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# WITHDRAWAL SHEET

## Ronald Reagan Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. vax	to various NSC staff re; comments of senior Hungarian banker on Hungarian economic reform (4pp)	2/-/86	P-1
2. vax	to DOS and NSC staff re: comments by Soviet officials Andre Gromyko and Abel Aganbegyan on Soviet economic poliicy (3pp)	2/10/86	P-1
3. memo	from Danzansky and Pugliaresi re: foreign controls on export of oil and gas technology to the Soviet Union (2pp)	1/15/85	P-1
4. vax	from Sec. of State to Am. Embassy Moscow re: Soviets informed of oil/gas policy change (1p)	6/18/86	P-1
5. report	re: Soviet forced labor (1p) <i>PART. 12/9/85 MD3-1471 #6</i>	n.d.	P-1
6. memo	from Scott Sullivan to Danzansky re: energy - oil (1p)	1/10/86	P-1
7. memo	from S. Sullivan to Danzansky et al. re: foreign policy controls on energy equipment (4pp)	1/10/86	P-1
8. report	re: prospects for US-USSR trade (2pp)	n.d.	P-1
9. memo	from T. Cobb to Danzansky et al re: economic leverage and Soviet energy (7pp)	1/3/86	P-1
10. memo	from S. Sullivan to William Martin re: Soviet oil production and western economic leverage (3pp)	12/4/85	P-1 <i>Folder 5</i>
11. talking points	re: US/Soviet trade (3pp)	n.d.	P-1 <i>Folder 6</i>
12. vax	to DOS and NSC staff re: Gorbachev request for joint venture corn processing plant-proposal (3pp)	10/17/85	P-1
COLLECTION: DANZANSKY, STEPHEN I.: Files			db
FILE FOLDER: <i>(5 of 6) RAC Box 12</i> Soviet Union [3 of 3] <del>Box 91818</del>			12/5/94

### 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].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
- 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.

SOVIET UNION - Danzanku

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✓ (2)

3. SOVIET FORCED LABOR SYSTEM CONTINUES TO GROW

The number of Soviet forced laborers has grown from 4 million in the late 1970s to more than 4.5 million, accounting for 3 percent of the total labor force, [REDACTED]

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[REDACTED] Forced labor is likely to continue expanding because it plays an important economic role in development of remote areas, in addition to its penal role. Since reliance on forced labor also reflects political decisions and the character of national leadership, the present assessment provides a benchmark at the outset of the Gorbachev era for measuring the impact of his leadership.

\* \* \*

The annual growth rate of forced labor has averaged 1.9 percent since 1977--a rate nearly twice that of the total Soviet labor force over the same period. The forced labor camp population grew at a higher annual rate during 1977-84 than during 1972-77 because of economic, political, and social problems: labor shortages, large-scale construction and developmental projects in areas where free labor is reluctant to go, campaigns against crime and corruption, and the crack-downs on dissidents.

Over half the 4.5 million Soviet forced laborers are confined in secured camps; the rest, although not confined, are forced to work on specific projects. Most forced laborers are assigned to construction and manufacturing; they are also used to mine coal, gold, and other minerals. Their use in logging has declined slightly.

New camps are being built primarily in regions undergoing economic expansion: the Volga, Siberia, and the Soviet Far East. [REDACTED]

[REDACTED] One study has listed 887 persons known by name as of October 30, 1984. A plausible figure accepted by some human rights organizations is about 10,000.

E. O. 12958  
As Amended  
Sec. 1.4(c)

DECLASSIFIED IN PART  
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By WDT, NARA, Date 12/6/05

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# Soviet Oil Woes: Detente on U.S. Terms?

By MIKHAIL S. BERNSTAM

Global political conditions are developing that could create a new detente with the Soviet Union—this time one that would be on American terms. The discredited detente of the 1970s turned out to be a windfall for the Soviets due largely to exogenous economic factors. World oil prices soared and Soviet oil production in the 1970s surged 50%. Western European demand for petroleum fueled the Soviet hard-currency revenues. At the same time, Western banks eagerly lent petrodollars at low interest rates to the good-risk communist countries. Enriched by oil revenues and cheap loans, the Soviets were invited to purchase Western machinery and technology. It was a sellers' market in commodities and a buyers' market in money and manufactured goods. The Soviets enjoyed the best of both worlds.

