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# WITHDRAWAL SHEET

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
letter case <del>(271524BD)</del>			
1. report	"Soviet Economy Stumbles in 1987" (1p) 2	n.d.	P-1
2. report	"Recent Trends in Soviet Hard Currency Trade and Finance" (1p) 2p	n.d.	P-1
3. report	Textiles (1p) 2p	n.d.	P-1
4. copy	of reporting cable from Am. Emb. Moscow re: Soviet proposals for Joint US-USSR Commercial Commission meeting (2p) 4p	2/27/88	P-1
5. report	re: update on joint ventures (1p) 2p	n.d.	P-1
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TRADE EXPANCTION



SECOND SESSION

2:30 - 5:00 p.m.

Tuesday, April 12, 1988

Room 1603, World Trade Center, Mezhdunarodnaya Hotel

"EXPANSION OF TRADE AND ECONOMIC RELATIONS, INCLUDING  
MARKET ACCESS AND NEW FORMS OF ECONOMIC COOPERATION"

(SIMULTANEOUS TRANSLATION)

Co-chaired by: Soviet official(s)  
Acting Assistant Secretary Moore

TRADE EXPANSION, MARKET ACCESS & NEW FORMS OF ECONOMIC  
COOPERATION

Mr. Znamenskiy presents Soviet statement, covering new forms of  
cooperation, impediments to Soviet exports (25 min.)  
Acting Assistant Secretary Moore responds, raising creation of  
working groups, legal seminars, and market information  
(20 min.)

Discussion (20 min.)

Break (15-20 min.)

TRADE PROMOTION AND BUSINESS FACILITATION

Acting Assistant Secretary Moore delivers statement on trade  
missions, USCO seminars and facilities for accredited and  
non-accredited U.S. companies (10 min.)

Soviet side makes presentation on business facilitation for  
Soviet enterprises in the United States, including Soviet  
exhibition in New York (20 min.)

Discussion (20 min.)

PAPER BEING PREPARED



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U.S.-SOVIET TRADE EXPANSION

Issue

(FOUO) As Perestroyka continues to restructure the Soviet economy, the process is presenting both opportunities and problems for Western firms. The JCC meeting should be utilized by the U.S. side to discuss the problems faced by American firms and to suggest some solutions.

(U) Western companies and Soviet organizations and ministries new to the world trade market are finding it difficult to connect with each other. Since the process of decentralization began, more than 95 Soviet ministries and organizations have been given foreign trade rights. There is, however, no established way of finding potential Western suppliers. Both Soviet organizations and American firms are encountering confusion and lack of information regarding their new roles in the evolving Soviet economy.

(FOUO) There are two specific points which need to be stressed. The first is the need to establish a forum in which Soviet firms can contact American companies with information of new projects and import requirements, to which American firms can turn for current information on their industry sector, and in which project-specific questions and trade promotion follow-up can be discussed.

(FOUO) The second involves the need for a real change in the time required to develop and finalize projects. U.S. firms have found that trying to do business in the USSR is expensive, time consuming, and unlikely to be productive. Companies traditionally spend several years in negotiations and large sums of money -- often with little success.

(FOUO) One of the objectives of Perestroyka is "uskoreniye" or acceleration in all aspects of the manufacturing process including, design, productions and distribution. Uskoreniye must be applied to the foreign trade sector and new Soviet managers must recognize that as a result of Soviet delays in the negotiating process much is lost by them as by their Western partners.

Controlled by: Franklin J. Vargo  
Decontrol on: OADR

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U.S. POSITION

(FOUO) The U.S. delegation should press the Soviets to create a reasonable business climate which will allow viable contracts and joint venture agreements in nonstrategic areas to be signed. The Soviets should understand that U.S. firms need to see contracts signed as tangible proof that the Soviets are serious and that business will result when U.S. companies are competitive.

(U) Specifically, the United States urges: (1) establishing sectoral working groups to, explore industry-specific Soviet developments and prospects as a result of perestroyka, and to address individual company projects in the specific sectoral industry area; (2) the institution of several direct measures to speed up the negotiating process.

Sectoral working groups

(FOUO) Based on earlier proposals from both the U.S. and the Soviet sides, the U.S. side proposes establishment of bilateral industry-specific sectoral working groups in five sectors in which Commerce feels American firms are competitive and which have real market potential for U.S. firms. These are: food-processing/agribusiness, construction, health care, oil and gas equipment, and consumer and service industries.

(FOUO) In keeping with our policy of neutrality toward the formation of joint ventures, the U.S. side will make clear in the working groups that the form of a given business transaction is for the contracting parties to decide on the basis of mutual interest and commercial viability.

(FOUO) The goals of these bilateral working groups will be to:

- focus Soviet interest on specific sectors and products;
- inform U.S. companies more fully about market possibilities;
- act as an information network for Soviet officials who may be new to the foreign trade arena and need to contact potential trading partners;
- follow the progress of American companies that participated in Commerce-sponsored trade events;
- follow up on U.S. company proposals and develop an ongoing method of communication with which to raise company concerns as they arise;
- work to resolve problems on either side.

(FOUO) FCS-Moscow has already received indication that as the foreign trade reorganization continues, many new Soviet organizations are searching for a way to contact foreign buyers and sellers. The establishment of sectoral groups could assist in the flow of information on Soviet import needs, and raise the visibility of American bidders relative to their competitors. Other Western countries already have such industry working groups as part of their mixed commissions.

#### Logistics

(FOUO) The U.S. delegation will propose that each sector group hold its first meeting before the end of this year to establish formally the program. How frequently each sector group will meet thereafter will depend on the requirements of the individual market sector. For example, it is anticipated that the Oil and Gas, Construction and Food areas may need to meet more than once a year while the Consumer and Health sector groups may meet less frequently.

(FOUO) The standing committee for each working group will be made up of local representatives of each side (i.e. USCO and corresponding Soviet organizations in Moscow and Commerce/other agencies and Soviet Trade Rep. in Washington). Because of USCO's short staffing situation, officials from Washington will be needed to supplement the Moscow delegation, especially for the first meeting of each group. In addition, whenever sector group meetings can overlap official visits or trade promotion events, standing committees for both sides can be supplemented by visiting officials. Meetings initially should be held in Moscow to make better contact with Soviet end users.

#### Topics

(FOUO) At the first meeting, each sectoral group will:

- discuss current import and export activities and requirements
- establish guidelines of future meetings (frequency, locations, regular attendees, etc.)
- establish an ongoing communication system to handle project specific questions as they arise

(FOUO) Meetings of the sectoral groups will update both sides on the old and new projects. The American side will encourage the Soviets to present lists of new projects upon which American companies can bid. Each group will also follow the progress of American companies that participated in Commerce-sponsored trade events. In this way, we can stress the need for real results from participation in trade events. Finally, the groups will discuss areas of confusion which have been raised by either side's trading community.

(FOUO) The groups will also address project-specific matters. For example, American agribusiness firms have sometimes complained that, although they have been invited to bid on certain projects, they are restricted from visiting the actual site. Company-specific issues will be raised only at "closed" sessions of the groups (i.e. without private sector reps) or in the project committee of the sector group.

SOVIET POSITION

(FOUO) While many Soviets individually sympathize with American complaints about protracted negotiation periods and confusion over the changing foreign trade system, there has been little action.

(FOUO) The Soviets are reported to have established a fee-for-service counseling center in Moscow. This Soviet-run consultant agency is supposed to assist firms deal with the new bureaucracy and link foreign firms up with appropriate end users.

(FOUO) TALKING POINTS

Recommend establishment of sectoral working groups:

- o At the February Working Group of Experts Meeting, both sides proposed establishing sectoral working groups in nonstrategic industries.
- o The United States proposed four sectors: food processing/agribusiness, oil and gas equipment, construction, and health industries. The Soviet side proposed broader groups. In response to the Soviet proposal, we have agreed to add a fifth group, consumer industries/service industries.
- o There are several important reasons for the establishment of the sectoral group program:
  - First, the groups will assist American and Soviet firms in obtaining information on developments in each others markets, and in helping organizations find the right buyer or supplier to meet their needs.
  - Second, in follow-up to U.S.-sponsored participation in trade events in the Soviet Union, the sector groups can follow the progress of U.S. participants (particularly new-to-market firms) and assist them with their efforts following the event.

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- Third, the members of each group will develop ongoing communication so they can contact each other to raise specific issues as they arise. This should reduce delays and problems that emerge as Perestroyka continues.
- Fourth, as Perestroyka continues the process of "restructuring" the Soviet economy, the groups will offer forum at which for our firms to discuss areas of confusion or individual concerns.

