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AMERICAN ROLE IN EAST-WEST TRADE

DEPOSITORY

HEARINGS

BEFORE THE

COMMITTEE ON COMMERCE

UNITED STATES SENATE

NINETY-FOURTH CONGRESS

FIRST AND SECOND SESSIONS


ON

AMERICAN ROLE IN EAST-WEST TRADE: PROSPECTS,
PROBLEMS, AND ISSUES, 1976-80

DECEMBER 11 AND 12, 1975, AND JANUARY 30 AND FEBRUARY 4, 1976

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AMERICAN ROLE IN EAST-WEST TRADE

THURSDAY, DECEMBER 11, 1975

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met at 10 a.m. in room 5110, Dirksen Senate Office Building, Hon. Daniel K. Inouye presiding.

OPENING STATEMENT BY SENATOR INOUYE

Senator INOUYE. This morning the Committee on Commerce will commence hearings on the American Role in East-West Trade—Prospects, Problems, and Issues, 1976–80.

It is the intent of these hearings to offer a comprehensive review of issues affecting East-West trade based on past and current experiences and to look ahead at the potential for such trade. These 2 days will be the beginning of our hearings, which will continue in the new session after Congress reconvenes.

East-West trade has grown rapidly within recent years. In 1960 total East-West trade turnover was only \$5.9 billion. By 1970 the volume had nearly trebled, and by 1973 this total had nearly doubled. A year later the trade turnover stood at \$43.5 billion.

Moreover, it is probable that this upward trend will continue regardless of whether the United States chooses to participate more fully. Clearly, East-West trade has become a major factor in international commerce and will continue to be so in the foreseeable future.

For many years the United States stood aloof from this trade. Blessed with a continental-sized domestic market and vigorous industry, East-West commerce was of little importance to American business. However, the United States is no longer the world's unchallenged economic leader. Our commercial leadership over the rest of the world has eroded significantly as the other industrialized countries recovered from the effects of World War II and then surged ahead on the momentum gained from their economic recovery.

Widespread American interest in East-West trade is a relatively recent phenomenon dating from the active 1971–72 period when the first significant commercial agreements between the United States and the Soviet Union were concluded.

However, even as early as 1960, MFN for Poland was restored. By 1969 the Export Administration Act replaced the far more restrictive Export Control Act of 1949.

In the Congress, too, the need for changes had been recognized. The chairman of this committee, Senator Magnuson, was an early advocate of increased commercial contacts between the East and West at a time when most Americans were hostile to a relaxation of restrictions.

Staff member assigned to these hearings: Eric H. M. Lee.

Trade turnover between the United States and East bloc nations grew explosively from \$609 million to \$3.258 billion in the 1971-74 period but has since leveled off. In terms of our global trade turnover and the total volume of East-West trade, the U.S. share is very modest.

Since the euphoria of 1971, the public mood has become less hospitable to expanded trade with the Socialist countries. The covert grain purchases of 1972, domestic policies in the Soviet Union, difficulties in the arms limitations talks, continued political and military actions inimicable to world peace, and possibly questionable sales of high technology goods to the Soviet Union have all contributed to disillusionment and doubt about the desirability of increased U.S. trade with the nonmarket countries.

Candidly we must acknowledge that East-West trade is not a popular cause nowadays, and that public controversy will continue to swirl around this subject for the immediate future.

However, I also believe that we should not shirk careful consideration of the issues raised by the American role in East-West trade. The last set of fully comprehensive hearings on this subject were conducted in 1968 under the auspices of the Banking Committee. Various aspects of this subject were covered in the hearings on the Trade Act of 1974, the Export-Import Bank amendments of 1974, and the Export Administration Act Amendments, the Foreign Relations détente hearings of 1974, and various other congressional inquiries. These previous sessions have elicited much valuable information which has contributed greatly to our understanding of this complex subject, but vast territory must still be explored.

The objective of the hearings which begin today are not to cover ground which has already been discussed nor to review action which the Congress had already taken. It is rather to look at the broad framework of our policy on East-West trade, to examine the diverse economic assessments of our trade with the nonmarket nations, to review the implementation of the previous commercial agreements, to survey problems which inhibit existing trade between our nations, and to look ahead to identify potential commercial and economic problems before they become major disruptive issues.

Congress has become a major factor in the formulation of East-West trade policy. This is clearly an important theme as expressed in the Trade Act and the Export Import Bank Act Amendments. This fact has been recognized, and I am pleased that we are receiving the active cooperation of the executive in structuring these hearings.

I would like to welcome as our first witness, Hon. William Simon, our distinguished Secretary of the Treasury, and Chairman of the East-West Foreign Trade Board.

Welcome, Mr. Secretary.

**STATEMENT OF HON. WILLIAM E. SIMON, SECRETARY OF THE
TREASURY, DEPARTMENT OF TREASURY; ACCOMPANIED BY
GERALD PARSKY, ASSISTANT SECRETARY OF THE TREASURY**

Secretary SIMON. Thank you, Mr. Chairman.

I have with me Gerald Parsky, the Executive Secretary of the East-West Trade Board, and the Assistant Secretary of the Treasury who has been actively involved in this area, and who will be delighted to respond to questions.

I welcome the opportunity to join in this review of prospects and problems of American participation in East-West trade, and our economic relationships during the next 5 years.

As Chairman of the East-West Foreign Trade Board, I believe that these hearings will provide an opportunity to assess current policies that affect East-West trade, and to develop more open public discussion and understanding of this important subject.

During the cold war period, U.S. participation in trade with the Communist countries was virtually nonexistent. Our contacts with these countries in the cultural and in other areas were isolated events. No cooperative efforts were undertaken either in the economic and commercial fields or in science and technology. It was difficult to speak of bilateral relationships with these countries in any meaningful way. As a result, there was no inducement toward cooperation and little incentive for restraint.

The era of confrontation during the years of the cold war demonstrated that the imposition of economic sanctions against Communist countries neither altered the nature of their systems nor materially improved their policies toward the Western world. In this decade, the U.S. Government has sought to develop a policy in which the attempt to normalize U.S. commercial relationships with the U.S.S.R., Eastern Europe, and the People's Republic of China is a cornerstone.

We have pursued this policy with the firm conviction that accelerated development of strong economic ties between the United States and the Communist countries will give each side a more solid stake in the parallel improvement of our political relations. I believe these ties create a foundation of mutual interest which in turn improves the environment for progress in the relaxation of political tensions.

From its beginning, the new approach to the Communist countries has received broad public support. The flow of goods and an exchange of people between our country and those expanded at an extraordinary rate. The developing momentum in the expansion of our relations with the Soviet Union led to the conclusion, in 1972, of several important agreements with that country—the trade agreement, the lend-lease settlement, and the maritime agreement.

Since 1974, this momentum has slowed. We believe that this slowdown has cost our economy exports and export-related jobs. But it has also impaired the United States political and humanitarian objectives.

Let me stress at the outset, a fact of which this committee is no doubt already aware. Normalizing our relations with the Communist countries in no way implies a grant of special favors not provided to other countries. Quite the contrary. Recognizing that East-West trade is a two-way street which will bring mutual benefits to both sides, we seek to eliminate the aspects of our policy toward the Communist countries that discriminate against them. By extending MFN treatment to the Communist countries, we would give our imports from them the treatment we now accord to our imports from other countries.

Nor has it ever been our purpose to bargain away the Nation's security simply to see our trade statistics rise. We maintain controls on the export of products and technology of strategic significance, and we would continue to maintain them even under normalized trading conditions.

In addition, the executive branch carefully examines exports that might involve national security considerations through two Cabinet-level boards.

To insure that our national security is not jeopardized, the Export Administration Review Board (EARB), which is chaired by the Secretary of Commerce, reviews particular export license matters involving questions of national security or other policy issues. As Chairman of the East-West Foreign Trade Board, I have attended EARB meetings and will shortly be formally designated a member of the EARB by Executive order.

The Secretaries of State and Defense are also members of this important body. The EARB was established by Executive order in 1970 to assure the highest level of consideration of difficult export license cases, and to obtain agreed action among the departments chiefly concerned with advising the Secretary of Commerce in administering U.S. export controls.

THE EAST-WEST FOREIGN TRADE BOARD

But the major East-West economic policy body of the executive branch is the East-West Foreign Trade Board. The Board was created by the Trade Act of 1974 to monitor East-West trade in the national interest. The Board is comprised of the Secretaries of State, Treasury, who is Chairman, Agriculture, Commerce, the Special Representative for Trade Negotiations, the Director of the Office of Management and Budget, the Executive Director of the Council on International Economic Policy, the President of the Export-Import Bank, and the Assistant to the President for Economic Affairs, who is Vice Chairman of the Board. Recognizing the important role of the Department of Defense in national security aspects of our trade with the Communist countries, the Board has recently recommended to the President that the Secretary of Defense be added to the Board's membership.

A working group of the East-West Foreign Trade Board, consisting of representatives of the member agencies, usually meets twice monthly to coordinate the development and implementation of East-West trade policies and to refer issues to the Board for decision. The working group also reviews exports of technology to nonmarket economy countries which is essential for the protection of our security, and receives reports from U.S. Government agencies which provide credits, guarantees, or insurance for exports to nonmarket economy countries.

As required by the Trade Act, the East-West Foreign Trade Board publishes a quarterly report on U.S. trade with the nonmarket economy countries. The report reviews (a) the status of negotiations of bilateral trade agreements, (b) activities of joint trade commissions, (c) commercial disputes and problems of market disruption, (d) East-West trade promotion activities, and (e) recommendations for the promotion of East-West trade in our national interest.

CURRENT STATUS OF EAST-WEST TRADE

Prior to 1974, the United States was making remarkable progress in developing trade with the East. Secretary Morton will discuss trade flows in more detail, but I would like to mention a few highlights.

In 1971, total U.S. exports to the Communist countries amounted to less than \$400 million. (For this purpose, the Communist countries are defined to include Albania, Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania, U.S.S.R., People's Republic of China, and Mongolian People's Republic.) In 1974, exports were \$2.3 billion, a more than 475 increase in 3 years.

By contrast, in 1971, U.S. imports were \$230 million, and in 1974, they were \$1 billion. Thus, our total trade surplus with these countries grew to \$1.3 billion in 1974, an increase of 665 percent in only 3 years. The favorable impact of this trade on our balance of payments and on the U.S. economy is obvious.

The expansion of trade with the Soviet Union has been particularly striking, as can be seen in the table in my testimony.

[The table follows:]

U.S. TRADE WITH THE U.S.S.R.

[Millions of U.S. dollars]

	1971	1972	1973	1974	1975 ¹
U.S. exports.....	161	547	1,187	607	1,800
Nonagricultural.....	118	102	265	293	700
U.S. imports.....	57	95	215	350	250
Total trade turnover.....	218	638	1,402	957	3,050
Trade balance.....	+104	+446	+972	+257	+1,560

¹ Estimated.

Source: U.S. Department of Commerce.

Our estimates indicate that, because of very substantial grain sales, two-way trade with the Soviet Union will reach a new high this year of over \$2 billion, with 70 percent of our shipments consisting of grains.

Although most of our exports to the Soviet Union and the other Eastern countries are now agricultural products, our manufactured goods exports have the greater growth potential in the longer term. Shipments in 1974 of nonagricultural commodities to Eastern Europe totaled nearly \$300 million, with almost one-half of these products going to Poland and one-third to Romania.

Manufactured goods and other nonagricultural items accounted for about \$300 million of our exports to the Soviet Union in 1974, and are expected to account for about \$700 million in 1975.

However, this increase reflects shipments which continue to be made on contracts signed in past years. Projects now underway involving major amounts of U.S. exports include the Kama River truck plant, entailing over \$340 million in exports of U.S. goods and services over a period of several years; the Moscow Trade Center, involving an estimated \$80 million in U.S. exports; a chemical fertilizer project,

involving \$400 million in U.S. exports; an acetic acid plant, involving \$44 million; and an iron ore pellet plant, involving \$36 million. All these and other current projects together totaling over \$1 billion are being financed in part by the Export-Import Bank. Eximbank commitments to the U.S.S.R. currently total \$469 million.

