

WITHDRAWAL SHEET

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DOCUMENT NO. & TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. memcon	re 4/27/88 conversation between Dwayne Andreas and the Vice President, 2p <i>R 11/9/06 FO4-075 #12</i>	n.d.	B1
2. memo (1440)	Colin Powell to Chief of Staff, re joint US-USSR Commercial Commission meeting on March 15-16, 2p <i>R " " #13</i>	2/25/88	B1
3. report	re proposal from the US delegation to the US-USSR Working Group of Experts, 4p <i>R " " #14</i>	n.d.	B1
4. report	re overview of US-Soviet trade issues for joint US-USSR Commercial Commission in Moscow, 12p <i>R " " #15</i>	n.d.	B1

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WASHINGTON, D.C.

(self-typed)

Date 4-29-88

TO: The President

FROM: THE VICE PRESIDENT

Re: Dwayne Andreas; conversation with
Gorbachev

Attached hereto is a memo on what
Andreas told me.

I thought you might find it of interest.

cc: Colin Powell (please pass to SecState)
Howard Baker
Craig Fuller

attachement (Memcon- Classified.)

~~S E C R E T~~

MEMORANDUM OF CONVERSATION

Wednesday, April 27, 1988; 2:30 p.m.

Jim Thompson mentioned that Dwayne Andreas, now on our team, had a message from Gorbachev that Gorbachev would be glad to see me in Moscow after the summit.

I called Andreas. He did not mention "being on our team," but he did fill me in on the Gorbachev conversation.

He says that it is difficult for him to have a meaningful conversation now with anybody in the Administration. All they want to do is talk about human rights.

He discussed the American elections with Andreas. He indicated that if I had the nomination firmly wrapped up, he would welcome a visit from me, particularly if we could talk substance without "leaking to the New York Times.

He asked Andreas to talk to Dobrynin about it. Andreas did talk to Dobrynin, and Dobrynin showed a great deal of interest. He wanted to think more about it. He "wouldn't say for sure," but indicated that it might just fit.

Andreas plans to mention this to Howard Baker, with whom he is in contact a lot.

Gorbachev indicated that there is a lot of substance to discuss, but we feel the U.S. side is still hiding behind emigration, unwilling to go forward.

Gorbachev: "We don't get any real conversation anymore. It all starts out and ends on human rights."

Gorbachev told Andreas, "I have a program on human rights, but I can't do it under a lot of pressure." He told Andreas he would like to talk to the President privately about this program.

For my part, I told Andreas that the idea would have great interest to me, but that it would have to be substantive -- that I would have to do it not as a candidate, but as the Vice President, following up perhaps on some post-summit items.

~~S E C R E T~~

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BY LOI NARA, DATE 11/9/06

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~~S E C R E T~~

Andreas and I agreed that the best thing would be a private one-on-one meeting with Gorbachev about the future. He felt that is exactly what Gorbachev wanted.

#

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THE WHITE HOUSE
WASHINGTON

February 25, 1988

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: COLIN L. POWELL 

SUBJECT: Joint U.S.-USSR Commercial Commission (JCC)
Meeting, Moscow, March 15-16

The JCC will meet in Moscow March 15-16. Secretary Verity will head the U.S. Delegation, which will include representatives from State, Treasury, Commerce, USTR and the NSC staff. The Soviet delegation will be headed by the head of the newly created Ministry of Foreign Economic Relations, Konstantin Katushev. While in Moscow for the JCC, Secretary Verity has requested appointments with Soviet officials, including General Secretary Gorbachev. That request has been approved and forwarded by State.

The Joint Statement which the President and General Secretary Gorbachev issued on December 10 instructed trade ministers to convene the JCC "to develop concrete proposals" for the expansion of mutually beneficial trade and economic relations. It is clearly understood by both sides that we are talking about non-strategic trade.

Meeting in Moscow at the same time as the JCC will be the U.S.-Soviet Trade and Economic Council (USTEC). USTEC, set up in the early 1970s, is composed of U.S. businessmen interested in trade with the Soviet Union. James Giffen is President of USTEC. The Soviet counterpart in USTEC is the Soviet Chamber of Commerce and Industry. While there is no formal USG participation in USTEC (and no control over its activities), USG officials have usually addressed USTEC meetings. Traditionally, JCC and USTEC meetings have coincided to take advantage of the presence of USG and Soviet officials. In this case, a single flight has been chartered to include both delegations, with the USG reimbursing costs. Verity had approved the joint meeting and travel and proposes to address the USTEC meeting in Moscow.

On February 18-19, U.S. and Soviet officials met in Washington to prepare for the JCC. Notice of this meeting was given in accordance with the President's recent directive. Commerce Assistant Secretary Louis Laun chaired the meeting at which the U.S. side presented a list (Tab A) of concrete steps which should be considered at the JCC in Moscow. The Soviets raised some of their specific concerns and gave us two documents, one a proposed joint statement for the JCC and the other a protocol to amend the 1974 Long-Term Agreement between the U.S. and USSR. Both these

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documents are being reviewed interagency at the staff level prior to policy-level discussion.

