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WHORM Subject File Code: IT095
(International Organizations –
U.S.-U.S.S.R. Joint Commercial Commission)
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
letter case ~~(271524PD)~~ 573655			
1. report	Soviet staffing ing the U.S. ~~(1p)~~ 2p	2/25/88	P-1

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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- **P-1** National security classified information [(a)(1) of the PRA].
- **P-2** Relating to appointment to Federal office [(a)(2) of the PRA].
- **P-3** Release would violate a Federal statute [(a)(3) of the PRA].
- **P-4** Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
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- **P-6** Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

Freedom of Information Act - [5 U.S.C. 552(b)]

- **F-2** Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- **F-7** Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- **F-8** Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- **F-9** Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].
- **C.** Closed in accordance with restrictions contained in donor's deed of gift.

Reciprocal Tax Exemption of Shipping and Aircraft Income

Issue:

Whether to enter into an exchange of notes providing reciprocal tax exemption of international shipping and airline income.

The U.S.-USSR income tax treaty provides for reciprocal exemption from tax of income earned by each other's shipping and airline companies from international operations, if the ships and planes are registered in the respective country. Beginning in 1987, U.S. tax law permits a similar exemption-but without a flag test - on the basis of reciprocity.

U.S. & USSR Positions:

The United States informed the USSR of the change in U.S. law and asked if they wished to enter into an exchange of notes to provide reciprocal exemption of all flag vessels. Such an exchange of notes would not affect the treaty but would exist alongside it.

The initial USSR response was that this could be done as part of a general revision of the treaty. However, they agreed with us that the latter is a major undertaking, and accepted our position that we cannot begin such negotiations any time soon. Consequently, they proposed an alternative draft of an exchange of notes. We cannot accept their draft as is, not because we object to its provisions, but because it does not conform closely enough to the U.S. statutory rules. We have offered to either defer the question for now and rely on the treaty provision (to our knowledge no U.S. company finds the flag test a problem) or to prepare a revised draft note.

Background: Explained under "Issue".

Talking Points:

° To our knowledge, Article 9 of the income tax treaty is working satisfactorily. If that is also the USSR understanding, we suggest that we rely on it and not bother with an exchange of notes.

° If the USSR considers it desirable to have an exchange of notes in order to cover third country flag vessels, we will prepare a revised draft that conforms to our statutory requirements.

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566-3489
2/23/88

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Legislation of Concern to the Soviets: Furskins, Forced Labor and Gold Coins

Issue: The Soviets have complained that restrictive U.S. legislation, already enacted and proposed, is hindering the advancement of trade relations between the U.S. and the Soviet Union. Specifically, the Soviets have raised the ban on the importation of Soviet furskins, the proposed ban on seven Soviet products under the forced labor provisions of the Tariff Act of 1930, and the ban on the importation of gold coins minted in the Soviet Union. (They have also raised various provisions of the Trade Bill relating to anti-dumping, countervailing duty and export controls. Those issues are discussed in other briefing papers.)

U.S. Position: The Conferees on H.R. 3, the Omnibus Trade Bill, are currently meeting to work out differences between the House and Senate passed bills. The Conferees have included a provision lifting the ban on Soviet furskins in the proposed Trade Bill Conference Report. The Conferees have also removed the forced labor provision in the Senate version of the Bill which banned the importation of seven Soviet products. The Administration has worked hard to achieve these results. The ban on gold coins is a provision of the Anti-Apartheid Act of 1985. The Administration did not support this provision of the but must enforce the law as written.

Background:

Furskins:

At the May 1985 meeting of the Joint Commercial Commission, Secretary of Commerce Malcolm Baldrige announced that the Administration would propose and work for passage of legislation lifting a ban on the importation of seven types of Soviet furskins. The ban dates back to 1951, when President Truman embargoed imports of seven furskins: ermine, fox, kolinsky, marten, mink, muskrat and weasel.

Secretary Baldrige made this announcement as part of an agreement with former Soviet Foreign Trade Minister Patolichev to improve the opportunity for U.S. and Soviet firms to engage in non-strategic trade. Former Minister Patolichev announced he would take steps to improve the access of U.S. firms to the Soviet market. These agreements were reconfirmed with Soviet Foreign Trade Minister Aristov after his appointment to that position. The U.S. Department of Commerce has prepared annually updated analyses of the U.S. furskin industry since 1985 which indicate lifting the embargo would have little or no effect on the U.S. furskin industry.

During the 99th Congress, the Administration sent proposed

legislation to the Congress to lift the import ban. In spite of concerted Administration attempts to ensure its passage, the legislation was not passed during 1986.

The Administration then resubmitted the proposal to lift the embargo on Soviet furskins as part of President Reagan's proposed trade legislation in Janurary 1987. The House and Senate each proceeded to pass their own versions of omnibus trade legislation. The House bill contained the provision to lift the furskin embargo, but the Senate bill did not. In fact, the Senate bill contained language directing that Senate conferees should work to keep the embargo in place (Durenberger amendment). During consideration of this provision by the House and Senate conferees on the trade bill, the Senate agreed to the House position and included the Administration's proposal to lift the ban in the conference report on H.R. 3. The conference report is due to be reported out for final consideration by the House and Senate sometime this spring.

Forced Labor:

Senator William Armstrong (R-Co) introduced a provision in the Senate version of the trade bill banning the importation of seven products from the Soviet Union unless the President certifies that they are not made with forced labor, or determines that the ban affects the U.S. national security interest. The seven products covered by the prohibition are: gold ore; agricultural machinery; tea; tractor generators; crude petroleum; motor fuel and kerosene. This ban was pursuant to Section 307 of the Tariff Act of 1930 which bans the importation of goods made with forced labor.

The House provision of the Trade Bill contained a provision that the President should direct the Treasury to enforce the current provisions of the Tariff Act. The Administration opposed the Armstrong provision, we did not object to the House language.

On February 25, the Senate conferees adopted the House language.