EAST-WEST TRADE AND THE TRADE ACT OF 1974

The passage of the Trade Act of 1974 last December was a milestone in the development of our international trade relations. The new trade legislation has given the President, for the first time in 8 years, the authority to participate in the far-reaching multilateral trade talks which began in February of this year. Countries accounting for most of the world's trade are participating in these negotiations which focus on the reduction of all types of tariff and nontariff barriers that affect both agricultural and industrial trade. The mandate given the President by the legislation enables the United States to play a leading role in the expansion of world trade based on clearer ground rules for fair trade practice.

Notwithstanding the importance of the Trade Act for multilateral trade negotiations, this administration has consistently established its objection to the provision of this act, and the 1974 Eximbank Act Amendments, which adversely affect our trade with the Soviet Union, the nonmarket economy countries of Eastern Europe, and the People's Republic of China, and which do not serve our political and humanitarian interests.

During my trip to Moscow in April for the annual meeting of the U.S.-U.S.S.R. Commercial Commission, the President asked me to discuss the recent legislation and our future trade relations with the Soviets. My talks with Soviet leaders convinced me that it is in our interest to find a way to unblock the impediments to increased trade which now face us.

In the past several months, we have consulted with Members of the Congress on this problem. During the summer, Secretary Kissinger, other members of the Board, and I met with the members of the Senate delegation to the U.S.-U.S.S.R. Parliamentary Conference before and after their visit to Moscow. The Senators had an extremely frank exchange of views with top Soviet officials on the impact of the Trade Act on United States-Soviet relations. I believe their visit was extremely useful, as was the visit of the House delegation which took place in August.

Additional consultations with several congressional leaders have been undertaken more recently. I have been encouraged by a common appreciation that we must move ahead. We approach this task with the sure knowledge that it is in our national interest.

The normalization of our commercial relations with the U.S.S.R., Eastern Europe, and the People's Republic of China is an integral part of our policy of expanding our relationships with these countries. The administration continues to believe that improvement in our commercial relations is a necessary element in the improvement in our overall relations with these countries. In an interdependent world in which economics and politics intertwine, commercial relations influence the conditions of the larger political environment. What we

do in the economic field could have a significant impact on what we are attempting to achieve in the political sphere.

A solution to the impasse we now face would also materially enhance our business community's efforts to expand trade with the East. We have had many indications that the lack of official credits from the United States is causing the U.S.S.R. and some of the Eastern European countries to direct their purchases elsewhere. Lost U.S. exports mean lost jobs in our export industries, a lost benefit to our balance of payments, and to our competitive position in world markets.

The inability to extend MFN treatment to imports from the Eastern bloc countries is also holding back major joint projects between our firms and the U.S.S.R. and other countries of Eastern Europe. This is because these projects often involve the eventual export of products to the United States that are now affected by high U.S. non-MFN tariffs. These projects could eventually supply us with products in limited supply in our own market, such as energy sources and products from energy consuming products. Losing these major joint projects is, therefore, a net loss to the United States.

PROSPECTS FOR EAST-WEST TRADE

The potential for U.S. exports of goods and services, particularly to the U.S.S.R., remains great. The Soviets plan to boost foreign trade with the Western World by 9 percent in 1976 over the level planned for this year. U.S. agricultural exports have been and will continue to be very significant, in part as a result of the U.S.S.R.'s agreement to buy annually a minimum of 6 million metric tons of wheat and corn. But future growth, we believe, will be mainly in manufactured goods.

Moreover, the enormous scale on which the Soviet projects are planned makes the United States in many cases a favored trading partner, since few European firms are well equipped for such huge undertakings.

The Soviet Union possesses greater energy reserves than the United States, but faces increasing technological problems as it moves to energy sources deeper in the ground, offshore, and in the Arctic. The U.S.S.R. can obtain much of the necessary technology elsewhere, but in many cases would prefer to deal with U.S. companies. It is manifestly in our interest to participate in the expansion of the world supply of energy. In addition, the cooperative projects that would be undertaken to develop these energy sources could provide additional jobs to our economy, supply us with some energy products, and strengthen our balance of payments. Deputy Secretary Ingersoll, in his testimony tomorrow, will elaborate on the administration's efforts to negotiate a petroleum agreement with the U.S.S.R.

The potential for trade with the other Eastern European countries not now receiving MFN and the People's Republic of China is also significant.

The U.S.S.R. and many of the Eastern European countries are currently signing contracts with our Western competitors that benefit from government-backed credits. The major European countries and Japan have agreements with the U.S.S.R. under which \$10 billion of government-backed credits will be available to finance export sales to the Soviet Union.

During my April visit to Moscow, the Soviets told me that contracts involving over \$700 million in credits which might have been placed in our country had gone to European suppliers because of the lack of Eximbank credits.

Soviet Deputy Minister of Foreign Trade Alkimov has recently indicated that in the last 9 months, \$1.6 billion in contracts which the Soviets were ready to sign with U.S. firms have gone to Western Europe and Japan because of the U.S. restriction on Eximbank credits. Many of these contracts were negotiated as part of the Soviet 1976-80 plan and therefore represent business opportunities that are not likely to appear again until the next 5-year plan period. Because of the present impasse, U.S. firms have faced the possibility of being virtually excluded from projects in the forthcoming Soviet plan period. The only contracts that they might still win involve projects for which the U.S. companies have no significant competition.

It is my hope, however, that competition among Western industrial nations for exports through government-subsidized credits will end. There was discussion of the problem at Rambouillet, and I am pleased that the six leaders agreed to intensify their efforts to achieve prompt conclusion of the negotiations concerning export credits. Governments should reduce government competition on credit terms offered to all countries. There is simply no point in this subsidized competition.

There is one change in U.S. law that would facilitate the contribution of private financial markets to financing East-West trade. The Johnson Debt Default Act of 1934 is a criminal statute which provides penalties for any individual who, within the United States, purchases or sells bonds or any other financial obligations of any foreign government which is in default in the payment of its obligations to the United States. The act has not served its initial purpose, which was to protect American investors against the purchase of obligations of countries likely to default. Instead, it has had the effect of deterring creative methods of financing East-West trade by the private market. The repeal of the act would, in my opinion, remove an unnecessary barrier to the private financing of East-West trade and increase our efforts to expand trade and commerce with nonmarket economy countries on commercial credit terms.

MISCONCEPTIONS ABOUT EAST-WEST TRADE

Finally, Mr. Chairman, I would like to respond to some misconceptions about East-West trade. Granting most-favored-nation status to the nonmarket economy countries of Eastern Europe, the U.S.S.R., and the People's Republic of China would give them no special privilege. The Soviets, the East Europeans, and the Chinese nevertheless consider the granting of nondiscriminatory tariff treatment as significant for the improvement of our political and commercial relations. Granting MFN would therefore have a positive impact on the growth of our exports to the East. It is our hope that this expansion would encompass industrial and consumer goods, as well as agricultural commodities.

If we confer MFN treatment to imports from these countries, ultimately U.S. purchases of a variety of their manufactured products will result. I certainly do not predict a flood of manufactured products

to enter our market and displace domestically produced goods, however. In most cases, these countries are not now able to manufacture goods of sufficient quality and consumer appeal to displace products from our domestic industries. A large portion of these imports would, in any case, simply compete with and displace our imports from other foreign sources. In addition, in the Trade Act of 1974, Congress provided adequate safeguards against market disruption to protect our domestic industries, if necessary, and American consumers would benefit from competition for our market and the lower prices it would produce.

With regard to the legislation protecting our domestic industries from dumping, some of our Communist trading partners have expressed their concern that the Antidumping Act, as amended by the Trade Act of 1974, may unfairly hinder their ability to export to the United States. The amendment requires that export prices from a Communist country to the United States be compared with the prices of a manufacturer of a similar product in a market economy country, if I, as Secretary of the Treasury, determine that the home market prices in the Communist country cannot reflect actual costs and prices due to the structure of that economy.

Treasury is studying whether alternative methods of comparison are available under the act for conducting investigations and whether revisions to our procedures or to the act would be appropriate.

There is a second misconception which I would also like to address.

Eximbank credits for exports to the Communist countries do not represent either special treatment or "foreign aid" to these countries. The potential flow of credits from the United States represents only a small fraction of the capital available to the East for East-West trade.

While potential credit flow may be relatively small, the availability of credits is nonetheless an important factor in the purchasing decisions of the Communist countries. Until we succeed in reducing competition for exports through government-backed credits, Eximbank credits are necessary to put our firms on a competitive footing with their industrial competitors in doing business with Eastern Europe and the Soviet Union, as with other countries.

I would further stress that in making any decision on extending Eximbank loans to the Communist countries, each loan application would be judged on its merits on a case-by-case basis, just as the loans are judged for exports to other countries. Each project must be economically justified according to the criteria enunciated in the Eximbank Act, and must also bring a net economic benefit to the United States in order to be approved.

Third, as I described at the outset, when we trade with the Communist countries, we recognize that the technology that we permit to flow to them might sometimes have limited and indirect uses for military production. Not trading with the Communist countries will frequently not prevent them from acquiring this technology because it often is and will be available from other Western sources.

Excluding ourselves from this trade, therefore, represents foregone economic opportunities and commercial gain for America for no real purpose. Nonetheless, we are always acutely aware of the need to maintain the delicate balance between U.S. economic opportunity, on the

one hand, and national security on the other. The latter must be given full weight.

Mr. Chairman, I have attempted to be as frank and as candid as I can in expressing the administration's views on the status of East-West trade and our current policies affecting it.

I hope that my testimony, and that of my distinguished colleagues, is responsive to your request in your invitation to testify.

It is an opportunity that I personally have welcomed. I believe that it is very healthy to have an intensive public airing, based on the facts about trade and the issues surrounding it. The current climate is still too much instilled with the emotion surrounding the passage of the Trade Act's provisions relating to MFN and credits. I believe—and I fervently hope—that full public ventilation of the issues will be the basis for reestablishing an atmosphere of credibility and trust.

This committee has always been at the forefront in the development of East-West trade policy. Its concern has been constructive, and therefore productive of useful dialog.

These hearings demonstrate your continuing leadership. I commend you for this initiative and look forward to working as closely as possible with you and your able staffs, and with other appropriate Senators and Congressmen as our policy evolves.

Senator INOUE. Thank you, Mr. Secretary. We appreciate your kind words.

I have many questions, but I wish to submit most of them for your consideration and response. These questions involve statistics and are technical in nature. Some relate primarily to the East-West Foreign Trade Board.

I have a few questions I would like to ask you at this time.

Since 1969 an effort has been made to develop a comprehensive strategy designed to bring about normalization of East-West relations.

The strategy sought progress on the broad front of issues and has come to be known as détente. Although I realize that you were not in office at the time the initial agreements were made between American and Soviet officials, would you please explain what you perceive to be the objectives of détente, and what role trade with nonmarket countries plays in this strategy as a whole?

Secretary SIMON. I must admit I have always found quite compelling, Mr. Chairman, the statement by Henry Kissinger when we looked at the alternatives, a recognition that the philosophy of these countries is certainly not going to change, and it is indeed quite the opposite from the United States of America.

We have tried the other way, we have lived through a long period of cold war. We recognize that economic benefits indeed accrue to the United States as a result of increased trade with all countries.

We recognize that countries that indeed trade together have a better opportunity to discuss other areas of differences of opinion and in my judgment have an opportunity to solve a great deal of these differences of opinion, because it seems to me that history clearly demonstrates that countries who have been actively trading with each other, where their interest builds over a period of time, their business people are constantly traveling, back and forth, to both countries, as has happened at the outset of Soviet-American détente, that this has helped

to improve the political climate, and indeed lessened the chance of a war.

Senator INOUE. Do you believe that linking the economic issues to political and security issues have succeeded in bringing about the objectives of détente?

Secretary SIMON. I don't think they have succeeded, but I think they are succeeding. It is an ongoing process.

Yes, I think they would succeed if allowed to be normalized, Mr. Chairman.

Senator INOUE. In your statement you spoke of several impediments, most of them were imposed by the Congress of the United States.

Do you have any plans to submit in the forthcoming session, measures to do away with these impediments?