The memo at Tab B gives greater detail on the history of the JCC and USG objectives for the meeting.

We have endeavored to heighten Commerce Department sensitivities to the policy, security, and political implications of "encouraging" economic relations with the Soviet Union and the need to adhere carefully to our four part agenda. The NSC staff will continue to monitor the preparations. Commerce will send us all papers, including Secretary Verity's remarks, for clearance.

Steve Danzansky will continue to keep Dan Crippen informed of the preparations.

Attachments

Tab A	U.S. Paper Given to Soviets February 19
Tab B	Commerce Background Paper on JCC
Tab C	Tentative U.S. Delegation to JCC
Tab D	Draft JCC agenda

CONCRETE STEPS TO BE TAKEN BY THE
JOINT US-USSR COMMERCIAL COMMISSION
TO EXPAND US-SOVIET TRADE AND ECONOMIC RELATIONS

PROPOSED BY THE U.S. DELEGATION TO THE
US-USSR WORKING GROUP OF EXPERTS
FEBRUARY 18-19, 1988

The U.S. delegation stressed the relationship between trade and the overall bilateral relationship, stating its hope that further improvements in other aspects of the relationship would be such as to permit fundamental improvements in the underlying conditions for trade relations. The delegation drew particular attention to the U.S. policy of the relationship between MFN and emigration.

Within the context of the overall relationship, the U.S. delegation expressed the strong interest of the U.S. side in increasing mutually beneficial bilateral trade and economic relations. The delegation pointed to the Summit Statement's instructions to the Joint Commission to develop concrete ways of expanding trade and economic relations.

In pursuit of this objective, the U.S. delegation proposed that the 10th session of the US-USSR Joint Commercial Commission agree on a series of specific steps that would improve the conditions and prospects for doing business in the USSR. The delegation expressed its interests in further steps to create a business climate which would allow viable contracts or joint venture agreements in non-strategic areas to be signed. In addition, the delegation noted the strong U.S. business interest in seeing the Soviet side focus on concluding some long-standing contract negotiations that have been underway with U.S. firms.

The U.S. delegation proposed agreement on the following concrete measures:

Improving Marketing Access and Information.

The the Soviet side would agree to establish mechanisms creating a greater marketing transparency. In particular, the U.S. seeks: (1) an information clearing center on the specific import requirements of Soviet entities having decentralized importing authority; (2) information sufficient to allow U.S. companies to reach the holders of key trade positions in the reorganized Soviet trade structure; and (3) Soviet endorsement of a U.S. "Commercial Newsletter" to be sent to those individuals on a periodic basis.

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As the Soviet trade structure changes, a central trade information center of import requirements would benefit both sides. A greater number of U.S. and other companies would be able to more readily determine what products and services Soviet enterprises wanted to import. Soviet enterprises would find more bidders as a result, meaning more competition and lower prices. The central trade information center would have no role in trade decisions. It would be only a depository of information. The U.S. side provided a copy of the "Commerce Business Daily" as an example of a central information source on U.S. government contracts.

Provision of lists of Soviet trade decision makers and official endorsement of a commercial newsletter would greatly improve the ability of U.S. companies to offer their products in the Soviet market, improving their business prospects and also improving the prospects that Soviet buyers would find better products at better prices. Copies of U.S. Commercial Newsletters distributed in other countries were provided to the Soviet delegation.

Initiating a Trade Missions Program.

The United States would initiate a program of trade missions and company seminars in the USSR in non-strategic areas of interest to both countries. The Soviet side would agree to facilitate this program by providing appropriate assistance to help the missions identify and meet prospective business partners.

Establishing High Potential Sectoral Working Groups.

Both sides would agree to establish sectoral working groups to expand trade in peaceful industry sectors where both agree the potential for trade and economic cooperation is highest. These groups would provide a continuing means of following up on business proposals and identifying particular trade prospects. They would facilitate the prospects of buyers and sellers establishing contact, and would help reduce time delays and problems that have delayed the completion of business arrangements. The U.S. delegation proposes that the first groups be established in food processing, energy equipment, construction equipment, and medical equipment.

Forming a Tourism Working Group.

Believing that tourism in the USSR represents significant potential for expanding mutually beneficial business, both sides would agree to establish a tourism working group under the JCC for the purpose of facilitating resolution of tourism-related commercial issues. Such a working group could open new possibilities for cooperation between U.S. travel suppliers and Soviet organizations in the area of tourism in the USSR. Subjects could also include possibilities for cooperation with U.S. hotel corporations. The group could also explore joint venture opportunities between Soviet organizations and U.S. hotel firms and other firms in the tourism industry.

Facilitating Use of the US Commercial Office in Moscow.

