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JV

THE WHITE HOUSE

WASHINGTON

July 9, 1984

LD

Dear Mr. Giffen:

Thank you for your letter of June 15. I am pleased that the recent meeting of the U.S.-USSR Trade and Economic Council went so well.

I am also pleased that the long-term agreement will be renewed and that preparations will begin to reactivate the Joint Commercial Commission.

Sincerely,

Robert C. McFarlane
Robert C. McFarlane

Mr. James H. Giffen
U.S.-USSR Trade and Economic
Council, Inc.
805 Third Avenue
New York, New York 10022

NSC 840.5074

MEMORANDUM

NATIONAL SECURITY COUNCIL

June 29, 1984

ACTION

MEMORANDUM FOR ROBERT C. McFARLANE

FROM: JACK MATLOCK SUBJECT: Letter to Mr. Giffen of U.S.-USSR Trade and
Economic Council

SIGNED

Attached at Tab I is a letter of acknowledgement to James Giffen, who wrote to thank you for meeting with Bill Verity and Vladimir Sushkov last month.

RECOMMENDATION

That you sign the letter at Tab I.

Approve Disapprove

Attachments:

Tab I	Proposed response
Tab II	Incoming letter, June 15, 1984

National Security Council
The White House

1233 *ml*
System # I
Package # 5074

84 JUN 29 P12: 53

	SEQUENCE TO	HAS SEEN	DISPOSITION
Dep. Exec. Sec'y	<u>1</u>	<u>[initials]</u>	
Bob Kimmitt	<u>2</u>	<u>K</u>	
John Poindexter			
Tom Shull	<u>3</u>	<u>[initials]</u>	
Wilma Hall			
Bud McFarlane	<u>4</u>	<u>M</u>	<u>A</u>
Bob Kimmitt			
NSC Secretariat	<u>5</u>		<u>D</u>
Situation Room			

JUL 09 1984

I = Information A = Action R = Retain D = Dispatch N = No further Action

cc: VP Meese Baker Deaver Other _____

COMMENTS Should be seen by: _____
(Date/Time)

84 JUN 29 8 08: 50

84 JUN 29 P 6: 20

COMMERCIAL

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JUN 30 1884

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*Jack M
Chotack pl
M*

**US-USSR
Trade and Economic Council, Inc.**

June 15, 1984

Dear Mr. McFarlane,

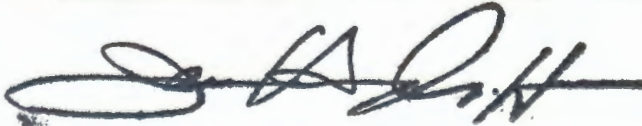
Before any further time passes I want to express to you my profound appreciation for taking the time out of your busy schedule to meet with Mr. Vladimir N. Sushkov and C. William Verity, Jr. the Soviet and American Co-Chairmen of the US-USSR Trade & Economic Council when they were in Washington last month.

You will recall that Mr. Sushkov headed a delegation who were in the U.S. in connection with the Annual Meetings of the Council in New York. He found the opportunity to meet with you very worthwhile and enlightening and expressed the hope that we could continue to maintain open communications with people such as yourself.

You may be interested in knowing that the meetings in New York were considered by the membership to be extremely successful. Over 140 American member firms were represented and there were over 300 participants from both the American and Soviet sides.

Again, my sincere thanks and if I may be of any help, please let me know.

Sincerely,



James H. Giffen

Mr. Robert C. McFarlane
Assistant to the President for
National Security Affairs
The White House
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

805 Third Avenue, New York, N.Y. 10022 212/644-4550
3 Shevchenko Embankment, Moscow 121248, USSR

RECEIVED 27 JUN 84 14

TO MCFARLANE

FROM GIFFEN, JAMES H

DOCDATE 15 JUN 84

KEYWORDS USSR
MP

INTL TRADE

VERITY, WILLIAM
SUSHKOV, VLADIMIR N

SUBJECT. LTR TO MCFARLANE FM US - USSR TRADE & ECONOMIC COUNCIL INC RE
MCFARLANE RECENT MTG W/ VERITY & SUSHKOV

ACTION: PREPARE MEMO FOR MCFARLANE DUE: 03 JUL 84 STATUS S FILES WH

FOR ACTION
MATLOCK

FOR CONCURRENCE

FOR INFO
MCMINN
HALL

COMMENTS A SHORT ACKNOWLEDGEMENT PLEASE

Mont L.