Secretary SIMON. Well, we hope it will be possible to cooperate with Congress to overcome the barriers to trade with these countries.

We are and we have been in active consultation with Congressmen and leaders within this country who are interested in these matters.

Any legislative proposals that would come would be as a result of these consultations which are going on right now.

I would certainly hope that the outcome of these would be a removal of these impediments, as I outlined in my prepared statement.

Senator INOUE. I was surprised by your mention of the Johnson Act. Is it that much of an impediment?

Secretary SIMON. No, but if indeed it is not serving a useful purpose, and is perceived—there are always two types of impediments to legislation, the real and the imagined, if you will.

And this has become obsolete, in our judgment, Mr. Chairman. But I could not say in all honesty that it is per se that much of an impediment.

Senator INOUE. In the development of our East-West trade strategy, what weight is given to commercial considerations as opposed to political considerations? Is it more, or less or equal?

Secretary SIMON. I think that on the East-West Trade Board we have looked at the commercial considerations I haven't paid terribly much attention to the political considerations at all, Mr. Chairman. They accrue, obviously, to a building up of the commercial relationships.

My attention would be directed toward the commercial benefits to this country, consistent with the national security considerations, rather than political considerations. I consider that our security is the overriding consideration. That is why Secretary Morton concluded that I should become a statutory, by Executive order, member of the EARB, which is in the process of being signed right now.

Senator INOUE. Would you then say that the administration is giving the trade and economic objectives a high priority?

Secretary SIMON. Yes indeed we are, consistent with our national security.

Senator INOUE. We have heard discussion about the Rambouillet economic summit conference relating to East-West trade.

Could you tell us what we have achieved from the perspective of the United States?

Secretary SIMON. We have been working for a long time on the monetary arrangements and the obvious disagreement between France

and United States on the sticky issues of exchange rates and what the future of the system would be, as well as some of the aspects of our gold arrangements.

And intensive negotiations were started right after the fund meetings here in September, which were culminated in a final initialing of a document now to be discussed at the G-10 meeting next week in Paris, and the subsequent interim committee meeting in Jamaica, hopefully with the idea of signing the final agreement to be brought back to Congress for its ratification.

So I think that is a significant accomplishment, yes.

But, more importantly, and I know much is written about the so-called cosmetics of world leaders meeting with the trumpet blaring, and having these global discussions, if you will, I think that recognition on the part of our political leaders of the tremendous difficulties that all industrialized democracies are having today, and indeed the real question of the survival of industrial democracies, the ability to control our economic and political destinies, raising all of these questions to the political level, to the heads of state, discussing—we all know what the problems are—what the causes of these problems are, where the solutions lie, and getting a general agreement on the policies, as enunciated by our leaders in these countries, gives a better understanding. It is amazing to me constantly as I go to foreign countries, and as I attended the sessions of the Rambouillet conference, to see that there are misunderstandings of the heads of state as to what our policies were, why we adopted such policies, and indeed I think a better understanding was achieved of all of the issues that confront us, what must be done individually, what can be done collectively to attack these problems.

Senator INOUYE. There are many in this country who insist upon a policy that ties trade concessions to political benefits.

What are your thoughts on that, sir?

Secretary SIMON. Well, obviously I recognize our great strengths, as a country, as far as our agricultural exports, but we have to remember that we have been dedicated for many years in this country, and remain dedicated to a free market economy, one where the removal of trade, tariff and nontariff, barriers is of prime importance as the MTN proceeds.

And while there can be benefits from our agricultural exports, as far as getting other considerations, I don't believe necessarily those issues should be tied, as some have suggested, through export controls and other things.

I think that would be a violation of the very principles that we stand for.

Senator INOUYE. I am certain you would agree that trade with the nonmarket countries, or indeed any country, is not always to our benefit. In a different context, I might note that the Treasury Department supported a view in a still unreleased OMB report, to the effect that trade should not be artificially stimulated, that subsidies should be permitted to the extent to which it maximizes the trading country's comparative advantage, and that concessionary trading terms should be avoided.

Fiat, having built a Soviet plant, now finds itself undercut in price in Europe by Soviet Fiat exports. I am certain it is not the adminis-

tration's desire to have U.S. companies find themselves in the same position.

Secretary SIMON. It most certainly is not, Mr. Chairman. We have stood by and agree with everything you have just said.

Senator INOUE. What criteria, if any, does the administration use to determine the economic viability of commercial deals with respect to, first, the companies involved, and second, the American public, and third, the Western alliance?

Secretary SIMON. Of course this is the unusual aspect as far as the Soviets, and that is why we established the commission of our business leaders with the Soviets. We allowed the determination of the benefits to be pretty much up to the companies that are going to be building plants, and the obvious benefits they assess. They are better able to assess what is in their best interests than we in the Government are.

Of course the one thing I stated here, another aspect of Rambouillet, what we have been trying to do is to establish a gentleman's agreement among the countries that give government-backed credits, where we would not be having rate competitive warfare that is counterproductive to our country.

I feel that we are going to be able to conclude a gentleman's agreement within the next year with the major trading partners, which will be advantageous to us all.

Senator INOUE. Since the establishment of the East-West Foreign Trade Board, has it taken any significant decisions with respect to East-West trade counter to decisions made by other departments and agencies, or has there always been unanimity?

Secretary SIMON. What we try to do, we have a working group that meets bimonthly, and the working group has successfully reviewed all questions to come before the Board—and I can't think of one single instance where there hasn't been agreement by the time an issue has reached the Cabinet level for our consideration.

I think we have been pretty well in agreement as to what is in our best economic interest.

Senator INOUE. Just a few more questions left, sir. As I indicated, I will be submitting the bulk of my questions to you.

How would you assess the overall balance of benefits obtained by the United States and the Soviets since 1972 in terms of sales, profits, technology transfers, access to raw materials, and the impact on the domestic economy, both for the public and private sector?

Secretary SIMON. Well, of course what has happened, especially since the Trade Act, is that our share of total new Soviet orders for machinery and equipment placed in developed Western countries has declined.

We enjoyed 23 percent, it has now declined to 14 percent. But the benefits have been in our direction, clearly, as shown in \$1.5 billion trade balance in our favor this year, which is good for jobs in our export-related industries, and certainly for our balance-of-payments considerations.

Now over time this trade would tend to balance. There is no doubt about that. And indeed it should tend to balance. But when one looks at what the Soviet Union and other Eastern countries, especially the Soviet Union, are trying to do in the mass of major projects that they are going to build, we can and should be playing a significant role in

supplying the goods and services to these companies. It can do nothing but benefit the U.S. economy.

Senator INOUE. What are the prospects for extending of MFN to the other Eastern European countries and the People's Republic of China?

Secretary SIMON. We are in the process of reviewing all of these, but I can say that at the present time none are on the front burner, Mr. Chairman.

But we are in the process of reviewing all of these policies now.

Senator INOUE. Is there any pressure by these countries to expedite this process?

Secretary SIMON. Not to my knowledge, although Secretary Morton, who chairs several of the commissions with the Eastern European countries, can relate better conversations he has had with them recently.

Senator INOUE. Restrictions on the granting of MFN and other restrictions on American trade with East bloc countries are uniform. Nevertheless, has the administration considered dealing with the Socialist countries on a case-by-case basis to improve commercial relations with each individual country to the maximum extent possible, other than the current exceptions of Poland and Romania?

Secretary SIMON. We do deal with them, Mr. Chairman, if I understood your question correctly, on a case-by-case basis essentially.

But of course conditions change, and it is very difficult for us to come up and specify our desires country-by-country. The change in the act would necessarily have to be broad, as far as the legislative language is concerned. But that would not change the policy one iota, nor could it. Just common sense demands that each country would have to be faced on a case-by-case basis, because each one is quite different.

Senator INOUE. Thank you very much, Mr. Secretary.

Senator Cannon?

Senator CANNON. Thank you, Mr. Chairman.

Mr. Secretary, is it the administration's opinion that the Soviet Union needs our credits in trade more than we need expanded trade with them?

Secretary SIMON. No, I don't think so. I think there is one important thing—I know my statement shows what we have lost by not providing them with Exim credits, Senator Cannon.

Deputy Minister Alkimov said \$1.6 billion in orders that would have gone to us went to the Western European countries, that they have granted over \$10 billion in their government credits, if you will, vis-a-vis our limitation of not only \$300 million, but tying Eximbank credits into the emigration policies of the countries involved, before indeed they can be considered.

So I think that it is quite obvious that we have lost significant business here in the United States as a result of this.

Now having said that, they would love to be able to have a free and open trading arrangement, as our 1972 trade agreement contemplated, because obviously it is beneficial to them. There are areas where we have superiority in technology, in the goods we produce.

Naturally trade between two countries or two people must benefit each other.

What I am trying to do is just point out what we have missed as a result of the restrictions and what we can gain indeed in the future by removing them.

Senator CANNON. From the first part of your answer, are you suggesting that the loss of that \$1.6 billion in trade was because of the emigration policy issue, or was it because of the lack of Eximbank credits?

Secretary SIMON. It is both, because they are tied, Senator. First we put a restriction on the amount of credit, and then the Eximbank in the absence of a change in the emigration policies, cannot extend the credits.

Senator CANNON. Many taxpayers in this country don't understand how they would benefit by subsidizing foreign trade through the Eximbank.

Would you explain what the average taxpayer's benefits are in this type of situation?

Secretary SIMON. This goes back to the answer I gave the Chairman a second ago, the gentlemen's agreement on credits from the Export-Import Bank, and the government-backed credits from the other countries, where we would have market-related interest rates, where it per se would not be the subsidy that many people contemplate during this period of high-interest rates.

Now, Chairman Casey is going to be testifying this morning, and he can relate the various interest rates that we have been giving to other countries from the Export-Import Bank. But it is not the per se subsidy that many people perceive.

Of course the whole subject of multinational corporations, and what the benefit may be to the United States is a hotly debated topic today.

But I think that it has been shown indeed that roughly \$1 billion in exports of manufactured goods means a significant increase in new jobs in the United States, some have said up to 75,000 new jobs.

I think this is important. This is what it means to the U.S. economy, aside from the balance of payments and other considerations.

Senator CANNON. Let's go to one specific area.

For example, in the aviation business, how can we justify Exim loans at low rates to foreign countries to buy U.S. aircraft when the foreign countries turn around and compete with our own industry in that particular field. Moreover, they are competing at an advantage because of the lower interest loans that they can receive help to put our people out of business.

Secretary SIMON. When we say lower interest, again it is not that much lower, and Chairman Casey can respond to what the recent credit terms are.

But as far as the aircraft industry is concerned, we look very closely on a case-by-case basis as to what foreign airplanes are in competition, because I share your concern about our domestic airline industry and not giving our competitors a leg up, if you will.

Where there indeed is a question about the effect on competition when they apply for Exim credits, I come down on the same side you do.

Senator CANNON. It seems to me in that particular area that we help them buy the aircraft at a lower rate of interest, which means that their investment, their capital cost, is less than our own companies. Then we put them in competition with our own companies on the same route, particularly the North Atlantic. Thus we have a situation occur-

ring now where we have an ailing air transportation industry that has to have Government help of some sort.

Secretary SIMON. As I say, this is one area that is looked into exhaustively, and I can just assure you that we, in making decisions on all of these issues, but most especially in the aircraft area, we make sure to the best of our ability and our judgment that it is a net economic benefit to the United States, and that means it is not harmful to our domestic industry.

Senator CANNON. Would you agree we should have a restriction so that Exim loans could not be made at a lower rate of interest than the local companies would be required to pay for similar loans for the acquisition of the same type of equipment?

Secretary SIMON. I would hate to see something like that legislated, Senator Cannon, because there could be extenuating circumstances.

Again, we have been fighting for a move to market interest rates for Government-backed credit, and this, of course is the most important facet of it, and Chairman Casey has been a leader in that.

Senator CANNON. Don't you think it is unfair if we permit a foreign borrower to borrow at a lower rate than a U.S. borrower and then compete in the same business?

Secretary SIMON. There again that has to be cranked into the whole equation of the net economic benefit to the United States.