Acceleration in the negotiating process:

- o With the improvement in U.S.-Soviet political relations and with the advent of Perestroyka, American companies are regaining interest in the Soviet market.
- o However, more must be done to create a business environment which will allow viable contracts or joint venture agreements in non-strategic areas to be signed.
- o A survey of American firms negotiating in the Soviet market suggests that an average of 3-5 years is required to conclude a contract, and that frequently, after great expense on the part of the American company, no contract is ever concluded.
- o One of the objectives of Perestroyka is "uskoreniye" or acceleration. Uskoreniye must be applied to the foreign trade sector. U.S. firms must see contracts signed as tangible proof that the Soviets are serious and that business will result for competitive firms.
- o As Soviet organizations move towards self-financing, they must recognize, as their American counterparts do, that "time is money" and that both sides lose when negotiations draw out over several years.
- o American companies have indicated a number of areas which delay contract negotiation. For example, often proposals are returned to the American bidder with an indication that the Soviet side is dissatisfied with the proposal, but no specific reasons are cited.
- o A new factor resulting from the decentralization of the Soviet economy which has been raised by American companies as delaying contract signing is that Soviet officials are often unsure as to their authority.

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(FOUO) Soviet enterprises direct contact with foreign suppliers

- o The reforms taken to date are only the beginning if the USSR seriously wants to encourage trade. We welcome steps permitting closer contact between representatives and experts of buyer and seller firms at all stages of transactions, as called for by the Helsinki Accords. We believe the ability of Soviet enterprises to contract directly with foreign suppliers and customers would accelerate commercial negotiations and benefit both parties.

Drafted by: S. Lewenz DOC/ITA/IEP/EUR/OEESA/USSRD/377-4655

Drafted: 2/24/88 Revised: 3/25/88

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FOREIGN INVESTMENT AND JOINT VENTURES

Issue

(U) One aspect of General Secretary Gorbachev's perestroika is to encourage foreign investment in the Soviet Union. The most publicized form of this investment are the joint ventures between Soviet organizations and western firms, which open up new opportunities for non-strategic commerce.

(FOUO) Joint ventures on Soviet soil are a completely new development so American companies considering a joint venture with a Soviet partner are encountering a great deal of confusion and uncertainty in the development of these relationships. Moreover, because Soviet joint ventures are so new, U.S. companies have few "experts" to which to turn to ask questions or get advice.

(FOUO) A survey of some 20 American companies either currently negotiating or with established joint venture agreements indicates that there are a number of critical issues, including:

- Hard currency expenditures of the joint venture and hard currency repatriation of the U.S. partner's earnings;
- Determination of exchange rates for conversion of the U.S. partners ruble earnings;
- Valuation of each partners' contributed assets to the joint venture (land, machinery, etc.);
- Establishment of reliable, quality Soviet sourcing of production inputs;
- Gaining sufficient control over management and labor;
- Developing a satisfactory method of dispute settlement.

(FOUO) Many American companies who have been negotiating projects for some time in the Soviet Union complain that they are now being asked to propose joint ventures, even though a joint venture may not be practical in the particular situation. Because high levels in the Soviet government are stressing the establishment of joint ventures, lower levels are turning to it in unreasonable fashion.

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U.S. POSITION

(U) In the final communique of the Washington Summit, President Reagan and General Secretary Gorbachev 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."

(FOUO) American companies are recognizing the commercial potential of joint ventures in the Soviet Union and are increasingly becoming involved in joint venture negotiations with their Soviet counterparts. Because joint ventures in the Soviet Union are such a new and developing phenomena in this already difficult market, however, American firms are facing great unknowns and, possibly, substantial risk to their investments.

(FOUO) A joint government-to-government working group should be established to study the issues involved in American joint ventures in the Soviet Union and to explore mutually acceptable solutions to the complex problems which Soviet and American firms are facing in their joint venture discussions.

(FOUO) Co-chaired at the DAS level, the foreign investment working group would initially meet at least twice for a two day conference, once during the annual meeting of the JCC and the second sometime later in the year. Although established as a government to government group, the first session of each meeting would allow for the participation of private sector specialists and joint venture representatives. When project-specific issues are to be raised, the second session would be closed to private sector participation allowing only for participation from representatives of the specific joint venture under discussion, as appropriate.

(FOUO) The working group would explore areas where each side's trading organizations are encountering uncertainty or differences are not being resolved. Regular discussions would be supplemented by seminars on relevant issues such as reviewing the experiences of existing joint ventures between organizations of planned and market economies and by the preparation and presentation of research papers as needed.

(FOUO) Prior to the meeting of each group, a mutually acceptable agenda would be established through existing channels (i.e. USCO and Soviet Trade Rep).

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SOVIET POSITION

(U) In January of 1987, the Soviet government adopted legislation allowing for the establishment of joint ventures between Soviet organizations and Western firms. Key elements of the legislation include requirements that the amount of hard currency repatriation by the Western partner be less than or equal to the hard currency export earnings of the joint venture and that majority control of the joint venture be held by the Soviet partner.

(FOUO) At the February Experts meeting, the Soviets raised the question of joint ventures in the United States. Particular joint ventures in the United States could raise export control and other problems. Such joint ventures should not be encouraged and should be treated on a case-by-case basis as with the existing Marine Resources company.

BACKGROUND

(U) There are several goals of the new Soviet joint venture law: to increase and diversify hard currency exports; to reduce hard currency imports by substituting products of the joint venture; to provide a continuing flow of updated technology to stimulate innovation in the Soviet economy; and to acquire insight into Western methods of labor and operations management.

(FOUO) American firms which have concluded joint venture arrangements have done so by either supplying a product which directly increased the hard currency exports of the Soviet partner, signing deals with ministries who have access to hard currency for investment, or agreeing to countertrade for their share of the profits. The Soviets report that they have 50 letters of intent signed, 27 with American firms. The Commerce Department is aware of 2 signed U.S.-Soviet joint ventures and 30 under discussion.

(FOUO) TALKING POINTS

U.S. policy toward joint ventures in the Soviet Union

- o The U.S. Government welcomes the Soviet initiative to permit joint ventures in the Soviet Union. During the Washington summit, President Reagan and General Secretary Gorbachev 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."

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- o Some American companies have an interest in forming joint ventures in the Soviet Union. Others prefer more traditional forms of cooperation and trade.
- o Some American companies which have been negotiating projects for some time in the Soviet Union complain that they are now being asked to consider joint ventures even though joint ventures may not be practical in the particular situation. Not all American companies can accommodate a joint venture in the Soviet Union. In our view, investment should complement, not substitute, for trade.

Establishment of a foreign investment working group

- o American companies want to discuss joint ventures with their Soviet counterparts. They recognize that establishing joint ventures in the Soviet Union could offer opportunities which would be mutually beneficial to both partners.
- o But, while the establishment of joint ventures in the Soviet Union is an interesting development, it is also very new and untested. Although many American companies considering joint ventures in the Soviet Union have experience with joint ventures elsewhere, very few have experience in joint ventures in the Soviet Union. Their Soviet counterparts are also relatively inexperienced in this new concept. American firms indicate that they are facing great unknowns and, possibly, substantial risk to their investments.
- o Because of the novelty of U.S.-Soviet joint ventures, U.S. companies have few "experts" to which to turn to ask questions or get advice. Commerce officials increasingly meet with company representatives to discuss U.S.-Soviet joint venture issues.
- o We propose the establishment of a joint working group to study the conditions affecting foreign investment in the USSR, including joint ventures. Depending on the issue under discussion, the group would draw on the expertise of the Government and the private sector.
- o The group would explore incentives and impediments associated with foreign investments and would focus on developing practical mutually acceptable solutions to some of the difficult problems which potential American investors are facing and on improving safeguards in areas such as dispute settlement and intellectual property rights protection.

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- o The investment working group would explore areas where each sides' trading organizations are encountering uncertainty or differences are not being resolved. Regular discussions would be supplemented by seminars on relevant issues such as reviewing the experiences of existing joint ventures between organizations of planned and market economies.

Issues which could be addressed at the working group

- o We surveyed some 20 American companies either currently negotiating or with established joint venture agreements. This survey indicates that there are a number of critical issues, including:
  - Hard currency expenditures of the joint venture and hard currency repatriation of the U.S. partner's earnings;
  - Determination of exchange rates for conversion of the U.S. partners ruble earnings;
  - Valuation of each partners' contributed assets to the joint venture (land, machinery, etc.);
  - Establishment of reliable, quality Soviet sourcing of production inputs;
  - Gaining sufficient control over management and labor;
  - Developing a satisfactory method of dispute settlement.
- o We recognize that these are difficult issues for both the American and for the Soviet partners. But we believe that creative solutions can be found. Through a formal forum such as the working group which we are proposing, experts from the Soviet Union and from the United States, both in the public and private sector, can come together to develop workable solutions to these issues.

If the question of a bilateral investment treaty is raised,

- o It would be premature to confer on the possibility of a treaty. For the present, we should focus our attention on the Working Group.