Thus they established consistent Western European dependency upon the U.S.S.R. and generally dictated the terms of their semi-peaceful cohabitation with the West. Linkage of trade and credit with Soviet global and domestic behavior failed because the West lacked the market power to make it work. For instance, the Jackson-Vanik amendment, conditioning trade and credits on Soviet emigration policies, sank in the oil swamp because the Soviets received both trade and credits anyway. Once the Soviets had oil, detente was developed on their terms.

Outside factors, however, can be capricious. Now, world oil prices are plunging, and at the same time the Soviet oil industry appears to be collapsing. In addition, Soviet supplies of natural gas are no longer wanted in Western Europe. The Soviets expected to export about 1,370 billion cubic feet of gas a year at \$7.30 per 1,000 cubic feet and to earn about \$10 billion in annual revenues beginning in 1987. Now, the Soviets won't sell more than 675 billion cubic feet and at a price that at best will be \$3.70 per 1,000 cubic feet; thus they will collect only a quarter of anticipated revenues, about \$2.5 billion a year. This will barely cover the cost of their grain purchases from the West. The Siberian pipeline, so feared by Mr. Reagan just three years ago and proudly dubbed by the Soviets "the deal of the century," has turned into a laughing stock and a textbook example of a failed global venture. And all of this came at the worst possible time.

The Soviet oil industry began to slip in early 1983, output declined in 1984 and dropped further in 1985. Projecting from the monthly records published to date, only about 589 million metric tons of oil were produced in 1985. This is 4% below 1984 levels, and the lowest production total since 1980. The magnitude of the shortage is hidden by the official accounting that includes an increasing share of condensed gas in the oil statistics. The steepest de-

cline, probably as much as 7% from the previous year's level, occurred in 1985 in the newly explored oil fields of Western Siberia, which account for 62% of total Soviet oil output and on which the Soviets relied in their long-term plans. The failure of the new areas portends a dismal future.

As for the causes of this failure, one can make a suggestion. The Soviets complain about severe labor shortages, especially for oil-well-recovery teams that are needed as deeper-lying oil ceases to flow under natural pressure. Since a labor shortage in Western Siberia has been a problem for many years, this cannot explain the current impairment in the oil industry. But recent Soviet economic policies can.

From the mid-1970s to the early 1980s, as the Soviets moved further into Siberia, oil-exploration costs increased and oil-industry "profits" declined by 7% in each of those years. In 1982 the Soviets raised wholesale industrial prices an average 11%. But in order to stimulate oil production and induce domestic conservation for higher exports, they hiked oil prices 123% literally overnight. Oil-industry profits increased more than fivefold, but the windfall was appropriated by the state for further investment. The share of wages as a percentage of total costs declined 8%.

In addition, individual oil-producing enterprises suffered because their domestic buyers, the oil-processing "firms," lost their power to pay bonuses when their relative prices declined (the prices of value-added oil products increased only 57%). Meanwhile, the late Yuri Andropov's reform efforts starting in 1983 choked off some of the bookkeeping tricks that allowed "firms" to pay effectively higher wages and attract productive labor.

Since fuel constitutes more than 79% of Soviet revenues from exports to the West and since the Soviet oil industry is now collapsing, Moscow has entered a period of trade deficits and hard-currency shortages. The value of Soviet hard-currency exports declined from \$26.3 billion in 1983 to \$26.1 billion in 1984 and \$22.8 billion in 1985—the lowest mark since 1980. The Soviets' revenues will shrink more and their credit position will be undermined exactly at the time when their demand for Western technology is increasing. As a Pravda editorial of last Dec. 22 conceded, all Soviet economic growth and development is now at stake due to the widening technological gap with the West. Thus, Soviet dependence on the West will increase as never before, especially in light of the present world lending squeeze.

But won't the Western Europeans rescue the Soviets and lend them all the money they want on credit? The Soviets should not count on it. The Western Europeans have generally preferred to use the free ride, not to provide it. They enjoy U.S. military protection while they simultaneously conduct very lucrative goods-for-

commodities business with the Soviets. The Soviets earn their money and technology the old-fashioned way—they sell a lot of oil. The Western Europeans thus trade their goods for Soviet oil; oil also serves as collateral for subsidized loans, but the old-fashioned ways never last. Once the great flow of oil from Western Siberia to Western Europe dries up, the flow of cash and technology from Western Europe may go out of fashion.