If that is on the negative side of the ledger, you say all right, what are the positives, how many new jobs are created, what does this do as far as the company that is manufacturing the aircraft, and that is how we weigh the net economic benefits.

Senator CANNON. In your statement, you say the inability to extend MFN treatment to imports from Eastern bloc countries is also holding back major joint projects between our firms and the U.S.S.R. and other countries of Eastern Europe.

What other countries of Eastern Europe have major projects that are being held back because of the failure to extend MFN?

Secretary SIMON. We will have to submit a list. I have the list of the U.S.S.R. projects here, but I don't have one for the other countries. I will submit it.

Senator CANNON. And then you go on to say that these projects could eventually supply us with products in limited supply in our own market, such as energy sources and products from energy-consuming projects, and that losing these major joint projects is a net loss to the United States.

With respect to that statement, I would like to have you specify what countries you include there, other than the U.S.S.R. That is the only one I can think of.

Secretary SIMON. The U.S.S.R. is the primary one, I agree with you, and the fertilizer deal of a year or so ago is a perfect illustration of something that is in our net benefit.

Senator CANNON. You also say the potential for trade with other Eastern European countries not now receiving MFN and the People's Republic of China is also significant.

Is the MFN issue an issue with respect to the PRC?

Secretary SIMON. Oh, I think it is an issue, a very real political issue in each one of these countries; yes. The discriminating aspects of non-

MFN treatment has been pointed out to me on each visit I have made to the Soviet Union.

Senator CANNON. In your statement, you say, "Granting most-favored-nation status to the nonmarket economy countries of Eastern Europe, U.S.S.R. and PRC, would give them no special privilege."

If it doesn't give them a special privilege, why is it important?

Mr. SIMON. It discriminates against them right now, because where we have granted MFN treatment, it removes many barriers to trade for exports from those countries to the United States.

Senator CANNON. So when you say it doesn't give them any special privilege—

Secretary SIMON. Special, meaning special over and above anybody else who has MFN.

Senator CANNON. Does it give them a special privilege over and above what they have now?

Secretary SIMON. Yes, sir. There are some people that think we are giving the Soviets, or want to give them, all of the Eastern bloc nations and PRC, something we don't do with everybody else we trade with, and all we want to do is normalize and do the same thing with these countries that we have done with so many other countries.

Senator CANNON. It seems to me that the administration is not entirely consistent in some of its trade policies.

For example, at the present time we have a lobby by the administration to impose sanctions against Rhodesia on the Rhodesian chrome issue because we don't agree with their internal policies.

We have already made it clear in the Jackson amendment that we don't agree with the internal policies of the U.S.S.R., and yet we turn around and buy chrome from the U.S.S.R. with no reluctance at all. Except for the Byrd amendment, you would embargo chrome from Rhodesia, because you don't agree with their internal policies.

How do you rationalize, if you do, that distinction?

Secretary SIMON. Well, Senator Cannon, the President has been very clear from the time he signed the Trade Act of 1974 that his intention was to remove the impediments with the U.S.S.R. that were presented in the trade bill to him. And again in examining issues on a case-by-case basis, perhaps somethings do indeed appear to be inconsistent at times.

Senator CANNON. I am glad you agree that they may do so. To me it seems they clearly are and that there is no rational way you can justify our policy on the Rhodesia chrome issue and at the same time buy chrome from Russia, when we completely disagree with their internal policies with respect to the emigration of Jews.

Don't you agree that it is a pretty good parallel case?

Secretary SIMON. Well, I am sure there are other extenuating circumstances, as far as the Rhodesian chrome issue is concerned.

Senator, I can clearly see what you are saying as far as inconsistency, sure.

Senator CANNON. Thank you, Mr. Chairman. I will pass for the moment.

Senator INOUYE. Senator Stevenson?

Senator STEVENSON. Thank you, Mr. Chairman.

Mr. Secretary, you say that the administration simply wants to treat the nonmarket countries, including the Soviet Union, as we do in our trade relations with other countries.

The Soviet Union is unique. There is no other nation where the GNP is second only to our own. There is only one country in the world that is the world's largest oil producer. There is only one country on the Earth with which this administration pursues détente, and that one country is the Soviet Union. There is only one country in the world that between 1972 and 1973 was the beneficiary of so much, about \$1 billion in subsidized credits through both the Eximbank and the Commodity Credit Corporation, \$469 million through the Eximbank.

Secretary SIMON. And \$550 million from the CCC.

Senator STEVENSON. You said Eximbank credits for export to the Communist countries do not represent either special treatment or foreign aid for those countries.

Well, that is special treatment. That is special treatment for the Soviet Union—for political as well as economic reasons—which are explicitly acknowledged before the Congress by representatives of the State Department.

And, finally, you say it isn't foreign aid. Well, I would like you to respond, if you would, to this proposition, too. Those credits through the Eximbank for the benefit of the Soviet Union are—every last penny of the \$469 million—long-term subsidized and for projects of the kind which you have described.

The Soviet Union, unlike other countries, gives the United States very little access to its consumer markets. Those credits are for the internal development of the Soviet Union—for the Kama Truck Factory, the Occidental deal, and the other large projects of the kind you mention.

Now you say it is not foreign aid. And yet it is long-term, subsidized credit which is tied to purchases from the United States for the internal development of the Soviet Union.

That being the case, what is the difference between those credits through the Eximbank, and tied AID loans, except, perhaps, that the interest rate is a little higher?

Secretary SIMON. The interest rate is indeed higher.

Again this goes back to a response I made both to Senator Cannon and to the chairman, that we have to assess the net economic benefit of these loans when we talk about foreign aid, and outright foreign aid is one thing, as it is characterized, where we assist, whether it be with low-interest loans or otherwise, a particular country, and receive nothing tangible in return.

We do receive something tangible in return by building a truck plant. Our goods and services are exported to the country.

Senator STEVENSON. The same thing would apply to AID loans.

Secretary SIMON. The difference is we benefit from the export of these goods and if we don't do it, obviously the other countries would do the same thing. As far as special treatment, what I meant is in giving Eximbank credits to the Eastern bloc or the U.S.S.R., we are not giving them anything that we are not doing with all other countries that we indeed grant credits to, or indeed—

Senator STEVENSON. What other country received \$1 billion in subsidized credit between 1972 and 1973?

Secretary SIMON. From Eximbank?

Senator STEVENSON. Subsidized credit—loans from the United States?

Mr. SIMON. I would like to make a list. I think you will find Iran, for instance, is one country who received at least that amount. But I would want to check.

Senator STEVENSON. I have a list.

Secretary SIMON. I don't have one with me.

Senator STEVENSON. There is only one other country that is clearly discriminated in favor of by the Eximbank, and that is Taiwan. I am talking about subsidized credits, whether it is from Eximbank or the Commodity Credit Corporation.

I don't believe you will find any country that has received such largess from the United States as the Soviet Union.

Secretary SIMON. I would like to submit—

Senator STEVENSON. Of course, credit has been cut off now. Now the Soviet Union is paying cash for its grain at the market price because of the action the Congress took.

Secretary SIMON. That is correct. I would like to submit a list, as I say, Senator Stevenson, of what the exact credits are, any subsidized credits to all countries.

Senator STEVENSON. We would be glad to have another list. It might be different.

You mentioned Mr. Alkimov, with whom, I suspect, many of us also have had conversations. I am sure you, Mr. Secretary, like us, don't take everything that every agent of every foreign government says at face value. Has the Treasury Department undertaken its own analysis to determine exactly how much we have lost as a result of the termination of credits to the Soviet Union?

Secretary SIMON. Well, we have been talking to a great many companies here in this country. We have looked at the contracts to the best of our ability that have been let by the USSR to our western trading competitors, if you will, and we are in the process of compiling what might have come here in our judgment had we been free to trade.

But certainly we have been told by a great many of our companies. And again I agree with you, I don't necessarily believe everything that is told me by any foreign official as to what we might have gotten, if indeed we had this free and open trading system we all desire. We make a judgment that, sure, is in our best interests, but it is questionable whether the figure is a billion six or whatever number.

But our business community, as you know, believes they have been severely restricted as a result of this.

Senator STEVENSON. The issue isn't trade. There is nobody, that I know of at least, who is against trade with the Soviet Union, except of course for strategic items.

And I should point out, perhaps, going back, notwithstanding your protestations to the contrary, many of the products, the export of which is subsidized by the United States, do have strategic implications.

Kama Truck factory can make trucks for many purposes. Natural gas produced in the Soviet Union can be used for its own purposes, and so can computers.

Apart from the strategic implications and the long-term economic implications, some of which have been already alluded to, the issue is the extent to which trade has to be subsidized.

The West Germans, I believe, have put their trade with the Soviet Union on a cash basis. As I mentioned a moment ago, this year the Soviet Union is paying cash for its grain. Our trade is continuing, and it is going up.

Secretary SIMON. You know, I have some trouble with that, Senator Stevenson, as far as the West Germans putting there—it may be very true, but I think that you will find West Germany, as well as all of our major trading competitors, have indeed granted credits of very large amounts to the Soviet Union.

Senator STEVENSON. I think the West Germans—I am a little uncertain on this—may be an exception. But certainly most of them have.

Secretary SIMON. Between \$10 and \$11 billion in credits has been extended and of that I would judge that West Germany is a significant part of that.

Senator STEVENSON. My impression is within the last year the West Germans have put it on a cash basis. But anyway, I don't quarrel with the basic proposition that you are making, which is they are subsidizing trade—

Secretary SIMON. To a greater extent than we are, Senator.

Senator STEVENSON. Well, we are not doing it at the moment. And I don't quarrel with the notion that to some extent, though maybe much less than you suggest, we lose some trade as a result of our failure to make credits available on a subsidized basis.

They are, of course, available, short term, on an unsubsidized basis from commercial sources in the United States.

But you deplore, Mr. Secretary, in your very good statement, the subsidization of exports. You say: "There is simply no point in this subsidized competition."

And yet what you are supporting is subsidized credits for the Soviet Union. One of the most hopeful and promising things I have heard from this administration in a long time is something that we have requested for a long time.

In your statement you say:

It is my hope that competition among Western industrial nations for exports through government-subsidized credits will end. There was discussion of the problem at Rambouillet, and I am pleased that the six leaders agreed to intensify their efforts to achieve prompt conclusion of the negotiations concerning export credits. Governments should reduce government competition on credit terms offered to all countries. There is simply no joint in this subsidized competition.

Mr. SIMON. This is an important point, if I can interrupt for a moment.

When the Chairman asked what are the benefits from Rambouillet, and we talk about raising the level of the discussions to the political leader level, the direction political leaders give on special issues to their cabinet members and to the bureaucracy is an indication of their firm desire to get a resolution of this issue, which we have been negotiating for over a year. At the latter level, the usual bureaucratic arguments and discussions and stonewalling go on, and in the absence of the direction from the political leaders, these discussions could go on for many years.

But obviously there is a desire to resolve this issue and do it quickly, and that is what we are trying to do.

Senator STEVENSON. I am glad to hear that is what you are trying to do, because that is what we have been trying to get you to do.

Secretary SIMON. No, no, the Treasury Department has been actively involved with the—

Senator STEVENSON. I am familiar with those negotiations, but not at the level you are talking about.

On May 23, as a matter of fact, I wrote a letter to the President, and this is just before the summit in Brussels, and I said:

It is incongruous for the United States and its allies to subsidize, directly and indirectly, the development of Soviet military capabilities and deprive themselves of capital resources with which to develop their own military and industrial capabilities.

As it is now, the industrial democracies are competing among themselves, on the one hand to diminish their burdens of mutual defense, while on the other hand to aid in the development of Soviet military and industrial capabilities. As you know, the United States has already extended about \$1 billion in subsidized credits to the Soviet Union. Our allies are doing likewise. Some coordination among the allies might diminish the pursuit of inconsistent ends, perhaps upon some understanding that credits will be made available through a consultative process as progress with the Soviet Union is achieved on such large issues as mutual and balanced force reductions, SALT, and peace in the Middle East. It could lead to a relaxation of tensions between East and West.

There are two issues here. One of which Chairman Casey knows about, and that is the question of credit competition among all of the major industrial exporting countries and for all their importers.

