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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. memo	to Directorate of Intelligence re: Nikonov's visit to the United States (10pp)	10/-/87	P-1
2. memo	from Fritz Ermarth to Colin Powell re: US -Soviet trade (2pp)	10/1/87	P-1
3. memo	from from Am. Conslu, Frankfurt to Sec. of State re: preliminary assesment of the June Plenum (5pp)	6/-/87	P-1
4. report	re: Soviet issues foreign counterintelligence - Russia, includes copy (4pp)	6/26/87	P-1
5. vax	from Am. Embassy, London to Sec of State re: Thatcher/Gorbachev discussions - further details (6pp)	4/-/87	P-1 Folder 3
6. memo	from Scott Sullivan to Peter Rodman, S. Danzansky and Tyrus Cobb re: Soviets excluded from european gas markets (2pp)	6/4/86	P-1 Folder 4

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- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

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STATEMENT OF
FRANKLIN J. VARGO
DEPUTY ASSISTANT SECRETARY FOR EUROPE
U.S. DEPARTMENT OF COMMERCE

BEFORE THE
SUBCOMMITTEE ON COMMERCE, TRANSPORTATION AND TOURISM
HOUSE COMMITTEE ON ENERGY AND COMMERCE

JUNE 25, 1986

Mr. Chairman:

I am pleased to appear before you this morning to discuss U.S. trade policies with regard to the Soviet Union. With me is Mr. John Boidock, Director of the Export Administration's Office of Technology and Policy Analysis, who will respond to your questions concerning U.S. export licensing policy toward the U.S.S.R.

U.S. trade with the Soviet Union has been relatively stagnant over the past decade, with U.S. exports averaging about $2.5 billion per year, mostly in agricultural products; U.S. imports from the USSR averaging about $400 million; and a large favorable trade surplus of about $2 billion.

Our trade last year fit almost perfectly into this mold. U.S. exports to the Soviet Union in 1985 were $2.4 billion, making the U.S.S.R. our 17th largest market. These exports were less than 2 percent of our total exports worldwide, but they nevertheless provided employment for about 60 thousand Americans. These exports also contributed significantly to individual companies and industries, particularly to our agricultural industry.

Three-fourths of our exports to the Soviet Union are agricultural products, and the nearly $2 billion of American farm products purchased by the Soviets last year made the U.S.S.R. our xth (?) largest agricultural export market. Corn and wheat accounted for the vast bulk of these sales. Manufactured goods exports to the U.S.S.R. last year were $x million. Phosphoric acid was the leading manufactured goods export.

U.S. imports from the Soviet Union last year were also typical, at $440 million. The resulting large surplus in our favor was $2 billion, which in fact was our third largest bilateral surplus last year (following The Netherlands and Australia).

U.S. Trade Policy Toward the U.S.S.R.

The United States does not have a "normal" trade relationship with the Soviet Union. The United States restricts its exports to the Soviet Union for national security purposes and sometimes for foreign policy purposes, does not grant the USSR "Most Favored Nation" treatment (MFN), does not provide official credits such as Eximbank financing or Commodity Credit Corporation (CCC) credits, and does not have a trade agreement with the USSR.

Our trade policy toward the Soviet Union reflects the fact that the political and security aspects of the relationship between the two superpowers are the dominant features of the total relationship. Trade with the Soviet Union is only x percent of U.S. global trade, and trade with the United States is only x percent of the USSR's global trade.

Within this framework, however, the Administration's trade policy is a positive one of seeking to develop peaceful trade with the Soviet Union where that is possible.

The foundation of our trade policy is the President's desire to build a more constructive overall working relationship with the Soviet Union. This is the third of the major objectives the President laid out in January 1984 for U.S.-Soviet relations. The President determined that expansion of peaceful trade which benefits both parties can and should be a an important part of our effort to build a more constructive relationship.

At the same time, however, we are cognizant that trade relations with the Soviet Union cannot be viewed separately from our overall relations and that major improvements in the trade relationship cannot take place without parallel improvements or progress in other aspects of the relationship.