Gold Coins:

Section 510 of the Comprehensive Anti-Apartheid Act of 1985 which prohibits the importation of Soviet gold coins was submitted as an amendment to that bill on the floor of the Senate by Senator Steve Symms (R-Idaho) and was approved by voice vote, with very little floor debate at the time the Act was passed. The provision was introduced to appease elements of Congress who voiced objection to taking action against South Africa on essentially human rights grounds, while not taking similar action against the Soviet Union. The provision contains an absolute ban on the importation of any gold coin minted in or offered for sale by the USSR. Anyone who violates this prohibition is subject to a fine of more than five times the value of the rubles involved. The dollar amount of U.S.-Soviet trade in Soviet gold coins is not significant.

Talking Points:

Furskins

- o The Administration has worked long and hard to ensure that a provision lifting the ban on the importation of Soviet furskins was included in the Omnibus Trade Legislation currently being considered in the U.S. Congress. We are pleased to be able to tell you that our efforts have paid off. The Omnibus Trade Bill will be reported out of the Conference Committee for action by the House and Senate with the provision included.

Forced Labor

- o The Administration objected to the inclusion of forced labor provisions in the Senate Trade bill and worked hard to ensure that the provision was not included in the Conference Committee's version of the Omnibus Trade Bill. The provisions of the Senate bill specifically banning the importation of Soviet products will not be in the version of the Omnibus Trade bill that the House and Senate will vote on.

Trade Legislation Generally

- o The Administration is working with the Congress to come up with an omnibus trade bill that both the President and Congress can support. The current bill is over 1000 pages long and until we see the it in final form, we cannot say whether the President will sign it.

Gold Coins

- o The Administration did not support the provision of the Anti-Apartheid Act prohibiting the importation of Soviet gold coins. The bill was vetoed by the President, but his veto was over-ridden by Congress. The Administration must enforce the law as written.

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377-0937 March 7, 1988
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Antidumping

Issue

(U) The Congress is currently considering legislation that would change the unfair trade laws as they apply to imports from nonmarket economy countries (NMEs). There are currently two outstanding antidumping duty (AD) orders against Soviet products, titanium sponge and urea.

Background

(U) The current trade bill contains three proposals that would directly affect imports from NMEs. The House bill would overturn current practice by requiring the Commerce Department to apply the countervailing duty (CVD) law to NMEs. It also amends section 406 to make it easier for U.S. industries to seek relief from market disruption caused by imports from communist countries. The Senate bill would amend the AD law as it applies to NMEs by making the price charged by the largest market economy exporter to the United States the preferred benchmark for measuring whether NME producers are dumping.

(U) As a result of committee action, these proposals have been revised. The House's CVD provision has been dropped. Section 406 will be amended but in a way acceptable to the Administration. Under the new AD proposal, the preferred benchmark for determining whether NME dumping is occurring will be calculated by taking the NME producer's "factors of production" and valuing them in a comparable market economy country. The Administration does not object to the factors of production approach.

(U) The Soviets should be pleased that the CVD proposal has been dropped. If enacted, it could have been used frequently against their exports to the United States. However, they are likely to oppose the changes to the AD law and section 406. The factors of production approach was used by Commerce in the AD investigation of Soviet urea (discussed below) and led to sizable margins. The changes to section 406 may result in more cases being brought under this law, which has been relatively unused in recent years.

(U) Imports of titanium sponge and urea from the Soviet Union are currently covered by AD orders. The titanium sponge finding was issued in 1968. In the most recent review of that order covering imports from 1983-1985, the Soviet exporter did not respond to Commerce's

questionnaire. Therefore, Commerce used the best information available and found an AD margin of 83.96 percent. No further reviews have been requested.

(U) The second AD order, involving urea, was issued on July 14, 1987. During the course of that investigation, the Soviets expressed an interest in limiting their exports in exchange for withdrawal of the petition. No agreement was reached, however, and Commerce found dumping margins ranging from 53.23 to 68.26 percent. A review of this order may be requested in July 1988. (FYI: spot prices on urea have increased since the order. The Gulf price for pearled urea went from approximately $75 per tonne in May 1987 to approximately $125 per tonne currently.)

Talking Points

- (U) In the Administration's view, the Congress has made good progress on the NME import provisions.

- (U) (If raised) The factors of production benchmark usually yields the fairest result in AD cases involving NMEs. This is because it incorporates the NME producer's own factors and then values them with market-determined prices.

- (U) The U.S. antidumping law requires Commerce to investigate allegations that products are being dumped. The investigations are transparent, objective, and in accordance with the GATT.

- (U) Commerce considers all information submitted by the parties and encourages participation by the affected exporters. Determinations are based on that information, not on political considerations.

- (U) (If raised) In certain limited circumstances, export restraints may be an appropriate means of resolving an unfair trade case. In general, however, Commerce prefers to complete its investigation and issue an antidumping duty order if the goods are being dumped and are causing injury to the U.S. industry.

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Soviet Satellite Launch Services

Issue

Whether to permit launch of satellites containing U.S. technology by Soviet space launch vehicles.

U.S. Position

The U.S. Government's long-standing policy is to deny the transfer to the USSR of space electronics equipment and related technologies with significant military application. These include U.S. satellites or Western satellites with U.S. technology on-board. We do not acknowledge that satellites are simply items in transit and we are not contemplating changes on waivers to the existing policy.

Soviet Position

The Soviets are promoting use of their launch vehicles by U.S. and other commercial satellite industries and by the international satellite organizations INTELSAT and INMARSAT. They contend that these satellites are not exports to the USSR, but items in transit. They also contend that they will allow the satellite owner to maintain security over the satellite until launch.

Background

As a result of the Challenger loss and failures of other boosters, there is a backlog of commercial payloads (though the current impact of that may not be critical) which can not be launched on U.S. or European launchers before 1989. Further, the President's August 1986 Space Launch Policy took NASA out of the role of launching commercial satellites.

The International Traffic in Arms Regulations (ITAR) establishes a policy of denial of licenses for export of munitions list items or technical data to the Soviet Union. The ITAR prohibition specifically includes space electronics equipment and related technologies, spacecraft, technical data and non-military communications satellites. Soviet officials have been informed of these longstanding prohibitions. The U.S. Government has repeatedly stated our prohibitions in international fora such as INTELSAT and INMARSAT. The USSR is a member of INMARSAT. Exceptions may legally be made to the ITAR prohibition on exports to the Soviet Union, but they are exceedingly rare.

