips from their own factories.

If those who arranged for the Soviet Union to suffer without office copiers get the upper hand on the personal computer issue, then we will have missed a great opportunity. Its a little bit tricky, because any great enthusiasm on our part might strengthen the position of the reactionary faction that believes the the Soviet Union cannot tolerate widespread availabililty of personal computers.