A prime example is human rights, which are fundamental to our American values. As a moral people, we cannot abandon those in need. The Jackson-Vanik amendment links extension of MFN to Soviet emigration and expresses the U.S. interest in encouraging freer emigration and respect for human rights. We have made it clear that the Administration and the American people view freer emigration and human rights as fundamental U.S. concerns which bear on possibilities for improving the trade relationship.

Additionally, we believe that trade with the USSR needs to be approached with realism and sound commercial calculation, neither exaggerating nor minimizing opportunities and benefits for either side. And finally, in all considerations of U.S.-Soviet trade policy our national security remains paramount. Strategic goods and technology are not areas where we are or will be interested in trade expansion. Our efforts to expand US-Soviet trade are limited only to non-strategic goods and services.

These basic policies do not not lay out an easy course. They are, however, policies which we believe are realistic and which provide a solid basis for carrying out a consistent, principled, long-term trade policy which is understandable to our own business community, the Soviets, and our allies.

We believe our policies provide for mutually-beneficial expansion of trade in a way that will allow trade to contribute to the overall U.S.-Soviet relationship, and to the health of the U.S. economy and to employment. There are areas in which trade can be expanded now, and it is the Administration's policy to encourage and promote that expansion. The growth prospects, however, are more limited than those, for example, in a full trade relationship such as could occur under conditions of significantly increased emigration from the Soviet Union.

Steps Toward Expansion of Peaceful U.S.-Soviet Trade

The Administration, Mr. Chairman, has taken positive steps to improve the prospects for peaceful trade. Two years ago, in June 1984, the President agreed to a ten-year extension of the U.S.-U.S.S.R. Long-Term Agreement on Economic, Industrial, and Technical Cooperation. The Agreement provides in general terms for the two governments to facilitate nonstrategic trade and commercial cooperation. This was followed by a number of important steps to resume high-level bilateral trade contacts, reestablish a mechanism for discussing trade issues, improve market access, and assist U.S. business development efforts.

To convey our policy on expansion of peaceful trade and identify areas where progress might be possible, last year we reestablished an official government-to-government trade dialog. In January 1985 then- Under Secretary of Commerce Lionel Olmer led an interagency delegation to Moscow for the first meeting of the Trade Working Group since 1979. This Working Group led the way to a meeting of the Cabinet-level Joint U.S.-USSR Commercial Commission, which had not met in six years.

That Commission met in May 1985, when Secretary Baldrige traveled to Moscow to co-chair the meeting with the Soviet Minister of Foreign Trade, Nikolai Patolichev. The Secretary was able to reestablish a mechanism for resolving commercial problems, improve market access for U.S. companies in the Soviet Union, and improve the overall trade relationship. Secretary Baldrige traveled to Moscow a second time last year, to participate in the ninth meeting of the U.S.-USSR Trade and Economic Council (a private sector group on the U.S. side), and to meet the new Soviet Foreign Trade Minister, Boris Aristov.

During both visits to the Soviet Union, Secretary Baldrige met with General Secretary Gorbachev. While other aspects of the overall U.S.-Soviet relationship were discussed during these meetings, they focused on trade and the interest of both sides in seeing trade expand where that was possible.

Our efforts will continue during the next meeting of the Joint Commercial Commission. Soviet Foreign Trade Minister Aristov has accepted Secretary Baldrige's invitation to come to Washington for this meeting, which we expect to be held later this year.

Market Access.

Of greatest concern to us initially was the curtailed access to the Soviet market which American firms had been experiencing. Secretary Baldrige made improved market access for U.S. companies his main objective in his meetings with Minister Patolichev, and as a result, the Soviets agreed to take steps to ensure American companies could bid for business in the Soviet Union.

In an unprecedented letter to all Soviet foreign trade organizations, Minister Patolichev instructed them to invite interested American firms to bid on projects, to provide American companies with access to appropriate Soviet officials, and to consider American company proposals on their economic merits. His letter also stated the interest of the Soviet Government in developing more business with the United States in areas that both countries agreed were in their mutual interest. Secretary Baldrige, in turn, published in Business America an open letter to the American business community advising U.S. firms of the results of the Joint Commercial Commission and encouraging them to explore trade opportunities in the Soviet Union.