If the Soviets raise joint ventures in the United States,

- o We would respond to proposals on a case-by-case basis, as we have approached the U.S.-U.S.S.R. Marine Resources joint venture.

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U.S. - SOVIET JOINT VENTURES

Signed Joint Ventures with U.S. Firms-

Combustion Engineering            Control instrumentation  
USSO Food Products Inc.            Pizza restaurants

Joint Ventures Under Negotiation-

Production of household bathroom fixtures  
Production of clinical analyzer  
Production of pesticides  
Production and processing of soybeans  
Automated dairy farms  
Production of hard rock drilling machines  
Coproducts of veterinary and pharmaceutical products  
Food preservatives and aromatic additives  
Production of covering for ladies' coats  
Production of cotton carding machinery  
Engineering services for modernization of mineral fertilizer plants  
Hotel construction/management  
Restaurants  
Lube oil and oil additives plant  
Production of process control system  
Herbicide production plant  
Vitamin & mineral enriched protein feed additive production  
Production of pre-fabricated steel houses w/wooden frames  
Porcelain tableware production  
Natural gas and sulfur processing  
Detergent, toothpaste, skin and hair care products manufacturing  
Crop protection chemicals  
Sewing machine production  
Production of feminine hygiene products  
Manufacture electric submersible centrifugal pumps  
Joint venture to sell U.S. films w/right of duplication  
Production of pharmaceuticals  
Production of footwear and processed leather

Drafted by: S. Lewenz DOC/ITA/IEP/EUR/OEESA/USSRD/377-4655

Drafted: 2/24/88    Revised 3/28/88

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## Signed Joint Venture Projects

<u>Western Firm</u>	<u>Soviet Partner</u>	<u>Project</u>
<u>Western Europe</u>		
Voith (Austria)	Chimmasheexport, Sojuzorgbumprom (Ministry of the Pulp and Paper and Wood Processing Industry), and Petrozavodskbummash	Production of paper-making machinery
Finnair (Finland)	Intourist (State Committee for Foreign Tourism)	Refurbishment of Hotel Berlin in Moscow
Sadolin (Finnish subsidiary of Danish Sadolin)	Estonian Republic Association Estkolkhozstroy	Production of paints, varnishes, and wood preservatives
Suomen Kati-Myynti Osakeyhtioe (Finland)	Tallin Sewn Goods Production Association	Production of women's clothing
Aniral Utec (France) and Delta Trading (Italy)	State Agro-Industrial Committee and Ministry of Higher and Secondary Specialized Education	Introduction and maintenance of computers
SCOA (France)	Unknown	Production of recycled plastic products
Societe Nouvelle de Metallisation Industries (France)	State Institute of Ores and Chemical Materials	Hot metal spraying
FATA (Italy)	Ministry of Machine Building for Light and Food Industry and Household Appliances	Production of commercial and industrial refrigerators
Amper, Telefonica (Spain)	Ministry of Communications Equipment Industry	Production of telephones

<u>Western Firm</u>	<u>Soviet Partner</u>	<u>Project</u>
Hopf (Switzerland)	Rozinvalutorg	Set up and manage a department store in Moscow for foreigners
Sandoz (Switzerland)	Soyuzanilprom	Production of dyes for the clothing industry
Heinemann Machine and Installations Construction (West Germany)	Sergo Ordzhonikidze Machine Tool Building Plant	Production of lathes and flexible production modules
Liebhern (West Germany)	January Uprising Production Association	Production of self-propelled cranes
Mineralol Rohstoff Handel (West Germany)	Nizhnekamskneftekhim Production Amalgamation	Production of ethylene glycol
Salamander (2) (West Germany)	(1) Proletarian Triumph shoe factory  (2) a Vitebsk enterprise	Production of shoes
Verlag Anne Burda, Ferrostahl (West Germany)	Vneshtorgizdat	Construction of printing facilities and production of fashion magazine
Wendt (West Germany)	Moscow Machine Tool Building Plant	Production of adjustable grinding machines

Japan

Raduga	Committee for Physical Culture and Sports	Construction of sports facilities
Tairiku Boeki	All-Union Association Irkutsklesprom	Process Siberian trees into furniture panels

Western FirmSoviet PartnerProjectIndiaIndia's Tourist  
CorporationMoscow City Council  
of People's DeputiesIndian-cuisine restaurant  
in MoscowUnited States

Combustion Engineering

Ministry of the Petroleum  
Refining and Petrochemical  
IndustryProduction of  
instrumentation for  
petroleum refineries and  
petrochemical plantsUSSO Food Products,  
Inc.

"Dialogue"

Mobile pizza restaurant

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 This table is Unclassified.





Market Access and Information

Issue

(FOUO) For the first time in sixty years, the Soviet Union is beginning a trade decentralization that can contribute significantly to the longstanding U.S. goals of opening Soviet society and increasing business opportunities for our companies. The issue is whether the United States can encourage this process and at the same time assist our companies in developing new business in civilian areas.

Background

(U) In 1987, the Soviet Union initiated steps to decentralize foreign trade by granting import and export authority for the first time to over 95 ministries and enterprises and announcing the intention to extend authority to additional enterprises in the future. Furthering this process, the Ministry of Foreign Trade has been abolished, and some of its operational authority and personnel are being parceled out to industrial organizations, with the balance going to a new Ministry of Foreign Economic Relations.

(FOUO) This decentralization supports the U.S. goal of encouraging an opening up of the Soviet system. Central control is weakened, import and export decisionmaking is extended to numbers of commercial and industry personnel around the Soviet Union, and contact with foreigners and information from abroad is greatly increased.

(U) Decentralization can open new business possibilities by allowing American executives to work directly with Soviet enterprises. Not only does this allow more productive sales negotiations, but it gives companies the opportunity for the first time to work with Soviet enterprise personnel, and even with regional government officials, in developing new commercial projects based on local Soviet needs. If U.S. firms are actually able to do this, they may be able to displace European and Japanese companies who have had an inside track as a result of longstanding ties with the old Ministry of Foreign Trade foreign trade organizations.

(FOUO) To date, however, the disarray resulting from the decentralization has made it more difficult for companies to find out what imports are sought and who to contact. Unless we are able to help our companies actually establish relations with the new organizations, U.S. companies could be worse off than before.

Controlled By: Susanne S. Lotarski  
Decontrol On: March 30, 1990

U.S. Position

(FOUO) The U.S. goal is to encourage the decentralization and help American companies make practical use of it. To do this, the United States has proposed five specific market access measures to the JCC. Implementation of these measures will benefit both sides.

(U) The Soviet organizations entering foreign trade for the first time do not know what foreign firms to contact or how. Also, foreign companies, even those in Soviet trade for some time and with established contacts, now in many cases do not know whom to contact or what Soviet import plans are. We propose:

(FOUO) That the Soviets establish an information clearinghouse on import requirements of Soviet entities, especially those with decentralized import authority. Such a clearing center would receive information on Soviet import requirements listed by the various end user importers, and make it available to U.S. and other suppliers.

(U) The clearinghouse would have no role in trade decisions; but would only provide information. U.S. companies could benefit disproportionately because of their small share of past trade relative to their capabilities, and because of the lower dollar. A model could be the Commerce Department's "Commerce Business Daily" which daily publishes U.S. Government procurement invitations, contract awards, subcontracting leads, and foreign business opportunities. Commerce is responsible only for compilation and editing.

(U) There is inadequate information available now on the names, titles, addresses, phone numbers, telex, etc. of the Soviet officials with foreign trade authority. The Commerce Department needs such information to help our firms establish business contacts, through counseling and, possibly, through publications. We propose:

(FOUO) That the Soviets provide information sufficient to enable U.S. companies to reach the holders of key trade positions in the reorganized Soviet trade and industry structure.

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(U) No embassy in Moscow circulates a commercial newsletter of the type U.S. embassies routinely publish in many countries of the world. Up to now, it has not been feasible to publish and circulate such a newsletter. Nor are there equivalent commercial publications which provide information on foreign products. We propose:

(FOUO) That the Soviets sanction receipt by their officials of a "Commercial Newsletter" to be produced by the U.S. Commercial Office in Moscow. Official Soviet support is necessary as a practical matter for all the new officials in foreign trade to routinely receive such a newsletter at their office. Also, the lists mentioned above are required to mail a newsletter to the proper officials. A commercial newsletter would greatly improve the ability of U.S. companies to advertise their products in the Soviet market.

(U) The United States maintains a well equipped Commercial Office in Moscow, separate from the Embassy, with a commercial staff as well as directories and other information on products and services available from U.S. companies. As a practical matter, Soviet officials are unlikely to visit the U.S. Commercial Office unless they are encouraged by their respective organizations. While some Soviets did visit the Commercial Office during the 1970's, today many do not even know about it.

