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Reform or Rhetoric: Gorbachev and the Soviet Economy

Ed A. Hewett

"Economic management, and this is obvious, needs constant improvement. But now the situation is such that measures limited to partial improvements are unacceptable. What is necessary is a radical reform."

— Mikhail Gorbachev at the XXVII Party Congress.¹

"Under Soviet socialism we pretend we work, and they pretend they pay us."

— A Soviet worker who would prefer to remain anonymous.

MIKHAIL GORBACHEV says that this sort of pretending is a luxury the Soviet Union can no longer afford. National income growth rates are on a clear downward path, making choices about allocating resources among defense, investment, and consumption increasingly difficult. In many areas Soviet technology is years, even decades, behind the Western industrialized world. An increasingly sophisticated Soviet population, politically very forgiving by world standards, nevertheless shows an unmistakable eagerness for something better out of its system. A Soviet military, which can ill afford to pretend, sees hard-won military parity with the United States threatened as President Ronald Reagan mobilizes awesome American industrial capacities in the service of the Strategic Defense Initiative. For all these reasons Mikhail Gorbachev is a man both serious and in a hurry as he sets out to address long-standing problems in the Soviet economic system.

At the same time, he is a creature of this system, respects its very impressive historical record of economic performance, and has no intention of discarding it. His approach includes not only economic reforms but also increased discipline, personnel changes, administrative streamlining, and a reinvigoration of the Communist party apparatus. In many ways Gorbachev and his supporters are engaged in an undeclared but very real war against ill-defined, shifting coalitions who pay lip service to his initiatives but employ delaying tactics and outright sabotage to dilute the impact of those initiatives. Not all the battles in this war are public, nor are the sides or their goals always apparent.

That uncertainty plagues Western efforts to understand what is happening now in the Soviet Union. Gorbachev's obvious dissatisfaction with the performance of the system and his frequent speeches calling forcefully for reforms all testify to a determination to take a dramatically new approach to economic affairs. But declarations of intent mean little unless they are translated into policy, and policy that is made to stick. And it is here, on the various battlefields that determine the actual fate of an economic reform, that a picture, admittedly very fuzzy, is beginning to emerge. That image shows an approach to the Soviet econ-

Ed A. Hewett is a senior fellow in the Foreign Policy Studies program at Brookings. He is the author of *Energy, Economics, and Foreign Policy in the Soviet Union and Reforming the Soviet Economic System* (forthcoming).

omy that is far more traditional than Gorbachev's speeches would suggest and well short of the radical reforms he says he wants. It is too early to say with certainty whether this picture reflects the early stage of the reform effort, a grand strategy in which Gorbachev starts slowly for political reasons and then moves into more radical reforms, or a genuine gap between rhetoric and reality that will grow. But there is ample information to form a preliminary judgment.

Gorbachev's Problem

Gorbachev has two basic economic goals. He needs higher growth rates to ease the choices he faces. And he needs an across-the-board improvement in the quality of goods and services both to meet the demands of an increasingly sophisticated populace and to support the efficiency gains that are the only possible foundation for the growth acceleration. The indispensable precondition to meeting either of these goals is a dramatic acceleration in the rate of technological change. Gorbachev knows that many things must happen before that acceleration can occur. He also knows that he has inherited an economy with some very real strengths that he would like to preserve, but some glaring weaknesses he is compelled to address. His problem is that the strengths and weaknesses are intertwined.

The most impressive strength of this system is the economic security it provides the population. Involuntary unemployment is virtually nonexistent in the USSR. Indeed, the demand for labor is such that most workers know they can find new jobs with ease. Furthermore, Soviet workers do not fear for their jobs as many Western workers do. Enterprises do not fail in the USSR either because of cyclical downturns or because no one is buying their goods. Enterprise management may come and go, but enterprises are secure. Finally price stability and a fairly steady growth in living standards have been hallmarks of the system for a half century.

These add up to a level of economic security to which any society could justifiably aspire. Gorbachev understands that whatever he does to reform the system, he must somehow manage to preserve, in spirit if not precisely in its current form, this economic security.

On the other side of the balance sheet there are clear signs that the system, precisely in its current form, is increasingly an anachronism in the modern economic world. The quality of goods and services produced varies greatly. The technology behind the automatic clothes washer seems to elude Soviet producers; the technology of modern nuclear and conventional weapons does not. In many industrial technologies the Soviets lag woefully behind the West; yet in some the West learns from them. Gorbachev realizes that the Soviet economic system does not automatically foster innovations; the state forces technological change by throwing scarce economic and political resources behind particular sectors and products. Without those commitments technology tends to stand still, and — as a consequence — so do product quality and efficiency.

Gorbachev seeks to change the situation so that innovation in products and processes is the norm, not the exception. But to accomplish that goal he must address a difficult dilemma. The natural tendency toward innovation exhibited in many Western countries comes because companies that do not innovate risk failure. Economic insecur-

ity plus economic autonomy are the parents of innovation. Take away the insecurity, say through government regulations, subsidies, or import barriers, and the incentive to innovate is weakened. Yet the essence of Soviet central planning is to protect enterprises and their workers from competition and the possibility of failure, which effectively institutionalizes a bias against innovation.

The Soviet leader is trying to do what quite possibly cannot be done. He is setting out to devise effective stimuli for innovative behavior that do not threaten the economic security the system provides. Put another way, he is searching for a trade-off between efficiency and equity significantly different from that existing in many Western countries, but also different from that existing in the Soviet Union. And many of the apparently contradictory measures Gorbachev has taken, his hesitations, and some inconsistencies in his public statements can be traced to precisely this dilemma.

The Strategy

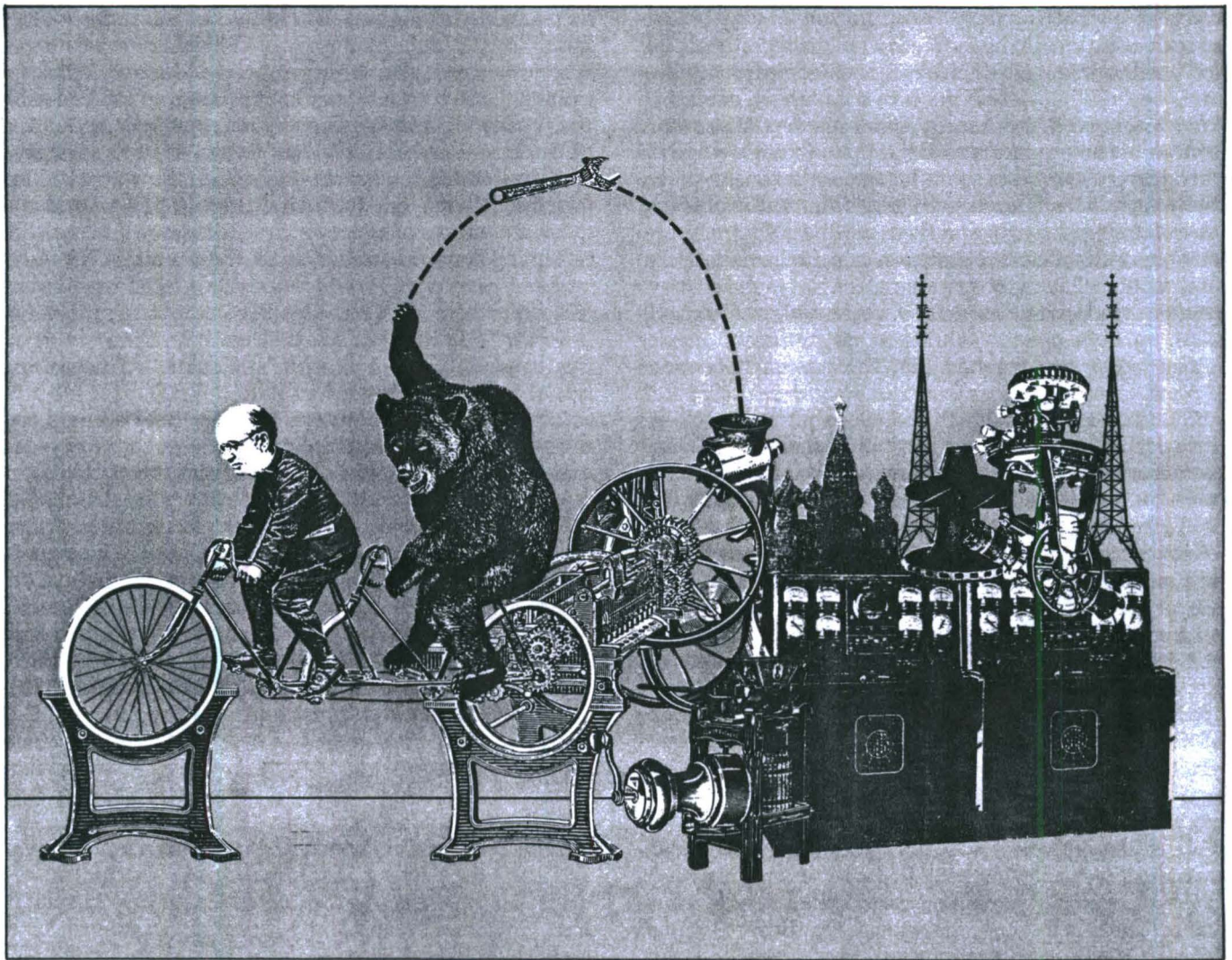
Mikhail Gorbachev assumed the post of general secretary on March 11, 1985, and by June he had already outlined his approach to the economy.² Many of his public statements since then have filled in some details without significantly changing the general conception. Those details fall into two general categories: changes in policy and personnel designed to foster a new approach to the economy, and reforms in the system itself. To be sure, there is a noticeable gap between measures announced to date and Gorbachev's rhetoric. But to measure that gap, it is useful first of all to outline Gorbachev's strategy as he describes it.

The 'Human Factor'

Gorbachev clearly feels that an important causal factor behind the economic problems he inherited lies in something that went wrong in the 1970s, something that had little to do with the system itself and much to do with mistakes in economic policy and a gradual deterioration in discipline, both directly attributed to Leonid Brezhnev's leadership.

The general notion is that the society as a whole has slipped into habits of shoddy work, and very little of that. In particular, the notion that something went wrong under Brezhnev is quite popular, and quite possibly right. Gorbachev believes it is time to sober up the work force and rekindle each person's sense of responsibility for, and pride in, his work. This is not an unpopular theme in Soviet society; the continuing nostalgia about Stalin probably stems in part from a feeling that the discipline under his rule has lamentably disappeared.

As a consequence Gorbachev believes that he can achieve quick and dramatic turnarounds in growth and the quality of goods and services by exploiting what he calls the "human factor": filling key posts with new personnel who will bring new ideas and a new vigor to their jobs, and increasing discipline through higher expectations and greater accountability. An anti-alcohol campaign is a critical component of this program. But there are other important elements: for example, giving enterprise directors the right and incentive to reward hard work and penalize slackers, and increasing pressure on local party organizations to play their intended role as both controllers and cata-



lysts for economic organizations under their purview.