The Soviet side would agree to encourage Soviet trade executives and end users to utilize the facilities of the U.S. Commercial Office (USCO) in Moscow. USCO maintains a well equipped commercial library containing commercial directories and other information on products and services available from U.S. companies. Entry to USCO is presently barred by police unless visitors have specific authorization. The U.S. delegation seeks Soviet agreement to have open access to USCO with no authorization needed, and also seeks an open letter to the Soviet trading community from Chairman Kamentsev or Minister Katushev encouraging them to visit and use the USCO facilities -- to find U.S. suppliers, but also to find prospective U.S. customers as well.

In addition, the U.S. delegation seeks the agreement of the Soviet side that the State Committee on Science and Technology (GKNT) will cooperate fully in providing the necessary facilitation assistance to single company shows and seminars at USCO. The Foreign Trade Ministry has provided the support agreed at earlier JCC meetings, but GKNT has not, despite repeated requests. Lack of such support, particularly GKNT's encouragement of end users to visit the shows and seminars, is a significant obstacle to the successful use of USCO.

Improving Business Facilities.

The Soviet side would agree to take steps to improve business facilities for U.S. companies operating in the USSR. U.S. companies, like other Western firms, face high rents and phone bills, difficulties in being able to hire personnel, problems with office space, and other impediments. Soviet efforts to improve the work environment for U.S. firms could aid considerably in facilitating bilateral business.

Creating a Working Group on Foreign Investment In USSR.

Both sides would agree to create a joint working group to study the conditions affecting foreign investment in the USSR, including joint ventures. The Soviet joint venture law opens up new opportunities in nonstrategic commerce, but also raises questions of uncertainty, and hence risk. The Working Group would be comprised of government and industry representatives from both countries. It would explore incentives and impediments associated with foreign investment in the USSR, and would focus on the conditions for safeguards in areas such as dispute settlement and intellectual property rights protection.

Establishing a Joint US-USSR Legal Seminar Series on Business Law.

Both sides would agree to establish a legal seminar seminar involving government and private lawyers from both countries. The ongoing reform of the USSR's foreign trade sector as well as the domestic economy will significantly change the forms and methods of doing business for Western companies. The goal would be a greater understanding of the practical legal aspects of business dealings between U.S. firms and the USSR. The first US-Soviet seminar would be proposed for mid 1988.

Explaining Trade Reform Measures. The U.S. delegation seeks a discussion at the JCC regarding the Soviet trade reform measures. The U.S. side seeks details on the functioning of the entities that are obtaining foreign trade rights, and how these entities will relate to the Foreign Economic Commission, the Ministry of Foreign Economic Relations, and other government entities. The U.S. delegation seeks to understand the scope of the reforms, and to learn the extent to which Soviet enterprises will be permitted to contract directly with foreign suppliers and customers. The U.S. side also seeks to ascertain how restraints on trade will be imposed. For example, would import restraints be for balance of payments or other internationally recognized reasons only? Would restraints be in a fully transparent manner?

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OVERVIEW OF U.S.-SOVIET TRADE ISSUES
FOR JOINT U.S.-U.S.S.R. COMMERCIAL COMMISSION
IN MOSCOW, MARCH 15-16, 1988

The purpose of this memorandum is to review the setting, the objectives, and the policy positions for the U.S. delegation to the tenth session of the Joint U.S. - USSR Commercial Commission (JCC) to be held in Moscow, March 15-16, 1988. The U.S. delegation will be headed by Secretary Verity. The Soviet delegation will be headed by Konstantin Katushev, the Minister of the new Ministry of Foreign Economic Relations -- the successor organization to the recently abolished Foreign Trade Ministry. (u)

BACKGROUND

The Joint US-USSR Commercial Commission was established in 1972 as a mechanism for regular official discussion of trade prospects and problems. The JCC met annually until the 1980 meeting was cancelled because of the Soviet invasion of Afghanistan. (u)

As part of the Administration's policy of building a more constructive relationship with the USSR, the U.S. resumed regular sessions of the JCC beginning in May 1985, the eighth session. The ninth session was held in December, 1986, in Washington DC. The 10th session was to have been held in Moscow in December 1987, but was postponed because of the US-Soviet Summit. (u)

1985 Meeting --The 1985 JCC reestablished an official commercial dialog and reduced barriers to U.S. companies attempting to sell to the Soviet market, while continuing to stress that any fundamental improvement in the bilateral trade relationship depended upon major improvements in Soviet emigration and human rights. (u)

The most significant accomplishment of the 1985 meeting was obtaining Soviet agreement that Foreign Trade Organizations (FTO's) would provide bid inquiries to U.S. firms interested in Soviet projects. Prior to the JCC many American companies had been denied the opportunity to bid on purchasing contracts. Soviet imports are controlled by administrative decision rather than by tariffs or quotas, and being kept off lists of companies invited to bid for business was the ultimate trade barrier. (u)

The major U.S. action in response to the positive Soviet steps was to introduce legislation in Congress to end the 1951 embargo on imports of seven types of furskins from the USSR. This embargo has little economic significance, but is of considerable symbolic importance to the Soviets. Congress, however, has still not acted on the bill. (u)