(U) A Soviet militiaman stations himself directly in front of the entrance to the Office and bars Soviet citizens from entering unless they have specific authorization from their employing organization, thus preventing trade and purchasing officials from using the Office. Occasionally, visitors are escorted in by the Office Director, only to be accosted by the militia and taken away after they exit the Office. The Office needs security, just as the United States provides security in the United States, but it should be provided without hindering visitors. We propose:

(FOUO) That the Soviet government encourage Soviet trade executives and endusers to utilize the facilities of the U.S. Commercial Office (USCO), including sending an open letter to Soviet organizations setting out this policy.  
(Sample letter attached)

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(FOUO) That the Soviet government instruct the militia to allow Soviet visitors to enter USCO freely, that the militia position itself to the side of the approach to the Office and instruct them not to stop Soviet visitors, examine their documents or otherwise hinder them.

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 and the staff a ready source of information about U.S. companies actual assistance in establishing contact. This would increase the chances they would seek American products instead of European or Japanese.

### Soviet Position

(U) In the past, much less information than in the West on trade procedures and officials has been published in the U.S.S.R. Now, there is some appreciation in Moscow of the benefits of disseminating more information. However, they have actually done very little, citing an inability to keep up with the changes. They recently set up a counseling center in the Chamber of Commerce and Industry, which is supposed to provide services to foreign firms and Soviet organizations on a fee basis.

### Talking Points

- o The Soviet trade decentralization offers both sides a rare opportunity to take some practical steps which can make it possible for Soviet and American business people to expand cooperation.

#### Information clearinghouse

- o We want the Soviet side to agree to establish an information clearinghouse which would receive import requirements of Soviet organizations and make this information available to foreign firms.
- o Such a clearinghouse would have no role in trade decisions. The center would simply receive information, on a voluntary basis, from enterprises.
- o Information centers are often needed in countries where activities are decentralized. A U.S. example is the "Commerce Business Daily." Now, the Soviet trade reform has made such a center necessary in the Soviet Union.

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- o The Soviet side would benefit. Western firms, not just American ones, would be able to respond more quickly and more specifically to Soviet customers' needs. The Soviets would gain access to a much better selection of suppliers.
- o The Center could be independent or it could be established by the Chamber of Commerce and Industry, the Foreign Economic Commission or other organization. It could operate in the following way: distribute forms to all organizations authorized to participate directly in foreign trade; organizations would fill out the forms, indicating the type of good sought, the basic technical parameters, volume, contact name, address, phone number, telex, etc.; the Center would collect the forms on a continuing basis, assemble the information and publish it as well as make it available on a walk-in basis to embassies, foreign firms, and others who could help disseminate the information to potential suppliers; interested companies would then contact and submit bids directly to the enduser.

Lists of Soviet officials with trade authority

- o For the trade decentralization to work, we need to use new ways to help bring the right people and organizations together at the right time. Currently, Soviets who are new to trade do not know U.S. companies, and our companies do not know them.
- o We request that the Soviet side provide lists of all of the organizations with trade authority and their officials so that we can help U.S. companies contact the right Soviet officials. The USTEC list is useful, but it is only a beginning.
- o Commerce Department offices in Moscow, Washington, and around the United States would use these lists to advise firms on whom to contact. They could be updated on a periodic basis. Perhaps we could also publish them.

Soviet support for USCO newsletter

- o We would also use these lists to inform Soviet officials of the latest products and services available from U.S. companies by sending them a "Commercial Newsletter" from our Commercial Office, just as we do in many countries of the world. To do this effectively, we need to reach a significant range of trade-related officials by having up-to-date and comprehensive lists.

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- o As a practical matter, the Soviet government needs to encourage Soviet organizations to allow receipt and circulation of the newsletter. Unless there is official encouragement, people will not receive the newsletter or read it.
- o U.S. Embassy "Commercial Newsletters" are devoted strictly to information about private company products and services. They would be a valuable source of information for Soviet industry personnel.

Soviet encouragement of their officials to visit USCO

- o The Department of Commerce has a Commercial Office in Moscow which is uniquely equipped to help Soviet officials get information about American companies and products and establish contact with potential trade partners.
- o The Office has a commercial library and staff with information about American firms and projects. Soviet officials can visit and receive assistance in identifying and contacting potential business partners.
- o The Office also sponsors technical/sales seminars, exhibits, and receptions designed to bring Soviet and American commercial people together.
- o Through greater use of the Commercial Office, Soviets will gain access to more information on U.S. companies and get help in establishing contacts. There is also an important symbolic benefit for trade: greater visible use of the Office by Soviet officials will signal to Soviet and American executives the common interest of both governments in having their businesses increase cooperation.
- o As a practical matter, if Soviet business people are to use the Commercial Office, the Soviet government must provide visible support. One way is for the Soviet side to send an open letter to Soviet trade and industry entities encouraging them to visit and use the services of the U.S. Commercial Office.
- o Just as the letter from Minister Patolichev at Secretary Baldrige's request was crucial to establishing U.S. company access to Soviet FTO's, a letter from Minister Katushev is required to establish clearly that Soviets are encouraged to visit the U.S. Commercial Office. We can give you some suggestions for the elements of such a letter (sample attached).

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- o (FYI: A possible additional or alternative measure would be to have the two sides agree to publish announcements in their respective publications -- "Business America" and "Foreign Trade" -- describing the services of the Commercial Office and the Soviet Trade Representation and encouraging business representatives to utilize them.)

Instructions to policeman

- o Currently, a Soviet militiaman positions himself directly in front of the entrance to the Commercial Office. He stops every potential visitor, and prevents Soviets from entering the Office.
- o For protection of the Soviet Trade Representation in Washington, the U.S. Government provides members of the Protective Service. However, these officials remain away from the entrance and do not hinder in any way visitors to the Trade Representation.
- o As a practical matter, the Soviet side must give instructions to the militia to allow Soviet visitors to pass freely, without hindrance, and to reposition the policeman away from the door.
- o Reciprocity is important. Both the Commercial Office and the Soviet Trade Representation have an important role to play. The Trade Representation is the first stop for many business representatives trading with the Soviet Union. And, in fact, this is what Commerce Department officials tell businessmen. The same should be true for the U.S. Commercial Office in Moscow, and we expect the Soviet side to take practical steps to bring this about.

Attachment

Drafted by: Jack Brougher, ITA/IEP/EUR/OEESA, 377-4655

revised 3/24/88

Cleared by: FVargo, 3/24/88  
.SLOTarski, 3/24/88  
RJohnson, State/SOV, 3/28/88  
DJones, State/EB, 3/28/88  
WGeorge, DOD, 3/29/88  
RWeiss, USTR, 3/29/88



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ATTACHMENT

Draft

During the tenth session of the Joint US-USSR Commercial Commission held in Moscow, April 12-14, 1988, the USA Secretary of Commerce, noting the Washington Joint Summit statement by President Reagan and General Secretary Gorbachev calling for expansion of mutually beneficial trade and economic relations, pledged increased efforts by the U.S. Commercial Office in Moscow to support the expansion of trade in both directions.

USA Secretary of Commerce Verity invited Soviet trade and industry experts to visit the U.S. Commercial Office, located in Moscow at Ul. Chaikovskogo, 15, to use its Commercial Library of information about American firms and industries, and obtain assistance in contacting potential American business partners.

The U.S. Commercial Office will also sponsor seminars and exhibits bringing together American and Soviet experts in various branches of industry in the interest of broadening mutually beneficial business cooperation.

As noted in the Agreed Report of the Commission, the Soviet side welcomed the invitation and proposed initiatives and stated that Soviet personnel would be encouraged to take advantage of these opportunities for establishing and developing mutually beneficial commercial contacts.

Accordingly, representatives of foreign trade organizations, ministries, enterprises, institutes and other organizations are encouraged:

- To visit the U.S. Commercial Office, use its Commercial Library, and seek its assistance in identifying and contacting potential American business partners; and
- To accept invitations to symposia, seminars, exhibits, and commercial receptions and other activities organized by the U.S. Commercial Office in Moscow with the purpose of broadening bilateral trade.

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## CONSUMER INDUSTRIES/SERVICE INDUSTRIES

### Issue

Establishing a bilateral Sector Working Group on Consumer Goods Industries.

### U.S. Position

We should accept the Soviet proposal for a sectoral working group on consumer industries. As in the past, opportunities for large direct exports of consumer goods are likely to be limited because of a Soviet policy limiting allocation of hard currency for import of many consumer goods. In contrast, changes in longstanding Soviet policies are now opening up for the first time the possibility of business opportunities in consumer industries through joint ventures, licensing arrangements, and export of production facilities, subject to existing U.S. laws and regulations. General Secretary Gorbachev has placed new priority on upgrading delivery of goods and services to the Soviet population and legalized new forms of business with foreign firms. For example, the Soviets have recently expressed interest in U.S. fashion apparel, soaps and detergents, toothpaste, and feminine hygiene products.