Internationally, export of these technologies to the USSR is embargoed by COCOM (Coordinating Committee on Multilateral Export Controls) since they are included on the Industrial List covering dual use technologies and equipment. COCOM members wishing to avail themselves of Soviet launch services must go through the COCOM review process, subject to U.S. approval.

Despite some support within the U.S. commercial satellite industry for U.S. use of Soviet launchers, we believe there is no adequate assurance that our satellite technology can be fully safeguarded while being processed for a Soviet launch vehicle. We do not acknowledge the argument that satellites are simply articles in transit through Soviet territory and could be at all times controlled and in U.S. hands. Further, U.S. use of Soviet launchers would undermine the U.S. policy commitment to commercialization of the launch industry, which the President has instructed that we support in NSDD 254. Above all, we must be careful that any steps we take to deal with the current shortage of Western space launch services do not leave the U.S., even temporarily, dependent on the USSR for access to space.

We may be able to protect our launch industry only in the short term, however. Protection will not prevent future low-cost Chinese and Japanese proposals nor will it prevent the Soviets from offering to sell launch services to countries using non-U.S. satellites. U.S. industry must be encouraged to keep launch costs as low as possible as U.S. commercialization takes hold, and we must be careful to not drive other nations to procure non-U.S. satellites in order to circumvent ITAR restrictions. Regardless of these circumstances, our foreign policy credibility would be at risk if we suddenly dropped the barriers to U.S. companies wishing to do business with the Soviets while we continued to pressure our allies to support us in blocking INMARSAT procurement of Soviet launches.

The European Space Agency members in particular share U.S. commercial and national security concerns over use of Soviet launchers.

Talking Points

- The U.S. Government's long-standing policy is to deny the transfer to the USSR of Space electronics equipment and related technologies with significant military applications. This policy is stipulated in the International Traffic in Arms Regulations, and is based on our own national security considerations.

- We are not convinced that adequate safeguards can be guaranteed for our satellite technology while it is processed for a Soviet launch vehicle. We can not agree that satellites are simply "items in transit" and not bona fide exports.

- Soviet officials have been informed of these prohibitions; we do not contemplate changes or waivers to the existing policy.

NOTE: THIS PAPER DID NOT RECEIVE DEPARTMENT OF COMMERCE GENERAL COUNSEL'S CLEARANCE.

Drafted by:OES/SAT:FBurkhart:gcb
2/22/88 -- 647-2432

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U.S. Import Ban on Soviet Nickel-Bearing Materials

Issue

The U.S. and the Soviet Union have held discussions over several years on establishing a certification agreement to permit imports into the U.S. of Soviet nickel-bearing materials. Such materials have been banned since 1983 under the Cuban embargo.

U.S. Position

The U.S. is prepared to conclude a certification agreement with the Soviets on acceptable terms. In April 1987 the Treasury Department, which conducted negotiations with the Office of the Soviet Trade Representative, sent the Soviets a draft exchange of letters, incorporating language agreed upon in prior meetings, that would have established a certification agreement.

Soviet Position

The Soviets earlier had appeared very interested in concluding a certification agreement. However, they have not responded to the April 1987 draft exchange of letters, despite informal soundings from the State Department.

Background

Pursuant to long-standing policy implementing the Cuban embargo, Treasury's Office of Foreign Assets Control ("FAC") imposed a prohibition on imports into the U.S. of Soviet nickel-bearing materials, effective December 22, 1983. The ban was based upon the presumption that Cuban nickel imported by the U.S.S.R. is found in Soviet nickel products exported abroad. The U.S.S.R. purchases about half of Cuba's annual nickel exports.

The Soviets were notified 30 days in advance of the December 22, 1983 effective date and were invited to negotiate a certification agreement to ensure that Soviet exports to the U.S. did not contain Cuban nickel. Agreements or exchanges of notes on the subject have been concluded with France, Italy, Japan, the Netherlands, and the Federal Republic of Germany. The Soviets did not approach us prior to December 22, 1983, but since that time have had numerous contacts over this issue involving our embassy in Moscow, and FAC, State, and Commerce officials here.

Until the fall of 1986, the Soviets consistently had refused to consider entry into a written government-to-government certification agreement of the type we have concluded with similarly situated nations (France, Italy, and Japan), insisting instead that we merely accept routine certificates of origin issued by Raznoimport, the foreign trade organization responsible for exports of nickel. However, in a meeting in December of 1986, Secretary Baker and Soviet Minister of Foreign Trade Aristov agreed in principle upon resolution of this issue through an exchange of correspondence.

For several months following that meeting, FAC representatives worked on the text of an exchange of letters with the Office of the Soviet Trade Representative in Washington. The Soviets finally agreed to the wording of a redraft of the exchange of letters, which FAC sent to them after a meeting on April 1, 1987. We understood that the documents would be sent to Moscow for final approval. The language that we and the Soviets finally accepted regarding the certificates of origin states that they will be issued by "Raznoimport, taking into account instructions of the Ministry of Foreign Trade. . . ." These certificates are to be endorsed by the U.S.S.R. Chamber of Commerce and Industry.

The Soviets have not responded to FAC's latest version of the exchange of letters. We are advised that the State Department has raised this issue informally with the Soviets on a couple of occasions, most recently in December 1987. At that time the Soviets indicated they had found other markets for the nickel and for that reason have not been pressing on the issue.

At this point, the initiative for concluding a nickel certification agreement rests with the Soviets. We remain ready and willing to discuss the latest version of the draft exchange of notes.

Talking Points

If the Soviets raise the issue of nickel exports to the U.S.:

- We are interested in resolving this issue on acceptable terms.
- We are awaiting a final response to the agreed-upon text of the draft exchange of letters that we sent your Trade Representative in April 1987.

- The Treasury Department would be happy to resume discussions on the conclusion of a nickel certification agreement.

Drafters - Treasury's Office of Foreign Assets Control

R. Richard Newcomb, Director, 376-0395
Marilyn L. Muench, Chief Counsel, 376-0408

Clearance

Jerry Newman, Treasury
Robert Clarke, Bruce Connuck, State Department (substance)

Jack Brougher, Commerce/IEP/OESSA
Dated: February 26, 1988

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MARITIME AGREEMENT

Issue

(U) The U.S. and Soviets are conducting negotiations on a new maritime agreement to replace the previous one which expired, and was not renewed, in December 1981. Five rounds of talks have been held to date, most recently in Washington March 7-10.