REF# LOG 8404264 NSCIFID (LB)

ACTION OFFICER (S)	ASSIGNED	ACTION REQUIRED	DUE	COPIES TO
<i>M'Farlane</i>	<i>X 6/29</i>	<i>for sig</i>		
	<i>C 7/9</i>	<i>MCFarlane sig ltr to Giffen</i>		<i>Jm</i>

DISPATCH *[Signature]* W/ATTCH FILE _____ (C)

IT 100

**WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET**

- O - OUTGOING
- H - INTERNAL
- I - INCOMING

Date Correspondence Received (YY/MM/DD) 1 1

Name of Correspondent: The Heritage Foundation

MI Mail Report User Codes: (A) _____ (B) _____ (C) _____

Subject: USTEC; Determined to Sell Moscow the Rope That Could Hang America

ROUTE TO:	ACTION	DISPOSITION		
Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Completion Date YY/MM/DD
<u>cu holl</u>	ORIGINATOR	<u>88102105</u>		<u>88102105</u>
	Referral Note:			
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	Referral Note:			

ACTION CODES:

- A - Appropriate Action
- C - Comment/Recommendation
- D - Draft Response
- F - Furnish Fact Sheet to be used as Enclosure
- I - Info Copy Only/No Action Necessary
- R - Direct Reply w/Copy
- S - For Signature
- X - Interim Reply

DISPOSITION CODES:

- A - Answered
- B - Non-Special Referral
- C - Completed
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C	_____	Time: _____	P- _____
DSP	_____	Time: _____	Media: _____

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CPn - Presidential Correspondence

- n - 0 - Unknown
- n - 1 - Ronald Wilson Reagan
- n - 2 - Ronald Reagan
- n - 3 - Ron
- n - 4 - Dutch
- n - 5 - Ron Reagan
- n - 6 - Ronald
- n - 7 - Ronnie

CLn - First Lady's Correspondence

- n - 0 - Unknown
- n - 1 - Nancy Reagan
- n - 2 - Nancy
- n - 3 - Mrs. Ronald Reagan

CBn - Presidential & First Lady's Correspondence

- n - 1 - Ronald Reagan - Nancy Reagan
- n - 2 - Ron - Nancy

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- M - Mailgram
- O - Memo
- P - Photo
- R - Report
- S - Sealed
- T - Telegram
- V - Telephone
- X - Miscellaneous
- Y - Study

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FILE
USTEC

February 5, 1988

USTEC: DETERMINED TO SELL MOSCOW THE ROPE THAT COULD HANG AMERICA

INTRODUCTION

Lenin, it is said, smugly boasted that businessmen would sell the rope with which they ultimately would be hanged. Confirming Lenin's prophecy have been the activities of the U.S.-USSR Trade and Economic Council (USTEC), a private group whose aim, it says, is to promote "greatly expanded" U.S.-Soviet trade. Its membership is composed of roughly 400 major American corporations and Soviet government foreign trade enterprises.

USTEC works to foster increased trade in a variety of ways. Project officers in the group's New York and Moscow offices counsel U.S. member companies on dealing in the Soviet market. The group also is a frequent sponsor of exhibitions and symposia in the USSR to promote U.S. products.

Voice for Concessions. Most significantly, USTEC is a leading political voice for seeking U.S. trade policy concessions for the Soviet Union. USTEC lobbies for ending the link between U.S. trade with the USSR and Moscow's policies on human rights and Jewish emigration. USTEC also presses Congress and the Executive Branch to loosen U.S. controls on exporting sophisticated technology and know-how to the USSR. At the same time, USTEC seeks to restrict the President's authority to impose economic sanctions against Soviet bloc nations.