The time has come to transform this growing dependence into strategic and political gains for the U.S. A much broader version of the Jackson-Vanik approach can be tried now, extending from peripheral domestic Soviet issues to the whole spectrum of international security. The U.S. can sell its expertise and services in exchange for the Soviets' stopping their global troublemaking. Business with the Soviets on U.S. terms means that American taxpayers should be able to increase their national security and reduce their defense costs—the reverse of what happened in the 1970s. Without oil, a good new detente can be developed on American terms.

Mr. Bernstam is a senior research fellow at the Hoover Institution, Stanford University.



SOVIET UNION Danzansky

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US-USSR Trade 1979-1985  
(million US \$)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>Jan-June 1984</u>	<u>Jan-June 1985</u>
<u>US Exports</u>	<u>3,603.6</u>	<u>1,509.7</u>	<u>2,338.6</u>	<u>2,583.7</u>	<u>2,002.0</u>	<u>3,282.7</u>	<u>1,415.4</u>	<u>1,669.5</u>
of which:								
food and live animals (cereal grains)	2,283.3	971.7	1,600.1	1,637.1	1,195.0	2,585.1	1,032.1	1,288.5
chemicals	134.4	31.6	180.2	287.8	239.4	208.2	98.2	119.8
machinery and transportation equipment	363.1	268.8	300.6	225.2	149.5	110.2	64.7	61.4
<u>US Imports</u>	<u>873.1</u>	<u>430.4</u>	<u>357.0</u>	<u>228.6</u>	<u>340.5</u>	<u>556.1</u>	<u>224.6</u>	<u>243.7</u>
of which:								
oil and oil products	15.7	11.2	106.8	10.4	56.0	191.6	39.1	70.9
chemicals	68.0	148.0	93.5	117.3	144.4	207.8	109.9	117.1
manufactured goods	160.0	125.8	99.9	60.5	87.7	103.8	53.5	37.2
<u>Trade Balance</u>	<u>2,730.5</u>	<u>1,079.3</u>	<u>1,981.6</u>	<u>2,355.1</u>	<u>1,661.5</u>	<u>2,726.6</u>	<u>1,190.8</u>	<u>1,425.8</u>

Source: U.S. Department of Commerce

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TO MARTIN

FROM BALDRIGE, M

DOCDATE 04 DEC 85

KEYWORDS: INTL TRADE

USSR

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SUBJECT: SEC BALDRIDGE REMARKS AT US - USSR TRADE & ECONOMIC COUNCIL MTG

ACTION: FOR RECORD PURPOSES

DUE:

STATUS C

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FOR ACTION

FOR CONCURRENCE

FOR INFO

DANZANSKY

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COMMENTS COBB & WIGG READ SPEECH & FOUND NO PROBLEMS; STATE &

COMMERCE CONCUR

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12/4/85

REMARKS OF  
HONORABLE MALCOLM BALDRIGE  
SECRETARY OF COMMERCE  
AT THE NINTH MEETING OF THE  
U.S.-U.S.S.R. TRADE AND ECONOMIC COUNCIL

MOSCOW, U.S.S.R.

DECEMBER 9, 1985

MINISTER ARISTOV, MR. SUSHKOV, MR. ANDREAS, MEMBERS, AND GUESTS:

I AM PLEASED TO BE HERE TONIGHT TO LEND MY SUPPORT AND THE SUPPORT OF THE UNITED STATES GOVERNMENT TO THE WORK OF THE U.S.-U.S.S.R. TRADE AND ECONOMIC COUNCIL.

MORE THAN TEN YEARS AGO THE DEPARTMENT OF COMMERCE HELPED ESTABLISH THE COUNCIL, AND EVENTS SINCE THEN HAVE SHOWN THIS WAS A WISE DECISION. THE COUNCIL HAS PLAYED A SPECIAL ROLE IN THE DEVELOPMENT OF TRADE RELATIONS BETWEEN THE UNITED STATES AND THE SOVIET UNION.

THE COUNCIL KEPT TRADE COMMUNICATIONS CHANNELS OPEN, EVEN WHEN GOVERNMENTS WERE NOT TALKING ON TRADE. AND THE COUNCIL WAS INSTRUMENTAL IN HELPING ORGANIZE MEETINGS BETWEEN U.S. AND SOVIET OFFICIALS WHICH EVENTUALLY LED TO A RESUMPTION OF AN OFFICIAL DIALOGUE ON TRADE.

THIS YEAR'S MEETING IS TAKING PLACE AT AN IMPORTANT TIME. COUNCIL MEMBERS HAVE A SENSE OF ENTHUSIASM THIS YEAR, AND I THINK THAT IS UNDERSTANDABLE.