In addition to this bundle of "human factor" policies, Gorbachev clearly intends to alter dramatically what he regards as a disastrously mistaken investment policy under Brezhnev. Gorbachev is particularly concerned about the low priority given to investment in machine-building itself; a continued tendency to build new plants, rather than to modernize existing plants, even when there is a chronic shortage of labor to staff the new plants; a construction industry prone to chronic cost overruns and very long construction periods; and a general bias throughout industry favoring existing, generally obsolete, technologies. While some of these problems can be dealt with only through systemic reforms, many can be at least partially addressed through policy changes implemented by the state planning apparatus.

Systemic Reforms

While Gorbachev expects the "human factor" to produce fairly rapid improvements in economic performance, he understands that systemic reforms are required to build a firm foundation for sustained improvements in growth and the quality of goods and services produced. He wants to create a system that enhances central control over the strategic economic variables of most importance to the lead-

ership (such as the rate of investment, its general structure, and basic directions of technological development), while leaving to lower-level decision-makers the authority and responsibility to decide on issues of a lesser magnitude but nevertheless of great importance to economic performance. This is the notion behind his oft-repeated desire to strengthen the center and increase the independence of enterprises, at the same time enhancing direct responsibility of enterprises for decisions taken with that newfound independence. Implicit in this formulation is Gorbachev's intention to link enterprise performance and workers' earnings, which logically leads to a weakening of the "safety net" that has protected all enterprises and their workers in the past.

An enormously complex, multilevel bureaucracy tightly controls economic activity in the Soviet Union. Basic goals for the system are set by the Politburo of the party. General plans for five-year, or longer, periods and very detailed annual plans that actually guide the operation of the system are developed by Gosplan (the State Planning Committee), in concert with other central organs. Approximately 50 ministries supervise all important enterprises in the country. The chief purpose of the planning process is to achieve balance between the supply and demand for key commodities, or commodity groups. The central planners assign supply tasks and purchase rights among the

ministries, who in turn pass a multiplicity of targets down to each enterprise in the form of an obligatory annual plan.

The enterprises also receive bonus schedules for fulfilling and overfulfilling various goals in the plan, an explicit acknowledgment that planners have imperfect information concerning enterprises' production possibilities, which in turn leaves enterprises room to maneuver among potentially inconsistent plan targets. In addition to the plan document itself, ministries and their subdivisions are in constant contact with enterprise management on matters large and small so that many operational decisions and all major investment decisions are jointly made with ministry officials, and quite possibly with local party officials.

Gorbachev understands that this system is extraordinarily cumbersome and increasingly dysfunctional. It stifles local initiative, which is obviously a brake on technological change, by creating the understandable assumption that the center is the source of all initiatives. Even worse, it channels whatever entrepreneurial skills there are into searching for ways to fulfill plan targets with minimal effort, which inevitably leads to "new" products that are not new and technical "innovations" that are not innovative. Gorbachev and many other Soviets have come to regard the ministries and their departments as the central villains in this system, primarily because of their seemingly insatiable desire to interfere in even the smallest decisions taken by enterprise management.

Gorbachev's cure is built around this diagnosis of the problem. He intends to retain the central planning organs and the ministerial system, but in a streamlined form and with different functions. Gosplan is to get out of the business of planning the production and distribution of individual commodities. Instead it will focus on assuring financial balance in the system, determining the major economic instruments such as tax rates and the distribution of funds for investment, and directing structural change in the economy. The ministries are to get off the backs of enterprises, using somewhat slimmer staffs to encourage the widespread introduction of world-level technologies.

Enterprises are to be given considerably more autonomy in making decisions on investment and in setting the terms of the contracts they sign. They will still receive plans from central authorities, but the emphasis is to shift from annual to five-year plans, and from detailed quantitative targets to financial norms set for five-year periods (for example, a schedule for a profits tax, or a norm linking the permissible level of wage payments to enterprise sales and productivity growth rates). Investments are to be financed primarily from retained enterprise earnings and bank loans (considerably reducing the role of budgetary grants for investments). And the current procedure of subsidizing unprofitable enterprises through profits confiscated from successful enterprises is to be quickly phased out. Furthermore, the intention is to move to a system in which enterprises must satisfy customers, not ministers, in order to earn funds for bonuses to workers and managers and for self-financed investment.

Consistent with these changes, prices are to be used to reward enterprises that produce high-quality products and to penalize those that retain obsolete or low-quality products in their production mix. Banks are to be given a more active role, consistent with retaining central control over the level and allocation of investment funds.

Just as interesting as what Gorbachev has said about reforms is what he has left unsaid. Critical issues relating to economic security have not yet been addressed. What, for example, will be the fate of enterprises that fail to satisfy their customers and therefore cannot meet their payroll and other obligations? If Gorbachev means what he says, then workers in these enterprises might find themselves looking for other jobs. Such a dramatic change in policy would require assurances of unemployment insurance along with retraining for workers let go by those enterprises. Gorbachev has not publicly addressed this question, nor has he talked about those enterprises that make large profits, or otherwise do very well. Will they really be allowed to keep the fruits of their success, even at the risk of exacerbating inequalities in the system?

It is also clear, from what Gorbachev has both said and not said, that he does not intend to imitate the Hungarian economic reform model, which virtually abolishes the ministerial system and moves to a system in which enterprises operate without an obligatory plan from the center. Nor has he indicated a willingness to follow the Chinese in their dramatic shift from collectivized agriculture to a decentralized system emphasizing family farming. However radical his intentions may seem to those Soviets who read his speeches or feel the first effects of measures introduced, they are more modest than what has actually been introduced in Hungary and China.

Implementing the Strategy

Gorbachev has not indicated the date by which he hopes to have his reforms in place. It takes time to design reforms and draft the decrees. In addition, as Gorbachev openly discussed in a speech to the Central Committee Plenum in June 1986, there is considerable opposition to be overcome, and much "consciousness-raising" yet to be done.³ It is probable that Gorbachev aims to have all major reforms in place by the end of 1988, which means they will not really take hold until the end of this decade.

That, in turn, implies that the human-factor and policy changes will carry the burden of the effort to fulfill the very ambitious five-year plan for the years 1986–90. National income growth rates, which averaged 3.2 percent in 1981–85, are targeted at 4.1 percent; labor productivity growth rates in industry, which averaged 3.1 percent during 1981–85, are set at 4.6 percent during 1986–90. Investment in machine-building during 1986–90 is to be 1.8 times higher than it was in 1981–85, allowing the replacement of half of all capital in those industries by 1990. The rate of introduction of new products throughout the system is also projected to increase dramatically.⁴

Personnel and Policy Changes

So far the most remarkable aspect of Gorbachev's approach has been the speed with which he has changed personnel throughout the economic hierarchy. Between March 1985, when he assumed the post of general secretary, and February 1986, when the XXVII Party Congress convened, Gorbachev appointed a new chairman of the Council of Ministers, six of the 12 deputy chairmen, new leaders in the key ministries and state committees in charge of the planning process (most notably the State Planning Committee, the

State Committee for Material-Technical Supply, and the ministries of Foreign Trade and Finance), and 19 of the 48 ministers directly supervising productive enterprises. He has appointed the majority of the Politburo and all but two of the Central Committee party secretaries.

Active efforts to exploit the human factor are more difficult to measure but are clearly occurring. Most notable is the tenacious pursuit of the anti-alcohol campaign begun in May 1985, in which the Soviet elite is expected to set an example. Anyone who visited the Soviet Union before 1985 and returns there now will be struck by the changes, symbolized by nonalcoholic lunches and a scarcity of alcohol at banquets. Liquor stores do not open until 2:00 P.M., and close by 7:00 P.M. Vodka production is to be reduced and soft-drink production increased. Retail outlets no longer can count liquor sales for purposes of bonuses. These changes are a remarkable attack on a very deeply entrenched, widespread use of alcohol in Soviet society. Whether in fact they will actually decrease heavy drinking or reduce the incidence of drunkenness on the job remains to be seen.

On the policy front Gorbachev began to impose his views on a very reluctant bureaucracy while he was still the "second" secretary under Konstantin Chernenko. The five-year plan that has finally emerged, after a number of drafts and the dismissal of the longtime head of Gosplan, Nikolai Baibakov, in general contains targets that one would expect given Gorbachev's stated goals. Investment in machine-building and metalworking is to be dramatically increased, and old equipment is to be quickly replaced by advanced technology (numerically controlled machinery, automated assembly lines, and robots). Existing plants are to be rebuilt rather than new ones constructed.

Economic Reform Decrees

The major economic reform decrees have only begun to flow. The general process is being managed through a Council of Ministers Commission on the Improvement of Management, Planning, and the Economic Mechanism,

chaired by N. V. Talyzin, the chairman of Gosplan and a first deputy chairman of the Council of Ministers.⁵ The reform commission supervises the development and drafting of decrees, presumably working closely with Central Committee staff, and presents proposed final decrees to the Politburo and the Council of Ministers for approval.

Some decrees have already been published, although the most important ones are yet to come. One of the earliest, issued in July 1985, was the one that gave individual enterprises more autonomy over their operations and small investments and ordered ministries to stay out of the daily affairs of the enterprises.⁶ It also set up the bonus-penalty scheme to encourage production of new goods judged to be of world-class quality. Work on this decree probably predated Gorbachev's appointment as general secretary, but the document seems to have his stamp, presumably because he was already quite influential on these matters under Chernenko. No other important decrees were issued until late 1985, when elements clearly related to Gorbachev's strategy began to appear.

Progress has already been made on creating organizations designed to facilitate cooperation among the multitudes of ministries that supervise individual economic units. In October 1985 a new *biuro* was created to supervise the 11 civilian machine-building and metalworking ministries.⁷ In November six ministries that supervised much of agriculture and the agro-industry were combined into a "superministry" known as Gosagroprom (State Agro-Industrial Committee).⁸ In March of this year, a fuel-energy bureau was set up to supervise the five ministries responsible for fuel and energy production.⁹ With these three reorganizations and others that may soon be announced, Gorbachev is trying to bring about the intersectoral cooperation and coordination so obviously lacking in the system for many years.

Among the other decrees that have so far been published, three stand out as important indicators. One announced in March gave somewhat more autonomy to farms to dispose of and benefit from production that exceeded planned targets. Nonetheless, much of the existing

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system of centralized control, now managed through Gosagroprom, remains.¹⁰ A reform set to take effect on January 1, 1987, puts light industry on a self-financing basis.¹¹ Plan targets will be reduced and contracts with retail outlets will become the most important determinant of bonuses for both management and workers.

A July 1986 decree announced important changes in the nationwide quality control mechanism, tightening up the procedures enterprises must follow to have products certified as being of the highest world standards.¹² The quality control system is intended to compel enterprises to produce goods at or close to world standards, even though these enterprises almost never enter into direct competition with the world's best producers of similar products. The existing quality certification system relies heavily on quality boards effectively controlled by the ministries responsible for the enterprises, which has the obvious disadvantage that the ministries are not disinterested in the outcome. The new system seeks to enforce much tougher standards by shifting power from ministries and suppliers to the State Committee on Standards (Gosstandart), which had formal control under the old system, and to customers and quality control inspectors in factories. Because substantial bonuses or penalties for enterprises ride on these certifications, they will be an important element in the new economic system.