And the other, which is a part of this, is the competition among countries, including NATO allies, on credit terms for the Soviet Union.

What I would like to get clear now is whether, in addition to the general discussions on general credit policies that we are familiar with and that State and Treasury have been a part of, there is also a concerted effort at a high policy level to resolve the issue of credits for the Soviet Union.

And I question why—the Soviet Union's GNP being second only to our own and with raw materials that can be exported—the Western allies ought to be extending any credit to the Soviet Union.

Secretary SIMON. Well, of course I can assure you this is being discussed at the political level. It was discussed at Rambouillet.

Senator STEVENSON. The Soviet Union as opposed to export credits generally?

Secretary SIMON. No; the whole Eastern bloc was discussed, and, of course, I don't know that the Soviet Union was singled out nor do I believe that the question of whether or not credits should be given was indeed discussed.

It was more on standardizing and weighing the potentially deleterious effect of having the rate wars which are clearly disadvantageous to us all. And that is the area that we focused on.

Senator STEVENSON. Well, I have never received a satisfactory answer to the letter that I wrote. That is one reason that I asked you.

I would hope the administration might separate this question of credits for the Soviet Union and deal with it in the context also of our relations with the People's Republic of China.

You say you want to treat all countries alike. Well, let's treat the Soviet Union and the People's Republic of China on the same terms.

Secretary SIMON. We do, consistent with what I said before, judging these issues on a country-by-country and case-by-case basis as to the net economic benefits, and national security.

Senator STEVENSON. You have been saying you want to treat everybody alike.

Secretary SIMON. I meant legislatively it would be difficult to attempt to put the language down on paper that would cover each potential extenuating circumstance that might arise and we would like to maintain a flexibility because we do think this is significant for the United States. We think the trade we have lost has been significant enough for us to be concerned, because we have specific reports, whose details we looked into, of ammonia and urea plants that went to France, Italy, West Germany, that would have gone to us because the negotiations were ongoing until this bill passed, and then the negotiations shifted to our European competitors.

Senator STEVENSON. The Chairman is very patient, I hope. I will try to conclude with one final question.

The Exim legislation was passed, including the so-called \$300 million ceiling—I say so-called, because of the fact it was not a ceiling. The impact of that bill is still misunderstood.

What Congress did in that was simply say we are not going to provide the check for subsidized credit, aid, loans, call it what you will, for the Soviet Union. We will, as in the case of foreign aid, subject the continued extension of credit which has already gone from zero to \$1 billion in about a year and a half, to periodic congressional review; before more than \$769 million in credits can be extended to the Soviet Union the administration will have to set up a new ceiling, new level, get additional authority and we will vote that up or down with a concurrent resolution.

The implication is that congressional approval of still more credit would be conditioned, implicitly, discreetly, on a continuing evaluation of our relations with the Soviet Union, and progress on many fronts, not just emigration, but the Middle East, SALT, and Angola, Somalia, MFPR, and so on. The proposal, I might add, was introduced with the knowledge of and with no strenuous opposition from this administration, before it was introduced or at any time before it was passed.

How do you, Mr. Secretary, feel about that form of congressional oversight or review on this question of Exim credits for the Soviet Union?

And how do you feel about it as a possible alternative to other checks specifically linked to issues such as emigration?

Secretary SIMON. Specifically linked credits, Senator Stevenson, give me some great problem. The whole issue of congressional oversight, I must admit, is an important one. To a great degree I think you already have it. Whether or not you would wish specifically to legislate for emergencies, if you will, to assure total congressional overview, that would depend on the specifics of what you had in mind.

I hate to create impediments to trade, and yet I want to be sure that the necessary safeguards which you are talking about are there as far as the all-important congressional overview.

And it would depend on the specifics! I think it is important, but I hate to see anything in that that would act as a real or imagined impediment to our trade with these countries.

Senator STEVENSON. Well, I hope you will consider that question at greater length, and perhaps we will have another opportunity to discuss it.

Secretary SIMON. I would like to know more of what you have in mind as to the specifics of this overview.

Senator STEVENSON. My specifics are already law. The so-called ceiling, which is not a ceiling, it is a process for a periodic congressional review.

Secretary SIMON. Again, forgetting the whole subject of the gentleman's agreement we are attempting to negotiate, we always have to look when one is in business at what your competitors are doing. And you ask if that is a consideration in this. Is putting this limit on creating an economic disincentive to our doing business with these countries, which means we wouldn't get the inquiry we might normally get? That is a judgment.

Senator STEVENSON. Of course that would be a judgment that the Congress would take into consideration, too, in this procedure.

Secretary SIMON. Sure.

Senator STEVENSON. Thank you, Mr. Secretary.

Secretary SIMON. Thank you, sir.

Senator INOUE. I have just one final question.

We seem to be very sensitive to problems of the Socialist countries. I know that the administration was quite distressed with some of the legislative proposals such as those described by my colleague.

Do you believe that the Eastern bloc countries and the Soviet Union are equally sensitive to some of our problems here?

Secretary SIMON. Yes, I believe they are, Mr. Chairman. Which problems would you be referring to?

Senator INOUE. The emotions that may be generated by the treatment of Soviet Jews.

Secretary SIMON. Yes.

Senator INOUE. Are they sensitive to that?

Secretary SIMON. Yes.

Having said that, they are also extremely sensitive to the United States adopting positions on their internal affairs as well. That is, of course, the whole difficulty in the emigration issue. But they are sensitive, extremely sensitive to this, yes.

Senator INOUE. While we are actively trying to carry out the policy of détente, do you feel they are sufficiently sensitive to what we observe is happening in Angola?

Secretary SIMON. Yes, I do, and Secretary Kissinger, in his statement the other day, made, I thought, a rather strong statement of warning of the damaging effect this could have on détente.

Senator INOUE. Thank you very much, sir.

Secretary SIMON. Thank you, Mr. Chairman.

[The following information was subsequently received for the record:]

THE SECRETARY OF THE TREASURY,
Washington, June 15, 1976.

HON. DANIEL K. INOUE,
U. S. Senate,
Washington, D.C.

DEAR DAN: You will recall that in our discussion at the Senate Commerce Committee hearings of December, 1975, you expressed an interest in the actual commercial impact of the Trade Act of 1974 on U.S. business relationships with the socialist countries in general, and with the U.S.S.R. in particular.

As a followup to that discussion, the Department of Commerce, at Treasury's request, undertook a survey of over 200 U.S. firms to ascertain information about specific transactions with the socialist countries that were lost by these firms to foreign competitors because of the restrictions in the Trade Act.

Among those responding to the inquiry, the ratio of letters indicating that the Trade Act caused the firms some commercial loss to those that indicated that the Trade Act had no commercial impact was 3.9 to 1. The linking of Eximbank credits and MFN to the emigration policies of certain nations was considered to be detrimental to U.S. interests by those firms which indicated commercial loss. Most criticism was directed to the Act's restriction on the extension of U.S. Government supported credits, while competitor nations are making such credits available.

Although the total amount of business lost to U.S. firms because of Trade Act restrictions cannot be ascertained, nine firms attributed a combined loss of \$553 million worth of business to the Trade Act. In addition, a computer manufacturer listed business lost since 1967 amounting to almost \$279 million, due to "non-availability of export financing and/or denial of export licenses", and a large aircraft manufacturer reported negotiations for the sale of 30 to 60 commercial transports worth \$2 billion had come to a halt due to provisions of the Trade Act and other factors.

While the firms surveyed may not necessarily be representative of the entire business community, and the study should not be considered exhaustive, it has served to point out that there is a widespread belief among U.S. corporations that the Trade Act has been harmful to U.S. business interests. I, therefore, remain steadfast in my view that it is in the interest of the U.S. to change the law, and I hope that the time will soon come when we can work together to accomplish this change.

Best regards,

Sincerely yours,

WILLIAM E. SIMON.

QUESTIONS FOR SECRETARY SIMON

Question 1. What priority within the Administration is given to the achievement of our trade/economic objectives and to our East-West commercial policy as a whole?

Answer. The Administration assigns high priority to these elements of national policy. We have pursued these objectives with the firm conviction that accelerated development of strong economic ties between the United States and the Communist countries will give each side a more solid stake in the parallel improvement of our political relations.

Question 2. To your knowledge, in the policy discussions on East-West trade leading up to the 1972 Agreement, were there specific linkages between trade concessions and political benefits? If so, what was the relationship between the two?

Answer. The lend-lease settlement was signed on October 18, 1972 at the same time as the Trade Agreement with the Soviet Union. The lend-lease settlement provided for payment \$722 million to the United States by the Soviet Union, in full settlement of certain claims related to World War II, but specifically linked \$674 million of these payments to the granting of most-favored-nation treatment by the United States to the Soviet Union.

At the time there was a feeling on both sides that improved trade relationships would have a beneficial effect on political relations. This was expressed in the joint declaration of Nixon and Brezhnev of May 29, 1972, which stated:

The USA and the USSR regard commercial and economic ties as an important and necessary element in the strengthening of their bilateral relations and thus will actively promote the growth of such ties.

Question 3. It appears that the link between trade concessions and political benefits is unspecified. In your opinion does such a linkage adequately serve as a basis for the development of consistent objectives, unified planning, program implementation and progress evaluation?

Answer. The interrelationship between trade concessions and political benefits is real and pervasive. This is reflected in the joint declaration of President Nixon and Chairman Brezhnev, quoted above, that "the USA and the USSR regard commercial and economic ties as an important and necessary element in the strengthening of their bilateral relations."

However, the Administration does not believe that the expansion of the U.S. role in East-West commerce can or should be made dependent upon quantifiable progress toward specific short-term political objectives. On the contrary, on one very basic objective, freedom of emigration, the Administration counseled against specific linkage to the granting of most-favored-nation (MFN) tariff treatment and official credits to these countries. Experience has indicated the counter-productive effect of establishing an explicit *quid pro quo* in this instance.

We should also not try to tie individual trade transactions to specific political concessions—for example, concessions on arms control issues. The temptation to do this can be great if we have something to sell that the other side wants very badly. Even if political concessions could be extracted in this way, they would be likely to evaporate once the terms of the commercial transaction had been met. We would then be left with a business deal in which we had given away some real economic benefits in return for vague political promises. Trade transactions, like political and arms agreements, must be able to stand on their own merits.

We have to remember that neither the United States nor the Communist countries are prepared to relinquish basic interests or fundamental principles for the sake of trade.

In developing objectives and plans we must recognize the inherently non-specific nature of the link between trade concessions and political benefits in general, resulting in an improved atmosphere and a strengthened tendency toward mutual restraint in international relations. We should give full consideration to such linkage in the development of consistent objectives, unified planning, program implementation and program evaluation, but we should not overestimate our ability to use such linkage for narrowly defined political objectives.

Question 4. What factors, in your opinion, limit the fulfillment of political and security objectives of the use of trade?

Answer. Probably the most significant factor limiting our use of trade to fulfill political and security objectives is the fact that while the U.S.S.R. and other Communist countries desire to trade with the West, such trade is not essential to them. The Soviets, in particular, demonstrated for many years their ability to get along with a minimum of trade with non-Communist countries. The Soviet Union and various other Communist countries have foregone Export-Import Bank credits and most-favored-nation treatment rather than meet the emigration requirements of the Trade Act of 1974.

Another limiting factor is that most items which the U.S. exports are also available from suppliers in other countries, frequently on credit terms which are more attractive than those which U.S. suppliers can offer. In fact, the U.S. role in East-West trade is small. Trade between the nonmarket economy countries and the industrial West amounted to \$43 billion in 1974; of this, the United States accounted for only \$3.2 billion, or about 7.5 percent.

Trade is a two-way activity, presumably beneficial to both parties. Our ability to use trade for political ends is conditioned by the fact that if we interfere with trade we are likely to harm our own economic and commercial interests, depriving U.S. firms of business and U.S. workers of jobs, impairing the level of economic activity in the U.S., and adversely affecting our balance of payments.

There is also the danger that, in trying to use trade to attain political ends, we may burden U.S. exporters with government controls, involving bureaucratic complications and delays which will place them at a disadvantage and will discourage them from exporting.