Since that time, American companies have reported a sharp improvement. They are receiving bid inquiries. They are getting in to see Soviet officials. They are being asked to come up with new proposals. And most significantly, business is up. Soviet orders for machinery and equipment from U.S. firms in 1985 rose to $240 million, compared to only about $70 million in 1984. Those new orders mean about six thousand new jobs for American firms.

In response to this positive step by the Soviets, Secretary Baldrige announced that the Administration would seek legislation to remove a 34-year-old embargo on imports of seven types of Soviet furskins. The House has incorporated that legislation into the Miscellaneous Tariffs provision of the trade bill recently passed by the House, and the Senate is now considering the furskin legislation. We urge your support.

Removal of the embargo is strongly in the interest of the United States. The steps undertaken by the Soviets are leading to increased U.S. exports that are already creating thousands of U.S. jobs, while analysis indicates there will be little or no negative effect on the domestic furskin industry. This is a modest step, but one of very significant symbolic importance. It would demonstrate the willingness of the President and the Congress to take concrete steps to improve the bilateral relationship with the Soviet Union where that is possible and in the interest of both sides.

Trade Promotion

An important task now is to take advantage of the improved policy climate for trade by using it to conclude more new business. We are doing this both directly through U.S. government export promotion and market development activities. We are also doing this by supporting the activities of the U.S.-USSR Trade and Economic Council (USTEC), a private sector organization which has operated successfully since its creation in 19xx to assist U.S. companies in dealing with the complex Soviet economic system.

In order to assist U.S. companies in their efforts to sell to the Soviet market, the U.S. Department of Commerce has expanded its export promotion assistance. We have added a second U.S. Department of Commerce market development officer to our U.S. Trade Development Office in Moscow, have devoted increased resources in the United States to identifying specific market prospects, and have developed a program of export promotion events for U.S. companies in the Soviet Union.

With information provided by the U.S.-U.S.S.R. Trade and Economic Council and Soviet foreign trade officials, we have identified sectors and projects where U.S. companies are highly competitive, where the equipment and technologies are clearly non-strategic, and where there is strong Soviet demand. We are looking at nine major areas:

- o Food Production and Processing
- o Earthmoving Equipment
- o Mining and Forestry Equipment
- o Agricultural Chemicals
- o Housing and Construction Equipment
- o Medical Equipment and Supplies
- o Pollution Control Equipment
- o Irrigation Equipment
- o Pulp and Paper Equipment

Last week eleven U.S. medical equipment companies participated in the first of our new series of Marketing Sales Seminars in the Soviet Union. They had an opportunity to present their capabilities in cardiology, ophthamology and surgery to over 130 Soviet end-user specialists. This provides highly valuable product exposure to key Soviet purchasing officials, and provides one of the only ways to "advertise" U.S. company capabilities in the USSR.

We have selected food processing and agribusiness as the key area on which we will be focussing for the next few years, because of special American capability in this field and the priority assigned it in Soviet economic plans. In September we are sponsoring a major U.S. exhibit at the the Soviet food industry show, INPRODTORGMASH. This will be our first major sponsored event in the Soviet Union in seven years. Last month, a senior Commerce Department official led a mission to the Soviet Union to identify the food industry equipment and technologies the Soviets are most interested in seeing at this exhibition.

Over 40 U.S. companies, two-thirds of them new to the Soviet market, will display their wares and services at this show. The interest shown by U.S. companies in expanding peaceful, non-strategic, trade is evident in the fact that these companies are all paying the full cost of this trade promotion effort -- including the exhibition space, the cost of transportation of their exhibits, their personal transportation, expenses while in Moscow, and even Department of Commerce overhead. There is no U.S. government subsidy involved in our promotion program anywhere in the world, including the Soviet Union.

Export Licensing Policy

In addition to our export expansion efforts, you have asked that we discuss U.S. export licensing policy toward the Soviet Union. With me here today is John Boidock, Director of the Office of Technology and Policy Analysis in the Export Administration of the Commerce Department who will respond to your questions in this area. I would only like to note two developments in U.S. trade policy affecting the U.S.S.R.