Many of the most important decrees are still under con-

sideration in working groups of the reform commission.¹³ A new law on enterprises under discussion is expected to specify the rights of enterprises vis-à-vis ministries; it may be issued later this year or early next year. A major price reform is under discussion which, if the more radical members of that working group have their way, will result in a significant decentralization of price-setting authority and increased flexibility in the system. Changes in the financial and credit system are in the early stages of discussion. Reforms of the antiquated system now managing Soviet economic relations with other countries are also under active consideration. Other decrees relating to the planning bureaucracy and the ministries are apparently being discussed. A law on private economic activity is likely.

Words vs. Deeds: A Preliminary Assessment

Soviet and East European economic history suggests that reforms usually fail, or at least fall far short of their goals, for one of three reasons. The first, and most important, is that badly designed reforms build in inconsistencies that ultimately lead to recentralization. Enhancing the autonomy of enterprises without simultaneously introducing a price reform is a good example. When enterprises exercise their newly won autonomy, disequilibrium prices lead them in the wrong direction, and planners naturally respond via direct intervention.

Second, even well-designed reforms are threatened by bureaucratic guerrilla warfare. Party and government bureaucrats claim to support a reform and then use a rich range of devices to sabotage it. Poorly designed reforms are the easiest targets because they create problems that opponents can use as excuses to return to old ways of doing business.

Finally, reforms that survive these two hurdles face a third obstacle: the reluctance of the leadership to enforce politically unpopular reforms. Will Soviet leaders, for example, allow poorly run enterprises to fail and poor workers to lose incomes or even their jobs? It is here that the reduction in economic security necessary to improve system performance must be introduced, something that Soviet and East European leaders find understandably difficult to do.

Because the Gorbachev reforms are at such an early stage, one can only attempt to assess their design; bureaucratic opposition and a test of political will are still primarily matters for the future. And because the design is not yet fully revealed in the decrees, a final judgment on that score cannot be formulated. But it is possible to identify what might be called "leading indicators" regarding design, drawing on the decrees, Gorbachev's speeches, and the twelfth five-year plan. And those, while not unambiguously negative, are generally not encouraging concerning the internal consistency of the overall reform.

In the first place, because he is in a terrible hurry, Gorbachev has decided to press simultaneously for dramatic improvements in product quality and an acceleration in growth rates. Historically Soviet economic policy has focused primarily on achieving high growth rates, a priority so firmly built into the plans and other signals sent directly to enterprise managers that it has become a cornerstone of managerial mentality in the USSR. Managers

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have thus shown an understandable tendency to focus on high growth rates at the expense of product innovation. Now Gorbachev is calling for even higher growth *and* dramatic quality improvements, continuing the old emphasis and adding another "first" priority.

Yet quality improvements frequently entail short-term losses in the growth of output, and growth accelerations are probably easiest to achieve using old, familiar technology, making it almost certain that managers and their supervising ministries will have to choose one priority over the other. Instinct alone would push them in the direction of high growth at the expense of quality. Gorbachev's constant emphasis on the growth acceleration will confirm their instincts.

At the same time, managers will do their best to appear to be improving quality, which means they will learn to "work" the new quality control system. And that system, while possibly somewhat more leakproof than the bureaucratic sieve it replaces, still offers ample opportunity for a skillful manager to slip through "new" products that are nothing of the sort. A system that uses bureaucratic mechanisms to try to achieve world levels in technologies is a very poor substitute indeed for the much more unforgiving standards set by competition in world markets.

Gorbachev may see his growth rate targets fulfilled, and he will probably receive reports from Gosstandart that the quality of goods and services has improved dramatically. But more than likely the military, consumers, and industry as a whole will complain that quality is not much better than it was before.

A second and very important design flaw concerns conflicting messages on the relationship of ministries to enterprises. At the same time they exhort ministries to refrain from interfering in the daily affairs of enterprises, Gorbachev and other leaders tell the ministries to make sure that "their" enterprises meet or exceed targets for the introduction of new technology and the improvement of product quality.¹⁴

Given those expectations, any minister, no matter what the law or Soviet leaders say, would be foolish not to remain deeply involved in the affairs of enterprises under him. As long as he is held responsible for the performance of those enterprises, he will of necessity stay involved in their decisions. First secretaries for local party organizations, always deeply involved in enterprise decisions, are facing similar pressures and will respond in a similar fashion. Together the ministries and party organizations pose a formidable barrier to the expansion of enterprise autonomy, which is a basic component of Gorbachev's new economic direction.

A third apparent design flaw lies in Gorbachev's decision to retain the old, very complicated organizational structure of the central bureaucracy — albeit with a new leadership, and some "umbrella" organizations — giving to it the task of reforming itself. It would appear that the primary duties for drafting reform decrees affecting various sectors have been assigned to bureaucracies in the relevant ministries. In effect, each sector or each part of the planning apparatus is being asked to reform itself according to the principles of the Gorbachev reforms. That weakness gives the bureaucratic guerrilla warriors all the ammunition they need to delay and ultimately distort the reforms actually introduced into the system. The first signs of such behavior have already surfaced; Gorbachev complained at the June 1986

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Party Plenum of opposition and foot-dragging throughout the system, as the bureaucracy moves with "painful" slowness on his reforms.

So it appears that even at this early stage Gorbachev's reforms are already burdened with potentially fatal contradictions. The great irony is that many of the flawed approaches emerging in 1986 strongly resemble the failed reforms developed under Alexei Kosygin two decades ago. Then, as now, ministries were held responsible for what enterprises did but told not to interfere. Then, as now, the bureaucracy slowed drafted decrees to "reform" itself. It is unfortunate that Gorbachev has not encouraged a retrospective assessment of the lessons from the 1965 reforms, which is making it distressingly easy simply to repeat the mistakes of 20 years ago.

Despite these warning signs, it is too early to say definitively that the Gorbachev reforms will ultimately suffer the same fate as the Kosygin reforms. Most important is the fact that the debate continues both within the bureaucracy and in the press. And the bounds within which the debate can roam are quite wide by past standards: the need for enterprise failures, transitional unemployment, and price flexibility along with some inflation are all topics under discussion. In Soviet society something that is under discussion is a live option.

Another important unknown is Gorbachev himself. How willing is he to learn and to adjust his reform conceptions to improve them? How determined is he to force the bureaucracy to draft decrees truly consistent with those conceptions? How much political power does he wield within the party? Events during the next year should tell us a great deal. Gorbachev should soon see that it would be better to choose between high growth rates and rapid improvements in the quality of goods, between enterprise autonomy and expectations for ministries, between the old administrative structure with its old habits and a new administrative structure with yet unformed habits.

Then the success of his reforms depends upon what his

1. "Politicheskii doklad tsentral'nogo komiteta KPSS XXVII s'ezdu General'nogo sekretaria TsK KPSS tovarishcha Gorbacheva M.S." (Political Report of the Central Committee of the CPSU to the XXVII Congress of the Communist Party of the Soviet Union. Report of the General Secretary of the CC of the CPSU, Comrade M.S. Gorbachev), *Sotsialisticheskaia industriia*, February 26, 1986, pp. 2-9.

2. The most important statements were Gorbachev's speech to the Central Committee Plenum one month after he assumed the post of General Secretary ("O sozyve ocherednogo XXVII s'ezda KPSS i zadachakh, svyazannykh s ego podgotovkoi i provedeniiem. Doklad General'nogo sekretaria TsK KPSS M.S. Gorbacheva" [On the Convening of the Regular XXVII Congress of the CPSU and the Tasks Associated with its Preparation and Realization. A Report of the General Secretary of the CC CPSU, M.S. Gorbachev], *Pravda*, April 24, 1985, pp. 1-2) and especially his speech at a June 1985 special meeting at CC headquarters on the economy ("Korennoi vopros ekonomicheskoi politiki partii. Doklad General'nogo sekretaria TsK KPSS M.S. Gorbacheva" [The Fundamental Question of the Economic Policy of the Party. A Report of the General Secretary of the CC CPSU, M.S. Gorbachev]), *Literaturnaia gazeta*, No. 24, June 12, 1985, pp. 1-2.

3. "O piatiletnem plane ekonomicheskogo i sotsial'nogo razvitiia SSSR na 1986-1990 gody i zadachakh partiinykh organizatsii po ego realizatsii. Doklad General'nogo sekretaria TsK KPSS M.S. Gorbacheva" (On the Five-Year Plan of Economic and Social Development of the USSR for 1986-90, and Tasks of Party Organizations Concerning its Realization. Report of the General Secretary of the CC CPSU, M.S. Gorbachev), *Sotsialisticheskaia industriia*, June 17, 1986, pp. 1-4.

4. On the twelfth five-year plan see my "Gorbachev's Economic Strategy: A Preliminary Assessment," and Philip Hanson's comment, in *Soviet Economy*, Vol. 1, (October-December 1985), pp. 285-312. That analysis was based on the draft of the plan published in November 1985. Since then a final version of the plan was approved as law; it generally follows the more ambitious end of the intervals outlined in the draft. See *Ekonomicheskaiia gazeta*, No. 26 (June 1986), pp. 14-15.

5. Information on the workings of this commission comes primarily from interviews with Soviet economists during a visit to Moscow in July 1986.

6. "O shirokom rasprostraneni novykh metodov khoziastvovaniia i usilenii ikh vozdeistviia na uskorenie nauchno-tekhnicheskogo progressa. Postanovlenie Tsentral'nogo Komiteta KPSS i Soveta Ministrov SSSR ot 12 Iulia 1985 No. 669" (On the Wide Diffusion of New Methods of Economic Management and the Strengthening of their Impact on the Acceleration of Scientific-Technical Progress. A Decree of the Central Committee of the CPSU and the Council of Ministers of the USSR on 12 July 1985, No. 669), *Ekonomicheskaiia gazeta*, No. 32 (August 1985), insert.

7. The new *biuro* was announced in the summary of the minutes of the October 17, 1985, Politburo meeting (*Sotsialisticheskaia industriia*, October 18, 1985, p. 1). The *biuro* is

"non-negotiables" are and how strong he is politically. If quality and technological change are the ultimate goals, not simply higher growth rates, and if enterprise autonomy is clearly understood as the most promising vehicle to address those goals, then the current reforms could be rather quickly superseded by another more far-reaching but simpler set of decrees of greater internal consistency that moves the Soviet Union closer to a radical reform. If, on the other hand, Gorbachev is not only a creature of the existing system, but also its captive, then we could well be in for a period similar to the second half of the 1960s, when the leadership declared the reform to be going well, even though, in fact, it was dying.

headed by I.S. Silaev, former minister of the aviation industry promoted to chairman of the Council of Ministers. The actual decree has not been published. However, a discussion of the responsibilities of the *biuro* can be found in an interview with Silaev: "Zadachi biuro po mashinostroeniui" (Tasks for the Bureau of Machine-building), *Izvestiia*, March 11, 1986, p. 2.

8. Gosagroprom is headed by V. S. Murakhovskiy, a new first deputy chairman of the Council of Ministers. For a summary of the decree, "O dal'neishem sovershenstvovanii upravleniia agropromyshlennym kompleksom" (On the Further Improvement of Management in the Agro-industrial Complex), see *Pravda*, November 23, 1985, pp. 1-2.