- o PRESIDENT REAGAN AND GENERAL SECRETARY GORBACHEV HAVE JUST MET AND HAVE AGREED TO WORK TO IMPROVE RELATIONS.
- o THE U.S.- U.S.S.R. JOINT COMMERCIAL COMMISSION MET THIS MAY FOR THE FIRST TIME IN SEVEN YEARS.
- o SOME SPECIFIC BILATERAL AGREEMENTS HAVE BEEN REACHED, AND OTHERS ARE BEING DISCUSSED.
- o THE NEW SOVIET FIVE-YEAR PLAN IS BEING INTRODUCED.

I WANT TO MAKE IT CLEAR TO BOTH THE AMERICAN AND SOVIET MEMBERS OF THE COUNCIL THAT THE UNITED STATES GOVERNMENT SUPPORTS YOUR WORK TO EXPAND TRADE. PEACEFUL TRADE BENEFITS BOTH COUNTRIES, AND PRESIDENT REAGAN JOINS ME IN DESIRING TO SEE IT EXPAND.

BUT IT IS ALSO IMPORTANT FOR COUNCIL MEMBERS TO MAINTAIN A STRONG SENSE OF REALISM.

THE UNITED STATES AND THE SOVIET UNION HAVE SERIOUS DIFFERENCES. THE UNITED STATES DOES NOT EXTEND MFN TREATMENT OR OFFICIAL CREDITS TO THE SOVIET UNION. WE MAINTAIN UNILATERAL AND MULTILATERAL NATIONAL SECURITY EXPORT CONTROLS , AND WE MAINTAIN SOME FOREIGN POLICY EXPORT CONTROLS.

WE HAVE TAKEN SOME MODEST, RELATIVELY EASY, STEPS TO IMPROVE THE TRADING RELATIONSHIP. BUT THE MOST IMPORTANT PROBLEMS REMAIN AHEAD OF US.

WE MUST MAINTAIN A SENSE OF OPTIMISM, YES. FOR WITHOUT THAT OPTIMISM WE WILL NOT BE ABLE TO SOLVE THE DIFFICULT PROBLEMS AHEAD OF US. BUT WE MUST ALSO REMEMBER THAT WHILE WE HAVE MADE RECENT PROGRESS, WE ARE STILL CLOSER TO THE BEGINNING OF OUR JOURNEY THAN TO ITS END.

#### U.S. POLICY

ALMOST TWO YEARS AGO, PRESIDENT REAGAN LAID OUT THREE MAJOR OBJECTIVES FOR U.S.- SOVIET RELATIONS: 1) TO REDUCE, AND EVENTUALLY ELIMINATE, THE THREAT AND USE OF FORCE IN SOLVING INTERNATIONAL DISPUTES; 2) TO REDUCE ARMS STOCKPILES; AND 3) TO ESTABLISH A BETTER WORKING RELATIONSHIP BETWEEN OUR COUNTRIES.



THE PRESIDENT DECIDED THAT EXPANSION OF PEACEFUL TRADE WHICH BENEFITS BOTH PARTIES CAN AND SHOULD BE A PART OF OUR EFFORT TO BUILD A BETTER WORKING RELATIONSHIP. THE ADMINISTRATION ACTIVELY SUPPORTS THIS TRADE AND WANTS TO CONTRIBUTE TO ITS EXPANSION.

BY "PEACEFUL TRADE" I MEAN NON-STRATEGIC TRADE THAT IS CONSISTENT WITH EXISTING LAWS AND POLICIES. STRATEGIC GOODS AND TECHNOLOGY ARE NOT AREAS WHERE WE ARE -- OR WILL BE -- INTERESTED IN TRADE.

THE PRESIDENT ALSO REAFFIRMED THAT THE TRADE RELATIONSHIP CANNOT MOVE INDEPENDENTLY OF PROGRESS IN OTHER ELEMENTS OF THE BILATERAL RELATIONSHIP. WITH SUCH PROGRESS, HOWEVER, WE ARE PREPARED TO TAKE SIGNIFICANT STEPS IN THE TRADE AREA.

IN THE ABSENCE OF PROGRESS IN OTHER AREAS OF THE BILATERAL RELATIONSHIP, NON-STRATEGIC TRADE GROWTH MUST TAKE PLACE WITHIN CURRENT POLICIES. THERE IS ROOM FOR GROWTH WITHIN PRESENT TRADE POLICIES, BUT THIS GROWTH IS MORE LIMITED THAN THAT WHICH WOULD OCCUR, FOR EXAMPLE, WITH A FULL MFN TRADE RELATIONSHIP.