One concerns the reliability of American companies as suppliers to the Soviet market. In recent years, many American companies have been told by Soviet trade officials that they could not be viewed as reliable suppliers. They have been told that long-term relations with U.S. firms cannot be entered into with a high degree of confidence as long as the U.S. government can force the cancellation of contracts.

The new Export Administration Act makes a clear statement on contract sanctity. The Act states that contracts may not be cancelled for foreign policy reasons unless the President certifies to Congress that there exists a breach of the peace which poses a serious and direct threat to the strategic interest of the United States.

The second area concerns our foreign policy controls. In January of this year, the Commerce Department adjusted its licensing policy for foreign policy controls on the export of technical data relating to oil and gas exploration and production. Applications for the export of technical data for oil or gas exploration or production will be reviewed on a case-by-case basis and not on a "presumption of denial," as before. Applications for the export of exploration and production equipment will continue to be reviewed on a case-by-case basis and generally will be approved, unless subject to multilateral review in COCOM.

This policy modification was made after reviewing the positive steps that the Soviets had taken in their relations with us to that time. If our bilateral relationship continues to i prove, and we see further progress in areas of interest to us, we will consider further changes in our foreign policy controls.

Trade Outlook

Mr. Chairman, let me conclude by stressing the need for realism in U.S.- Soviet trade. There are definite growth prospects for peaceful trade, even within the present policy framework. However, the Soviet Union is not going to be a booming market across the board. The Soviet Union is the world's second largest economy, but it is not a major trading nation. It imports only about $30 billion annually from the West -- an amount which makes its hard currency market for Western products about the same size as Switzerland's.

The U.S.S.R. has plans for significant increases in economic activity, including imports. Recent events, however, will affect their plans. The nuclear disaster at Chernobyl certainly is a factor. But in dollar terms the major Soviet problem is their declining hard currency revenue from energy exports. Oil and gas exports account for about two-thirds of Soviet exports to the West. Every dollar decline in the price of a barrel of oil reduces Soviet hard currency exports by about $500 million, and the reduction of world oil prices may cost the Soviet Union a hard currency loss of $5 billion or so.

World demand for Soviet raw materials -- timber, metals, and other industrial materials -- will grow slowly; and future Soviet earnings are likely to be a function of price changes in key commodities. While the Soviet Union can certainly cope with the decline in hard currency availability in the short term by selling gold and making greater use of credits, the longer-term outlook is uncertain. The Soviet Union is not a large exporter of manufactured goods, a fact which will have to be changed if the Soviets are to increase their ability to trade with the West over the longer-run. This change, however, will not come easily.

So Mr. Chairman, we must be realistic regarding the role of trade in U.S. - Soviet relations. Trade must continue to be viewed in the context of political and national security concerns. And trade must be viewed in the context of the Soviet economic situation. Nevertheless, there are prospects for trade growth -- and the Administration believes we should seek to expand trade where possible.

While it is unlikely that the United States and the Soviet Union would ever become major trading partners, the growth opportunities that exist are of worthwhile economic benefit to both countries. The employment possibilities in this trade are not inconsequential, and the contribution of this trade to the overall relationship must not be overlooked either -- particularly if such trade were to contribute to an improvement in human rights and emigration.

Thank you, Mr. Chairman.

SOVIET UNION - Danzansky

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West Europe to Buy Norway Gas, Cutting Reliance on Soviet Supply

By JOHN TAGLIABUE

Special to The New York Times

BONN, June 2 — Several major Western European gas companies today announced a multibillion-dollar agreement to bring natural gas from Norway's North Sea fields.

The transaction would make Norway the main supplier of natural gas for Western Europe well into the next century. It would sharply reduce the region's reliance on supplies from the Soviet Union, a move favored by the United States..

The agreement between Statoil, Norway's state-owned energy concern, and six gas companies led by West Germany's Ruhrgas A.G. is expected to lead to Western Europe's biggest gas deal ever. Its total value, including everything from pipeline construction to actual gas purchases, is estimated by industry experts at more than $64 billion.

Delivery to Start in 1993

The agreement, Ruhrgas said in a statement, is for the delivery of 686.5 billion cubic feet of natural gas annually over a 27-year period. Partial delivery of the gas will begin in 1993, Ruhrgas said, and will increase gradually over several years to the full delivery amount.