9. The *biuro* is headed by B. Scherbina, also a deputy chairman of the Council of Ministers. Very little other information is available about this organization aside from the brief discussion in the report of the March 13, 1986, Politburo meeting. See *Pravda*, March 14, 1986, p. 1.

10. A summary of the decree, "O dal'neishem sovershenstvovanii ekonomicheskogo mekhanizma khoziastvovaniia v agropromyshlennom komplekse strany" (On the Further Improvement of the Economic Mechanism of Economic Management in the Agro-industrial Complex of the Country), is published in *Pravda*, March 29, 1986, pp. 1-2.

11. A summary of the decree, "Ob uluchenii planirovaniia, ekonomicheskogo stimulirovaniia i sovershenstvovanii upravleniia proizvodstvom tovarov narodnogo potrebleniia v legkoi promyshlennosti" (On the Improvement of Planning, Economic Stimulation and Further Perfection of Management in the Production of Consumer Goods in Light Industry), was published in *Sotsialisticheskaia industriia*, May 6, 1986, pp. 1-2.

12. A summary of the decree, "O merakh po korennomu povysheniiu kachestva produktsii" (On Measures for a Radical Increase in the Quality of Production), was published in *Pravda*, July 2, 1986, pp. 1-2.

13. This discussion on forthcoming decrees also draws on recent meetings in Moscow with economists involved in the work of the reform commission.

14. Consider, for example, Nikolai Ryzhkov's speech at the XXVII Party Congress ("Ob osnovnykh napravleniakh ekonomicheskogo i sotsial'nogo razvitiia SSSR na 1986-1990 gody na period do 2000 goda. Doklad Predsedatelia Soveta Ministrov SSSR tovarishcha Ryzhkova N.I." [On the Basic Guidelines for Economic and Social Development of the USSR in 1986-90 and in the Period until the Year 2000. Report of the Chairman of the Council of Ministers of the USSR, Comrade N.I. Ryzhkov], *Sotsialisticheskaia industriia*, March 4, 1986, pp. 1-5) in which he says when discussing the need to accelerate scientific-technical progress that ministries must "accept full responsibility for the technical level of production in their sectors" (p. 3). Somewhat later, when discussing economic reforms, he says ministries must restructure their operations, transferring part of their former functions to enterprises, freeing themselves from concerns about the daily affairs of enterprises, and "trusting enterprises more" (p. 4).

NSC - Steve Dargansky -

A corrected, as delivered
version of Allen's remarks at
the JCC. EUR is considering
printing in Dept's PA series,
but were asking Commerce's
opinion - I would think they
would need to publish Verity's
also.

Charles Re

File: 309

"THE US-SOVIET TRADE RELATIONSHIP"

REMARKS OF

ALLEN WALLIS

UNDER SECRETARY OF STATE FOR ECONOMICS AND AGRICULTURE

OPENING SESSION OF

JOINT US-USSR COMMERCIAL COMMISSION

APRIL 12, 1988

MOSCOW, USSR

(AS DELIVERED)

INTRODUCTION

MINISTER KACHANOV, SECRETARY VERITY, AMBASSADOR MATLOCK,
MEMBERS OF THE JOINT COMMISSION:

LET ME ECHO SECRETARY VERITY BY EXPRESSING MY PLEASURE IN
BEING HERE TODAY TO BEGIN THIS TENTH MEETING OF OUR JOINT
COMMERCIAL COMMISSION.

I FIND IT ESPECIALLY INTERESTING TO VISIT MOSCOW AT A TIME
WHEN THE SOVIET UNION IS CONSIDERING A WIDE VARIETY OF
POTENTIALLY SIGNIFICANT ECONOMIC AND POLITICAL REFORMS THAT,
AMONG OTHER THINGS, MAY INCREASE THE FLEXIBILITY AND
PRODUCTIVITY OF YOUR ECONOMY -- AND HELP SET THE STAGE FOR A
LARGER ROLE FOR FOREIGN TRADE.

OUR PURPOSE IN MEETING, OF COURSE, IS TO SEE WHAT OUR TWO
GOVERNMENTS CAN DO TO EXPAND A COMMERCIAL RELATIONSHIP THAT HAS
LONG BEEN MODEST IN SIZE AND SUBJECT TO CONTROVERSY IN BOTH
CAPITALS.

IT IS EASY TO UNDERSTAND WHY OUR COMMERCIAL RELATIONS HAVE

BEEN BOTH LIMITED AND CONTROVERSIAL. ASIDE FROM THE VERY IMPORTANT ECONOMIC FACTORS CITED BY SECRETARY VERITY, THE FACT IS THAT OUR OVERALL RELATIONSHIP HAS BEEN WARY, AND AT TIMES ADVERSARIAL.

ADVERSARIES CAN -- INDEED MUST -- SIT DOWN TOGETHER TO TALK ABOUT ISSUES LIKE ARMS CONTROL, SETTLEMENT OF REGIONAL DISPUTES, AND HUMAN RIGHTS. BUT ADVERSARIES DO NOT COMMONLY SIT DOWN TOGETHER TO TALK ABOUT EXPANDING THEIR TRADE. SO I THINK IT IS A GOOD SIGN THAT WE ARE GATHERED HERE IN MOSCOW TO DO JUST THAT.

OUR OVERALL RELATIONSHIP HAS IMPROVED DURING THE PAST THREE YEARS. ACTIVE DIALOGUE BETWEEN OUR TWO GOVERNMENTS HAS PRODUCED SIGNIFICANT PROGRESS ON ARMS CONTROL, ON REGIONAL ISSUES, AND ON BILATERAL MATTERS. THE PROGRESS ACHIEVED THUS FAR AT THREE SUMMIT MEETINGS, SOME TWENTY-FOUR MEETINGS BETWEEN OUR FOREIGN MINISTERS, AND ONE MEETING BETWEEN OUR DEFENSE MINISTERS, HAS RAISED HOPES IN BOTH OUR COUNTRIES THAT WE MAY BE ON THE THRESHOLD OF A STABLE RELATIONSHIP. THE GOAL OF THE

UNITED STATES IS TO PURSUE THAT PROGRESS AND TO CONTINUE TO WORK TOWARDS A MORE CONSTRUCTIVE AND STABLE RELATIONSHIP.

THE PROGRESS WE HAVE MADE TOGETHER IN OUR OVERALL RELATIONSHIP HAS NOT COME EASILY. IT WILL BE NO LESS DIFFICULT TO FIND OUR WAY FORWARD IN THE ECONOMIC SPHERE. HOWEVER, IF WE CONCENTRATE ON REALISTIC OBJECTIVES THERE IS MUCH WE CAN ACHIEVE.

FRAMING REALISTIC OBJECTIVES

I WANT TO MAKE FOUR POINTS IN THIS REGARD:

- (1) THE UNITED STATES WANTS TO EXPAND NON-STRATEGIC TRADE WITH THE SOVIET UNION.
- (2) THERE IS A RELATIONSHIP BETWEEN TRADE AND OTHER ELEMENTS OF OUR BILATERAL AGENDA, ESPECIALLY HUMAN RIGHTS. THAT RELATIONSHIP WILL CONTINUE.
- (3) AN IMPORTANT LESSON FROM THE HISTORY OF OUR TRADE OVER THE PAST DECADE IS THAT WE SHOULD LEARN TO WALK TOGETHER BEFORE WE TRY TO RUN.

(4) BECAUSE OUR TRADE SYSTEMS ARE VERY DIFFERENT -- AND YOURS IS IN TRANSITION -- SHARING INFORMATION ON HOW TO DO BUSINESS WITH EACH OTHER WILL BE ESSENTIAL TO OUR OBJECTIVE OF FOSTERING EXPANDED TRADE.

NON-STRATEGIC TRADE

OUR INTEREST IN EXPANDING TRADE WITH THE SOVIET UNION REFLECTS OUR BASIC PREDISPOSITION IN FAVOR OF INTERNATIONAL TRADE. WE HAVE ALWAYS SOUGHT THE ECONOMIC GAINS OF TRADE. WE ARE THE BIGGEST CUSTOMER AND THE BIGGEST SUPPLIER FOR THE REST OF THE WORLD. WE BELIEVE THAT TRADE BASED ON COMPARATIVE ADVANTAGE PRODUCES THE BEST RESULTS IN TERMS OF ECONOMIC EFFICIENCY, ECONOMIC GROWTH AND SOCIAL WELFARE. THE PEOPLE OF TWO ECONOMIES AS LARGE AS OURS ARE SURE TO GAIN FROM MORE BILATERAL TRADE.

HOWEVER, OUR INTEREST IN EXPANDING TRADE WITH THE SOVIET UNION MUST REFLECT ALSO A CRITICAL DISTINCTION. IT COVERS A BROAD RANGE OF NON-STRATEGIC GOODS AND SERVICES.

WE BELIEVE THIS DISTINCTION BETWEEN STRATEGIC AND NON-STRATEGIC TRADE IS VITAL TO OUR NATIONAL SECURITY. AND WE ARE AWARE THAT THE SOVIET UNION, TOO, TAKES MEASURES TO PROTECT ITS MILITARY SECURITY. FOR THAT REASON I THINK YOU WILL UNDERSTAND THAT OUR POLICY IN THIS RESPECT WILL REMAIN CONSTANT.

THIS DISTINCTION BETWEEN STRATEGIC AND NON-STRATEGIC TRADE NEED NOT BE AN IMPEDIMENT TO THE EXPANSION OF MUTUALLY BENEFICIAL TRADE. BOTH COUNTRIES CAN MAKE CONSIDERABLE GAINS FROM EXPANDED, SUSTAINABLE TRADE IN A WIDE VARIETY OF NON-STRATEGIC GOODS AND SERVICES.

TRADE AND HUMAN RIGHTS

TARIFFS ON SOVIET PRODUCTS ENTERING THE UNITED STATES ARE ANOTHER FACTOR AFFECTING THE DEVELOPMENT OF TRADE BETWEEN US.

OUR APPROACH HERE IS DETERMINED BY THE JACKSON-VANIK AMENDMENT OF 1974, WHICH IS BOTH THE LAW OF OUR LAND AND THE EXPRESSION OF THE AMERICAN PEOPLE'S STRONG INTEREST IN THE MATTER OF EMIGRATION.

THE RELATIONSHIP BETWEEN TRADE AND HUMAN RIGHTS HAS BEEN A SUBJECT OF CONTENTION BETWEEN OUR TWO GOVERNMENTS FOR A LONG TIME. IT IS A RELATIONSHIP WHICH WILL ENDURE IN U.S. POLICY, BECAUSE IT ENDURES IN THE MINDS OF THE AMERICAN PUBLIC. WE CONTINUE TO LOOK FORWARD TO THE DAY WHEN IT WILL NO LONGER BE A SUBJECT OF CONTENTION BETWEEN US.