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1986 JCC -- The December 1986 JCC made no major breakthroughs, but agreed on some steps to help bilateral trade grow. Both sides agreed to intensify efforts to assist U.S. firms and Soviet enterprises to conclude new contracts. Agreement in principle was reached that would end the embargo on imports of Soviet nickel. The U.S. emphasized the relationship between MFN and emigration, and the Soviets adhered to their long-standing position that trade and human rights should not be linked. Both sides agreed that incremental gains in non-strategic trade were possible nevertheless, and that both should seek to remove barriers to mutually beneficial trade where feasible. (u)

The United States reinstated an export promotion program in the USSR, having a U.S. pavilion at the September 1986 Soviet food industry fair in Moscow, INPRODTORGMASH. Sixty American firms participated, and sold \$4 million off the floor. (u)

SETTING FOR 1988 JCC

The 10th session of the JCC, coming up in March 1988, is particularly notable in that it was given a direct charter for action by the President and by General Secretary Gorbachev in the "Joint US-Soviet Summit Statement" released at the end of the Washington Summit, on December 10, 1987. On economic relations, that statement says: (u)

"The two sides stated their strong support for the expansion of mutually-beneficial trade and economic relations. They instructed their trade ministers to convene the US-USSR Joint Commercial Commission in order to develop concrete proposals to achieve that objective, including within the framework of the Long-Term Agreement between the United States of America and the Union of Soviet Socialist Republics to Facilitate Economic, Industrial, and Technical Cooperation. They agreed that commercially-viable joint ventures complying with the laws and regulations of both countries could play a role in the further development of commercial relations." (u)

This charter requires the JCC to develop concrete proposals to expand mutually beneficial trade and economic relations. the JCC must do more than discuss trade in abstract terms, and must come up with specific proposals that can be acted upon. (u)

Developments in the USSR -- The JCC's mandate comes at a time of considerable organizational turmoil within the USSR, as the Soviet government struggles to implement its far-reaching economic reforms -- "Perestroika". Some reforms apply to foreign trade, where the Soviets want to develop a base of exportable manufactured goods in an effort to diversify exports away from the present dependence on energy products and raw materials. (u)

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Energy products account for about 2/3 of the USSR's exports to the West, and the decline in oil prices was one of the major factors causing Soviet hard currency exports to fall from \$32 billion in 1984 to \$23 billion in 1986, nearly a 30% fall. This trade loss was a key reason leading to foreign trade reorganization. (u)

The trade reforms are aimed at: (u)

- (1) Eliminating the Foreign Trade Ministry's monopoly and decentralizing trade decision-making;
- (2) Creating a new entity, the Foreign Economic Commission, to oversee and coordinate international economic relations; and
- (3) Permitting foreign firms to form joint ventures which will generate or save hard currency.

In January 1987, over 70 ministries and large enterprises theoretically were granted the right to deal directly in foreign trade, covering 26 percent of imports and 14 percent of exports -- mostly in manufactured goods. Implementation has been extremely slow, and only a few organizations have actually received any trade authority. When finally implemented, the decentralization of trade authority could have a major effect on the way that U.S. companies do business in the USSR. (u)

Competitive Position -- The U.S. competitive position in the Soviet market has improved significantly over the past few years. Most Soviet hard currency imports come from Western Europe, the currencies of which have appreciated on average by about 40 percent against the dollar since early 1985. (u)

Additionally, following up on the JCC agreement in 1985, Soviet (FTO's) have made it easier for U.S. firms to bid on projects in the USSR. Soviet perceptions of an improved bilateral environment have also helped. The U.S. Commercial office in Moscow reports U.S. companies are now hardly ever told they are "unreliable suppliers," where two years ago this was almost universal. (u)

Given the improved competitive posture of U.S. companies, the Soviet trade reorganization poses a major opportunity for American firms to increase their share of the USSR market. As import decision-making is given to the various end user ministries and enterprises, many of the traditional marketing relationships built up by European and Japanese firms will be disrupted and new relationships will have to be built. American companies thus have a window of opportunity. (u)

U.S. company interest in the USSR has increased this year. The somewhat improved bilateral relationship, the Washington Summit, the strong bilateral statement of support for the expansion of bilateral trade, Soviet trade reorganization, General Secretary Gorbachev's efforts to reassure the business community about the growth of the Soviet market, and Soviet flexibility in joint ventures are the factors behind this renewed interest. (u)

POLICY FRAMEWORK

All actions to expand trade and economic relations will be fully within existing policy guidelines. (u)

First, it is fundamental in all consideration of U.S.-Soviet trade that our national security must remain paramount. Efforts to expand U.S.-Soviet trade will continue to be limited only to non-strategic goods and services. Changes in U.S. and COCOM export controls were not on the agenda for previous JCC meetings, nor will they be this year. The Soviet side understands that the U.S. delegation is only willing to discuss non-strategic trade that would be of benefit to both countries; and that any discussion must recognize the primacy of U.S. and COCOM export controls, both through national legislation and regulations, and through COCOM. (u)