Question 5. You stated during your appearance before the Committee that you believe the negotiation of commercial deals should be left to the private sector. Other than in the obvious security aspects of such transactions, do you think that the U.S. Government has any role to play in such transactions? If so, what are the parameters of this role?

Answer. I strongly believe that in general the negotiation of commercial deals should be left to the private sector. Normally it is not necessary for the United States Government to intervene, except to protect the security interests of the nation. The U.S. firms themselves are better able to work out questions of price and contract terms than government bureaucrats would be. The free market mechanism permits the principle of comparative advantage to operate in our international trade.

However, there are special circumstances in which government intervention is necessary to protect the national interest. The grain trade with the Soviet Union is an example of a unique answer to a unique problem. In 1972, the massive purchases of grain by the Soviet Government led to dislocations in the market to the detriment of American producers and consumers. The agreement between the U.S. and the U.S.S.R. on the supply of grain, signed October 20, 1975, is designed to stabilize Soviet purchases of U.S. grain, thus avoiding such dislocations in the future. At the same time, the grains agreement does not prevent the market from determining the price which the Soviets, or other buyers, will pay. Public and private interests are thus reconciled.

I believe that in general the parameters for government intervention in commercial transactions are:

(a) The Government should assiduously safeguard the security interests of the nation, as in administering export controls.

(b) The Government should not intervene in commercial transactions not involving the security of the nation, unless there is a clear need to do so in specific situations. Such intervention should be for the minimum length of time necessary, and should involve the minimum amount of disruption of normal commercial activities consistent with adequate protection of the national interest. The Government should avoid setting up a bloated bureaucracy or creating vested interests which have an incentive to expand controls or continue them longer than strictly necessary. The Government should establish general guidelines applicable to such transactions, rather than intervening directly in individual negotiations.

(c) With respect to U.S. imports, the Government has responsibility under Sections 203 and 406 of the Trade Act of 1974 (Section 406 applies only to Communist countries) to prevent or remedy serious injury or the threat thereof to the U.S. industry in question and to facilitate orderly adjustment to new competitive conditions. Here again, the Government should take actions of general applicability, such as negotiating orderly marketing agreements with foreign countries, rather than intervening directly in the negotiation of individual commercial transactions.

Question 6. Do the preparations for periodic commission meetings include an evaluation of the benefits that flow from the U.S.-Eastern block trade relationships and a review of previous decisions taken pursuant to such meetings and their effect on U.S. businessmen doing or wanting to do business in that particular socialist country?

If not, why not?

If yes, what is the nature of such evaluation?

Answer. Yes, the preparations for commission meetings include an evaluation of benefits and a review of previous decisions and their effects.

The evaluations normally are made by U.S. agencies in the process of preparing position papers and briefing memoranda in anticipation of the meeting of the Commission. Papers are prepared by the agency most directly concerned with a particular topic and then circulated to other interested agencies for comments and clearance. Evaluations are made with the benefit of detailed information from our Embassies about the experience of American businessmen in the country, and also of information acquired by U.S. agencies in contacts with businessmen in the United States.

It has been the practice for the U.S. agency most concerned with decisions taken at the previous meetings of the Commission to maintain a record of steps taken to implement such decisions. This record is reviewed during preparations for the upcoming meeting and the effects of the decisions on U.S. businessmen are evaluated during the process of determining what further action is called for at the next meeting.

EAST-WEST FOREIGN TRADE BOARD

Question 1. (a) Can you indicate your personal position on the question of membership for the Secretary of Defense on the East-West Foreign Trade Board? Can you tell *why* the Secretary of Defense is not now a member of the Board? Can you tell us if and when he will become a member of the Board?

(b) The Defense Department will soon be added as a member of the Board. Does this modification of the Board's composition signal a change in Administration policy with respect to our East-West trade policy?

(c) Who are the other members of the Board?

(d) How often does the Working Group, headed by Mr. Parsky, meet? Are its agenda, decisions, and minutes available to the public and the Congress?

Answer. (a) I am pleased to report that in November of last year, in response to a suggestion by Chairman Russel Long of the Senate Finance Committee, the East-West Foreign Trade Board unanimously recommended to President Ford that the Secretary of Defense be added to its membership. Subsequently, by Executive Order 11894, dated January 3, 1976, the President designated the Secretary of Defense as a member.

(b) The addition of the Secretary of Defense as a member of the East-West Foreign Trade Board serves to strengthen existing Administration policy with respect to East-West trade, not signal a change in it. The membership of the Secretary of Defense will enable the Board to better fulfill its function of monitoring East-West trade to insure that it is in the national interest.

(c) The members of the East-West Foreign Trade Board are:

- (1) The Secretary of Treasury.
- (2) The Secretary of State.
- (3) The Secretary of Defense.
- (4) The Secretary of Agriculture.
- (5) The Secretary of Commerce.
- (6) The Special Representative for Trade Negotiations.
- (7) The Director of the Office of Management and Budget.
- (8) The Executive Director of the Council on International Economic Policy.
- (9) The President of the Export-Import Bank of the United States.
- (10) The Assistant to the President for Economic Affairs.

The Secretary of Labor and the Deputy Assistant to the President for National Security Affairs, although not members, are invited to attend Board meetings.

(d) The Working Group of the East-West Foreign Trade Board usually meets twice monthly to coordinate the development and implementation of East-West trade policies and to refer issues to the Board for decision.

Because of the sensitivity of many of the issues discussed at Working Group meetings, the agenda and minutes are classified and not ordinarily available to the public. The Board would also consider Congressional requests for such information on a case by case basis, making every effort to be as forthcoming as possible without jeopardizing the Board's ability to formulate effectively East-West trade policy. In our discussions with the GAO we have made every effort to cooperate with requests for information.

Decisions and recommendations of the East-West Foreign Trade Board are generally reflected in the Board's quarterly reports.

Question 2. Since the Board was established, exactly what significant East-West trade decisions have been made, or actions taken, by the Board as a direct result of its initiative?

Answer. During the brief period the Board has been in existence, it has dealt with numerous questions of significant import to the development of East-West trade. The most persistent and controversial of these has been the normalization of our commercial relations with the U.S.S.R., the nonmarket economy countries of Eastern Europe, and the P.R.C. The Board has recommended to the President and the Congress that changes be made in existing legislation to remove the barriers to normalized trading relationships with these nonmarket economy countries. It should be noted that the Board continues to hope that the Administration and the Congress can move forward in a spirit of cooperation on this important issue.

Among other Board activities, the Board and its Working Group have closely monitored the purchases of grain by the Soviet Union over the past year, as well as the negotiation of the U.S.-U.S.S.R. Long-term Grain Sales Agreement. With respect to grain sales, the Board decided that the situation required monitoring on a daily basis. As a result, the Board designated the Economic Policy Board, whose executive committee meets daily, to maintain oversight of the grain sales question.

The Agreement on Trade Relations between the United States and Romania, which entered into force on August 3, 1975, was another of the important East-West trade issues which was considered by the East-West Foreign Trade Board. The Board actively endorsed the Agreement, and strongly urged its approval by the Congress.

In November of last year, the Board unanimously recommended to President Ford that the Secretary of Defense be added to its membership. In an Executive Order dated January 3, 1976, the President carried out this action, thereby strengthening the Board's function of monitoring East-West trade to insure that it is in the national interest.

The Board continues to play an active role in monitoring the issuance of credits, guarantees and insurance to the nonmarket economies. Recently, for example, the Board, at the request of the Board of Directors of the Eximbank, provided policy advice concerning a proposed Eximbank loan to build a roller-bearing plant in Romania. Board advice included a recommendation for consultations with the Congress. Eximbank did consult members of Congress and ultimately approved the loan.

Question 3. Did the Board develop the U.S. position for the recently completed long-term grain supply agreements between the U.S. and the Soviet Union and Poland? If not, who did?

Answer. President Ford made the decision to enter into a long-term grain sales agreement with the Soviet Union and approved a grains supply understanding with Poland, based upon advice from the Secretaries of Treasury, State, and Agriculture, as well as other members of the Economic Policy Board.

When it became clear that the U.S.S.R. was going to suffer a very poor grain harvest and would be in the market for large purchases of grains, the East-West Foreign Trade Board agreed at its meeting on July 11, 1975, that the situation should be monitored on a daily basis. The Board, therefore, designated the Economic Policy Board, which I also chair and whose Executive Committee generally meets every day, to maintain oversight of the grain sales question.

The East-West Foreign Trade Board and its Working Group closely monitored the course of negotiations and discussions leading to these grain arrangements.

Question 4. Was there a specific linkage between the grain and oil agreements? If so, what were the reasons for this linkage?

Answer. From the very beginning, the United States envisaged these agreements as separate entities, each of which would stand on its own merits. At the time of the negotiations for a long-term grain sales agreement with the Soviet Union, the Soviets agreed to simultaneously begin discussions for an oil agreement.

Negotiations for these agreements were begun simultaneously because of Soviet interest in earning hard currency to help pay for their growing imports, including grain, and because of the perceived economic advantages of using tankers in the grain trade to backhaul oil rather than having the tankers return in ballast.

Through an exchange of letters at the time of the signing of the grain agreement, the United States and Soviet Union have agreed on the main outline of an oil agreement. Negotiations on details of this agreement are now underway.

Question 5. How often has the Board met since its formation?

Answer. The Board meets as often as necessary to meet its statutory responsibilities. Since it was established on March 27, 1975, the East-West Foreign Trade Board has met four times, as follows:

- (1) June 4, 1975.
- (2) July 11, 1975.
- (3) September 22, 1975.
- (4) December 5, 1975.

Question 6. Is it your view that Section 411 of the Trade Act was intended to have all East-West trade issues discussed and decided upon by the Board?

Answer. It is the responsibility of the East-West Foreign Trade Board, as a policy formulating and coordinating body, to address itself to all major East-West trade policy issues.

Statutorily, Section 411 of the Trade Act directs the Board to:

- (1) Monitor trade between persons and agencies of the U.S.G. and nonmarket economy countries to insure that such trade will be in the national interest of the U.S.
- (2) Receive reports on the nature and terms of transactions from (a) any person who exports technology to a nonmarket country which is vital to the U.S. national interest, and (b) any U.S.G. agency which provides credits, guarantees or insurance to a nonmarket country in excess of \$5 million during any calendar year.
- (3) Submit to Congress a quarterly report on trade between the U.S. and nonmarket countries.

With regard to financing, the Board receives reports from Eximbank, the CCC and OPIC on their credit, guarantee, or insurance transactions with the non-market economy countries. There is also coordination between the Working Group and the National Advisory Council (NAC) which reviews U.S. Government export credit applications. Data by these agencies are summarized in the Board's quarterly reports.

In addition, representatives from U.S. Government agencies which provide credits, guarantees, or insurance for exports to the nonmarket economy countries, make sure that the Working Group is kept abreast of the current requests for export credit.

Control of exports of technology to nonmarket economy countries is maintained under the Export Administration Act. To fulfill the requirement that persons who export technology to nonmarket economy countries report to the Board, the Board decided to use Commerce's well-established administrative mechanism, rather than establish a new one, because it did not wish to create yet another new bureaucracy to levy additional requirements on businessmen. In order to do this, the Board has interpreted Section 411(b) to require that license for export of technical data applied for and granted, be reported to the Board. In addition, the Board and its Working Group are advised of export license cases of major policy significance before final decisions are made.

In addition to these matters, the Working Group and Board discuss and coordinate agency positions on all the significant (and some not-so-significant) issues in this field.

Question 7. How does the Board communicate its decisions to interested Congressional committees? Does the Board consult these committees before major decisions are made?

Answer. The Board submits a quarterly report on trade between the U.S. and nonmarket economy countries to Congress which is distributed to interested Congressional committees. The Board's quarterly report includes a review of the status of negotiations of bilateral trade agreements; the activities of the joint trade commissions; the resolution of commercial disputes; any exports which have caused disruption of U.S. markets; and recommendations to the President and Congress for the promotion of East-West trade in the national interest of the United States.