During the recent superpower summit, USTEC officials met privately with Soviet leader Mikhail Gorbachev to discuss expansion of U.S.-Soviet trade. The discussion reportedly covered potential trade deals with an aggregate value of close to \$10 billion.¹ When asked after the meeting whether "we really want to help" make the Soviet Union "an economic superpower," USTEC President James Giffen replied: "I think we do."²

1. *Human Events*, January 9, 1988, p. 24.

2. Rowland Evans and Robert Novak, "Is Trade with the Soviets Just Trade?" *The Washington Post*, January 8, 1988.

Moscow's Lobbyist. As far as USTEC is concerned, the Soviet Union is a lucrative trading partner, no different from, say, Britain or Canada. To promote this trade, USTEC acts, in effect, as a Soviet lobby. Few Americans are aware of this, because USTEC members operate so secretly. This secrecy in matters so vital to U.S. security is unacceptable. All U.S. corporations trading with the USSR should be required to disclose publicly the nature and extent of their dealings with the Soviet government.

FOUNDING OF USTEC

USTEC was formed at the outset of the 1970s detente as the result of an agreement signed in 1973 by then-U.S. Treasury Secretary George Shultz and Nikolai S. Patolichev, Soviet Minister of Foreign Trade. Nixon Administration officials had high hopes that increased commercial contact would lead to a U.S.-Soviet "web of constructive relationships." This would be followed, it was claimed confidently, by the gradual liberalization of Soviet society--decreased arbitrariness of the police, easing of censorship, freer rein for dissident activities, increased emigration--and, more important, moderation of Soviet international behavior. The eager involvement of American businessmen required little encouragement; they anticipated substantial profits from the vast Soviet market. Donald M. Kendall, chairman of PepsiCo., Inc. and a long-time booster of increased U.S.-Soviet trade, was tapped as the group's first U.S. cochairman. His Soviet counterpart was Vladimir S. Alkhimov, chairman of the State Bank of the USSR.

As early as 1974, however, it became clear that Moscow was not liberalizing at all. Concern about Soviet human rights violations led Congress to pass the Jackson-Vanik and Stevenson Amendments, which sharply restricted U.S.-Soviet trade. These amendments link U.S. extension of trade credits and most-favored-nation status to freedom of emigration from the USSR. These amendments succeeded in pressing Moscow to increase dramatically the number of exit visas it granted. The Jackson-Vanik and Stevenson Amendments also focused American public attention on Soviet human rights policies and established a precedent for linking trade and moral issues. They made business as usual with totalitarian states impossible and dealt a blow to the notion of moral equivalence between the superpowers.

USTEC members predictably oppose such attempts to press for liberalization in the USSR and have lobbied intensely for removal of all "political obstacles" to "normalized" trade relations with the Soviets.

MEMBERSHIP OF USTEC

A full list of USTEC's roughly 300 U.S. member companies curiously is closely guarded and not publicly available. According to an undated USTEC publication, U.S. members produce about 25 percent of the total U.S. gross national product, with annual sales over \$375 billion. Industry representation in USTEC is:

Chemicals and related	23 percent
Machinery	21 percent
Electronic and Computer	18 percent
Food and Agriculture	12 percent
Pharmaceutical and health	7 percent
Energy and fuel	6 percent
Automotive and transport	6 percent
Agricultural machinery	4 percent
Miscellaneous	3 percent

According to the most recent information available, USTEC's U.S. cochairman is Dwayne Andreas, Chairman of the Board of Archer Daniels Midland, the giant midwestern agribusiness concern. The U.S. vice-cochairman is John J. Murphy, chairman of Dresser Industries, Inc. Other current directors include: former USTEC cochairman Donald M. Kendall, Litton Industries, Inc. chairman Frederick W. O'Green, Occidental Petroleum Corporation chairman Armand Hammer, and Seagram Company Ltd. chairman Edgar M. Bronfman. The president of the U.S. Chamber of Commerce (currently Richard Leshner) and the president of the National Association of Manufacturers (Alexander Trowbridge) are permanent directors of USTEC, although Leshner has not participated in USTEC meetings for years. USTEC president Giffen is president of Mercator Corp., a New York merchant bank. He supervises the day-to-day operations of the group.³