Moreover, any fundamental improvement in non-strategic trade will depend on further improvements in overall bilateral relations. The relationship between emigration and MFN tariff treatment that was established in the Jackson-Vanik amendment has been stressed to the Soviets in previous JCC meetings and will be stressed again. (u)

The Soviets have made some progress in human rights, particularly in increasing emigration significantly -- Jewish emigration, for example rose from an average of 1100 per year over the past four years to 8100 last year. This higher number is still substantially below a level of emigration at which a Jackson-Vanik waiver could be considered, and one objective of the JCC should be to continue to encourage the Soviets to further increase emigration levels. (u)

The U.S. delegation to the JCC will also reiterate other U.S. policy positions if relevant issues are raised by the Soviets in the JCC, including U.S. opposition to Soviet participation in GATT and other international organizations. In this regard, the U.S. delegation should cite the economic policy reasons for opposing Soviet participation, stressing that the Soviet economic system remains fundamentally incompatible with participation in free world institutions. With respect to the GATT in particular, we should note that even after the January 1987 reforms are fully implemented nearly 75 percent of Soviet imports will still be subject to approval by government authorities other than end users. (u)

1988 JCC OBJECTIVES

Given the policy and business environment, overall U.S. objectives for the JCC should be to stress the relationship between trade and the overall bilateral relationship, and to seek an improvement in the conditions for doing business in the USSR -- focusing on specific, concrete steps which would improve the market access of U.S. companies in the USSR. (u)

1. Status of U.S.-USSR Trade.
2. Working Group of Experts Meeting, covering trade and economic plans in the USSR
3. Business Facilitation.
4. Opportunities for Expansion of Peaceful Trade, including Projects.

Within these topics, the U.S. delegation to the JCC should pursue the following specific objectives:

1. Reiterate that any fundamental change in bilateral trade relations will take place in the context of with major improvement in our overall bilateral relations, including in Soviet emigration and human rights. (S)

The U.S. delegation should take note of the evident Soviet desire to increase its exports and should stress that any fundamental improvement in non-strategic trade depends on progress in improving our overall bilateral relations, including Soviet emigration and human rights performance. The Soviets should be told that in the absence of such actions, trade gains must take place within the limits imposed by current conditions. (S)

2. Press the Soviets to improve the conditions for doing business in the USSR and emphasize that from a business perspective, the Soviets should first focus on concluding some long-standing contract negotiations that have been underway with U.S. firms. (S)

U.S. firms have found that trying to do business in the USSR is expensive, time consuming, and unlikely to be productive. For example, only 1 out of 20 projects proposed by U.S. companies in 1985-86 had resulted in actual business. U.S. companies interested in doing business in the USSR typically spend several years and huge sums in negotiations, with little success. Typical examples are the U.S. company that invested over \$175,000 in bidding for several fabric manufacturing facilities with no success, and the American company that has been pursuing a contract for a food processing plant for over several years with many trips to the USSR and repeated expensive bid preparation costs. (S)

U.S. companies are anticipating that Soviet trade reforms will lead to shorter negotiating times and more actual business. If, however, more business does not begin to develop for U.S. companies, their interest is likely to decline quickly; and many will leave the market to their European and Japanese competitors. Accordingly, in seeking concrete measures to improve trade, the Soviets should be made to understand that U.S. firms want to see contracts signed as tangible proof that the Soviets are serious and that business will result when U.S. companies are competitive. (S)

One of the USSR's objectives in "perestroika" is "uskoreniye" -- acceleration. We should press the Soviets to implement that concept and to create a reasonable business climate which will allow viable contracts or joint venture agreements in non-strategic areas to be signed. Food processing, construction equipment, and other non-strategic industries are areas where U.S. firms have been negotiating with the Soviets for a protracted period. (C)

3. Seek Soviet agreement to a program of U.S. trade missions and company seminars in the USSR. (C)

In 1986 the U.S. resumed participation in selected Soviet trade fairs, with U.S. companies paying full cost. There has been no subsidization of promotions in the USSR. On the same cost recovery basis, we should initiate specialized trade missions, working with state governments. These missions would be in selected non-strategic areas in which U.S. producers have a competitive advantage, such as in medical equipment. Soviet agreement and assistance will be needed to ensure that U.S. firms will be able to meet with the appropriate Soviet decision-makers. (C)

4. Seek Soviet agreement to establish bilateral sectoral working groups in nonstrategic industries having considerable U.S. export potential. (C)

The purpose of these groups would be to provide a continuing means of following up on U.S. company proposals and export offers. Particularly in this time of rapid evolution in Soviet trade decision-making, we need a way to keep a spotlight on U.S. company proposals to get favorable Soviet action. The groups would serve to focus Soviet interest in particular products and would allow us to inform U.S. companies more fully as to what they can sell. Finally, the groups would provide a means of attempting to reduce time delays and problems that emerge on the Soviet side. Food processing, energy equipment, construction equipment, and medical equipment should be the first areas proposed. (C)