U.S. Position

(U) To secure guaranteed U.S. vessel participation in U.S.-Soviet liner trade and preserve the possibility of U.S. participation in the bulk trade.

Soviet Position

(U) To regain access to the U.S. cross-trades (lost in 1981 in wake of martial law in Poland) and to enhance port access.

Background

(U) We have insisted on the Soviets guaranteeing our carriers a share of bilateral general cargo. We also seek a share of bulk cargo (including grain) when our carriers' rates are competitive. Given the Soviet capability of directing cargo to their own vessels, we view firm, practical cargo-sharing arrangements as the only way to protect our carriers.

(LOU) The Soviets insist on access to U.S. cross-trades as part of an agreement. Until recently, we have opposed this, arguing the Soviets could use their non-market pricing to seize a major share of U.S. trade as they did in the 1970s. The carriers and unions are strongly opposed to granting the Soviets cross-trading privileges. The Soviets also want improved access to U.S. ports (i.e. elimination of the requirement that their ships request entry at least 14 days in advance).

(LOU) The March round of negotiations left both sides far apart, particularly on cargo-sharing, the key U.S. concern. The Soviets claim that under new legislation, they no longer have authority to directly allocate cargo to any particular carrier. We made clear that an agreement must provide for mutual economic benefit: Without practical cargo-sharing arrangements there is no such benefit for the U.S. maritime industry.

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2412E x79370 3/24/88

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MARITIME BOUNDARY

Status

(U) We are engaged in discussions to resolve our maritime boundary with the Soviet Union. The US regards the line established by the 1867 US-Russia Convention Ceding Alaska as the maritime boundary for the purpose of defining jurisdiction over maritime resources.

(U) As authorized by the President, we have had eight rounds of discussions since 1981, the latest in October 1987. Our position furthers the full range of US interests, including maximizing our EEZ and continental shelf resource interests. In October 1986 each side informed the other of its willingness and intention not to take enforcement action against vessels of the other country fishing in disputed areas in the Bering Sea, and each side informed the other that it would not permit third country vessels to fish in these areas. Also, despite our boundary differences the US outer continental shelf leasing program has proceeded in the Navarin Basin. A number of issues remain to be resolved, including the form of any future agreement.

Background

(U) Following the establishment in 1977 of 200-nautical-mile fisheries zones by the United States and the Soviet Union, differences concerning the depiction and application of the 1867 Convention line became apparent. The United States depicts the line by arcs of great circles, the shortest distance between two points on the earth. The Soviet Union depicts the line by rhumb lines, lines of constant direction used mainly by mariners. This difference results in areas in the Bering Sea over which both countries claim maritime resource jurisdiction.

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2438E 2/25/88 647-9370

Cleared: EUR/SOV:RClarke
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L:EVerville
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CIVIL AVIATION

Status

(U) Pan Am and Aeroflot continue to operate relatively trouble-free service between the US and Soviet Union -- their occasional problems are essentially operational. They will initiate joint operation of non-stop service between New York and Moscow in May, 1988. The new service will utilize Pan Am 747s and will include Aeroflot as well as Pan Am cabin attendants.

Background

(U) Aeroflot service to the US, originally established under the US-USSR Civil Air Transport Agreement of November 4, 1966, was suspended in December 1981 following the imposition of martial law in Poland. Aeroflot's US offices were closed completely in the wake of the shooting down of KAL 007 in, September 1983. Following negotiations and amendments to the Civair Agreement, Pan Am and Aeroflot resumed regular commercial service between the US (Washington, New York) and USSR (Moscow, Leningrad) in April 1986.

(U) The two carriers signed a commercial agreement on September 25, 1987, to operate the new joint non-stop service. US and Soviet negotiatiors met in November to discuss amending the US-USSR Civil Air Transport Agreement of November 4, 1966, as amended. They agreed to increase the number of flights for each airline, issue additional crew visas and allow various operational and technical changes necessary for the new service.

(U) The amendment to the Civair Agreement incorporating the agreed changes and authorizing the joint service was brought into effect by an exchange of notes between Secretary Shultz and Foreign Minister Shevardnadze on December 9, 1987.

Drafted: EUR/SOV/ECON:JBean
2438E 2/25/88 647-9370

Cleared: EUR/SOV:RClarke
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Soviet Approach to GATT

Issue

Despite strong U.S. statements opposing closer Soviet ties with the General Agreement on Tariffs and Trade (GATT), either in the form of observer, contracting party, or Uruguay Round participant, the USSR continues to express interest to U.S. representatives and other GATT contracting parties (CPs).

Soviet Position

The USSR has stated that its interest in participating in GATT activities is based totally on economic considerations. In presentations to GATT CPs and GATT Secretariat officials, Soviet representatives have made the following points:

o the USSR wishes to observe GATT meetings and the New Round in order to gain experience with GATT procedures;

o the USSR wants to move its economy more into the framework of international economic relations and would use GATT observership to "review what changes need to be made in the Soviet economic structure to qualify for full membership;"

o the USSR has an important stake in the international economy and should have observer status in the GATT to monitor world trade developments which affect Soviet interests;

o the USSR believes closer association with the GATT would help expand trade with GATT members;

o GATT participation will help the USSR gain experience leading towards a decision on accession in light of the ongoing re-organization of the management of the Soviet economy which provides for increased autonomy and responsibility of enterprises in their business relations; and

o GATT participation is important in Soviet efforts at diversifying exports and modernizing the economy.

Background

History of Requests--During forty years of development and negotiation within the GATT trading system, the Soviet Union chose not to participate in GATT activities, including the work of the Preparatory Committee that drew up the GATT in 1947 and subsequent rounds of multilateral trade negotiations. Since the close of the Tokyo Round, and prior to the recent spate of overtures, Soviet officials have made periodic informal contacts with U.S. and other GATT CP representatives to explore their receptivity to Soviet participation in GATT affairs. In each instance, these feelers have met with a

profound lack of enthusiasm by GATT CPs for the idea, and Soviet interest has in each case abated.