Center for Soviet Espionage. Soviet membership includes representatives from the Ministry of Foreign Trade, the USSR Chamber of Commerce and Industry, the Bank for Foreign Trade of the USSR, and numerous other government foreign trade organizations. All of the Soviet member groups, of course, are Soviet government agencies. Detailed information about these groups is sparse, but as reported recently in *The New York Times*, declassified portions of a CIA investigation of the USSR Chamber of Commerce and Industry reveal that the group is a center of Soviet industrial espionage. The USSR Chamber carries out this role "while acting as a trade promoter and facilitator with excellent access to Western firms."⁴

This is true. According to the report, Chamber Chairman Yevgeny Petrovich Pitrovanov, who serves on the executive committee of USTEC, is a reserve lieutenant general in the KGB and former head of the KGB Training School. Of the USSR Chamber staff of 140, about a third are known or suspected KGB officers. The Chamber also maintains ties to the GRU, the Soviets' military intelligence agency. Whether the American members of USTEC take into account the strong KGB presence in USTEC is unknown.

THE USTEC POLITICAL AGENDA

The primary source of information about USTEC political activities is the group's bi-monthly *USTEC Journal*, copies of which are difficult to obtain.

3. USTEC President from 1980-1981 was Kempton Boyce Jenkins, who is being considered for a top U.S. Commerce Department Post.

4. "Intelligence Collection in the USSR Chamber of Commerce and Industry," U.S. Department of State, 1987.

The journal is not available in libraries open to the public, including the Library of Congress; attempts to acquire copies directly from USTEC are rebuffed as stubbornly by USTEC's New York office as they would be by its Moscow office. Several U.S. companies and trade associations admit having copies of the *USTEC Journal*, but are unwilling to provide them and suggest only continuing to request them from USTEC. An official at the Department of Commerce said that the agency received the *Journal*, but that there were specific instructions not to provide any issues to the public. She added that a notice on a Commerce Department bulletin board directs that all queries about USTEC be referred to USTEC's New York City office. Some back issues were finally obtained from a reporter for the *New York Times*.

Damage to U.S. Security. The secrecy of USTEC may be understandable. Its American members probably are very sensitive about a number of the stands USTEC and its officers take on such controversial issues as the Jackson-Vanik and Stevenson Amendments and the potential damage to U.S. security from selling advanced technology to Moscow.

USTEC and the Soviets vehemently oppose linking trade and human rights. The Soviets claim interference in their internal affairs; USTEC echoes Soviet resentment and adds, erroneously, that Jewish emigration is lower than it was before passage of the amendments. In fact, the highest levels ever recorded of Jewish emigration from the USSR were reached in the late 1970s, after the passage of Jackson-Vanik; 51,000 exit visas were issued in 1979, compared with 35,000 in 1973.

"The American Jewish Community Can Never Be Satisfied." USTEC leaders repeatedly have spoken out publicly and privately against trade and human rights linkage. Perhaps most vocal has been William Verity, cochairman of USTEC from 1977 to 1984, and recently confirmed as U.S. Secretary of Commerce. In a 1979 interview with the *Washington Star*, Verity said of the Jackson-Vanik and Stevenson amendments:

The U.S. is bowing to political pressure from the Jewish community on an emotional issue that can never be resolved. Present levels of emigration are really astounding compared with what the American Jewish community wanted a year ago. Last year, emigration was up to 35,000 and it is up to 50,000 this year, but this is not important to them. The American Jewish community can never be satisfied on this matter. Their desires will be ever escalating.⁵

In an interview with Radio Moscow in March 1984, Verity, still cochairman of USTEC, again attacked Jackson-Vanik:

I think the Jackson-Vanik Amendment was one of the terrible mistakes that was made by American politicians....I think the business community

5. *Washington Star*, July 16, 1979.

would like to eliminate the amendment because it's just a barrier to trade with the Soviet Union and does no good."⁶

Thus far USTEC has made little progress in its drive for repeal of the Jackson-Vanik and Stevenson Amendments. But efforts continue. In a 1984 interview in the *USTEC Journal*, Dwayne Andreas, current USTEC cochairman, said of Jackson-Vanik repeal:

Unfortunately, once the law is on the books repealing it is not easy. Congress, during an increasingly difficult period between the U.S. and the Soviet Union, is in a difficult position to act. What is needed is some boldness and maybe a little back room horse trading with the Soviets.⁷

Loosening U.S. Export Controls

USTEC members are working to loosen or eliminate many current controls on the export of militarily sensitive U.S. technology. USTEC claims that the U.S. restricts many exports that are non-strategic or readily available from other countries. In either case, say USTEC members, controls make little sense.