5. Obtain Soviet agreement to establish a joint working group to study the conditions affecting foreign investment in the USSR, including joint ventures. (C)

One of the Soviet Union's major economic reforms has been to allow the formation of joint ventures with Western firms having up to 49% ownership. This opens up new opportunities in nonstrategic commerce, but also raises many questions of risk. Some of this risk could be reduced if safeguards could be obtained from the USSR in some key areas. The proposed joint committee would be comprised of government and industry representatives from both countries. It would explore incentives and impediments associated with foreign investment in the USSR, and would focus on improving safeguards in areas such as dispute settlement and intellectual property rights protection. (FYI: Even after the major reform, the Soviet Union has one of the world's more restrictive, uncertain investment regimes.) (C)

Should the Soviets raise their interest in discussing a Bilateral Investment Treaty, they should be told that such discussion would be premature, and that for the present we should see what can be achieved through the working group we have proposed. (S)

6. Seek Soviet agreement to establish an information clearing center on import requirements of Soviet entities with decentralized importing authority, agreement to provide lists of key trade positions in the reorganized structure, and agreement to sanction the receipt by these officials of a U.S. "Commercial Newsletter". (S)

Decentralization of significant import decision making to over 70 ministries and enterprises is a welcome development, if it actually opens up decisions and allows end users a larger voice in what is imported. If, however, the decentralization makes it more difficult to find what imports are sought, then U.S. companies could be worse off than before. (S)

Of maximum benefit to U.S. companies would be a clearinghouse which would provide information on import requirements listed by the various end user importers, and providing it to U.S. and other suppliers. The clearinghouse would have no role in trade decisions. It would provide information. U.S. companies would benefit disproportionately because of their small share of past trade relative to their capabilities, and because of the changed value of the dollar. (S)

Provision of lists of Soviet trade decision makers and official sanction of a commercial newsletter would greatly improve the ability of U.S. companies to advertise their products in the Soviet market. Many U.S. embassies have such newsletters, but one has not been possible in Moscow. Such a newsletter would provide information on U.S. products and would improve significantly the prospects of marketing contact between U.S. companies and potential Soviet customers. (S)

7. Obtain Soviet agreement to encourage Soviet trade executives and end users to utilize the facilities of the U.S. Commercial Office (USCO) in Moscow. (S)

The United States maintains a well equipped commercial office in Moscow separate from the embassy, containing commercial directories and other information on products and services available from U.S. companies. Police bar Soviet citizens from visiting USCO unless they have specific authorization, preventing trade and purchasing officials from using the office. Agreement to permit and encourage Soviet trade and purchasing personnel to use the facilities of USCO would be a boon to U.S. companies. Soviet trade personnel, particularly in the enterprises newly receiving trade authority, would find the commercial library a ready source of information about U.S. companies and would increase the chances they would seek American products instead of European or Japanese. (S)

8. Seek to have the Soviets make good on last year's promise to support single-company shows and seminars at the U.S. Commercial Office in Moscow. (S)

Last year the Soviets agreed to encourage Soviet buyers to attend events at the U.S. Commercial Office and to provide necessary facilitation assistance. The Foreign Trade Ministry has done so, but the vital State Committee on Science and Technology (GKNT) has refused, despite repeated requests. The delegation should aim at overcoming this obstacle to U.S. company shows in Moscow. (S)

9. Obtain detailed information on the new organizations involved in foreign trade, emphasizing the continuing need for comprehensive reform. (S)

The Soviets have announced that more than 70 entities would have some foreign trade rights, including some autonomous importing authority. The government has established an oversight Foreign Economic Commission, and has abolished the Trade Ministry -- replacing it with a Ministry of Foreign Economic Relations. The specifics of how these changes will actually affect the way business is done are still unknown, as many of the changes are being delayed in implementation. The delegation should seek maximum clarification from the Soviet side to help U.S. business adapt to the actual changes. (S)

The U.S. delegation should also emphasize that reforms taken to date are only the beginning if the USSR seriously wants to encourage foreign trade. As appropriate, the U.S. del may indicate that in principle any Soviet enterprise should be permitted to contract directly with foreign suppliers and customers with restraints on trade being imposed on an exceptional basis, i.e. for balance of payments or other internationally recognized reasons only, and then in a fully transparent manner.

10. Seek Soviet commitments to improve business facilities for U.S. companies operating in the USSR. (S)

U.S. companies, like other Western firms, face unreasonably high rents and phone bills, severe difficulties in being able to hire personnel, poor office space, and other impediments. The delegation should emphasize these problems and seek a Soviet commitment to improve the work environment for U.S. firms. (S)

11. Seek Soviet agreement to a Joint US-USSR Legal Seminar Series on Business Law. (S)

The ongoing Soviet reform of their foreign trade sector as well as the U.S.S.R. domestic economy will significantly change the forms and methods of doing business for Western companies. A legal seminar involving government and private lawyers on both sides could help develop a greater understanding of the practical legal aspects of business dealings between U.S. firms and the USSR.