A bilateral working group would help us explore the business potential in consumer industries resulting from changes in Soviet domestic economic and foreign trade policies. New information could be disseminated to U.S. firms and projects of mutual interest encouraged and facilitated.

### Soviet Position

The Soviet Union's consumer goods industry is in need of updating and expansion. There is a constant shortage of good quality consumer products. The Soviets have a clear interest in importing consumer goods or improving the performance of their industry. The Soviets included consumer goods in one of the five working groups they proposed to Assistant Secretary Laun on February 18.

### Background

Discussions with Soviet retailers and consumers indicate a large unsatisfied market for consumer goods in the Soviet Union. Soviet consumer goods are usually scarce and of very poor quality. U.S. brand-name consumer products are regarded as being of high quality and are highly sought after by Soviet consumers. However, imports of consumer products and equipment to produce these products have traditionally been a low priority for the Soviet Union.

Joint ventures or licensing arrangements may provide an avenue for U.S. firms with brand-name products to expand their sales to the Soviet Union.

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## Talking Points

- o We encourage the establishment of a bilateral Sector Working Group on Consumer Goods and Services.
- o This sector could offer opportunities for mutually beneficial trade as well as joint production or licensing arrangements between the Soviets and U.S. firms.
- o The Working Group could promote trade through an exchange of information and by facilitating the efforts of both purchasers and suppliers to pursue agreements.

Drafted by JGordan/Services/Commerce/377-1128

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SERVICES

Issue

Seek Soviet agreement to discuss cooperation in the services area as a second part of the consumer goods and services bilateral sector working group.

U.S. Position

There are four service sectors which should have some appeal to the Soviets: (1) financial services (particularly insurance, risk management and leasing); (2) operations and maintenance services (i.e., services to extend the life, and improve the efficiency, of plant and equipment); (3) marketing/advertising; and (4) restaurants (joint ventures, management and franchising).

Soviet Position

The Soviets have recently begun to examine the role of services in their economy and, in private talks, have shown interest particularly in: advertising, operations management, marketing and risk management. Like other communist countries, they generally have little regard for services' economic value, since underlying economic strategy traditionally emphasizes industrial production.

Background

Services are a natural complement to other sectoral efforts to increase U.S./Soviet commercial cooperation and the sectors proposed are targetted at the Soviet desire to improve economic performance. Inclusion of services in major U.S. bilateral negotiations is one of the Administration's key trade objectives.

Talking Points

- o Modern and innovative service industries are critical to the smooth functioning of industrial economies. they provide the means for improved efficiency, innovation, and adjusting to international competition.
- o We propose the creation of a services working group under the JCC. Initially, the working group should focus on four groups of services:

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- Financial Services: The United States is preeminent in the development of risk management services. These identify industrial and other risk scenarios, analyze their impact on operations, identify ways to reduce risk and suggest alternative ways of funding for losses which may occur. Equipment leasing is another financial service in which we are world leaders.
- Operations and Maintenance: These services would improve production efficiency and extend the life of equipment and facilities in certain non-strategic sectors.
- Marketing/Advertising: These services are aimed at developing a more efficient distribution system, gaining a better understanding of consumer needs whether personal, industrial or agricultural) and communicating with client groups more effectively. They are critical to the development of a more efficient economy responsive to market forces.
- Restaurants (Joint Ventures, Management, Franchising): The U.S. restaurant business faces constant pressure to adapt to changing public lifestyles and the application of new, cost-saving technology. As a result, a considerable body of expertise has developed which can be adapted to different economic and cultural situations. We understand that there are U.S. companies interested in doing business in the Soviet Union.

Drafted by BFree/Services/Commerce/377-1128

Clearances:	PWoodring/EB/ERP/EPC	JBrougner/Commerce
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## CONSTRUCTION EQUIPMENT WORKING GROUP

### Issue

Seek Soviet agreement to establish a bilateral sector working group for construction equipment.

### U.S. Position

The imposition of foreign policy export controls after the Soviet invasion of Afghanistan and the Soviet role in the imposition of martial law in Poland resulted in the loss of the U.S. suppliers' dominant market share in the Soviet construction equipment market. Since the elimination of controls in this area, U.S. firms have been struggling to regain status in the market. The U.S. holds no significant technological advantage over either Japanese or European construction equipment. However, recent exchange rate shifts should enable U.S. producers to compete more favorably on prices. Many of the major manufacturers, Caterpillar, Dresser Industries and Ingersoll-Rand, already have offices in the U.S.S.R. A bilateral working group concerned with construction equipment would not only support these companies in their marketing efforts, but could also serve as a vehicle for assisting the many small-to-medium-sized companies that wish to access the Soviet market.

### Soviet Position

The U.S.S.R. branded the United States as an "unreliable supplier" when the U.S. imposed foreign policy controls on sales of pipelayers to that country in 1981. The Soviets shifted their purchases to Japan, standardized on Komatsu equipment, stocked Komatsu parts, and trained their mechanics in the servicing of Komatsu equipment. There is no real need from their point of view to reestablish their supply lines to U.S. producers. However, they are aware of the benefits of competition on market prices and may be willing to consider diversifying their source of supply. The Soviets included construction roadbuilding equipment in one of the five working groups which they proposed to Assistant Secretary Laun on February 18. However, their proposal included some other items which could prove difficult for us to accept, e.g., motor vehicles and tractor production, given the existing foreign policy controls on exports to the Kama River and Zil Truck Factories. These controls were imposed as a result of the Soviets' use of trucks from the Kama River plant in the invasion of Afghanistan. In our opinion, the U.S.S.R.'s interest in this type of cooperation was underscored by Soviet approaches to two U.S. companies in the automobile industry.

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DECONTROLLED ON: March 30, 1992

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Background

Beginning at the end of World War II, the U.S.S.R. purchased much of its construction machinery requirements from the United States. Caterpillar supplied an estimated 85 percent of the machinery purchased. During the early 1980s when an embargo halted U.S. shipments of this equipment to the Soviet Union we estimate that the U.S. lost between \$800 million and \$1 billion in export sales. Caterpillar sales since 1983 have consisted mainly of replacement parts for existing machinery. Caterpillar faces an uphill battle to regain its pre-embargo position. They have made a major commitment: opening an office in Moscow; developing contacts with U.S.S.R. officials; tracking all new opportunities; and, initiating an aggressive marketing campaign.

The U.S. is participating in Stroydormash '88, the Third International Exhibition for Construction and Roadbuilding Machines and Mechanization Means for Building and Installation in Moscow, May 25-June 3, 1988. When recruitment is complete, we expect about 18 companies to exhibit on 600 square meters of space. There has been considerable reluctance from within the U.S. industry to participate in the show because costs are high and the industry perceives that there is no reasonable expectation for sales. A working group that involved the U.S. industry in development of strategy and initiatives could make considerable progress in overcoming the negative feelings of both the Soviet purchasers and the U.S. suppliers.

Talking Points

- o Construction equipment is a product that we understand the U.S.S.R. intends to import. The United States has some of the best suppliers of this equipment and recent exchange rate developments make our suppliers highly competitive.
- o A sector working group on construction equipment could assist this effort by focusing on sharing information on Soviet plans for equipment purchases and U.S. equipment capabilities.
- o We suggest that, if agreement is reached to initiate a working group, the group hold its first meeting during Stroydormash '88, May 25-June 3. Many U.S. firms are participating in that exhibition, and it provides an excellent opportunity to begin efforts to establish an improved trade relationship.



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- o We welcome your interest in this area as indicated by your own proposal for a working group. Our proposal is somewhat narrower than yours. Further discussion will be needed by our experts to define the working group's mandate.

Dept. of Commerce/LHeimowitz/JLien/MKThompson/377-2474/3/23/88

Clearances: DJones/State/EB/OT/DCT  
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## FOOD PROCESSING/AGRIBUSINESS WORKING GROUP

### Issue

Seek Soviet agreement to establish a bilateral Sector Working Group on Food Processing/Agribusiness

### U.S. Position

The U.S.S.R. offers a potentially enormous market for food processing and packaging equipment. However, U.S. sales in this area have been minimal due to Soviet emphasis on heavy industry and a lack of foreign exchange. Many U.S. firms also find it difficult to market their products in the Soviet economic system. U.S. firms are confused by the bureaucracy and sometimes lack the resources and patience to complete the lengthy negotiations required to obtain signed contracts. A bilateral working group could be used to seek simplification of the process, acquaint the Soviets with this highly competitive U.S. industry, and promote increased sales and other commercial ties.

### Soviet Position

The Soviet Union's food processing industry is in need of updating and expansion. It would be a logical candidate for major improvement under Gorbachev's "Perestroyka." Many food stores have mostly empty shelves and there is a constant shortage of processed food products. The majority of food processing and packaging machinery used in the USSR is imported, but eighty percent comes from the soft currency countries of Eastern Europe. The Soviets have a clear interest in improving the performance of this industry and we expect support for creation of the working group. Food processing machinery was included in one of the five working groups the Soviets proposed to Assistant Secretary Laun on February 18.