Soviet officials renewed their informal overtures in the spring of 1986 contacting a number of CP capitals to informally inquire about a possible Soviet observership in the GATT, and requested participation in the Uruguay Round of Multilateral Trade Negotiations in August of that year. The contacted CPs received the idea of an observership very coldly, and the Soviet request for Uruguay Round participation was rejected. Indeed, a majority of developed GATT CPs oppose any form of Soviet involvement in the GATT. Only GATT non-market economy (NME) CPs and India are on record as unequivocally supporting Soviet involvement. In response to erroneous press articles speculating that the United States was softening in its opposition to Soviet GATT participation, the USG recently made very strong representations in OECD capitals reemphasizing the U.S. position. OECD capitals' response was supportive of our stand.

Incompatibility of Soviet Trade Regime to GATT--Although lengthy debates took place in the negotiations for an International Trade Organization (ITO) on integrating the NMEs into the international trading system, the Soviet Union rejected the ITO and its provisions. The General Agreement was drawn up after the Soviet Union had indicated it would not participate in the ITO. As a result, it does not have an effective mechanism for addressing the trade-distorting effects on NME trade practices. Rather, state trading was treated in the GATT as an aberration from the normal, market-oriented, conduct of international trade, and subject to special rules to mitigate its trade-distortive effects.

The rules developed, contained in Article XVII, have not been effective even with market economies, and the subsequent experience of trying to integrate NMEs into the GATT system has not been successful. Since the NMEs currently in the GATT have small economies with limited impact on international trade flows, however, the central problem of non-integration with GATT and GATT principles has been avoidable.

The Soviet case would be much more difficult, even in purely technical terms. Its economic and trade regime is tightly politically controlled and the lack of a market-oriented price mechanism effectively nullifies the driving economic mechanisms that GATT Articles are designed to protect. Despite much discussion of "reforms" to decentralize and open-up Soviet trade, there is as yet no tangible indication that the USSR is ready to actually move any part of its economic regime towards true responsiveness to market forces.

The basic difference in fundamental principles and functioning of the Soviet economy and GATT Articles at this time precludes actual integration of the Soviet Union into the work of the GATT. Given the political and economic size of the Soviet Union, this technical incompatibility of the USSR with the work of the GATT would result in a major imbalance between its influence in the organization and its willingness or ability to take up real obligations. Under these circumstances, Soviet participation in the GATT is of no value to current GATT CPs, since the USSR cannot undertake normal GATT obligations in return for the benefits it would receive.

Talking Points

- Frankly, we do not believe that your country's closer association with the GATT would serve the interests of GATT members or of the international trading system based on market forces and price mechanisms in encouraging your country's closer association with the organization.

- Our opposition to your participation in GATT is based on economic grounds: the USSR trade system is incompatible with the market-oriented philosophy embodied in GATT rules. We specifically oppose your interest in GATT observer status because there is an implicit link between observership and GATT accession.

- (OPTIONAL) The structure of Soviet imports and exports is not based on market prices, and your economy is not integrated with world pricing structures. Despite the beginnings of efforts to introduce some real economic forces into your economic decision-making, there is no indication that comprehensive changes allowing market prices to determine trade decisions will be implemented any time soon.

- (OPTIONAL) Participation and observerships in New Round activities are determined by the GATT Contracting Parties and by those actively engaged in the negotiations. We do not see how your participation would further our efforts to strengthen and expand the international trading system, since your own trade is generated by politically derived plans and nonmarket considerations.

- (OPTIONAL) The whole issue of GATT observers is currently under review. The GATT Council has decided that, pending the completion of a review of the issue of criteria for observerships, new applicants would not be considered. We believe that consideration of new observers should be frozen.

Drafted: Cecilia Leahy Klein
USTR/GATT Affairs (395-3063)
March 14, 1988

Cleared: USTR/EE:DWeiss
EB/OT/ODC:DMarkowitz
EUR/SOV:RJohnson
DOC/IEP/EWT:JBrougher
DOC/IEP/GATT:DGardner
USDA/ITP/AAEE:JHarrison
TREAS/OASIA/ITE:JHill
NSC:EMelby

Fisheries

Issue

Implementation of the interim fisheries access agreement, signed in Moscow on February 21, 1988, by Secretary Shultz and Foreign Minister Schevardnadze. The agreement provides access for U.S. fishermen to the Soviet economic zone in a reciprocal manner to that access to the U.S. exclusive economic zone (EEZ) enjoyed by Soviet fishing interests. Implementation awaits the Soviets providing to us details on applicable Soviet regulations, enforcement, port access, and application procedures for U.S. fishermen (see Attachment). Following implementation, both sides will begin negotiation of a comprehensive, long-term agreement to cover all aspects of the bilateral fisheries relationship.

U.S. Position

To implement the agreement as soon as possible. The initial interest in access to the Soviet zone is held by the Alaska Crab Coalition whose members wish to be enjoying that access next June.

Soviet Position

Probably, from a broad political perspective, to implement the agreement. From a fisheries perspective, to achieve the most commercially advantageous balance between the considerable fees, observer requirements, and other conditions required of foreign fishing vessels in the U.S. EEZ and the conditions to be placed on U.S. vessels in the Soviet economic zone. They also have an interest in beginning talks on a comprehensive agreement and in establishing joint enterprises which will bring them hard currency and technology.

Background

Soviet access to the U.S. EEZ is provided for by our bilateral governing international fishery agreement, signed in 1976 and extended since then, currently until December 31, 1988. Because of the certification of the Soviet Union under the Packwood-Magnuson Amendment for whaling that diminished the effectiveness of the International Whaling Commission conservation program, the Soviet Union was until recently precluded from receiving any directed fishing privileges in the U.S. EEZ. However, fishing joint ventures were not affected, and a joint venture fishing company on the west coast has prospered.

Now that we are terminating the certification, directed fishing privileges in the zone of the other country is possible; however, reciprocal access may still be limited because of a lack of fish available for directed foreign fishing in U.S. waters.

Talking Points

- O I am pleased that Secretary Shultz and Foreign Minister Schevardnadze signed the interim fisheries access agreement.

- O Officials in both the Departments of Commerce and State are eager to continue working with you to sort out the remaining details that will allow the agreement to be implemented.