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The seminar could increase U.S. public and private sector knowledge of Soviet trade-related legal practices and, by exposing the Soviets to U.S. concepts and practices, encourage Soviet movement toward commercial legal practices more acceptable to American firms. Modeled after the highly-successful US-China legal seminars, the first US-Soviet seminar would be proposed for mid 1988. (X)

12. Seek Soviet Agreement to establish a tourism working group within the Joint Commercial Commission. (X)

U.S. tour operators specializing in package tours of the USSR have long urged that a Bilateral Tourism Committee similar to the Sino-US Tourism Committee be established with the Soviet Union to facilitate resolution of tourism-related commercial issues. Such a working group could open new business opportunities in the USSR for U.S. travel suppliers and may be able to modify INTOURIST business practices which discriminate against U.S. operators. Opportunities for U.S. hotel corporations to provide contract management services to INTOURIST hotels should also be explored. Repatriated management fees would benefit U.S. export earnings. In addition, the Soviets are for the first time entering into hotel joint ventures with Western companies, and opportunities for U.S. firms should be pursued. (X)

A JCC working group on tourism would provide a framework for advancing these objectives. It would also provide a forum for discussion of measures to be taken to implement the Tourism Article (XIV) of the 1985 General Agreement on Contacts, Exchanges, and Cooperation in Scientific, Technical, Educational, Cultural, and Other Fields. Discussions were held in 1985 on establishing a Tourism Working Group. The U.S. JCC delegation should urge the Soviets to respond to our earlier proposal and proceed with the organization of the Group. (X)

RESPONSE TO ISSUES THE SOVIETS ARE EXPECTED TO RAISE

The Soviet delegation to the JCC is likely to focus on increasing the USSR's access to the U.S. market. This has been the theme of Soviet statements in the last two JCC meetings, and is likely to be intensified because of General Secretary Gorbachev's goal of building a manufactured goods export base for the USSR. They are likely to state that the large U.S. bilateral trade surplus is detrimental to expansion of US-Soviet trade and of U.S. exports, including grains, to the USSR. (X)

The Soviet delegation can be expected to stress that in their view the first priority in trade must be to grant MFN treatment to the USSR. They will probably also reiterate their interest in GATT observership status or similar participation in other international economic organizations. The U.S. position on these issues is unchanged, and is reiterated in the "Policy Framework" portion of this paper. Positions on specific issues the Soviets may raise are suggested in the following: (X)

1. Furskin Embargo. The Soviets were told at the 1985 JCC that in return for their market-opening moves the Administration would seek an end to the 1951 embargo on imports of seven types of furskins from the USSR. Legislation was introduced by the Administration. It passed the House twice but failed in the Senate when the entire omnibus tariff bill, of which the furskin bill was a part, was not acted on by the Senate prior to adjournment. The provision was reintroduced in 1987 and is included in HR.3, the House version of the trade bill. The Senate did not include it, and the matter will be discussed as part of the House-Senate conference procedure. There is significant opposition in the Senate. (X)

The U.S. delegation should inform the Soviets that the Administration has made termination of the furskin embargo a priority, that it will make a best efforts endeavor to obtain its inclusion in the trade bill. (X)

2. Nickel Certification. Under the economic embargo against Cuba, the U.S. has banned imports of unfabricated nickel-bearing materials from the USSR because the Soviet Union is a large importer of Cuban nickel. This has been a trade issue of concern to the Soviets for several years. In talks following the December 1986 JCC, Treasury and Soviet negotiators drafted a certification agreement that would permit a resumption of Soviet nickel exports in a way satisfactory to both sides. The Soviet government, however, has not given final approval to proceed with implementation of the agreement.

The U.S. delegation should inform the Soviets that we believe a certification agreement was worked out, and if the Soviets are interested in regaining access to the U.S. nickel market, they should provide their approval of the arrangement to the Treasury Department.

3. Antidumping. The USSR is concerned about the operation of U.S. antidumping procedures as applied to non-market economies. The Soviets in particular are likely to express concerns over the imposition of dumping duties of 60% on exports of Soviet urea (a fertilizer raw material). In 1986 urea accounted for \$61 million of U.S. imports from the USSR -- 14 percent of imports from the Soviet Union. The Soviets are also concerned that the trade bill may change the antidumping/countervailing duty laws in ways that will make it more difficult for them to sell in the U.S. market. (X)

The U.S. delegation should stress the non-political nature of U.S. antidumping procedures and point out that the USSR received fair treatment. The Soviets should be briefed on the need for revisions in the laws that will make the antidumping procedures more predictable as applied to non-market economies. The Administration seeks provisions fair to both seller and buyer. Efforts should be made to explain to the Soviets how to avoid problems under the law, possibly using urea as a case study of what not to do. In that case, the USSR boosted sales quickly and significantly, while making major price cuts, presenting a near-classic case of dumping. (X)