Another potentially promising area is that of pesticides. The United States is the world's largest producer and the Soviets are aware of their need to develop a pesticide industry; they are in the process of developing a petrochemical industry, the major source of their raw materials. Prospects for cooperation in the fertilizer sector are not as clear, however. U.S. assistance in Soviet production of ammonia, for example, would seem to have potential given the U.S.S.R.'s huge reserves of natural gas, but Soviet disregard for cost/price relationships make even this appear doubtful.

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## Background

In September 1986 over 60 U.S. firms participated in the IMPRODTORGMASH International FPP Exhibition in Moscow. Only a few U.S. firms have successfully signed contracts with the Soviet Foreign Trading Organizations. Some of the participants are still actively pursuing contracts, even after 18 months of costly negotiations that have resulted in no sales. There are many U. S. FPP machinery manufacturers that produce the types of equipment the Soviets require. Eight firms from the U.S. exhibiting in IMPRODTORGMASH were identified by the Soviets as suppliers of needed machinery. One of the firms even modified its equipment to meet Soviet specifications. These eight U.S. exhibitors made a significant investment to gain access to the Soviet market. None of these companies sold anything to the Soviets.

The Working Group will need to move quickly and effectively to determine if the Soviets are serious about increasing their imports of this equipment from the U.S. in order to maintain the interest of U.S. firms. The working group can follow-up on the IMPRODTORGMASH Exhibition and assist U.S. firms as necessary through the negotiation process.

## Talking Points

- o We encourage the establishment of a bilateral Sector Working Group on Food Processing and Agribusiness.
- o This sector offers great opportunities for both sides through increased trade and commercial activities. Soviet purchasers had an opportunity to see U.S. equipment during IMPRODTORGMASH and U.S. firms gained valuable information about Soviet plans and needs in this sector.
- o The Working Group could build on this first step through an exchange of information, and facilitating the efforts of both purchasers and suppliers to pursue agreements.
- o We welcome your interest in this area as indicated by your own proposal for a Working Group. Our proposal is somewhat narrower than yours. Further discussion will be needed by our experts to define the Working Group's mandate.

Dept of Commerce/IAxelrod/MKThompson/377-2474/3/14/88

Clearances: BClarke/State/EUR/SOV  
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BGeorge/Defense

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## BILATERAL SECTORAL WORKING GROUP HEALTH CARE INDUSTRY

### Issue

Establishing a bilateral sectoral working group in the non-strategic health care products sector (medicinals, medical equipment and supplies) to assist the promotion of U.S.-made products.

### U.S. Position

Establishment of a working group would particularly benefit small to medium-sized U.S. companies by providing a better understanding of marketing health care products in the Soviet Union. These firms have limited knowledge in dealing with Soviet foreign trade organizations.

The Department of Commerce, in general, supports health care products exports to the Soviet Union. A medical equipment technical sales seminar was held at the U.S. Commercial Office in Moscow on June 11-12, 1986, the first such event since 1979. Eleven U.S. companies participated in the fields of cardiology, ophthalmology, and surgery. Over 130 Soviet medical specialists attended this session and rated it a success. Soviets felt that future exchanges would be very desirable.

### Soviet Position

Establishment of a bilateral working group may be well received by the Soviet Union. The Soviets included health care products in one of the working groups they proposed at the February 18, 1988 experts meeting.

The new Health Minister is currently seeking to overhaul the Soviet health care system, emphasizing preventative medicine. U.S. industry sources have cited that he is setting up several primary care clinics around the country and equipping them with modern diagnostic equipment, including U.S.-made computed tomographs, ultrasound equipment and advanced X-ray. This may bring the benefits of "prerestroika" to the average Soviet citizen.

### Background

The United States is one of the world's leading suppliers of health care equipment including medicinals, disposables, and artificial implants. It is especially competitive in medical electronics, an area where U.S. industry perceives a strong interest by the Soviets.

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Most health care products do not present export licensing problems, as the United States only maintains export controls on certain computer-controlled medical equipment. However, in 1987 controls were liberalized, increasing the level of computer elements that may be included in medical equipment. License applications for these items will be reviewed on a case-by-case basis.

In the past, trade with the Soviet Union depended on East-West relations. The United States exported \$4.2 million of medical equipment in 1985, \$4.7 in 1986, and about \$2.2 in 1987. The majority of exports have been X-ray and electromedical equipment.

Talking Points

- o We welcome Soviet interest in forming a working group for health care products.
- o U.S. firms are leaders in most health care product areas, e.g. surgical stapling devices, artificial joints, and electromedical equipment. These products can assist the Soviet Union in its health care modernization program.
- o At the same time, such expanded trade would provide the opportunity for the Soviet Union to diversify its sourcing from a limited number of health care suppliers.
- o If asked: in some cases export controls may require modification of U.S. products for Soviet end users. Our manufacturers are showing flexibility in introducing products that will meet U.S. export control regulations and will be able to serve the growing Soviet market. (Example: General Electric has recently modified its CT scanner for shipment to East Bloc countries.)

Clearances:

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P.J. Nichols/State/Rm. 3817A/647-2875  
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Jack Brougher/Com/Rm. 3415/377-4655  
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Drafte: Michael Fuchs  
ITA/TD/SE/OMI  
377-0550  
March 1, 1988

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## OIL AND GAS EQUIPMENT SECTORAL WORKING GROUP

### Issue

Establishing a bilateral sector working group on energy. This group will concentrate its attention on oil and gas equipment.

### U.S. Position

The United States lifted its foreign policy export controls on sales of petroleum equipment to the U.S.S.R. in January 1987. Current U.S. export controls on this equipment are confined primarily to equipment that incorporates advanced electronic and computer technology that could have military applications. The Soviet Union has a substantial market for oil and gas equipment and the U.S. industry has substantial excess capacity. Last year the Commerce Department organized an exposition of U.S. petroleum equipment in Moscow to help U.S. firms reenter the market.

A sector working group could focus Soviet attention on the high quality and advanced design of U.S. equipment, ease Soviet concerns about the reliability of the U.S. as a supplier, and encourage greater interaction between Soviet purchasers and U.S. oil and gas equipment producers. The groups would focus on equipment which can be approved under existing export controls and is not under COCOM embargo.

We should ensure that U.S. support for a bilateral working group on oil and gas equipment exports would not be construed by Soviet or West European governments as signaling any change in U.S. policy regarding West European energy security. The U.S. remains concerned about the implications of greater Soviet gas exports to Western Europe. The U.S. has worked hard to develop a consensus with our Western allies on this issue. In 1983, OECD Ministers agreed on the need to seek to avoid reliance on non-OECD natural gas supplies. International Energy Agency (IEA) Energy Ministers reaffirmed this agreement in 1985 and 1987.

### Soviet Position

The U.S.S.R. is expected to react positively to the formation of a bilateral sector working group on oil and gas field drilling and production equipment. As the world's leading producer of oil and natural gas, the U.S.S.R. is very interested in modern petroleum equipment. They have proposed a working group on petroleum refining, petrochemicals, chemicals, natural gas industry, fertilizer production and related machine building. We prefer to confine the group to the oil and gas equipment industry only.

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## Background

With the imposition of U.S. foreign policy export controls on petroleum equipment for foreign policy purposes, U.S. exports of oil field equipment to the U.S.S.R. declined sharply, from \$48 million in 1979 to \$12.1 million in 1986 and to \$5 million in 1987.

U.S. producers of oil and gas field equipment face growing competition. Alternate suppliers in the United Kingdom, France, Norway, West Germany, Italy, Canada, Japan, and even the Soviet Union produce equipment that can generally get the job done. However, because of their greater experience, U.S. equipment suppliers still have an edge in some areas, including equipment designed for drilling in difficult conditions. Given the lower dollar and superior know-how, U.S. equipment can do the job better and cheaper in some areas. Even so, the success of U.S. exporters of this equipment will, to a large extent, be determined by the competitive pricing and financing arrangements offered by U.S. firms.

## Talking Points

- o Oil and gas field equipment offers a significant opportunity for the U.S. and the U.S.S.R. to increase commercial ties with the potential for significant benefits for both sides.
- o As the U.S.S.R. attempts to expand production in more remote areas, the need for U.S. equipment designed for exploration and drilling in difficult environmental conditions will increase.
- o We are interested in establishing a bilateral sector working group on oil and gas field equipment to explore Soviet plans in this sector, develop opportunities for business.

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- o We welcome your interest in a wide range of items in this field. Our proposal is somewhat narrower than yours, and further discussions will be needed in the working group to define its mandate.