In addition, briefings and informal contacts between myself and other Board members, and our staffs, with individual Congressmen, as well as formal testimony in hearings before Congressional committees, help to establish a dialogue between the Board and Congress and insure Congressional input on major East-West policy issues under review by the Board.

Question 8. How many staff members does the Board have? In view of the complexity of the issues, do you think that this number is adequate?

Answer. At the present time, the East-West Foreign Trade Board and Working Group are staffed principally by the Treasury's Office of East-West Economic Policy. The staffs of all Board members provide support for the East-West Foreign Trade Board's and Working Group's activities.

Question 9. How many staff members does the Treasury Department have working on East-West trade issues and in what capacity do they function? (For example, are they country specialists, do they staff the bilateral commissions, are they monetary or East-West trade experts, etc.?)

Answer. Within the Department of Treasury there are four professional staff members who deal exclusively with East-West trade issues. The staff is composed of a senior level economist with ten years Treasury experience in East-West trade, a Ph.D. in Economics with expertise and several publications in this area, a senior level former Foreign Service Officer with service in Moscow, and a more junior member with a background in Soviet area studies and Economics. They are responsible for assessing and analyzing the financial and economic positions and policies of the Soviet Union, the nonmarket economy countries of Eastern Europe, and the People's Republic of China. They also assist in formulating Treasury positions on U.S. trade, commercial, and credit policies towards these countries. Finally, these professionals provide staff support for me in my role as Chairman of the East-West Foreign Trade Board and co-Chairman of the Joint U.S.-U.S.S.R. Commercial Commission.

ACTIVITIES OF THE JOINT U.S.-U.S.S.R. COMMERCIAL COMMISSION AND OTHER SIMILAR COMMISSIONS

Question 1. For the record, please provide the Committee with a detailed list of the number of the existing official bilateral commissions, the members and official posts of the members of the commissions, and the dates and locations of meetings.

Answer. (a) *Joint U.S.-U.S.S.R. Commercial Commission.*
Commission Members (April 1975 meeting) :

U.S. section:

William E. Simon, Secretary of Treasury, Leader of the delegation and Chairman of U.S. section.

Walter J. Stoessel, Jr., U.S. Ambassador.

John K. Tabor, Acting Secretary of Commerce, Vice Chairman of U.S. section.

Jack F. Bennett, Under Secretary of Treasury for Monetary Affairs.

Monroe Leigh, Legal Adviser of Department of State.

Arthur T. Downey, Deputy Assistant Secretary of Commerce, Executive Secretary of U.S. section.

U.S.S.R. section:

N. S. Patolichev, Minister of Foreign Trade, Leader of the delegation and Chairman of U.S.S.R. section.

N. N. Inozemtsev, Deputy Chairman of GOSPLAN.

V. S. Alkhimov, Deputy Minister of Foreign Trade.

A. N. Manzhulo, Deputy Minister of Foreign Trade.

V. N. Sushkov, Deputy Minister of Foreign Trade.

Yu. A. Ivanov, Chairman of the Board, Vneshtorgbank of the U.S.S.R.

Commission meetings:

First, July 20-August 1, 1972----- Moscow

Second, October 12-18, 1972----- Washington

Third, October 1-3, 1973----- Moscow

Fourth, May 21-22, 1974----- Washington

Fifth, April 10-11, 1975----- Moscow

It was agreed at the fifth meeting that the sixth meeting would be held in Washington in 1976. No date has been set.

(b) *Joint American-Polish Trade Commission.*

Commission Members (October 1975 meeting) :

U.S. section:

Rogers C. B. Morton, Secretary of Commerce, Chairman of U.S. section.

R. T. Davies, U.S. Ambassador.

Arthur A. Hartman, Assistant Secretary of State, Vice Chairman of U.S. section.

Arthur T. Downey, Deputy Assistant Secretary of Commerce, Executive Secretary of U.S. section.

George Aldrich, Deputy Legal Adviser, Department of State.

Poland section:

Kazimierz Olszewski, Vice Premier, Chairman of Poland section.

Stanislaw Dlugosz, Vice Minister, Ministry of Foreign Trade and Maritime Economy, Vice Chairman of Poland section.

Romuald Spasowski, Vice Minister, Ministry of Foreign Affairs.

Marian Krzak, Vice Minister, Ministry of Finance.

Jan Kinast, Director, Department III, Ministry of Foreign Affairs.

Commission meetings:

First, August 1-3, 1972----- Warsaw

Second, November 4-8, 1972----- Washington

Third, September 25-29, 1973----- Warsaw

Fourth, September 9-10, 1974----- Washington

Fifth, October 6-8, 1975----- Warsaw

It is anticipated that the sixth meeting will be held in Washington in 1976. No date has been set.

(c) *Joint American-Romanian Economic Commission.*

Commission Members (November 1975 meeting) :

U.S. section:

Rogers C. B. Morton, Secretary of Commerce, Chairman of U.S. section.

Harry Barnes, U.S. Ambassador.

Frederick B. Dent, Special Trade Representative to the President.

Gerald L. Parsky, Assistant Secretary of Treasury.

John A. Armitage, Deputy Assistant Secretary of State.

Arthur T. Downey, Deputy Assistant Secretary of Commerce, Executive Secretary of U.S. section.

George Aldrich, Deputy Legal Adviser, Department of State.
 Robert Vastine, Deputy Assistant Secretary of Treasury.
 Dale Sherwin, Deputy Assistant Secretary of Agriculture.

Romania section:

Ion Patan, Deputy Prime Minister and Minister of Foreign Trade and International Economic Cooperation, Chairman of Romania section.

Vasile Voloseniuc, Chairman and President of the Bank of Foreign Trade.

Corneliu Bogdan, Ambassador to the United States.

Alexandru Rosu, Deputy Minister, Ministry of Machine Building Industry.

Emilian Rodeanu, Vice President, State Committee for Nuclear Energy.

Ioan Batrina, General Manager, Central of Electronic and Data Processing Equipment Industry.

Commission meetings:

First, April 12-13, 1974..... Bucharest
 Second, November 3-4, 1975..... Washington

It is anticipated that the third meeting will be held in Bucharest in 1976. No date has been set.

Question 2. In addition to these official bilateral commissions, there are also a number of private trade committees with a number of other nonmarket economy countries. Could you please provide us for the record with the same kind of information which was asked of you above?

Answer. The U.S. private sector has established the following joint councils with the countries of Eastern Europe, the Soviet Union, and the People's Republic of China:

(a) *U.S.-U.S.S.R. Trade and Economic Council*

Council members:

Donald Kendall, Chairman of PEPSICO, Inc., Chairman of U.S. section.

Vladimir Alkhimov, Deputy Minister of Foreign Trade, Chairman of U.S.S.R. section.

Harold Scott, President and Chief Executive Officer.

William E. Simon, Secretary of Treasury, Honorary Director.

Nikolay S. Patolichev, Minister of Foreign Trade, Honorary Director.

Council meetings:

First, February 1974..... Washington
 Second, October 14-15, 1974..... Moscow
 Third, October 6-7, 1975..... Washington

(b) *Polish-U.S. Economic Council*

Council members:

Brooks McCormick, President of International Harvester Co., Chairman of U.S. section.

Wlodzimierz Wisniewski, President of Polish Chamber of Foreign Trade, Chairman of Poland section.

Council meetings:

First, September 8-9, 1975..... Warsaw
 Second, May 24-25, 1976..... Washington

(c) *Romania-U.S. Economic Council*

Council members:

Milton Rosenthal, President of Engelhard Minerals and Chemicals Corporation, Chairman of U.S. section.

Vasile Voloseniuc, Chairman of the Bank of Romania Trade, Chairman of Romania section.

Council meetings:

First, May 31-June 1, 1974..... Bucharest
 Second, May 30-31, 1975..... Washington
 Third, June 24-25, 1976..... Bucharest

*(d) Hungarian-U.S. Economic Council**Council members:*

James R. Carter, Chairman of Nashua Corporation, Chairman of U.S. section.
 Jozsef Molnar and Istvan Soltesz, co-Chairmen of Hungary section.

Council meetings:

First, November 10-11, 1975----- Budapest
 Second, September 27, 1976----- Washington

*(e) Bulgarian-U.S. Economic Council**Council members:*

William F. May, Chairman of the Board of American Can Co., Chairman of U.S. section.

Christo Christov, Deputy Minister of Foreign Trade, Chairman of Bulgaria section.

Council meetings:

First, September 1-2, 1975----- Sofia
 Second, April 5-6, 1976 (tentative)----- Washington

*(f) Czechoslovakia-U.S. Economic council**Council members:*

David Scott, Chairman and President of Allis Chalmers Corporation, Chairman of U.S. section.

Council meetings:

Meeting tentatively scheduled for mid-1976 in Prague.

(g) National Council for U.S.-China Trade

(Not a joint council, but performs many of the same functions.)

William A. Hewitt, Chief and Executive Officer of Deere and Company, Chairman.

Question 3. What significant decisions, if any, have been reached as a result of the work of the official bilateral commissions?

Answer. Significant decisions made as a result of or under the guidance of the official bilateral commissions would include:

Joint U.S.-U.S.S.R. Commercial Commission

Negotiation of a trade agreement.

Negotiation of a lend-lease debt settlement.

Negotiation of an arrangement for the reciprocal availability of trade credits.

Negotiation of a long-term economic, industrial and technical cooperation agreement.

Protocols to facilitate business relationships and representation.

Establishment of trade targets.

Discussions of matters of bilateral commercial importance, such as joint projects.

Joint American-Polish Trade Commission

At the November 1972 meeting, trade protocols were concluded which provide for the reciprocal extension of trade credits and the establishment of permanent sales offices by American firms in Poland. The protocols also encourage arbitration of disputes in third countries. In March of 1973, the Trade Commission's Joint Working Group on Business Facilities met to develop procedures for establishing and operating business representations offices in Poland. The Working Group's report was formally approved at the Commission meeting the following September. At the commission meeting in September, 1974, annual bilateral trade was anticipated at \$1 billion in 1976 and \$2 billion by 1980; a joint statement on economic, industrial and technological cooperation, which was issued during First Party Secretary Gierek's visit to the U.S. in October 1974, was also worked out at the meeting.

At the most recent Commission meeting, held in October 1975, both sides agreed to proceed toward conclusion of a new bilateral airworthiness agreement. Both sides also agreed upon the desirability of a grains supply understanding under which Poland would endeavor to purchase and the U.S. would endeavor to supply,

subject to availabilities, approximately 2.5 million tons of grain annually during the next five years.

Joint American-Romanian Economic Commission

At its session in 1974, the Commission agreed that a bilateral trade level of \$1 billion would be a realistic and desirable goal for 1980. At the recent session in late 1975, the Commission exchanged drafts of a long-term agreement for economic, industrial and technical cooperation and agreed that negotiations between the two governments would begin in the near future. Advances were made in discussions on Romania's eligibility under the U.S. Generalized Systems of Preferences.

Question 4. Are there any procedures for prior consultation with Congress on U.S. positions to be taken in Commission meetings?

Answer. Congressional views are carefully taken into account in developing U.S. positions to be taken in Commission meetings. On several occasions, there were prior consultations with Congressional leaders—for example, before negotiations in 1974 and 1975 on long-term agreements with the Soviets and Romanians on economic, industrial and technical cooperation.

Question 5. Are results of meetings made available to Congress? If so, what procedures are followed?

Answer. The results of meetings are made available to Congress and to the public in communiques and press conferences held at the time of the meetings and in the quarterly reports of the East-West Foreign Trade Board to the Congress. Additional information on particular aspects of the meetings may be made available to Committees or individual Congressmen when requested.

CONGRESSIONAL CONSULTATION

Question 1. Since 1972, a number of important commercial agreements have been signed with various socialist countries. Has it been Administration policy to involve Congress in East-West commercial negotiations by seeking advice, providing information, etc., before such agreements are signed?

Specifically how was Congress involved during negotiations on the U.S.-Soviet Trade Agreement of October, 1972, the Agreement on Financing Procedures of October, 1972, and the recent grain agreements with the Soviet Union and Poland?