RECENT STEPS

OVER THE LAST YEAR AND A HALF THE UNITED STATES AND THE SOVIET UNION HAVE BEGUN TALKING ON TRADE AND HAVE TAKEN SOME USEFUL STEPS TO EXPAND TRADE WHERE POSSIBLE.

EIGHTEEN MONTHS AGO WE BOTH AGREED TO EXTEND FOR TEN YEARS THE U.S.-U.S.S.R. LONG-TERM AGREEMENT ON ECONOMIC, INDUSTRIAL, AND TECHNICAL COOPERATION. A WORKING GROUP UNDER THAT AGREEMENT MET IN MOSCOW THIS JANUARY TO DISCUSS POSSIBILITIES.

AS ONE RESULT, IN MAY SOVIET TRADE MINISTER PATOLICHEV AND I CONVENED THE FIRST MEETING OF THE JOINT U.S.- U.S.S.R. COMMERCIAL COMMISSION IN SEVEN YEARS. WE SUCCEEDED IN REESTABLISHING A STRUCTURE FOR REGULAR HIGH-LEVEL REVIEW AND RESOLUTION OF TRADE PROBLEMS.

WE OPENLY AND FRANKLY DISCUSSED OUR DIFFERENCES ON TRADE, IMPORTANTLY INCLUDING OUR DIFFERENT VIEWS ON THE RELATIONSHIP OF EMIGRATION TO TRADE. WE AGREED THAT WHILE WE HAD MANY DIFFERENCES, WE SHOULD TRY TO MAKE PROGRESS IN THOSE AREAS WHERE PROGRESS WAS POSSIBLE.

AT OUR MEETING THE U.S.S.R. MINISTRY OF FOREIGN TRADE AGREED TO IMPROVE THE ACCESS OF AMERICAN FIRMS TO THE SOVIET MARKET, AND MINISTER PATOLICHEV SENT A LETTER TO SOVIET FOREIGN TRADE ORGANIZATIONS TO THIS EFFECT.

HE INFORMED THEM THAT THE SOVIET GOVERNMENT DESIRED TO SEE COMMERCIAL COOPERATION WITH THE UNITED STATES INCREASE, THAT BID INQUIRIES SHOULD BE PROVIDED TO INTERESTED AMERICAN FIRMS, THAT U.S. COMPANY PROPOSALS SHOULD BE CONSIDERED FULLY ON THEIR ECONOMIC MERIT, AND THAT U.S. FIRMS SHOULD BE PROVIDED ACCESS TO SOVIET TRADE AND PURCHASING OFFICIALS.

I IN TURN SENT AN OPEN LETTER TO ALL AMERICAN COMPANIES, ENCOURAGING THEM TO EXPLORE TRADING OPPORTUNITIES WITH THE SOVIET UNION, AND TELLING THEM OF THE PRESIDENT'S DESIRE FOR A MORE CONSTRUCTIVE WORKING RELATIONSHIP WITH THE SOVIET UNION.

I ALSO ANNOUNCED THAT THE ADMINISTRATION WOULD SEEK LEGISLATION TO REMOVE A 34-YEAR OLD BAN ON IMPORTS OF SOVIET FURSKINS. THIS LEGISLATION HAS BEEN INTRODUCED IN BOTH THE HOUSE AND THE SENATE.

AS A FOLLOW-ON TO THE COMMISSION MEETING, U.S. AND SOVIET OFFICIALS HAVE BEGUN REGULAR MEETINGS TO DISCUSS PROGRESS ON PROJECTS BETWEEN AMERICAN AND SOVIET ENTERPRISES. THE FIRST MEETING WAS HELD LAST MONTH IN WASHINGTON, WHERE OFFICIALS DISCUSSED EXPORT LICENSING PROCEDURES AND EXPLORED THE STATUS OF A RANGE OF PROJECTS.



IN ADDITION, LAST MONTH OUR TWO COUNTRIES REACHED AN AGREEMENT WHICH WILL MAKE IT POSSIBLE FOR PAN AMERICAN AIRLINES AND AEROFLOT TO PROVIDE AIR SERVICE BETWEEN THE UNITED STATES AND THE SOVIET UNION. LAST WEEK, U.S AND SOVIET OFFICIALS BEGAN DISCUSSION WHICH COULD LEAD TO A NEW MARITIME AGREEMENT.