Dept of Commerce/EMcDonald/MKThompson/377-2474/3/24/88

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Bilateral Tourism Working Group

Issue

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. INTOURIST's monopoly control of hotel rooms and land tour departures in the USSR, shortages of hotel rooms there and apparent Soviet unfamiliarity with western marketing practices and concepts such as "consumer sovereignty" have resulted in (1) hotel overbooking, (2) substitute accommodations for some U.S. tour groups in properties below the advertised standard and with no compensatory refund to the traveler, and (3) tarnished reputations for U.S. tour operators involved.

At the same time, however, new business opportunities are opening up in the Soviet Union for U.S. companies. The Soviets are for the first time entering into hotel and other joint ventures with Western companies and have advised the Tourism Committee of the U.S.-U.S.S.R. Trade and Economic Council that, among other things, they are interested in "establishment of a joint tourism/shipping company" which would operate cruises.

An INTOURIST lease arrangement with a British company is indicative that there may be opportunities in the USSR for U.S. hotel corporations to enter into hotel management contracts.

U. S. Position

The U.S. seeks the establishment of a Bilateral Tourism Working Group within the JCC. Tourism is a

CONTROLLED BY: Susanne Lotarski  
DECONTROL ON: 26 February 1990

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non-strategic, invisible export and an element of trade in services. All indications are that travel from the United States to the USSR is growing and that Americans are spending more on travel to and within the Soviet Union than ever before. Since 1980, U.S. residents' payments to Eastern European enterprises for travel services have climbed from \$58 million to \$103 million during the first three quarters of 1987 and in all probability reached at least \$110 million last year.

We estimate that perhaps as much as a third of this revenue went to the USSR.

A Tourism Working Group could (1) address and attempt to resolve tourism-related commercial issues; (2) possibly modify INTOURIST business practices which discriminate against U.S. operators; (3) identify new business opportunities in the USSR for U.S. travel suppliers; (4) contribute to the objective of expanding mutually-beneficial trade and economic relations as outlined in the Joint U.S.-Soviet Summit Statement of December 10, 1987; and (5) recommend measures to implement the Tourism Article (XIV) of the 1985 General Agreement on Contacts, Exchanges, and Cooperation in Scientific, Technical, Educational, Cultural and Other Fields.

Soviet Position

The official Soviet position is unknown; however, the Chairman of the Soviet delegation to the working group of experts meeting (Znamensky) referred to the proposal to create such a working group as "worthy of consideration" and said that he thought the State Council "should have no problem" with it.

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Talking Points

1. At the conclusion of the Summit meeting in December, General Secretary Gorbachev and President Reagan issued a statement which, among other things instructed their trade ministers to develop concrete proposals to expand mutually-beneficial trade and economic relations.
2. Expansion of bilateral tourism -- an invisible export and an element of trade in services -- would serve that goal.
3. Resumption and expansion of air service is facilitating travel between our two countries.
4. Alaska Airlines' interest in operating seasonal summer service between Nome and Provideniya may result in new travel opportunities across the Bering Straits.
5. The planned construction of additional hotels in the USSR will expand capacity to accommodate foreign tourists.
6. U.S. tour operators say that the December Summit and the upcoming Summit in Moscow in June are generating new interest in the Soviet Union as a tour destination.
7. You have indicated that you want to expand tourism to Soviet Central Asia and that you are interested in forming joint ventures with U.S. partners to encourage tourism to the Soviet Union.
8. We believe that a tourism working group within the JCC would provide a framework for advancing the tourism-related objectives of both countries.

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9. 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.

10. As we see it, such a working group would be comprised of representatives of the United States Travel and Tourism Administration and the State Council for Foreign Tourism, but would invite participation of related agencies as necessary.

11. If the Soviet members of the Commission agree with this proposal, then I propose that the Under Secretary for Travel and Tourism, on behalf of the U.S. side, and suggest that the Chairman of the State Committee for Foreign Tourism, for the Soviet side, serve as co-chairmen of the Working Group.

12. The Under Secretary, Donna Tuttle, is available to discuss the terms of reference of the Tourism Working Group and prospective dates for a first meeting.

Attachment

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2/25/88

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PROPOSED COMPOSITION, STRUCTURE AND FUNCTIONS  
OF JOINT COMMERCIAL COMMISSION'S  
TOURISM WORKING GROUP

I. Co-Chairmen

A. United States

Under Secretary of Commerce for Travel and  
Tourism or designee

B. USSR

Chairman of the State Committee for Foreign  
Tourism or designee

II. Composition

A. United States Travel and Tourism Administration

B. State Committee for Foreign Tourism

C. Related agencies as necessary, and at invitation  
of the Chairman of the appropriate side

III. Terms of Reference/Objectives

A. Address and work to resolve tourism-related  
commercial issues

B. Contribute to the objective of expanding  
mutually-beneficial trade and economic  
relations, as outlined in the Joint U.S.-Soviet  
Summit Statement of December 10, 1987

C. Identify tourism-related business opportunities  
in which companies of the two sides may  
participate

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- D. Recommend measures to implement the Tourism Article (XIV) of the 1985 General Agreement on Contacts, Exchanges and Cooperation in Scientific, Technical, Educational, Cultural and Other Fields

IV. Role of Private/Operating Sector:

- A. Advise the Working Group and propose agenda items for its consideration
- C. Attend Working Group sessions in observer status at invitation of the co-chairmen

V. Frequency of Meetings

As mutually agreed. Existence of Working Group shall not preclude use of normal diplomatic channels to resolve issues of an urgent nature.





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## U.S. PROPOSAL

### JOINT US-USSR LEGAL EXCHANGE

In the framework of the US-USSR Joint Commercial Commission, the U.S. Department of Commerce proposes to organize and conduct an exchange of lawyers between the United States and the Soviet Union, cooperatively with the appropriate Ministry in the Soviet Union. This exchange would be the first in a series of annual seminars, to be held in the Soviet Union and the United States in alternate years, aimed at enhancing US-USSR investment and trade relations. We propose the first seminar be held in in the Soviet Union following this general outline:

#### TIME

Early September 1988

#### PLACE

Proposed cities: Moscow and Leningrad

#### DELEGATION

The U.S. delegation would be led by the General Counsel of the U.S. Department of Commerce and coordinated and selected by the Department. We propose that it consist of approximately 10 - 15 attorneys from Commerce, other U.S. government agencies, and the private sector. The private attorneys would be primarily counsel of corporations with an interest in doing business in the Soviet Union. Membership of the delegation would be designed to focus the discussion on practical legal aspects of joint business dealings between U.S. companies and the Soviet Union.

#### FORMAT

We propose that the seminar take place over at least three days in each city. We recommend one half to one day for a large plenary session to discuss broad topics of general interest and approximately two days for smaller workshops focused on specific areas of the law. The goal in all sessions would be to provide time for and encourage dialogue between the U.S. and Soviet participants. We propose to provide translated papers in advance to the Soviet participants to facilitate discussion in the small workshops.

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PROPOSED U.S. TOPICS

The following topics could be among those covered by the U.S. side in the seminar:

Legal Considerations for U.S. Companies Doing Business in the Soviet Union

- Forms of Business Organization
- Commercial Contracts
- Agent & Distributor Agreements
- Technology Licensing
- Financing
- Business Dispute Resolution

Legal Concerns for Soviet Organizations Doing Business in the U.S.

- Requirements Affecting Foreign Investors
- Product Liability
- Laws Protecting Health/Safety/Environment
- Antitrust
- The Law on Foreign Sovereign Immunity
- Relationship Between U.S. International Obligations and Domestic Law

Dealing With a Failed Venture

- Bankruptcy - law, policy & practice in the U.S.

U.S. Laws Affecting U.S.-Soviet Trade

- U.S. Fair/Unfair Trade Laws
- Controls on Exports of Strategic Goods

Intellectual Property Rights

- Protection for Patents, Copyrights, Trademarks, and Trade Secrets
- Enforcement of Intellectual Property Rights

PROPOSED SOVIET TOPICS

U.S. participants in the exchange would be interested in hearing the Soviet participants discuss the Soviet legal framework for doing business in and trading with the Soviet Union, including the joint venture law and protection of patents, copyrights and other intellectual property rights. The U.S. would be interested in receiving suggestions of other appropriate topics from the Soviet side.

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Joint Legal Exchange

Issue:

The U.S. Department of Commerce has proposed to organize and conduct an exchange of lawyers between the United States and the Soviet Union, cooperatively with the appropriate Ministry in the Soviet Union. A formal decision to go ahead with the Seminar needs to be taken by the Joint Commercial Commission.

U.S.S.R. Position:

The informal reaction to the proposal was highly favorable. A formal response will be given at the Joint Commercial Commission meeting.

Background:

At the Working Group of Experts in February, the General Counsel of the Department of Commerce presented the proposal for a joint legal exchange with the Soviet Union. The attached written proposal was also provided. The proposal is for an exchange of lawyers between the U.S. and the Soviet Union which is intended to be the first in a series of annual seminars aimed at enhancing investment and trade relations.