The difficulties of exploiting the Norwegian gas fields, involving construction of more than 900 miles of pipeline, will make the new natural gas costlier than Soviet gas. The Soviet prices, which vary, are kept secret.

"It is quite significant because you are looking at a contract to procure what will be 30 to 40 percent of European gas supplies," said Tom Cox, a director at Gaffrey, Cline Associates, the London-based energy consultants. "It will be expensive but hopefully politically reliable."

Washington's Wary View

The United States has argued strongly in the past against making Western Europe too dependent on Soviet gas and thus vulnerable to political pressure from Moscow.

In 1981, when the Western European governments approved the Siberian gas pipeline to the West despite strong resistance from Washington, they promised to push development of European gas to limit reliance on the Soviet Union.

[In Washington, a State Department official, requesting anonymity, said: "We've been anxious for the Norwegians to develop and sell natural gas to Western Europe. This will reduce Western Europe's dependence on Soviet gas — and that's good."]

Norway, which now provides about 24 percent of Western Europe's natural gas, competes with cheaper gas from the Soviet Union and Algeria, which have abundant supplies. Industry analysts said Norway's secure position in the Western alliance helped it gain support for the deal. The agreement, reached after 18 months of arduous negotiations, needs Norwegian parliamentary approval, considered a formality.

Kurt Rippholz, a spokesman for Ruhrgas at Essen, said the new supplies would lift Norway's share of natural gas deliveries to West Germany, the largest customer, to 20 percent from the present 13 percent. Soviet deliveries now account for about 24 percent.

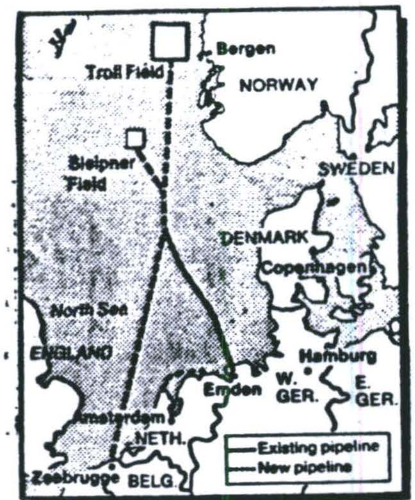
Ruhrgas and France's state-owned company, Gaz de France, will receive the lion's share of the new gas supplies. Lesser amounts will go to two smaller West German gas companies, to Distrigaz S.A. in Belgium and to Nederlandse Gasunie in the Netherlands.

The company said the project involves developing the huge Troll gas field, about 65 miles northwest of Bergen, off the coast of Norway, and the Sleipner field, about 180 miles southwest of Troll. With proven reserves of 44.6 trillion cubic feet of gas, Troll is the second-largest European gas field, after Groningen, in the Netherlands, and the largest untapped gas field in Europe. The smaller Sleipner field has estimated reserves of about 7 trillion cubic feet.

The gas would be delivered through a seabed pipeline to be built to link the fields with each other and with the Continent, including a new 875-mile pipeline to be constructed to Zeebrugge on the Belgian coast and a spur to an existing pipeline to Emden, in northern West Germany.

Ruhrgas did not disclose what price it would pay but said deliveries would be "under competitive conditions for energy markets." Analysts said the North Sea fields, 980 to 1,100 feet beneath rough waters and requiring rigs about 1,500 feet high, were extremely expensive to operate. As a result, they said, prices could be as much as double current levels.

The deal is also expected to give a major boost to European producers of steel pipe and other gas field equipment. They have been hard hit by oil exploration cutbacks caused by the slump in oil prices. Statoil officials in Oslo estimated that the deal would generate about $8 billion worth of investment.



The New York Times / June 3, 1986

The new agreement follows the release last week of a report by the International Energy Agency that urged Western industrial countries to develop new natural gas supplies to match increasing demand.

The report, focusing on the 24 member countries of the Organization for Economic Cooperation and Development, said gas demand was expected to rise at a rate of seven-tenths of 1 percent to 1.3 percent a year from 1984 to 2010, based on the assumption that oil prices will fall from 1985 levels but pick up again in the 1990's.