RECENT TRENDS IN EMIGRATION POLICIES AND MAGNITUDES HAVE BEEN ENCOURAGING. CANDOR REQUIRES ME TO SAY, HOWEVER, THAT MUCH MORE WILL HAVE TO BE DONE BEFORE A CONSENSUS CAN EMERGE, AMONG THE AMERICAN PEOPLE AND THEIR ELECTED REPRESENTATIVES TO REEXAMINE THE RELATIONSHIP BETWEEN HUMAN RIGHTS AND TRADE WITH THE SOVIET UNION.

LET'S LEARN TO WALK BEFORE TRYING TO RUN

WHEN GENERAL SECRETARY GORBACHEV MET WITH AMERICAN BUSINESS LEADERS IN WASHINGTON LAST DECEMBER HE SPOKE TO THEM OF SOME LESSONS FROM THE PAST DECADE THAT ARE RELEVANT TO OUR MUTUAL INTEREST IN EXPANDING OUR TRADE.

WE MAY NOT AGREE ON EXACTLY WHAT THOSE LESSONS ARE. BUT I THINK WE CAN AGREE THAT BOTH OF US HAVE BEEN DISAPPOINTED IN THE PAST, AND THAT WE SHOULD DO OUR BEST TO AVOID DISAPPOINTMENT IN THE FUTURE.

THE EASIEST WAY TO BE DISAPPOINTED, OF COURSE, IS TO TRY TO GO TOO FAR, TOO FAST.

WE HAVE MUCH TO OVERCOME IN THE MISTRUST AND SUSPICION THAT HAS GROWN UP ON BOTH SIDES. TERMS AND CONDITIONS MUST BE FULLY UNDERSTOOD AND THERE MUST BE CONFIDENCE THAT CONDITIONS FOR DOING BUSINESS WILL BE STABLE. AT PRESENT ONLY A FEW OF OUR FIRMS AND ENTERPRISES REALIZE THAT THEY MAY HAVE AN ECONOMIC INTEREST IN DOING BUSINESS HERE. DEVELOPING SUCH A REALIZATION WILL TAKE TIME. FIRST, SOME ENTERPRISES IN BOTH COUNTRIES WILL HAVE TO IDENTIFY OPPORTUNITIES AND DO BUSINESS WHICH EARNS THEM A PROFIT.

IN THE FINAL ANALYSIS, ONLY A RECORD OF SATISFACTORY TRANSACTIONS WILL GENERATE A SUSTAINED EXPANSION IN OUR BILATERAL TRADE. AND OF COURSE, BEFORE OUR RESPECTIVE ECONOMIC

ACTORS CAN EXPLORE WHETHER IT IS PROFITABLE TO TRADE, THEY HAVE TO KNOW HOW TO GO ABOUT DOING BUSINESS WITH EACH OTHER. TO FOSTER THESE PRACTICAL RESULTS IS OUR PURPOSE THIS WEEK.

THE PRINCIPLE OF LEARNING TO WALK BEFORE TRYING TO RUN IS RELEVANT TO JOINT VENTURES.

YOUR CHANGES IN POLICY TO ALLOW SELECTED JOINT VENTURES WITH FOREIGN, PRIVATE FIRMS HAVE AROUSED INTEREST IN THE UNITED STATES, AND ALSO IN OTHER COUNTRIES. WE RECOGNIZE THIS IS A NEW POLICY ON YOUR PART WHICH REFLECTS THE "NEW THINKING" YOU ARE DOING IN MANY AREAS. IT ALSO SUGGESTS A GREATER DEGREE OF WILLINGNESS ON YOUR PART TO DOING BUSINESS WITH PRIVATE ENTERPRISES IN NON-SOCIALIST ECONOMIES.

JOINT VENTURES ARE INHERENTLY MORE COMPLEX THAN ORDINARY TRADE TRANSACTIONS. THEY INVOLVE LONGER PREPARATION, LONGER COMMITMENTS, GREATER MUTUAL UNDERSTANDING, AND MORE FINANCIAL RISK. ALSO, AS WE UNDERSTAND IT, YOU ARE STILL DEVELOPING YOUR POLICY FOR FOREIGN INVESTMENTS ON SOVIET SOIL.

THUS, ALTHOUGH A FEW PIONEERING VENTURES WILL PROCEED, IT PROBABLY WILL BE SOME TIME BEFORE MANY OF OUR FIRMS HAVE A CLEAR PICTURE OF THE FOREIGN INVESTMENT ENVIRONMENT IN THE SOVIET UNION.

FOR ALL THESE REASONS, IT MAY BE MORE EFFECTIVE FOR US -- AT LEAST IN THE NEAR TERM -- TO LOOK TO MORE FAMILIAR KINDS OF TRADE TO GENERATE THE MUTUAL BENEFIT THAT WILL EXPAND OUR COMMERCIAL RELATIONS. I DO NOT MEAN TO DISCOURAGE JOINT VENTURES, ONLY TO POINT OUT THAT THEY ARE LIKELY TO DEVELOP SLOWLY, WHEREAS ORDINARY TRADE CAN DEVELOP MORE RAPIDLY.

CONCLUSION

LET ME CONCLUDE BY EMPHASIZING THAT REALISM IS NOT PESSIMISM. I HAVE SOUGHT TO BE CANDID AND REALISTIC BY OUTLINING THE CONCERNS WITH NATIONAL SECURITY AND WITH HUMAN RIGHTS WHICH LIMIT THE POTENTIAL FOR EXPANDED BILATERAL TRADE, AND ALSO TO POINT OUT SOME OF THE IMPERFECTIONS OF INFORMATION THAT WILL HAVE TO BE OVERCOME. BUT SOBER REALISM IS THE BEST

- 10 -

GUARANTEE THAT WE WILL SUCCEED IN OUR COMMON OBJECTIVE AT THIS MEETING, WHICH IS TO IMPROVE THE ABILITY OF THE ENTERPRISES OF OUR TWO COUNTRIES TO DO BUSINESS TOGETHER.

THANK YOU, MR. MINISTER.

DRAFTED: EUR/SOV: RJOHNSON

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CLEARED: EUR/SOV: RCLARKE

EUR/SOV: MRPARRIS

EB/ODC: RJONES

EB/EWT: PJNICHOLS

E: CRIES

DOC: FVARGO

EUR: TSIMONS, JR.

EUR: RRIDGWAY

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DOCUMENTS RELATING TO THE
APRIL 12 - 14 MEETING OF THE
U.S.-U.S.S.R. JOINT COMMISSION

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STATEMENT OF HONORABLE C. WILLIAM VERITY
U.S. SECRETARY OF COMMERCE

AT A PRESS BRIEFING
MOSCOW

APRIL 14, 1988

Ladies and Gentlemen: I have a brief statement to make, and will then take your questions.

First I would like to introduce the other senior members of the U.S. delegation who are up here with me. Under Secretary of State Wallis, Under Secretary of Commerce Freedenberg, Under Secretary of Commerce Evans, Presidential National Security Advisors Bob Dean and Steve Danzansky, and Acting Assistant Secretary of Commerce Jim Moore. Ambassador Matlock is not with us, as he is in Geneva for the signing of the documents connected with Soviet troop withdrawal from Afghanistan.

As you know, there have been two separate and distinct meetings going on here in Moscow -- my own official discussions with Soviet government and party leaders, and those of USTEC with their Soviet business counterparts. I have made clear in my discussions that there is no ambiguity in the Administration's policies. However, in light of some things said by U.S. business representatives, I would like to clarify three points.

First, our concerns about human rights in the Soviet Union, particularly emigration of Soviet citizens in accord with the principles of the Helsinki Final Declaration, will have a direct effect on our ability to take steps that will expand trade. We welcome steps the Soviet government has taken in the past year and urge further liberalization. However, we are a nation of immigrants and would not be true to our principles if we did not stand up for the most basic of human rights.

Second, the President and General Secretary Gorbachev have endorsed expansion of non-strategic trade. However, protecting American and Western security will continue to govern expansion of that trade. At the same time, export controls need not limit true trade expansion. I would note that this issue was not discussed with our Soviet hosts.

Third, the GATT organization is based on fundamental market economy principles and governs trade between market-oriented economies. GATT membership cannot be extended to nations whose economic systems are in the main unresponsive to market signals. Neither the United States nor most other GATT members support Soviet membership. If and when the Soviet economy functions in accord with basic market principles, the U.S. government will be in a position to reconsider the matter.

American businessmen may differ with these views, and they are of course free to express their viewpoints. But it is important in the context of this week's meetings that the Administration's views be duly understood.

Let me stress that we did not come to Moscow to make any trade breakthroughs. That wasn't our purpose. Our trade relations are part of the overall bilateral relationship and fundamental improvements can not occur without parallel improvements in other areas, especially in human rights. Demonstrating the U.S. interest in emigration, Acting Assistant Secretary Moore met with a group of "Refuseniks" during our visit.

In seeking to facilitate the ability of U.S. firms to sell in the Soviet Union, our main goal was to improve market access and market information -- sort of a "marketing glasnost". The U.S. and Soviet sides agreed on a number of steps in this regard, for example:

- o The Soviet side will enable its business and trade officials to have open access to the U.S. Commercial Office in Moscow;
- o The Soviet Chamber of Commerce and Industry will assist the U.S. Commercial Office in distributing a regular U.S. Commercial Newsletter to thousands of key Soviet business decision makers;
- o Joint working groups have been established to explore marketing opportunities for equipment in the food processing, medical, construction, oil and gas, and consumer goods industries;
- o A series of joint seminars on laws affecting business will begin in September of this year;
- o The United States will initiate a program of trade missions with Soviet support.

Acting Minister Kachanov and I issued a joint statement on the results of the Commission and expressing the interest both sides have in expanding bilateral trade.

We also signed a protocol amending the Long Term Economic, Industrial and Technical Cooperation Agreement between the two countries. The Main purpose of this protocol was to recognize the new forms of business organization, such as joint ventures, now permitted in the USSR.

Taken together, these steps represent measures that will further improve the ability of U.S. firms to do nonstrategic business in the Soviet Union. I do not expect the increase in trade that results to be dramatic. As I said earlier, we came here to take another step in the step-by-step process, not to make breakthroughs.

Among the various responsibilities of the Secretary of Commerce is fisheries, and in concluding my statement I have a major announcement to make in this area.

We have been formally notified by the Soviets that the USSR has ceased commercial whaling and intends to work through the International Whaling Commission, the IWC, for whale research and conservation. This is a significant international achievement which removes a major obstacle to U.S.-Soviet cooperation in fisheries.

I welcome this decision and hope it sets a pattern for other whaling nations. I am confident that as a result we will quickly be able to expand fisheries cooperation in a way benefitting the fishing industries of both countries.

Before I take your questions, I would like to thank our Soviet hosts for their careful arrangements and their hospitality, including last night's dinner hosted by General Secretary Gorbachev. I would also like to express my appreciation to Ambassador Matlock and his staff for their wonderful support, despite being already overburdened.

May I have the first question?

FACT SHEET:

RESULTS OF
THE JOINT U.S. - USSR COMMERCIAL COMMISSION MEETINGS,
APRIL 12-14, 1988

U.S. Secretary of Commerce C. William Verity and Soviet Foreign Economic Relations First Deputy Minister Kachanov have concluded three days of meetings of the Joint U.S.-USSR Commercial Commission. This was the 10th meeting of the Commission, which was formed in 1972.