We have proposed that the seminar be held in Moscow and Leningrad during September of this year. The U.S. delegation would be led by the General Counsel of the Department of Commerce and would consist of approximately 10-15 attorneys from Commerce, other government agencies and the private sector.

We have suggested a number of possible topics for discussion during the seminar, such as U.S. law on business organization, intellectual property, foreign sovereign immunity and trade remedies. We would expect the Soviets to discuss their new joint venture law as well as their intellectual property rights protection and other aspects of doing business in the Soviet Union.

Talking Points:

- o We welcome the opportunity for dialogue between our two countries and hope that increased knowledge of each other's legal systems will result in enhanced trade and investment relations.
- o If you agree that the legal exchange should go forward, our General Counsel's Office is prepared to discuss specific topics for presentation and other details surrounding the seminar.

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February 25, 1988 377-0937

Cleared By: K. George, DoD; G. Rosen, State; P.J. Nichols, State

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Overview of Export Licensing Policy Towards The USSR

Issue

The Soviet Union remains a potential adversary and the U.S. and its COCOM allies must continue to strengthen national security controls on exports of strategic goods and technology.

U.S. Position

The U.S.S.R. is a COCOM-proscribed destination. All exports of strategic commodities and technical data controlled by COCOM for national security reasons (items designated by the letter "A" in the Commodity Control List) require a validated export license. These license applications are subject to both Commerce and Defense review. As a general policy, the U.S. will not approve exports of national security controlled commodities to the U.S.S.R. However, provided the end-user is satisfactory, exceptions to this policy may be made on a case-by-case basis for:

- lower performance items as identified by an Advisory Note in the Commodity Control List for likely approval to a satisfactory end-user in Country Groups Q, W, and Y (items that do not require referral to COCOM and can be licensed at national discretion);
- items essential to public health and safety, e.g., spares for Western aircraft and intensive care medical equipment;
- items whose export serves Western security interests, e.g., for servicing needed in connection with safeguard inspections;
- items that protect Western access to vital commodities or services; and
- spare parts and servicing for equipment previously exported.

Proposals to export technical data are closely scrutinized and generally denied, especially those for the design, manufacture or use of COCOM-controlled commodities. The U.S. maintains technical data controls that are much broader than required by COCOM. Generally, the export of any manufacturing data to the U.S.S.R. requires a U.S. export license; COCOM only requires licenses for technical data related to embargoed commodities.

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For foreign policy reasons, a validated export license is required for the export to the U.S.S.R. of technical data and equipment for the manufacture of trucks, as defined in CCL entry 6398G, at the Kama River (Kam AZ) and Zil truck plants. Licenses for such exports will generally be denied. Other automotive equipment exports to the Soviet Union do not require prior Commerce authorization and can be exported under general license.

## Soviet Position

The Soviet Union maintains an interest in expanding trade with the United States. They tend to seek U.S. support for upgrading their industrial base. Although some projects may focus on the production of non-strategic materials (e.g., fertilizer, polyesters, chemicals), they often involve exports of COCOM-controlled commodities.

## Background

As a result of the Soviet invasion and occupation of Afghanistan in 1979, the U.S. suspended all export licenses to the U.S.S.R., imposed a policy of strict review on exports of Advisory Note level commodities, and placed applications to export commodities that exceed Advisory Note levels under a policy of denial. This denial policy, or "no exceptions policy", was adopted in 1980 on an informal, ad hoc basis by our allies. In addition to these sanctions, additional restrictions were imposed for foreign policy reasons on exports to the U.S.S.R. of non-strategic oil and gas exploration and production equipment and technology. These additional restrictions expired in January 1987, and were not extended.

Approved licenses for strategic exports to the Soviet Union have ranged between \$150-\$300 million annually over the past three years. In 1987, licensable goods totaled \$141 million, nearly two-thirds of which were computers. Substantial amounts of nuclear power plant equipment (roughly \$12 million) were also licensed.

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## BRIEFING PAPER

### Supplier Reliability and Contract Sanctity

#### ISSUE

In the past, the Soviets had asserted that United States firms are unreliable suppliers because they are subject to export controls which may be used by the USG at any time to disrupt existing contracts. Sales opportunities were being lost as a result of the Soviet perception. The situation has improved since the late Secretary Baldrige had received certain commitments from the Soviets by way of the JCC. Presently, we want to be assured that the Soviets are not discriminating against U.S. companies and we want to assure the Soviets that the U.S. companies are reliable suppliers.

#### BACKGROUND

As a result of U.S. sanctions in 1980 in response to the invasion of Afghanistan, and, in December 1981 and June 1982 in response to the imposition of martial law in Poland, Soviet policy makers and foreign officials took the position that U.S. firms are unreliable suppliers. Contract sanctity is of special concern to officials in non-market economies such as the Soviet Union, where the entire economy is planned by central authorities for 5-year periods. The disruption of contracts for projects such as the Novolipetsk steel plant, computer parts for the Kama River Truck plant, and the Yamal pipeline was of deep concern to Soviet trade officials. The Soviets also used this issue for political purposes in an attempt to discredit U.S. sanctions.

Soviet foreign trade organization officials had discriminated against U.S. firms either as a result of their own uneasiness about disruption of contracts or as a result of direct orders from the Ministry of Foreign Trade. U.S. firms had been pressured to delete export licensing contingency and escape clauses from contracts and to insert high penalty clauses for non-delivery resulting from sanctions. Still now, some U.S. firms are being pressured to source deliveries out of non-U.S. facilities. Some contracts may still be affected by these problems. Commodity trade is less affected by these problems than is technical assistance and long-term commitments.

#### U.S. POSITION

The United States, in order to increase opportunities for expansion of non-strategic trade, must create a sense of confidence in the Soviets that U.S. contracts will be fulfilled. An explanation of the EAA amendments enacted on July 12, 1985 should emphasize the strength of the contract sanctity provisions which display Congress's belief that supplier reliability is an important aspect of international trade.

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The broadest new contract sanctity provision applies to any controls sought to be imposed on foreign policy grounds under the EAA. Thus, the President is barred from prohibiting or curtailing the export or reexport of goods, technology or other information pursuant to an existing contract, license, or other authorization in effect prior to the President's notification to Congress of his intent to impose controls. The exception to this provision is limited to circumstances in which the President determines and certifies to Congress that there exists a "breach of the peace" that poses a serious and direct threat to the strategic interests of the United States. Furthermore, the curtailment of an existing contract must be instrumental in alleviating the direct threat. Any export controls imposed under this exception to the contract sanctity provision will continue only so long as the direct threat persists. The legislative history on this subject emphasizes that the meaning of "direct threat" is to be very narrowly defined. This provision has never been used against the East bloc and has been invoked only once: on September 23, 1987 the President found that scuba gear exports and reexports to Iran pose a serious and direct threat to the strategic interests of the United States.

Under a second contract sanctity provision, short supply controls will not apply to any contract to export agricultural commodities, forest products, and fishery products that was entered into before the date on which the controls are imposed. This provision applies to all contracts, export sales agreements, and agreements to invest in an enterprise which involves the export of goods or technology.

In addition to the contract sanctity provisions, other legislative provisions signal our intent to be a reliable supplier of agricultural products. For example, a provision prohibits national security controls on agricultural products. The Agricultural Act of 1970 defers the imposition of export restrictions for 270 days except when a national emergency or war has been declared.

Although export controls can be imposed under other authority -- e.g. the national security provisions of the EAA, the International Emergency Economic Powers Act if a national emergency is declared, or a new legislative act -- the considerations which led to the new contract sanctity provisions in the EAA will act as a strong restraint on the application of any such controls to existing contracts.

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## TALKING POINTS

- o The EAA contains two significant contract sanctity provisions. These provisions reflect the U.S. concern that its companies be considered reliable suppliers.
- o Under the EAA, agricultural commodities, forest products, and fishery products cannot be subject to short supply export restrictions if the contract to export was entered into before the date on which the controls are imposed. These protections apply to all contracts, export sales agreements, and agreements to invest in an enterprise which involves the export of goods or technology.
- o The EAA also contains a provision for contract sanctity in the area of foreign policy controls, with the only exception being where the President has determined that a breach of the peace exists which poses a serious and direct threat to the strategic interests of the United States. This exception has been invoked only once and it was the case of scuba equipment to Iran.
- o While a limited exception is provided under which the President may impose foreign policy controls that affect shipments under existing contracts, the overall impact of the provision evidences the United States' recognition that contract sanctity is an important issue and is to be respected in almost all circumstances. The considerations which led to inclusion of the contract sanctity provision in the EAA of 1985 will have a restraining influence on the use of other authorities which may interfere with contract sanctity.
- o [IF ASKED] The President must have the capacity and flexibility to take decisive action even if there is some negative economic impact. The U.S. expects to limit as much as possible the impact of controls on existing contracts.

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