- O Following implementation of the interim access agreement, we look forward to participating in negotiations on a comprehensive, long-term agreement to govern aspects of our bilateral fisheries relationship.

Attachment

Drafter: NOAA, Dean Swanson, 673-5281, 2-22-88.

Clearances: OES/OFA, Bob Ford, 647-2009, 2-26-88.
EUR/SOV, Richard Johnson, 647-9370, 2-26-88.

We need to receive from the Soviet side a proposed draft containing the terms and conditions which will apply to U.S. access to Soviet waters in the following respects:

1. A list of available ports, and conditions and procedures for access by U.S. fishing vessels to such ports (we anticipate that these conditions and procedures would be similar to those in Annex III to the U.S.-Soviet GIFA);

2. Application procedures for requesting permits from the Soviet Union for vessels which may operate in the Soviet economic zone and copies of the application forms (we anticipate that these procedures would be similar to those in Annex I to the U.S.-Soviet GIFA);

3. Any other specific requirements for U.S. vessels in such areas as accepting observers, paying fees, and providing catch data; and

4. Enforcement regulations, procedures, and penalties.

Whaling Certification

Issue

The April 1, 1985 certification of the Soviet Union under the Pelly and Packwood-Magnuson Amendments for whaling diminished the effectiveness of the International Whaling Commission (IWC) conservation program. Under the Packwood-Magnuson Amendment, the certification precluded any Soviet directed fishing privileges in the U.S. exclusive economic zone. By the exchange of letters attached, you indicate that the reasons that gave rise to the certification no longer prevail, and you are proceeding to terminate the certification.

U.S. Position

Commerce wants to complete the termination of the certification as soon as possible (e.g., NOAA must publish a Federal Register notice).

Soviet Position

The U.S.S.R. wants to put the whaling issue to rest without being seen as reacting to U.S. pressure.

Background

Among the reasons for the original certification, as reported by the President to Congress on May 31, 1985, the fact that the Soviet Union has now ceased commercial whaling assuages all but the following: "there had been no indication that the Soviets intended to comply with IWC standards." The law requires the Secretary of Commerce to determine that these reasons no longer prevail in order to terminate the certification and to have the determination published in the Federal Register.

The attached letters, planned to be exchanged on April 8, confirm the Secretary's understanding that the Soviet Union intends to work through the IWC for whale research and conservation. Based upon this, we are proceeding to complete the termination of the certification by publishing the necessary notice in the Federal Register.

Note: The Soviet side has expressed its preference that the letters not be released publicly.

Talking Points

- o I have received assurances from the Soviet Ambassador to the United States that the Soviet Union has ceased commercial whaling and intends to work through the International Whaling Commission (the "IWC") for whale research and conservation.

- o Based on this information, I am pleased that we are able to proceed with the termination of the USSR certification.

- o The cessation of commercial whaling by whaling nations has been a major objective of global environmental groups and the IWC, supported by the United States.

- o I welcome the Soviet decision and hope that it sets a pattern for similar decisions on the part of other whaling nations to work with the IWC for the purposes of research and conservation.

- o We look forward to working more closely with our Soviet colleagues in the IWC on our fisheries relations as well as on our broader bilateral agenda.

Attachments

Drafted: NOAA, Dean Swanson, 673-5281, 2-2-88; Revised 3/29
Clearances: OES/OSP. Claudia Kendrew, 647-3262, 2-26-88.
EUR/SOV, Richard Johnson, 647-9370, 2-26-88.

AMBASSADOR OF THE
UNION OF SOVIET SOCIALIST REPUBLICS
1125 SIXTEENTH STREET, N. W.
WASHINGTON, D. C. 20036

DRAFT

The Honorable
William VERITY
Secretary of Commerce
Washington, D.C. 20230

Dear Mr. Secretary,

I was pleased by our recent discussions concerning the so-called whaling problem which has for a long time prevented the development of our cooperation in fisheries.

It is an evidence of increasing mutual understanding between our countries.

Let me once again reaffirm, that the USSR ceased commerical whaling in the spring of 1987 and at present is not planning to resume it.

Regarding the issue of sea mammals the Soviet Union is a principaled supporter of international cooperation in research, conservation and rational use of these resources in strict accordance with norms of international law, proceeding from reliable scientific data, based on expert assessments of scientists from different countries. The Soviet Union also comes out for active cooperation at appropriate international organizations.

As a participant of the international conference of 1946 on whaling the USSR has been cooperating within the framework of IWC for 40 years.

In connection with the recent changes the Soviet Union put foward at the 37th session of IWC a proposal on improving the activities of the Commission on a number of issues in order to give IWC conservation and research functions.

It confirms once again our readiness to cooperate in future with other countries concerned for the research and conservation of whaling resources.

Respectfully,

Yuri V.DUBININ

DRAFT

His Excellency Yuriy V. Dubinin
Ambassador of the Union of Soviet
Socialist Republics
Washington, D.C. 20036

Dear Mr. Ambassador:

I was pleased by our recent discussions concerning the Soviet Union's policy regarding commercial whaling.

As a result of further consultations between our representatives, I understand it to be Soviet policy that the Soviet Union will not resume commercial whaling until the world's scientists agree that such whaling can be conducted without jeopardizing the well-being of whale populations. I also understand that the Soviet Union will continue to work through the International Whaling Commission for research and whale conservation.

I trust that this understanding is correct and, based upon it, I will proceed to terminate the certification of the Soviet Union. I look forward to continued cooperation and discussion on the matters before us.

Sincerely,

Secretary of Commerce

TRADE PROMOTION

Trade Promotion in the Soviet Union

ISSUE:

(U) Since resumption of its trade promotion program in the Soviet Union in 1985, Commerce has organized, on a full cost recovery basis, two U.S. expositions at Soviet trade shows. On the same cost recovery basis, Commerce would like to initiate a program of specialized, technically oriented trade missions to the Soviet Union. Working with state and local organizations where appropriate, each mission would represent five or six American firms in an industry, and would link American executives with their counterparts.

(U) American firms participating in U.S. Government sponsored trade events such as these are competing with firms from other Western countries for the attention of a limited number of Soviet decision-makers. Soviet cooperation and assistance, therefore, is needed to ensure that U.S. company representatives are able to meet with the appropriate Soviet decision-makers during the event.