AS ANOTHER DEVELOPMENT, I WOULD LIKE TO ANNOUNCE THAT NEXT MONTH THE DEPARTMENT OF COMMERCE WILL BEGIN AN ACTIVE OFFICIAL TRADE PROMOTION PROGRAM IN THE SOVIET UNION.

THE U.S. COMMERCIAL OFFICE IN MOSCOW WILL BEGIN OFFICIALLY-SPONSORED SINGLE COMPANY EXHIBITS AND SEMINARS. THESE WILL PROVIDE AN EFFICIENT MEANS OF DEMONSTRATING THE BROAD ABILITIES OF U.S. COMPANIES TO SOVIET PURCHASING OFFICIALS, AND I THINK THAT MANY U.S. COMPANIES REPRESENTED HERE TODAY WILL FIND THIS PROMOTIONAL SERVICE OF CONSIDERABLE INTEREST.

WE WILL ALSO SPONSOR A SERIES OF SALES MISSIONS FOR U.S. COMPANIES, BEGINNING WITH MEDICAL EQUIPMENT. AND FINALLY, WE WILL BE PARTICIPATING IN SELECTED SOVIET TRADE FAIRS. THE DEPARTMENT OF COMMERCE IS STARTING BY ORGANIZING U.S. OFFICIAL PARTICIPATION IN THE SOVIET FOOD INDUSTRY EXHIBIT, WHICH IS SCHEDULED FOR AUGUST 1986.

IN ORDER TO CARRY OUT THIS TRADE PROMOTION PROGRAM AND PROVIDE ASSISTANCE TO THE GROWING NUMBER OF AMERICAN BUSINESS REPRESENTATIVES VISITING MOSCOW, THE DEPARTMENT OF COMMERCE PLANS TO ADD A SECOND COMMERCIAL OFFICER TO THE STAFF OF OUR U.S. COMMERCIAL OFFICE IN THE COMING YEAR.

### GROWING OPPORTUNITIES

THIS IS A TIME OF CHALLENGE FOR BOTH THE U.S. AND SOVIET ECONOMIES. THE UNITED STATES IS CHANGING ITS PRIMARY ORIENTATION FROM SMOKESTACK INDUSTRY TO SERVICES, WHICH IN MANY CASES INVOLVE NEW TECHNOLOGIES. THE SOVIET UNION HAS SET AS A PRIMARY GOAL MOVING ITS ECONOMY FROM EXTENSIVE TO INTENSIVE GROWTH.

MEETING THESE CHALLENGES WILL REQUIRE MAKING USE OF THE ADVANTAGES OF TRADE AND COMPETING SUCCESSFULLY IN THE INTERNATIONAL ECONOMY. THE SOVIET UNION IS BEGINNING A NEW FIVE-YEAR PLAN, AND I BELIEVE THAT THERE ARE A CONSIDERABLE NUMBER OF OPPORTUNITIES FOR COOPERATION UNDER THIS PLAN.

BUSINESS HAS ALREADY PICKED UP FOR U.S. FIRMS. AMERICAN COMPANIES HAVE RECEIVED NEW MACHINERY AND EQUIPMENT ORDERS TOTALING ABOUT \$185 MILLION SO FAR THIS YEAR, COMPARED TO ABOUT \$70 MILLION FOR ALL OF LAST YEAR. THAT IS STILL A SMALL FIGURE, BUT IT IS MORE THAN A DOUBLING OVER LAST YEAR.

I DO NOT ATTRIBUTE ALL OF THIS INCREASE TO AN IMPROVEMENT IN TRADE RELATIONS. OVERALL SOVIET ORDERS OF MACHINERY AND EQUIPMENT FROM WESTERN COMPANIES HAVE RISEN SIGNIFICANTLY ABOVE THE LOW LEVELS OF THE LAST TWO YEARS. BUT THE U.S. SHARE APPEARS TO BE UP, SOMETHING THAT COULD NOT HAVE BEEN EXPECTED IN THE ABSENCE OF IMPROVED TRADE RELATIONS.