There is, however, considerable disagreement over just which goods are non-strategic. USTEC officials lean toward a very broad definition of non-strategic. This is understandable, for they and their firms have been involved in a number of highly controversial sales to the Soviets in the past.

Example: In 1979, Dresser Industries, whose current chairman is USTEC vice-cochairman, sold the Soviets a \$144 million turnkey plant for the manufacture of deep-well oil drilling equipment. Because such equipment is badly needed by the Soviets to help develop major new oil reserves, a U.S. Defense Science Board task force ruled that the technology in question had "strong strategic value in its application to Soviet energy needs of the 1980's." The Board also concluded that the source of such equipment was "wholly concentrated in the U.S." Dresser ignored this and lobbied heavily for the sale. The sale went through.⁸

Example: U.S. firms, including IBM and Ford, helped design and equip the Soviets' sophisticated Kama River plant, which manufactures armored personnel carriers, heavy duty assault artillery, rocket launchers, and 10-ton multiple-axle heavy duty trucks.⁹ Trucks produced at the plant carried invading Soviet divisions into Afghanistan in 1979.¹⁰

6. Interview with Radio Moscow, broadcast March 7, 1984.

7. *USTEC Journal*, vol. 9, no. 4, 1984.

8. Carl Gershman, "Selling Them the Rope," *Commentary*, April 1979, p. 43.

9. *Human Events*, January 19, 1980, p. 5.

10. Juliana Geran Pilon, "Strategic Trade with Moscow: U.S. Leverage in the Polish Crisis," Heritage Foundation *Backgrounder* No. 160, January 2, 1982.

Contract Sanctity

Contract sanctity is another concern of USTEC member companies. Said U.S. cochairman Dwayne Andreas in a 1984 interview in the *USTEC Journal*:

Contract sanctity is a fundamental necessity in our trade with the Soviets because once a contract is entered into it must be concluded. There can be no interruptions whatsoever.¹¹

Andreas's statement, while admirable for its bow to the central importance of contracts, of course ignores threats to U.S. security. That and foreign policy interests on occasion surely take precedence over a contract between an American firm and a Soviet state agency.

While in most cases there is little conflict between U.S. security and business interests, when such conflicts occur, the President and Congress should have at their disposal a full range of options. Reacting to the Soviet invasion of Afghanistan, for example, the Carter Administration stopped grain export agreements and abrogated trade, economic, and cultural agreements with the USSR.

Forced Labor

One of the few sensible provisions of the Smoot-Hawley Act of 1930 is section 307. It prohibits the U.S. from importing "all goods, wares, articles and merchandise mined, produced, and manufactured wholly or in part in any foreign country by convict and/or forced labor." This provision is very relevant to U.S. trade with the Soviet Union, where 1,100 camps imprison 4 million men and women, many of whom are required to do forced labor.¹²

In a new study for the AFL-CIO Department of International Affairs, Soviet emigre Ludmilla Alexeyeva, a founding member of the Moscow Helsinki Monitoring Group, estimates that forced laborers comprise roughly 5 percent of the Soviet workforce and participate in an astonishing range of production, from mining to construction and tire manufacture. Starvation, Alexeyeva notes, is one of the key means of forcing prisoners into labor.¹³

Trade is Trade. Concern over such human rights abuses has led to a recent push in Congress for enforcement of sanctions against forced labor imports, as called for in section 307 of Smoot-Hawley. USTEC, predictably, opposes enforcement. A recent USTEC mailgram in effect urged its members to lobby Congress to overlook Soviet use of slave labor. The USTEC mailgram said:

11. *USTEC Journal*, vol. 9, no. 4, 1984.

12. Ludmilla Alexeyeva, "Cruel and Unusual Punishment," AFL-CIO Department of International Affairs, 1987, p. 38.

13. *Ibid.*, pp. 65-120.