(FOUO) Although during the 1985 JCC the Soviets agreed to terminate their ban on U.S. company seminars at the U.S. Commercial Office, the State Committee for Science and Technology (GKNT) denies support for USCO seminars because there is no U.S.-Soviet science and technology agreement. This severely restricts attendance.

U.S. POSITION

(U) The U.S. Government will continue to develop its trade promotion program in the Soviet Union. The program consists of: annually sponsoring at least one American exposition at an appropriate Soviet international trade fair; developing a program of technically oriented company trade missions; and hosting company trade seminars at the U.S. Commercial Office.

SOVIET POSITION

(FOUO) While the Soviet Ministry of Foreign Trade (replaced in 1987 by the Ministry of Foreign Economic Relations) has given their support for USCO seminars, they have claimed to have no authority over the Soviet State Committee for Science and Technology (GKNT) which denies support for seminars.

(FOUO) GKNT support for USCO seminars is vital because of GKNT's ties with technical specialists throughout Soviet industry. Each Soviet specialist, invited to attend a USCO seminar, must receive permission from his or her organization, which is usually only granted if the USCO event has GKNT support.

BACKGROUND

(U) The U.S. Government has identified several non-strategic industrial areas in which U.S. companies are highly competitive and where there is Soviet demand. USDOC has focused its trade promotion plans in these areas.

INPRODTORGMASH - In 1986, Commerce sponsored a U.S. exposition at the Soviet international FOOD PROCESSING show with over over 60 companies (17 NTM) participating.

NEFTEGAZ-87 - In January 1987, USDOC sponsored an exposition at the Soviet OIL AND GAS EQUIPMENT show NEFTEGAZ-87 with 45 American companies participating (9 NTM).

STROYDORMASH - USDOC is currently organizing a U.S. exposition at the May 1988 Soviet CONSTRUCTION AND ROAD-BUILDING EQUIPMENT show in Moscow. Recruitment for this show is going well, and USDOC anticipates a good exhibit.

(FOUO) TALKING POINTS

Announce a new program of trade missions

- Since 1985, the U.S. Government has sponsored an active trade promotion program in the Soviet Union, including: annually sponsoring at least one American exposition at an appropriate Soviet international trade fair; locally organized trade missions; and, when possible, hosting company trade seminars at the U.S. Commercial Office.

- We believe that now is a good time to expand our trade promotion program. We would like to initiate a program of specialized, technically oriented trade missions, working with state and local governments where appropriate. These missions would be in selected, non-strategic areas in which U.S. producers are particularly competitive, such as in medical equipment.

- We would like to use these trade missions to introduce some of America's outstanding companies and their products and services to you. To be successful, however, we require Soviet agreement and assistance to ensure that U.S. firms will be able to meet with the appropriate Soviet decision-makers.

- We would like to announce, at the conclusion of these meetings, our agreement to establish a new program of trade missions. Further, we would like to announce that you have given your full support and commitment to assisting American companies on these missions, including assistance with organizing the event, as well as locating and setting up meetings or seminars with the appropriate Soviet decision-makers.

Use of USCO seminar facilities

- An effective way of bringing U.S. corporate executives and Soviet industry and commercial officials together is to hold technical/sales seminars and small exhibits at the Department of Commerce's Commercial Office in Moscow. This is only practical if appropriate Soviet officials attend.

- At the Joint Commercial Commission in 1985, the Soviet side agreed to remove a ban on seminars at our Commercial Office and at the 1986 JCC agreed to provide necessary facilitation assistance.

- The most vital ingredient is attendance by Soviet specialists. We need the support of the Soviet side in arranging Soviet attendance. Perhaps this could be done by the new Foreign Economic Commission, and perhaps by the Chamber of Commerce and Industry.

- Support by the State Committee for Science and Technology is also important. The State Committee has resisted giving us support on the grounds that there is no U.S.-Soviet science and technology agreement. However, the purpose of U.S. Commercial Office seminars is to encourage commercial and technical cooperation between U.S. companies and Soviet industries -- something which Soviet foreign trade agencies should encourage, and which the two governments have agreed to support under the Long Term Agreement for Economic, Industrial, and Technical Cooperation, renewed in 1984.

- There is a growing interest on the part of American companies (and particularly small and NTM firms) for holding seminars at USCO. A major U.S. manufacturer of dental supplies and equipment is ready to host a single company seminar at USCO. The company, having unsuccessfully attempted to enter the Soviet market in the 1970's, sees Soviet "perestroika" as an encouraging chance to try the Soviet market again. The company feels that a USCO seminar is the appropriate avenue.

- At the JCC, we would like to announce agreement by the two sides to cooperate, including support by the State Committee for Science and Technology and other organizations, on a program of seminars at the U.S. Commercial Office which will bring together U.S. executives and Soviet specialists.

U.S. participation in Soviet trade shows

- The Commerce Department has been pleased with participation in the Soviet international exhibitions INPRODTORGMASH and NEFTEGAZ, and we look forward to STROYDORMASH this spring.

- As perestroika continues, our companies participating in these shows require greater market information beforehand.

- We urge Expocentr and the sponsoring Soviet organizations to supply our Commercial office with in-depth information on the Soviet industry and on the Soviet officials and technical people who will participate in shows in which we are sponsoring a U.S. exposition.

If raised,

Soviet Trade Promotion in the United States

- Of course, we are also aware that the Soviet Union is considering new trade promotion activities for its products, including your planned Exhibition of Soviet Export Goods in New York this December. As agreed at previous meetings of the JCC, we will offer support in facilitating questions that might arise concerning the exhibit.

Drafted by: S. Lewenz DOC/ITA/IEP/EUR/OEESA/USSRD/377-4655
Drafted 2/18/88, revised 3-24-88
Clearances:

-DJones	State		
-PNichols	State		
WGeorge	Pentagon		
-CCobb	USDOC-TD	-JKlema	USDOC
-JRosen	USDOC	-DMatthes	USDOC
FVargo	USDOC	SSLotarski	USDOC
-JBrougher	USDOC	PHale	USDOC

Business Facilitation

Issue

(U) Under the heading of "business facilitation," the Joint U.S.-U.S.S.R. Commercial Commission has traditionally discussed ways of improving operating conditions for business representatives in each country e.g., office and apartment access and rent, access to food stores, multiple entry/exit visas. Since it is necessary to have a presence in Moscow, either through an office or frequent travel, in order to do business there, business facilitation issues can have an significant effect on trade.