U.S. COMPANIES ARE WORLD LEADERS IN MANY SECTORS AND THEIR CAPABILITIES ARE SUITED TO THE SCALE OF MASSIVE SOVIET INDUSTRIES. WITHIN EXISTING U.S. AND MULTILATERAL REGULATIONS, AMERICAN FIRMS CAN PRESENTLY SELL A WIDE RANGE OF MODERN EQUIPMENT AND TECHNOLOGY ON COMPETITIVE TERMS, INCLUDING:

- o FOOD PROCESSING AND AGRIBUSINESS PLANTS;
- o EARTHMOVING EQUIPMENT;
- o MINING AND FORESTRY;
- o POLLUTION CONTROL;
- o IRRIGATION EQUIPMENT;
- o AGRICULTURAL CHEMICALS;
- o HOUSING AND CONSTRUCTION;
- o PULP AND PAPER EQUIPMENT;
- o MEDICAL EQUIPMENT AND SUPPLIES ...

AND THESE ARE JUST A FEW.



IN ADDITION, I WANT TO POINT OUT ANOTHER FACTOR THAT HAS INCREASED THE ATTRACTIVENESS OF U.S. COMPANIES -- THE DECLINE IN THE DOLLAR. COMPARED TO EUROPEAN CURRENCIES, THE DOLLAR IS DOWN 27% FROM ITS HIGH POINT IN FEBRUARY. RELATIVE TO THE YEN, THE DOLLAR IS DOWN ABOUT 30%.

THIS IS ALREADY BEGINNING TO AFFECT OUR COMPETITIVENESS IN EUROPEAN AND OTHER WESTERN MARKETS, AND I BELIEVE IS A DEVELOPMENT OF WHICH SOVIET TRADE AND INDUSTRY OFFICIALS SHOULD TAKE NOTE.

FINALLY, I WOULD LIKE TO TURN TO THE ISSUE OF CONTRACT SANCTITY, FOR I KNOW THIS HAS BEEN OF SPECIAL CONCERN TO OFFICIALS IN THE SOVIET UNION.

MANY AMERICAN COMPANIES HAVE BEEN TOLD BY SOVIET TRADE OFFICIALS THAT THEY COULD NOT BE VIEWED AS RELIABLE SUPPLIERS. THEY HAVE BEEN TOLD THAT LONG-TERM RELATIONS WITH U.S. FIRMS CANNOT BE ENTERED INTO WITH A HIGH DEGREE OF CONFIDENCE AS LONG AS THE U.S. GOVERNMENT CAN FORCE THE CANCELLATION OF CONTRACTS.

THE VIEW OF THE PRESIDENT IS EMBODIED IN THE NEW EXPORT ADMINISTRATION ACT, WHICH STATES THAT CONTRACTS MAY ONLY BE CANCELLED FOR FOREIGN POLICY REASONS IF THE PRESIDENT DETERMINES THAT THERE EXISTS A BREACH OF THE PEACE WHICH POSES A SERIOUS AND DIRECT THREAT TO THE STRATEGIC INTERESTS OF THE UNITED STATES.

IT IS INTENT OF THE PRESIDENT TO AVOID DISRUPTING EXISTING CONTRACTS EXCEPT AS VIRTUALLY A LAST RESORT. THE UNITED STATES VALUES THE REPUTATION OF RELIABLE SUPPLIER, AND WILL NOT ACT TO ENDANGER THAT POSITION.

TURNING TO THE FUTURE

MINISTER ARISTOV, I BELIEVE THAT WE SHOULD TURN TO THE FUTURE, AND I WANT YOU TO KNOW THAT I LOOK FORWARD TO WORKING WITH YOU TO MAKE FURTHER GAINS IN OUR TRADE WHERE THAT IS POSSIBLE. I INVITE YOU TO COME TO WASHINGTON NEXT YEAR TO CO-CHAIR WITH ME THE NEXT MEETING OF OUR JOINT U.S. - U.S.S.R. COMMERCIAL COMMISSION WHERE WE CAN CONTINUE OUR EFFORTS.

AS WE LOOK FOR WAYS TO EXPAND TRADE, WE MUST FACE UP TO SOME CONSTRAINING FACTORS. OUR TRADE RELATIONS CANNOT BE VIEWED SEPARATELY FROM OUR OVERALL RELATIONS. IMPROVED TRADE CAN CONTRIBUTE TO THE REST OF THE RELATIONSHIP, BUT TRADE ITSELF IS INFLUENCED BY OTHER ASPECTS OF U.S.- SOVIET RELATIONS.

PRESIDENT REAGAN BELIEVES THAT HE AND GENERAL SECRETARY GORBACHEV MADE A FRESH START AT THEIR MEETING IN GENEVA TOWARD IMPROVING THE U.S.- SOVIET RELATIONSHIP. IT IS MY HOPE THAT ALL ASPECTS OF OUR RELATIONSHIP IMPROVE SO THAT WE CAN TAKE MAJOR STEPS TO EXPAND AND NORMALIZE THE TRADE ENVIRONMENT.