The Commission met this year at the specific instruction of President Reagan and General Secretary Gorbachev, who in their joint statement at the conclusion of the December 1987 Summit, directed Secretary Verity and his Soviet counterpart to convene the Commission to propose concrete measures to expand mutually beneficial trade and economic relations between the two countries.

The two major objectives of the U.S. delegation were: (1) to reiterate that fundamental improvements in the trade relationship depend upon further improvements elsewhere in the bilateral relationship -- particularly in human rights and emigration; and (2) to seek market access gains for U.S. companies in the Soviet Union. Both goals were achieved.

The U.S. delegation reaffirmed the support of the Administration for the expansion of mutually beneficial non-strategic trade and economic relations. Secretary Verity explained the U.S. willingness to make step-by-step progress in trade and economic relations within the guidelines of present U.S. policy, noting U.S. interest in pragmatic and concrete proposals to increase trade. The U.S. share of Western trade with the USSR is small. In 1986, for example, the U.S. share of OECD trade with the Soviet Union was only 4.5 percent -- and the vast bulk of this was U.S. grain.

Secretary Verity also stressed that fundamental changes in U.S. trade policy toward the Soviet Union were related to the quality of the overall relationship between the two countries. He noted that major trade gains were possible depending on major improvements in other aspects of the bilateral relationship. He particularly pointed to the U.S. interest in human rights and emigration. He noted that present emigration levels are notably higher than in the last few years, but are still below the average for the 1970's.

MARKET ACCESS IMPROVEMENTS

The U.S. delegation's principal goals with respect to marketing were to obtain improved market access and greater transparency of marketing information in the Soviet Union. This is particularly important as trade decision-making authority in the USSR is decentralized to around 100 different Soviet ministries and enterprises.

The U.S. delegation sought specific, concrete steps which would improve the ability of U.S. companies to sell non-military, non-strategic goods and services in the USSR. A number of agreements were reached in the Joint Commercial Commission that will improve the prospects for bilateral trade and investment. In particular, the steps that the Soviets have agreed to take should improve the conditions for doing business in the USSR and should shorten the time that has been required to negotiate business.

In the area of market access and trade facilitation, agreements were reached on the following:

- o A new U.S. marketing and advertising program will be set up through the U.S. Commercial Office in Moscow, which will publish a Commercial Newsletter and, in cooperation with the USSR Chamber of Commerce and Industry, will distribute it to thousands of Soviet trade organizations and officials. This newsletter will substantially improve the ability of U.S. companies to advertise their products and services to interested Soviet buyers.
- o A program of cooperation will be initiated to boost business in selected non-strategic areas with high potential, with bilateral working groups being formed in medical equipment, construction equipment, oil and gas equipment, and equipment for the consumer goods industries.
- o The Soviets agreed to take steps enabling Soviet business and trade personnel to have open access to the U.S. Commercial Office in Moscow. This will provide potential Soviet buyers with access to marketing information on thousands of U.S. companies and products.
- o The U.S. will start a trade missions program in the USSR, and the Soviets agreed to provide appropriate assistance.

- o The Soviets agreed to accelerate efforts to improve working conditions for U.S. firms with offices in the Soviet Union. They announced simplified Soviet visa procedures, including multiple entry visas, for foreign business visitors, including U.S. business visitors.
- o The Soviets agreed to work on reducing business negotiating times and complications.
- o The U.S. Department of Commerce will set up a "Joint Venture Information Center" to provide guidance to U.S. companies in order to facilitate compliance with U.S. technology transfer regulations in a joint venture.
- o Both sides will establish a joint US-USSR legal seminar series on business law to help government and private lawyers better handle the practical legal aspects of bilateral business, including investment.

Finally, two special documents were issued by Secretary Verity and First Deputy Minister Kachanov at the conclusion of the Joint Commission meeting:

- o A protocol noting that the terms of the 1972 U.S. - USSR Long-Term Economic Industrial and Technical Cooperation Agreement apply to joint ventures and other new forms of business organization now permitted by the USSR; and
- o A "Joint Statement" listing the accomplishments of the Commission and stipulating the desire of both sides to increase bilateral trade and economic cooperation. This document will be publicized to Soviet enterprises and to the U.S. business community.

These steps, taken together, represent a forward step to improve the prospects for the expansion of trade between the United States and the Soviet Union. U.S. exports to the USSR last year were only \$1.5 billion -- and only \$600 million of this was in manufactured goods. Secretary Verity stated that he does not expect a dramatic increase in these numbers as a result of what was agreed in the JCC, but that the agreements will contribute to the trade relationship and lead to a gradual increase in two-way trade.

ADDITIONAL OFFICIAL MEETINGS

Secretary Verity, accompanied by Ambassador Matlock and other senior members of the U.S. delegation, had official meetings with General Secretary Gorbachev, Premier Ryzhkov, Foreign Economic Commission Chairman Kamentsev, First Deputy Minister for Foreign Economic Relations Kachanov, GOSAGROPROM Chairman Murakhovsky, and Central Committee Secretary Dobrynin.

NON-STRATEGIC TRADE ONLY

- Secretary Verity stressed both in the Commission and in his talks that the United States is interested only in non-strategic trade. The U.S. delegation did not discuss any changes in technology transfer controls. The matter did not even come up. Secretary Verity has emphasized that our technology transfer controls are for the purpose of ensuring Western security, and not for the purpose of restricting trade.

The United States does not view technology transfer controls as an obstacle to peaceful, non-strategic trade. The United States believes that there are ample areas for increasing trade which are not affected by national security export controls, including many areas in consumer goods industries, oil and gas equipment, medical equipment, and construction equipment.

RELATIONSHIP TO U.S. OVERALL GOALS

Secretary Verity and the U.S. delegation repeatedly stated that U.S. trade relations are a part of the overall bilateral relationship and that fundamental improvements in the conditions for trade cannot take place without parallel improvements in other parts of the relationship, especially in the human rights area. The U.S. interest in emigration was particularly stressed. The delegation took note of the increased emigration last year, and stated its hope that further gains would follow.

CONTRACTS AND JOINT VENTURES

A number of U.S. companies signed contracts with Soviet enterprises this week. Some of these were for joint ventures in the Soviet Union. Combustion Engineering signed the first U.S. joint venture last December, and this week Honeywell signed a joint venture. Additionally, a group of U.S. companies formed the "American Trade Consortium" under which they will seek commercially viable business opportunities in civilian areas.

In the December 1987 Summit statement, President Reagan and General Secretary Gorbachev agreed that commercially viable joint ventures could play a role in the further development of bilateral economic relations. The U.S. government supports American companies in their efforts to conclude commercially viable business in non-strategic areas. The U.S. Government, however, does not endorse, and has not endorsed any particular business venture -- including those signed this week. The position of the U.S. Government is that this is a matter for private companies to decide.

The U.S. Government's position is policy-neutral toward joint ventures in principle, stating that the choice of business organization is a commercial matter. The U.S. Government, of course, reviews all requests for export licenses for technical data, including those for joint ventures. Each license application is carefully reviewed to ensure that U.S. national security is not affected.

USTEC MEETINGS

The U.S.-USSR Trade and Economic Council has been meeting in Moscow this week, holding its 11th annual meeting. USTEC is an organization of U.S. companies and Soviet enterprises interested in bilateral trade. These meetings are totally separate from the government-to-government Joint Commission meetings. They are held concurrently so that the USTEC meetings may be addressed by the Secretary of Commerce and the Soviet Foreign Economic Relations Minister. Secretary Verity addressed the opening session of the USTEC meeting on Wednesday, April 13.

COMMERCIAL WHALING

While in Moscow, Secretary Verity took note of the fact that the Department of Commerce has 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. The cessation of commercial whaling by major whaling nations has been a major objective of global environmental groups and the IWC.

Secretary Verity welcomed the Soviet decision and stated his hope that it sets a pattern for similar decisions on the part of other whaling nations to work within the IWC for the purposes of research and conservation. Secretary Verity expressed his confidence that, as a result, the United States and the Soviet Union will quickly be able to expand fisheries cooperation provided for in a new fishing agreement that was signed on February 21. Doing so will benefit both sides.

JOINT STATEMENT
on the further development of
U.S.-U.S.S.R. commercial relations

U.S. Secretary of Commerce C. William Verity and U.S.S.R. First Deputy Minister of Foreign Economic Relations A. I. Kachanov, at the conclusion of the Tenth Session of the Joint U.S.-U.S.S.R. Commercial Commission held in Moscow April 12-14, 1988, at the instruction of President of the United States Ronald Reagan and General Secretary of the CPSU Central Committee M. S. Gorbachev to develop concrete proposals for the expansion of U.S.-Soviet trade, issued the following Joint Statement.

The Governments of the United States of America and the Union of Soviet Socialist Republics strongly support expansion of mutually beneficial commercial relations, within the legal framework existing in both countries, which they believe can contribute to the development of a more constructive relationship between the two countries.

They recognize that the prospects for a substantial expansion of trade relations are related to progress on other issues of mutual interest, including humanitarian affairs. They note that while significant accomplishments have been made in this respect, more remains to be done.

They recognize that improved business facilities and additional commercial information on business opportunities and contacts will be needed by their firms, enterprises, business and other organizations to conclude mutually beneficial contracts in the changing environment.

They agree 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.

During the Tenth Session of the Joint Commercial Commission, the two sides took the following practical steps to facilitate the expansion of bilateral trade and commercial relations:

- Concluded a Protocol to the Long Term Agreement Between the United States of America and the Union of Soviet Socialist Republics To Facilitate Economic, Industrial, and Technical Cooperation, of June 29, 1974, in which they agreed that the forms of cooperation covered by the terms of the Long-Term Agreement shall include commercially viable joint ventures and industrial cooperation based on mutually beneficial contracts between firms, enterprises, and other appropriate organizations of the two countries.

Under the Protocol the Joint US-USSR Commercial Commission will monitor the practical implementation of the Protocol and develop concrete proposals to achieve the cooperation foreseen therein, and the Working Group of Experts will exchange information that will assist the Commission in developing solutions to specific practical issues relating to its implementation and conduct preparatory work for meetings of the Commission.

- Established Joint Commission working groups to identify opportunities and eliminate obstacles to the development of business in the fields of oil and gas equipment, construction equipment, medical equipment and supplies for the medical industry, and consumer industry.
- Agreed to hold a series of legal seminars to improve understanding of the legal conditions affecting U.S.-Soviet commerce and investment.
- Undertook to make information on business opportunities and contacts readily available so as to facilitate the prompt identification and contact of potential business partners.
- Committed themselves to accelerate efforts to improve business facilities for company offices and representatives.
- Encouraged representatives and experts of their respective firms, enterprises, and organizations to make use of the official commercial offices of the other side.
- Agreed to expand a program of trade missions, rendering appropriate mutual assistance in their planning and execution.

Both sides affirm their intention to inform their respective firms, enterprises, and organizations of the contents and recommendations of the Joint Statement and to work toward their full implementation.