U.S. Position

(U) The United States wants to improve conditions in Moscow for all American business representatives, including those stationed there as well as visitors. The Soviet trade and economic reforms have presented some new challenges, but they may also present some new opportunities for improving service in Moscow.

(FOUO) The U.S. delegation should follow up on several statements by the Soviet side at the February Working Group of Experts Meeting. American Countries Administration head Zinoviev indicated in response to U.S. representations about company problems in Moscow that the Soviets would be willing to hold a meeting of the business facilitation working group under the JCC to discuss business facilitation problems of U.S. companies. Soviet Experts delegation head Znamensky commented that the situation raised by the U.S. delegation with regard to making appointments, i.e., many of the new Soviet organizations with trading rights require written application and then fail to respond, is not proper and should be corrected.

U.S.S.R. Position

(U) In some instances, the Soviets have responded constructively to U.S. representations. In 1985, for instance, they accelerated installation of direct dial long distance lines for offices in Moscow. Often, the Soviets have responded to U.S. representations by listing services available from Sovincenter and Intourist or claiming that they have no authority in areas such as hotels, car rental, etc.

Controlled by Susanne S. Lotarski
Decontrol on March 30, 1989

Background

(U) Under the Long Term Agreement to Facilitate Economic, Industrial, and Technical Cooperation, the two sides have agreed to improve working conditions for business representatives. At the 1985 JCC, a business facilitation working group was established, which later met in Moscow in the fall of 1985 and the spring of 1986. In an effort to take practical steps to assist small firms, the U.S. side tabled ten specific proposals for improving conditions for nonaccredited firms, who represent small American firms not able to afford their own offices in Moscow. There are about 6 American nonaccredited firms in Moscow who rent hotel rooms or apartments on a continuing basis.

(FOUO) Talking Points

- Both sides have recognized the role of business facilitation in increasing trade, and both have worked at Joint Commercial Commission meetings in the past to improve conditions for our business representatives. In 1985, for example, we raised problems that companies with Moscow offices were having in getting direct dial long distance lines. The Soviet side provided assistance, and our companies soon reported that this problem had been resolved.

- The reforms underway in economic management and decision making open up new possibilities for U.S. firms. Prospects for joint ventures will be furthered by the removal of practical impediments to the prescence of U.S. firms in Moscow. Thus, business facilitation questions are becoming even more important.

- We should focus on conditions for all business representatives, e.g., accredited, nonaccredited, and travelers. The trade reform has provided the opportunity, and even made it necessary, for firms to establish contact with many more Soviet industry and commercial officials than before. Under these new conditions, the role of nonaccredited firms that represent American companies may increase.

- Nonaccredited, representative or agent firms perform a particularly important service for small firms who cannot afford accredited offices, yet need to be represented in Moscow. The proposals we made in the business facilitation working group in 1985 for practical assistance in obtaining reasonably priced office space, clerical and technical support, local transportation, and essential office equipment would still be practical. The Soviet reforms (individual enterprise) might make it easier to implement them.

(FOUO)

- Our business representatives in Moscow report a contradictory situation. Costs of a Moscow office, particularly office and apartment rents, are rising significantly. This is hard for some firms to bear, because they have seen their business in Moscow decline. For some firms then, rising costs raise a question as to whether it is cost effective to maintain an office. We believe that an office can be a valuable asset, but we also believe that both sides should work to keep costs down.

- We understand that hotel rooms at the Mezhdunarodnaya Hotel cost about $200 per day, and that apartment and office rents have risen about 40 percent over the last year. (FYI: Some Soviet officials have said that prices will be held at the present level for two years.)

- Business representative's access to food supplies has worsened, including meat and vegetables. We understand that the hard currency stores are being reorganized, and perhaps it would be possible to arrange access to stores where supplies are better.

- On the positive side, we want to note that Soviet travel regulations for business representatives have been brought closer to U.S. practice, improving conditions for our representatives.

- Finally, our firms report, that following the extension of foreign trade rights to new ministries and enterprises, it has become more difficult in many cases to get appointments with Soviet officials. Whereas in the past, it was possible to set up an appointment by phone, it is now often necessary to write letters requesting appointments and these are often not answered.

- At the February Experts meeting, the Soviet delegation agreed that this situation should be corrected, and we are ready to work with the Soviets on this.

- We would like to take up the Soviet offer at the Experts Meeting to hold a business facilitation meeting in Moscow to discuss ways of improving conditions for companies.

Drafted by: JBrougher/DOC/IEP/EUR/OEESA/USSRD/377-4655
2/17/88, revised 2/24
Cleared by: Franklin J. Vargo, DAS/EUR/DOC 2/25/88
SLotarski, DOC/IEP/EUR/OEESA 2/25/88
RJohnson, State/SOV 2/29/88 (647-9370)
JBurnhim, State/EB 2/29/88 (647-2726)

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JCC CLOSING

CLOSING SESSION

9:30 - 10:15 a.m.
Thursday, April 14, 1988
Room 1603, World Trade Center, Hotel Mezhdunarodnaya

(SIMULTANEOUS TRANSLATION)

Co-chaired by: Secretary Verity
Minister Katushev

CLOSING STATEMENTS

Secretary Verity delivers closing statement for U.S. side (15 min.)

Minister Katushev delivers closing statement for Soviet side (15 min.)

Secretary Verity invites Soviets to United States for 11th Session of the JCC (3 min.)

Minister Katushev accepts next meeting of the JCC and invites Commission members to move to an adjacent room to witness the Signing Ceremony (3 min.)

SIGNING CEREMONY

10:15 - 10:30 a.m.
Thursday, April 14, 1988

(SEQUENTIAL TRANSLATION)

Scenario

Secretary Verity and Minister Katushev will be seated together to sign the Agreed Report of the Tenth Session of the Joint Commercial Commission. The two Executive Secretaries of the Commission will assist with the signing ceremony.

Press will be present to photograph the signing. After the signing and handshaking, the signing ceremony is concluded.

PAPER BEING PREPARED