BUT IN THE FINAL ANALYSIS, TRADE DEPENDS UPON AMERICAN AND SOVIET BUSINESS EXECUTIVES, PARTICULARLY YOU MEMBERS OF THE COUNCIL. WHILE IT IS UP TO THE U.S. AND SOVIET GOVERNMENTS TO DECIDE ON THE LIMITS TO TRADE AND THE CONDITIONS UNDER WHICH IT MAY TAKE PLACE, IT IS UP TO THE U.S. COMPANIES AND SOVIET TRADE AND INDUSTRY ORGANIZATIONS TO ACTUALLY AGREE ON PROJECTS AND CONDUCT BUSINESS.

PRESIDENT REAGAN AND I WISH ALL OF YOU SUCCESS IN THIS ENDEAVOR.

THANK YOU.



THE WHITE HOUSE  
WASHINGTON

December 4, 1985

To: Ty Cobb  
Stephen Danzansky  
Jack Matlock  
Dave Wigg

From: Scott Sullivan

Bill Martin asked me to forward  
this paper for your comments.  
You can reach me on ext: 6924.

Als: V (W)

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WITHDRAWAL SHEET AT THE FRONT OF THIS FOLDER.

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NATIONAL SECURITY COUNCIL

December 12, 1985

MEMO FOR KARNA SMALL

FROM: STEVE DANZANSKY

Attached per your request are talking points on prospects for U.S.-Soviet trade following the Baldrige trip, for the President's mini-news conference.

Jack Matlock, Steve Sestanovich and Lou Pugliaresi have cleared the text.

Attachment



## PROSPECTS FOR U.S.-SOVIET TRADE

### Impact of Baldrige Trip

- o General Secretary Gorbachev and I decided in Geneva that commercial exchanges and contacts are an important part of the long-term effort to build a more stable relationship between the United States and the USSR.
- o The United States Government favors non-strategic trade with the Soviet Union. Our officials, led by Secretary Mac Baldrige, carried this message to Moscow with them for the session of the Joint Soviet-American Trade and Economic Council.
- o They discussed the efforts we are making to increase trade for the benefit of both countries. There is a wide range of industrial and agricultural areas where we can do more business.
- o Naturally, because of our national security concerns there will be limits to what we can sell to the Soviet side. These are reflected in the list of items controlled multilaterally through COCOM. The Soviet Union, of course, also controls the export of strategic commodities by internal regulation.
- o (If asked) We have made it clear to the Soviets that an improved performance on their part with respect to issues of importance to us would improve the atmosphere for expanded trade.
- o (If asked further whether this means human rights/MFN linkage) I've said "issues of importance" to us and that would include a variety of matters discussed at Geneva.

(draft)

IN

Pugliesi (DF)

x 3550



Prospects for U.S.-Soviet Trade

Talking Points

- General Secretary Gorbachev and I decided in Geneva that commercial exchanges and contacts are an ~~essential~~ *important* part of the long-term effort to build a more stable relationship between the United States and the USSR.
- The United States Government supports the development of non-strategic trade with the Soviet Union. Our officials, led by Secretary Mac Baldrige, carried this message to Moscow with them for the session of the Joint Soviet-American Commercial Mission. They discussed concrete steps for an expansion of trade and economic ties which the General Secretary and I affirmed in our Joint Statement in Geneva.
- We are encouraging efforts to explore greater trade and commercial exchanges that will benefit the people of both countries. In our opinion, there is a wide range of industrial and agricultural areas where we can do more business.
- Realistically, there will always be limits on what we are prepared to sell to each other given our respective national security concerns. On our side, this is reflected in the list of items controlled multilaterally through COCOM. *The Soviet Union, of course, controls the export of strategic commodities by internal regulation.*
- We regard ~~this~~ as a practical and business-like step that could proceed privately without publicity on either side. *What is this?*
- (If asked) We have made it clear to the Soviets that an improved performance on their part with respect to issues of importance to us, ~~including compliance with agreements on human rights, could lead to significant~~ *would improve the*

NO

*atmosphere for expanded trade.*

~~progress in the trade area.~~ We have not made any specific proposals linking the removal of foreign policy controls to trade enhancement, but we believe a reassessment of these controls would be in order if Soviet behavior improved in areas of interest to us. ]

*NO!*