April 14, 1988



AGREED REPORT
OF THE TENTH SESSION OF THE
JOINT U.S. - U.S.S.R. COMMERCIAL COMMISSION

The Tenth Session of the Joint U.S. - U.S.S.R. Commercial Commission, established by a joint communique in May, 1972, was held in Moscow on April 12-14, 1988.

A. I. Kachanov, First Deputy Minister of Foreign Economic Relations of the U.S.S.R., headed the Soviet delegation and presided over the session. The U.S. delegation was headed by Secretary of Commerce C. William Verity.

During the work of the Commission, Secretary Verity was received by General Secretary of the Central Committee of the CPSU M. S. Gorbachev. Secretary Verity also met with Chairman of the Council of Ministers of the U.S.S.R. N. I. Ryzhkov, Central Committee Secretary A. F. Dobrynin, First Deputy Chairman of the Council of Ministers of the U.S.S.R. V. S. Murakhovskiy, and Deputy Chairman of the Council of Ministers of the U.S.S.R. V. M. Kamentsev. Prospects for the development of American-Soviet trade and economic relations were discussed in a constructive spirit throughout the meetings.

Lists of the U.S. and Soviet delegations to the Commission are attached to this Agreed Report.

The Commission adopted and discussed the following agenda:

1. Status of Bilateral Trade and Economic Relations
2. Report of the Working Group of Experts
3. Expansion of Trade and Economic Relations, including market access and new forms of economic cooperation.
4. Trade Promotion and Business Facilitation
5. Concluding remarks and signing of official documents.

STATUS OF BILATERAL TRADE AND ECONOMIC RELATIONS

In opening the session, the co-chairmen noted that President of the United States Ronald Reagan and General Secretary of the Central Committee of the CPSU of the U.S.S.R. M. S. Gorbachev had, during the Washington Summit, instructed them to convene this session of the Joint Commercial Commission in order to develop concrete proposals for the expansion of mutually beneficial trade and economic relations. Each Co-Chairman expressed his side's desire to carry out this mandate.

In their opening statements, the co-chairmen reaffirmed the strong support of their respective governments for the expansion of mutually beneficial commercial relations. Examining the state of trade between the two countries, the Commission observed that trade levels are extremely small in comparison to the size of the two economies and are below their potential. They also noted the limited structure of present trade.

The two sides agreed that an increase in mutually beneficial trade was in the interest of both sides and agreed that additional steps should be taken to encourage trade where that was possible. They noted that opportunities exist for expansion of trade in raw materials, chemicals, agriculture, and other commodities, as well as in civilian industrial goods and services.

Reviewing the status of bilateral economic relations since the 1986, they mentioned that a textile agreement has been concluded, that negotiations on maritime relations and on agricultural trade are being conducted, that government and business interest in finding ways in which mutually beneficial trade can be developed are increasing, and that there is business interest in the use of joint ventures and other new forms of cooperation.

At the same time it was observed that major obstacles to bilateral trade remain, and that the positions of both sides relating to possible steps to be taken to eliminate these obstacles still differ considerably.

The two sides had a frank exchange of views on humanitarian affairs.

The U.S. side stated its belief that a fundamental change in trade relations could not take place without parallel improvements in these and other parts of the bilateral relationship. The U.S. side stated that without significant change in other parts of bilateral relations trade growth would have to take place within present conditions.

The Soviet side declared that it sought to develop cooperation with the United States on principles of equality and mutual interest, and that it is opposed to tying trade to aspects of bilateral relations which in its view have no bearing on trade. The Soviet side stated further that progress in trade can contribute to improvement in other parts of the overall bilateral relationship.

Both sides agreed that mutually beneficial trade is an aspect of the bilateral relationship which can contribute to building trust and better working relations between the two countries. They expressed their mutual desire to continue to find ways to further develop trade and economic relations within the context of the present policies of both sides, and to search for fields of mutual interest.

REPORT OF THE WORKING GROUP OF EXPERTS

The Commission observed that the Working Group of Experts had had its sixth meeting in Moscow on October 19, 1987, co-chaired by Deputy Minister of Foreign Trade V. L. Malkevich and Assistant Secretary of Commerce Louis F. Laun. They noted that this meeting had resulted in a useful exchange of information on economies and foreign trade of the two countries. Information provided by the Soviet side regarding the reorganization of the Soviet system of foreign economic relations was also discussed at that meeting of the Working Group.

First Deputy Chief of Section of the U.S.S.R. State Foreign Economic Commission Y. A. Znamenskiy presented the report of the Seventh Session of the Working Group of Experts, which he and Assistant Secretary of Commerce Louis F. Laun co-chaired in Washington, February 18 and 19, 1988.

The Commission approved the report and expressed appreciation for the useful work that the Working Group of Experts had performed in preparing for the Tenth Session of the Joint Commercial Commission. The Commission agreed that such preparatory work, in addition to its mandated functions, should be part of the Working Group's regular work in the future.

The date and place of the Eighth meeting of the Working Group of Experts will be determined by the Commission Co-chairmen.

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

The two sides noted that the steps agreed upon at the Eighth and Ninth Sessions of the Joint Commercial Commission had improved conditions for the development of bilateral trade and encouraged the firms, enterprises, and organizations of the two countries to consider each other as potential business partners. They agreed to take further measures, as possible at the current stage of development in bilateral relations, to support the further expansion of peaceful, mutually beneficial, bilateral trade and commercial cooperation.

The Commission discussed questions relating to the restructuring of the management of the foreign economic relations system of the U.S.S.R., concentrating its attention on the way this restructuring could affect the commercial activity of U.S. companies in the Soviet Union and Soviet organizations in the United States. The Soviet side presented information on the functions of Soviet ministries, institutions, and enterprises involved in foreign economic activity. It stated that the improvement of economic mechanisms in the U.S.S.R. opens up additional opportunities for the development of mutually beneficial commerce. The U.S. side took this information into consideration with interest.

The Soviet side stated it believed that there was a lack of progress in improving conditions for the export of many Soviet goods to the United States. It referred to the continuing embargo on U.S. imports of seven types of furskins, the embargo on gold coin imports, what it considers prohibitive antidumping duties on imports of Soviet urea into the United States, and concern about proposals in Congress which would worsen conditions for imports of Soviet commodities into the United States. The Soviet side also drew attention to what it considers as unjustified, from an economic and security point of view, U.S. restrictions on exports of satellites to the U.S.S.R. for launching on Soviet rocket vehicles, as well as to the Soviet desire for the expedient resolution of problems of access to crosstrade by the Soviet maritime vessels.

The U.S. side noted the Soviet concerns and expressed willingness to continue looking for solutions where possible. The U.S. delegation reviewed the status of pending U.S. trade legislation, noting strong Administration efforts to repeal the embargo on furskins and ensure a non-protectionist trade bill. The U.S. side stated that its antidumping procedures are applied in a transparent and non-discriminatory manner. It also reiterated that U.S. national security policy barred the use of Soviet launching services for Western made satellites.

The Commission noted the larger number of Soviet organizations involved in foreign trade, changed organizational responsibilities, and new opportunities created by the Soviet economic restructuring. The two sides agreed that steps helping potential business partners to be identified and brought together quickly could give a significant boost to trade expansion efforts. The Soviet side agreed to provide and periodically update lists of Soviet organizations and officials with trade authority.

The Soviet side stated that it will ensure timely availability of information on bureaus and officials in the various organizations responsible for trade and technical evaluation needed for identifying and contacting potential business partners. The Soviet side agreed with the U.S. side's proposal to have its Commercial Office publish and together with the U.S.S.R. Chamber of Commerce and Industry distribute to the corresponding Soviet organizations and officials a U.S. Commercial Newsletter.

The two sides concurred that further diversification in the structure of trade, including increased trade and commercial cooperation in manufactures consistent with the laws and policies of each country, is desirable.

To aid the expansion of mutually beneficial commerce, the Commission decided to create sectoral working groups in civilian industry sectors where both sides agree that the potential for trade and economic cooperation is high. These working groups would help identify commercial opportunities, facilitate contacts between potential business partners, and eliminate obstacles to the conclusion of mutually beneficial business where that is possible.

It was agreed that Working Groups in the following sectors would be created and meet before the end of the year:

- o Oil and gas equipment
- o Construction equipment
- o Medical equipment and supplies for the medical industry
- o Consumer industry (e.g., for the manufacture of textiles, knitware and apparel, leather and fur goods, and footwear).

The two sides noted that during Secretary Verity's meetings with Soviet officials, it also was decided that a working group on food-processing will be created within the framework of the Joint American-Soviet Commission on Agriculture. The Soviet side of the working group will be chaired by a deputy chairman of Gosagroprom of the U.S.S.R. and also will include representatives of the Ministry of Foreign Economic Relations of the U.S.S.R.

Believing that tourism and tourism services represent significant potential for expanding mutually beneficial business, the U.S. side encouraged the establishment of a tourism working group for the purpose of facilitating resolution of tourism-related commercial issues, identifying new possibilities for cooperation between U.S. travel suppliers and Soviet organizations in the area of tourism, and possibilities for cooperation, including joint ventures, in the hotel industry.

The Soviet side stated that the existing organizational forms in tourism correspond to the present character of tourist ties and provide possibilities for their development and improvement. Given the American side's interest in this matter, however, the Soviet side agreed to continue to examine the question of creating a tourism working group.

The Commission discussed the course of negotiations between U.S. firms and Soviet organizations on a number of commercial projects, and drew attention to the need to speed up the process of negotiation and conclusion of contracts. The Commission noted that the two leaders at the Washington Summit had 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. It drew attention to the fact that the first such joint ventures between American firms and Soviet organizations have been concluded.

The two sides agreed that commercially viable joint ventures and other forms of business organization be encompassed by the terms and conditions of the Long-Term Agreement Between the United States of America and the Union of Soviet Socialist Republics to Facilitate Economic, Industrial and Technical Cooperation of June 29, 1974. They agreed to sign a Protocol amending the Long Term Agreement to this effect. They also agreed that the scope of the Joint Commercial Commission will encompass new forms of economic cooperation now possible.

The Soviet side proposed that the two sides work out a joint document on the principles and guidelines of bilateral relations in the trade and economic field. The U.S. side said it would examine this proposal closely.

The parties agreed that companies and enterprises should be encouraged to utilize those forms of business organization which best suit the economic interests of the specific organizations as seen by the individuals actually endeavoring to conduct business.

The Commission noted the important role played by the U.S.-U.S.S.R. Trade and Economic Council in the development of bilateral commerce. Both sides expressed their intention to continue to work closely with this organization and support its efforts to develop business relations between American companies and Soviet organizations.

In the course of discussion of the problems of market access, the Soviet side stated its intention to seek to join the GATT as a Contracting Party on agreed conditions proceeding from economic considerations and taking into account the reforms in the management of the U.S.S.R.'s foreign economic relations.

The U.S. side stated that it remains opposed to membership of the U.S.S.R. in the GATT, and continues to believe that the Soviet economic system remains at this point incompatible with participation in this free-market international economic institution.

TRADE PROMOTION AND BUSINESS FACILITATION

Both sides stated they attach considerable significance to the work of firms and organizations participating in bilateral commerce, and discussed the practical problems these organizations encounter.