4. Congressional Proposals. The Soviets are concerned about a number of legislative proposals in Congress which could impede U.S.-Soviet trade. Most significantly, a provision in the Senate trade bill introduced by Senator Armstrong would ban imports of 7 specific Soviet products allegedly made with forced labor. In addition, the Kemp-Roth bill would add to the Export Administration new authority to control financial transfers, including private bank credits in support of U.S. exports. The Administration opposes both these provisions. (U)

The U.S. delegation should inform the Soviets that the Administration will continue to work against passage of the Armstrong amendment and the Kemp-Roth bill. We also will continue to work with the Conference Committee for the Omnibus Trade Bill to fashion a more predictable means of applying the U.S. antidumping law to imports from nonmarket economies. (U)

5. Soviet Trade Staffing in U.S. Soviet officials have indicated that in light of the decentralization of their foreign trade apparatus, which allows more than 70 ministries and enterprises to participate directly, Soviet domestic industries may need new organizations and, possibly, additional personnel to represent them in the United States. Soviet commercial personnel resident in the United States are subject to de facto limits as well as travel controls exercised by an interagency process. (U)

The U.S. delegation should tell the Soviets that: (1.) Requests for increased commercial presence are not timely; (2) Soviet business presence in the U.S. outweighs the U.S. presence in the USSR more than 2-1; and (3) commensurate with an increase in trade, and with the need to facilitate that trade, we will look at the question of an enlarged commercial presence on a case by case basis. (U)

6. Soviet Satellite Launching Services. The Soviets have launched a major campaign to market launching services for Western satellites. Because of the current shortage of launching vehicles and cut rate Soviet prices, some Western companies have shown interest. The United States, however, has informed Western companies and the Soviets that we will not allow Soviet launching of satellites which contain U.S. technology, thus effectively denying this market to the Soviets. (U)

The U.S. delegation should reiterate to the Soviets that we will not permit satellites incorporating U.S. technology to be launched with Soviet services. This is required by the export controls we maintain with our allies for national security reasons. (U)

7. Export Control Policy. The Soviets may raise questions regarding U.S. export control policy. As in the past, they may suggest that Western export controls are an impediment to trade. General Secretary Gorbachev raised the matter during his meeting with prominent U.S. business executives during his visit; and the issue was raised in other meetings as well. Joint ventures in the future will surely raise issues related to controlled commodities or technologies. The U.S. position on technology transfer has not changed; we support the development of non-strategic goods and services. The Soviets may be interested in learning more about the COCOM streamlining process aimed at tightening up the list of controlled commodities.

The U.S. delegation should explain U.S. policies and regulations, noting that our objective is to control strategic technology, but to permit the flow of non-strategic trade. (C)

8. Joint Ventures in the United States. The Soviet side may state its intention to seek the formation of joint ventures in the United States. In general, such ventures can pose significant technology transfer problems and can also lead to difficulties under the de facto limits affecting the number of Soviet commercial personnel in the United States. Nevertheless, such ventures are possible. A US-Soviet joint venture in the fishing industry has been operating in the state of Washington since 1976.

The U.S. delegation should tell the Soviets that joint ventures in the United States are subject to export controls as well as other regulations and policies, and will be considered on a case by case basis. (C)

2/11/88

Soviet delegation to Experts Meeting beginning Feb. 18

Yury Znamensky, First Dep Chief of Division for Cap and Develop Countries, State Foreign Economic Commission

Nikolay Zinoviev, Administration Chief, Ministry of Foreign Economic Relations

Vladimir Akulin, Advisor, USA Dept., Ministry of Foreign Affairs

Alexander Komarov, Dep Chief of Legal Department, Ministry of Foreign Economic Relations

Vladimir Mordasov, Dep Chief, Main Engineering and Technical Administration, Ministry of Foreign Economic Relations

Aleksey Volkov, Senior Secretary, Secretary of Joint U.S.-Soviet Commission on Fisheries, Ministry of Fisheries

Tentative U.S. Delegation to JCC

Commerce

Secretary Verity, Chairman
Under Secretary Donna Tuttle
Acting Under Secretary Paul Freedenberg
Assistant Secretary Louis Laun
Deputy Assistant Secretary Frank Vargo

State

Under Secretary Allen Wallis
EUR/SOV - Robert Clarke

USTR

AUSTR James Murphy

NSC

Stephen Danzansky
Robert Dean

Draft JCC Agenda

March 15

- AM -- JCC Plenary chaired by Secretary Verity and Minister Katushev. Kamentsev, Deputy Chairman of the Council of Ministers and Chairman, Foreign Economic Commission, will open session.
- PM -- JCC Working Session. Louis Laun will chair U.S. delegation

March 16

- AM -- [USTEC Plenary
Secretary Verity and Minister Katushev will speak.]
- PM -- JCC Plenary -- Closing Session
Dinner hosted by Gorbachev for JCC and USTEC delegations.