Many amendments will be discussed next week by the Senate on Senate trade bill S-1420. One amendment, section 925, raises again the issue of forced labor. It would effectively prohibit Soviet imports unless the President certifies to Congress that they have not been by convicts or forced labor, which the President probably will not do....it is the Council's impression that the Congress has not been hearing from American industry sufficiently.¹⁴

As USTEC officials are wont to say, "Trade is trade."

Joint Ventures

A January 1987 *Pravda* article announced a Soviet Politburo decision to permit joint ventures between Soviet enterprises and foreign firms. According to a Soviet expert in the U.S. Commerce Department, the goals of this initiative are: 1) to provide a continual flow of new technology and stimulate innovation in the Soviet economy; 2) to reduce the need for hard currency exports; and 3) to diversify Soviet hard currency exports.¹⁵

Recent issues of the *USTEC Journal* betray the enthusiasm of U.S. business executives at the prospects for this new form of cooperation with the Soviets. Yet such cooperation deserves close scrutiny by Commerce and Defense Department officials because of the potential damage to U.S. security from the uncontrolled flow of credit, technology, and know-how to the Soviets.

Combustion Engineering, Inc., a Connecticut petroleum engineering firm, recently became the first American company to sign a joint venture agreement with the Soviets. A spokesman for Combustion Engineering said the partnership will involve the installation of instrumentation and control systems at a Soviet petroleum refinery plant outside of Moscow.¹⁶

IMF, World Bank, and GATT

According to Reagan Administration officials, USTEC member companies also widely lobby for Soviet entry into international financial organizations, such as the International Monetary Fund, the World Bank, and the General Agreement on Trade and Tariffs (GATT), in the belief that such economic integration would eventually increase Western business access to the Soviet market.

14. Mailgram from James H. Griffen to USTEC members, July 1, 1987.

15. "Soviet Foreign Trade Reforms Offer New Challenges for U.S. Businesses," *Business America*, August 17, 1987, pp. 7-8.

16. "U.S. Oil Engineering Firm Signs First Joint Venture with Moscow," *The Washington Post*, November 12, 1987.

Soviet membership in these organizations, however, long has been opposed for good reasons. If admitted, the Soviets surely would become the center of a disruptive anti-market and anti-democratic coalition, just as they are at the United Nations. Soviet membership in the World Bank and IMF, moreover, would give Moscow yet more U.S.-based institutions to fill with espionage agents using their posts as cover.¹⁷ These threats to U.S. security apparently are of little concern to USTEC.

CONCLUSION

Many USTEC objectives--from the decoupling of trade and human rights to a loosening of U.S. export restrictions--conflict fundamentally with U.S. interests. Given KGB domination of the Soviet half of USTEC, this is hardly surprising. USTEC's "trade is trade" philosophy long ago would have aroused the ire of the American public were not the group so shrouded in secrecy.

Only rarely does USTEC's veil of secrecy drop. In 1979, for example, USTEC Finance Committee Cochairman A.W. Clausen complained that U.S.-Soviet trade "is being held hostage to political and moral concerns." To USTEC, clearly, these concerns are the culprit. To the vast majority of Americans, however, the culprit is those who ignore moral concerns and U.S. security needs.

The American public and Congress need to become better acquainted with USTEC's agenda and actions. USTEC, which after all is a half-Soviet organization, should not be allowed to continue operating as a secret society while influencing critical U.S. security and trade matters.

Congress should require the Library of Congress to obtain and make available to the public the *USTEC Journal*. USTEC should be required to publish an annual report, listing its sources of income, its expenditures, and its membership. Congress should require that U.S. corporations publicly reveal the nature and extent of their dealings with the Soviet government. Under a reasonable interpretation of section 12(c) of the Export Administration Act, this already is required. Congress should act immediately to ensure that this information is disclosed.

Prepared for The Heritage Foundation by
Ira Carnahan
a Washington investigative writer

17. See Edward L. Hudgins, "Why the Soviets Do Not Belong at The World Bank," Heritage Foundation *Executive Memorandum* No. 137, October 22, 1986.