Both sides agreed to conduct a series of joint legal seminars to study the legal conditions affecting bilateral commercial cooperation, including legal questions related to investment. The first such seminar is envisioned to be conducted in the U.S.S.R. in September 1988.

Noting the importance of good business facilities for the expansion of bilateral trade and cooperation, the Commission discussed possibilities for improving operating conditions for the firms of each side, including small and medium-sized firms. Both sides agreed to resume periodic consultations concerning these matters.

The Soviet side presented information on measures it has taken lately to simplify the procedures for issuing entry visas into the U.S.S.R., including multiple visas, for the representatives of business, to simplify procedures for traveling in the territory of the U.S.S.R. for functionaries of foreign missions, the U.S. included, and to open up for visits to previously closed areas. The Soviet side stated that during 1987-88 three American companies had asked for their respective quotas of representatives in Moscow to be increased, and these requests were granted.

The Soviet side expressed hope that the U.S. side would undertake adequate measures with respect to Soviet trade representatives in the United States. In this connection, they stated they had lately had difficulties in the work of Amtorg Trading Corporation and raised the question of increasing the quota of Soviet commercial representatives in the United States by one person in order to send to New York a representative of Vnesheconombank of the U.S.S.R. with the aim of developing cooperation with American banks.

The Commission reviewed plans of each side to expand its program of trade promotion events. The Soviet side presented information about its Exhibition of Soviet Export Goods which will be held in New York City in December, 1988. The U.S. side agreed to provide appropriate support in facilitating the organization of this exhibition.

The U.S. side's intention to expand its trade promotion program in the U.S.S.R. through a program of specialized trade missions, in addition to expositions at Soviet international trade fairs, was welcomed by the Soviet side. The two sides also agreed to cooperate on a program of seminars at the U.S. Commercial Office.

The U.S. side noted that the U.S. Department of Commerce maintains a well-equipped commercial library of information on U.S. companies, products, and services in its Commercial Office located at Ul. Chaykovskogo 15 in Moscow. The U.S. side said that it welcomes visits from Soviet trade and technical personnel interested in commercial contacts with U.S. companies.

The Soviet side welcomed this invitation and stated that with reference to the request of the U.S. side a decision has been taken recently to simplify the procedure for visits to the U.S. Commercial Office in Moscow by representatives of Soviet organizations.

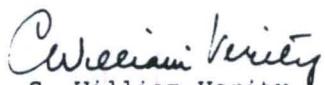
CONCLUDING REMARKS

Summing up the results of the present session of the Commission, the parties observed that the expansion of mutually beneficial trade and economic cooperation on a stable basis could contribute to the development of more constructive overall relations between the two countries. They also noted that the expansion of trade was affected in turn by developments in the broader relationship.

Both sides agreed to issue the Joint Statement attached to this Agreed Report summarizing the accomplishments of the Commission and encouraging firms and enterprises to seek an expansion of mutually beneficial commerce. The Heads of the two delegations stated they would inform the business circles of their countries about the results of the Commission and the measures to expand commerce.

The Commission decided to hold its eleventh session in Washington in 1989. The timing and agenda will be agreed upon by the Chairmen of the U.S. and U.S.S.R. sections of the Commission in accordance with the Terms of Reference and Rules of Procedures.

Done at Moscow, April 14, 1988, in two copies, each in the English and Russian languages, both texts being equally authentic.



C. William Verity
Head of the U.S.
Delegation to the
Tenth Session of the
Joint U.S.-U.S.S.R.
Commercial Commission



Alexander I. Kachanov
Head of the U.S.S.R.
Delegation to the
Tenth Session of the
Joint U.S.-U.S.S.R.
Commercial Commission

U.S. Delegation
TO THE TENTH SESSION OF THE
JOINT U.S.-U.S.S.R. COMMERCIAL COMMISSION

Jack Matlock	United States Ambassador to the Soviet Union
C. William Verity	Secretary of Commerce, Head of Delegation and Co-chairman
W. Allen Wallis	Under Secretary of State for Economic Affairs
William Evans	Under Secretary of Commerce for Oceans and Atmosphere
Paul Freedenberg	Under Secretary of Commerce for Export Administration
Gerald J. McKiernan	Chief of Staff to the Secretary of Commerce
Edwin L. Dale, Jr.	Counselor to the Secretary of Commerce
James Murphy	Assistant U.S. Trade Representative for Europe
Stephen Danzansky	Special Assistant to the President and Senior Director for International Economic Affairs, National Security Council
Robert Dean	Special Assistant to the President and Senior Director for International Programs and Technology Affairs National Security Council
James P. Moore, Jr.	Acting Assistant Secretary of Commerce for International Economic Policy
Franklin J. Vargo	Deputy Assistant Secretary of Commerce for Europe and Executive Secretary of the JCC
Ann Veneman	Associate Administrator of the Foreign Agricultural Service, Department of Agriculture
Jerry Newman	Director, Office of East-West Economic Policy, Department of Treasury
Susanne S. Lotarski	Director, Office of Eastern European and Soviet Affairs, Department of Commerce

William Huth	Agricultural Counselor, U.S. Embassy - Moscow
Michael Mears	Commercial Counselor, U.S. Embassy - Moscow
Robert Clarke	Deputy Director, Office of Soviet Affairs, Department of State
Charles Ries	Special Assistant to the Under Secretary of State for Economic Affairs
Patrick J. Nichols	Deputy Director, Office of East-West Trade Department of State
Richard Jones	Director, Developed Country Trade Division, Department of State
John F. Brougher	Director, USSR Division, Department of Commerce
Mary Ann Peters	Acting Economic Counselor, U.S. Embassy - Moscow
Jean O'Brien	Senior Policy Analyst, U.S. Trade and Tourism Administration, Department of Commerce
Stephen Kaplan	Political Officer, Department of State
Dimitry Zarechnak	Interpreter, Department of State

U.S.S.R. DELEGATION
TO THE TENTH SESSION OF THE
JOINT U.S.-U.S.S.R. COMMERCIAL COMMISSION

A.I. Kachanov	First Deputy Minister of Foreign Economic Relations, Head of Delegation and Co-chairman
V.L. Malkevich	Chairman of the Board of the USSR Chamber of Commerce and Industry
Yu.P. Khomenko	Deputy Chairman of USSR Gosplan
L.I. Filimonov	First Deputy Minister of Oil Industry
Yu.S. Moskovskiy	Chairman of the Board of the Bank for Foreign Economic Affairs
Yu.N. Chumakov	Ministry of Foreign Economic Relations
V.V. Sukharev	Deputy Minister of Construction and Road Machine-Building
V.A. Reznichenko	Deputy Minister of Chemical Machine-Building
I.A. Konovalov	Deputy Chairman of USSR Goskomintourist
I.P. Kanaev	Deputy Chairman of USSR Chamber of Commerce and Industry Presidium
Yu.A. Znamenskiy	First Deputy Chief of Department, State Foreign Economic Commission, USSR Council of Ministers
V.S. Grinev	Deputy Chief of Deptment, State Foreign Economic Commission, USSR Council of Minister
O.V. Kozhevnikov	Trade Representative of the USSR, in the USA
V.M. Serov	Ministry of Foreign Economic Relations
N.V. Zinovyev	Ministry of Foreign Economic Relations
R.G. Tomberg	Ministry of Foreign Economic Relations
M.M. Nesterov	Ministry of Foreign Economic Relations
V.A. Nikolaev	Ministry of Foreign Economic Relations

N.N. Borisov	Chief of Department for Scientific and Technical Cooperation with Capitalist and Developing Countries, USSR State Committee for Science and Technology
V.K. Zilanov	Chief of Department for Foreign Relations and General Deliveries, Ministry of Fisheries
V.I. Kuznetsov	Deputy Chief of USA and Canada Department, Ministry of Foreign Affairs
I.F. Kozlovskiy	Deputy Chief of the Main Currency and Economic Department, Ministry of Finance
V.M. Chibirev	Ministry of Foreign Economic Relations
L.A. Overchuk	First Deputy Chief of Foreign Relations Department, USSR Gosagroprom
V.N. Tokarev	First Deputy Chief of Foreign Relations Department, Ministry of Medical Industry
V.S. Borisov	Deputy Chief of Foreign Relations Department, Ministry of Merchant Marine
O.E. Tischenko	Commercial Consul, USSR Consulate General in San Francisco
E.A. Balaban	Ministry of Foreign Economic Relations
A.A. Plavinskiy	Ministry of Foreign Economic Relations

Experts of the Delegation

D.A. Beskurnikov	Senior Specialist, State Foreign Economic Commission, Council of Ministers
V.A. Akulin	Councillor of USA and Canada Department Ministry of Foreign Affairs
A.A. Zelenov	Ministry of Foreign Economic Relations
G.L. Perlov	Ministry of Foreign Economic Relations
Yu.N. Shemelin	Ministry of Foreign Economic Relations
Yu.A. Malyshev	Chief Engineer of V/O, Soyuzglavstroydormash- zagranpostavka
A.N. Vylegzhanin	Chief Lawyer of USSR-US Commission for Fishing Claims
A.E. Godakov	Ministry of Foreign Economic Relations
V.S. Mazuka	Ministry of Foreign Economic Relations
E.S. Kiryukhin	Ministry of Foreign Economic Relations
A.O. Mamonov	Ministry of Foreign Economic Relations
Yu.A. Andreev	Interpreter

PROTOCOL
to the Long-Term Agreement
between the
United States of America and
the Union of Soviet Socialist Republics
To Facilitate Economic, Industrial and Technical Cooperation
of June 29, 1974

The Government of the United States of America and the Government of the Union of Soviet Socialist Republics, taking note of the new forms of cooperation which have become possible since the Long-Term Agreement between the United States of America and the Union of Soviet Socialist Republics To Facilitate Economic, Industrial and Technical Cooperation was concluded on June 29, 1974, and guided by the Joint Summit Statement issued at the conclusion of the Washington summit meeting on December 10, 1987, have agreed that:

- (1) In addition to the forms of cooperation specified in Article II of the Agreement, cooperation covered by the terms of the Long-Term Agreement shall include commercially viable joint ventures and industrial cooperation based on mutually beneficial contracts between firms, enterprises, and other appropriate organizations of the two countries in keeping with established practices and applicable laws and regulations in the respective countries.
- (2) The Joint US-USSR Commercial Commission will monitor the practical implementation of this Protocol and the Long-Term Agreement and develop concrete proposals to achieve the cooperation foreseen therein. The Working Group of Experts will exchange information that will assist the Commission in developing solutions to specific practical issues relating to the implementation of this Protocol and the Long-Term Agreement and will conduct preparatory work for meetings of the Commission.


This Protocol is an integral part of the Long-Term Agreement and enters into force on the date of its signature.

Done at Moscow on April 14, 1988, in duplicate, in the English and Russian languages, both texts being equally authentic.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:


C. William Verity
Secretary of Commerce

FOR THE GOVERNMENT OF THE
UNION OF SOVIET
SOCIALIST REPUBLICS:


Alexander I. Kachanov
First Deputy Minister
of Foreign Economic
Relations

JCC (30+7)
Panzansky

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