There are also other opportunities to solicit Congressional advice and consultation. Specifically, with respect to the meetings of the Joint Commissions and activities of the East-West Foreign Trade Board, is it now Administration policy to involve Congress in East-West commercial negotiations or in East-West trade issues?

Answer. The U.S.-Soviet Trade Agreement was principally negotiated by Secretary of Commerce Peterson. I am not personally familiar with the details of the negotiation or to what extent the Congress was consulted in advance. With regard to the negotiation of the lend-lease settlement, I have been informed that leading members of the Congress were kept informed of the progress of the negotiations. The Agreement on Financing Procedures was a highly technical agreement in which the Export-Import Bank played the principal negotiating role with its counterpart, the Soviet Foreign Trade Bank. Again, in this case, I am not familiar with the details of the negotiations or to what extent Congress was consulted in advance, but I understand that, with regard to the long-term economic cooperation agreement negotiated with the Soviets in 1974, there were a number of conversations by the Special Trade Representative, Mr. Eberle, with interested members of the Congress during the course of the negotiations. In the case of the recent grain agreement with the U.S.S.R., Under Secretary of State Robinson testified before the Senate Agricultural Committee in executive session during the course of the negotiations and consulted several Senators individually.

With respect to East-West commercial negotiations and trade issues, it is Administration policy to involve Congress when issues are of sufficient importance to justify consultation. For example, consultations with Congress occurred last October before presentation to the Romanians of the U.S. draft of a long-term agreement on economic, industrial and technical cooperation. And as mentioned earlier, Mr. Eberle met with interested members of Congress during negotiation of the long-term economic cooperation agreement with the Soviets in 1974. Other examples would be the meetings of myself and Secretary Kissinger with the group

of Senators who went to the Soviet Union in 1975, both before their departure and after their return. These meetings provided valuable consultation concerning important trade issues which the Senators discussed with Soviet officials.

Question 2. The Trade Act of 1974 and the Export-Import Bank Amendments of 1974 contain provisions, the intent of which is to strengthen Congressional involvement in U.S. foreign trade policy in general and East-West trade in particular. How have these provisions changed the practices and procedures of the Executive agencies in their administration of East-West commercial relations?

Answer. In accordance with the provisions of the Trade Act of 1974 and the Export-Import Bank Amendments of 1974, the Executive Branch has changed a number of practices and procedures in its administration of East-West commercial relations. These include the creation of the East-West Foreign Trade Board, whose responsibilities for monitoring trade between the United States and the nonmarket economy countries to insure that it is in the national interest, are greatly increased over those of its predecessor—the East-West Trade Policy Committee.

The U.S.-Romanian Trade Agreement, which entered into force in August 1975, offers a good example of the way in which many of the provisions of the Trade Act of 1974 have affected the procedures of both the Administration and the Congress. The Agreement was negotiated to include provisions required by the Act for safeguards against market disruption, protection of patents, settlement of commercial disputes, etc. Following the signing of the Agreement in April 1975, by the U.S. and Romanian negotiators, it was approved by the Congress in July, after intense consultations and close examination of the Agreement itself and anticipated Romanian emigration practices.

Question 3. What mechanism does the Administration maintain to conduct a dialogue or otherwise solicit the views of other public groups on East-West trade issues, for example, labor, scientific community, ethnic or national groups, etc.? If no formal mechanism exists, do you not think that some sort of consultative group should exist?

Answer. The Administration has at its disposal a number of forums which serve to establish a line of communication with the public. Speeches and personal appearances by Cabinet officials and their staffs before the general public, business community, and academia provide an extremely useful vehicle for the exchange of views on issues affecting the development and course of East-West trade. The Commerce Department sponsors seminars and symposia with academicians and businessmen that deal with varied East-West trade issues. In addition, Administration officials frequently consult and are consulted by representatives of ethnic and national groups. I think the best avenue for contact and consultation with business is the U.S. Chamber of Commerce's joint councils.

In the Department of Commerce there exist two types of forums whose meetings foster a continuing dialogue with the interested public. The Advisory Committee on East-West Trade, established early in 1974, is one. It advises Commerce's Bureau of East-West Trade in its work on the development of more normalized commercial relations with the nonmarket economy countries. Secondly, there are the seven technical advisory committees, created under Section 5(c) of the Export Administration Act of 1969. These government/industry committees serve as a formal mechanism by which Commerce's Office of Export Administration can consult with industry on questions pertaining to export licensing. The industry members of these committees provide extensive technical expertise and their reports, although of strictly advisory capacity, do receive the most serious consideration.

RECIPROCITY AND THE BALANCE OF BENEFITS

Question 1. What are the elements of reciprocity in our commercial dealings with the U.S.S.R., that is, what is it that the U.S. wants to gain through commercial dealings, that we are prepared to negotiate in meetings with the non-

market countries, that we are willing to yield to obtain the objectives we seek?
 Answer. The U.S. wishes to gain the following through commercial dealings with the non-market countries:

(a) The economic benefits of trade, including markets for U.S. products and sources of supply for things the U.S. needs. Increased exports can lead to increased business for American firms and jobs for American workers.

(b) The normalization of trade relationships promotes the normalization of political relations. Economic relationships give each side an interest in continuing good political relations.

We are prepared to negotiate with the non-market countries concerning:

(a) Improved facilities in these countries for U.S. firms to carry on business and compete on equal terms with other countries.

(b) Exchange of information concerning economic conditions and possibilities for export and import business, with a view to promoting commercial exchanges.

(c) Agreements with respect to shipping, civil aviation, and maritime matters.

(d) Commercial agreements along the lines set forth in Section 405 of the Trade Act of 1974, including safeguards against market disruption; provisions respecting patents, trademarks, copyrights, and the protection of industrial rights and processes; arrangements for settlement of commercial differences and disputes and for the promotion of trade.

To obtain the objectives we seek, we are willing to yield the following:

(a) To obtain a better facilities for U.S. businessmen abroad, we are willing to grant reciprocal facilities in the United States to nationals of the other party, making allowances for the differing conditions in the two countries.

(b) In exchange for economic and commercial information about a foreign country, we would be willing to provide comparable information about the United States. We have such an arrangement with the USSR under which information of value is supplied about the Soviet economy in exchange for information about ours.

(c) We would consider granting most-favored-nation status to a Communist country not now enjoying such status provided that such a step appeared consistent with the state of our relations with that country and our overall policy objectives. Such a country would have to meet the requirements of the Trade Act of 1974 with respect to freedom of emigration and be prepared to negotiate a trade agreement satisfying the criteria set forth in Section 405 of the Act with respect to market disruption safeguards, patents, trademarks, copyrights, protection of industrial rights and processes, settlement of commercial disputes, etc.

(d) We would grant certain concessions in maritime matters in reciprocity for comparable concessions from the other party.

Question 2. Do the non-market nations enjoy inherent bargaining advantages stemming from their monopoly control over their domestic market, particularly in the case of the potentially enormous Soviet market, and their monopsonistic position vis-a-vis the large number of potential suppliers? Should the United States Government concern itself with this advantage?

Answer. In some cases the non-market nations enjoy a bargaining advantage, inherent in any large scale buyer who can choose among possible suppliers. Very large corporations in the United States and other countries enjoy a similar advantage. This advantage is particularly marked in the case of the Soviet Union in some situations where it is prepared to deal in unusually large amounts. In some cases, Soviet projects are so large that relatively few Western corporations are able to handle them alone.

It is, however, a misnomer to use the term "monopsonistic" in this context. The term refers to situations where there is only one buyer in the market, to whom sellers must sell if they wish to sell at all. This is not the case here—

a non-market country is only one buyer among many in the world market. Even the Soviet Union represents a relatively small part of the world market. If a U.S. corporation does not reach a satisfactory bargain with a non-market country, the corporation can look to many other potential customers.

Question 3. Might the balance of benefits for the United States be improved through more active governmental efforts in behalf of the private sector or in cases where the general public might benefit?

Answer. Yes. The United States Government is constantly attempting to find ways to improve its assistance to the private sector, including the following:

(a) Providing the private sector with accurate and timely information on prospective trade opportunities, on economic conditions in the target countries, and methods of doing business.

(b) Negotiating improved facilities for U.S. businessmen to operate abroad.

(c) Providing increased services for U.S. businessmen abroad, e.g., through the United States Government trade offices at Moscow and Warsaw.

(d) The United States Government should continue its activities directed toward obtaining more reliable predictions of Soviet and Eastern European demand for U.S. grain.

Question 4. In your view, would the position of the United States and the Western market countries in general improve if there were a common multilateral initiative to remove Eastern structural barriers to trade?

Why has not such an effort been made by the Western industrialized countries?

Answer. Such an initiative would probably not achieve much improvement in the trade position of the U.S. and the Western market countries. In general, the balance trade with the Eastern countries is already heavily in favor of the Western industrialized countries. While barriers to trade exist, e.g., in the form of cumbersome and time consuming procedures for negotiating with Western sales agents, such barriers have not kept the Eastern countries from rapid expansion of their purchases from Western market countries. Overall, the Eastern countries now purchase far more from the Western market countries than they sell to them. This has led to onerous balance-of-payments deficits, which have had an inhibiting effect in some cases on further expansion of purchases in the West and are likely to become an even greater hindrance.

In the case of the United States, sales to the Soviet Union and some other Communist countries have been hampered not by restraints imposed by the Eastern countries, but by the U.S.: exports have been inhibited by the lack of Eximbank credits, while imports from these countries have been hindered by discriminatorily high tariff rates levied by the U.S.

The information below concerning lending by the Export-Import Bank and the Commodity Credit Corporation to the Soviet Union is in response to questions asked Secretary Simon by Senator Stevenson in hearings before the Senate's Committee on Commerce December 11, 1975.

EXIMBANK LENDING TO THE U.S.S.R. AND TO OTHER COUNTRIES

The only years in which the Export-Import Bank has made loan or guarantee commitments to the Soviet Union were fiscal years 1973 and 1974.

Attached are three tables which list: (1) total direct loans authorized by Eximbank in FY 1973 and FY 1974 to major borrowers; (2) total of loans, guarantees and insurance authorized by Eximbank during FY 1973 and FY 1974 to major borrowers; and (3) Eximbank outstanding loan commitments to major borrowers as of October 31, 1975.

These tables show that the Soviet Union:

Ranked seventh in FY 1975 and third in FY 1974 in direct loans received from the Bank;

Ranked twelfth in FY 1973 and fourth in FY 1974 in total loans, guarantees and insurance authorized by the Bank;

As of October 31, 1975, ranked eighth in direct loans made by the Bank now outstanding and eleventh in total commitments.

TABLE 1.—DIRECT LOANS AUTHORIZED BY EXPORT-IMPORT BANK DURING FISCAL YEARS 1973 AND 1974

[In millions of dollars]

Name of country	Fiscal year 1973	Name of country	Fiscal year 1974
Iran.....	239.9	Yugoslavia.....	376.9
Algeria.....	186.1	Brazil.....	367.9
Mexico.....	176.1	U.S.S.R.....	367.7
Spain.....	171.7	Iran.....	266.7
Taiwan.....	159.0	Taiwan.....	259.8
Brazil.....	149.5	Norway.....	214.5
U.S.S.R.....	101.2	Mexico.....	163.4
Japan.....	97.2	Canada.....	148.0
Canada.....	83.0	United Kingdom.....	122.1
Sweden.....	77.5	Japan.....	116.4
Indonesia.....	71.7	Korea.....	114.7
Turkey.....	70.8	Zaire.....	113.3

Sources: Data for fiscal year 1973 from "Eximbank and the World of Exports"; data for fiscal year 1974 from "Export-Import Bank of the United States—Cumulative Records."

TABLE 2.—TOTAL OF LOANS, GUARANTEES, AND INSURANCE AUTHORIZED BY EXPORT-IMPORT BANK DURING FISCAL YEARS 1973 AND 1974

[In millions of dollars]

Name of country	Fiscal year 1973	Name of country	Fiscal year 1974
Iran.....	517.9	Yugoslavia.....	605.2
Mexico.....	454.1	Brazil.....	545.1
Algeria.....	438.4	Mexico.....	448.7
Brazil.....	403.8	U.S.S.R.....	436.0
Taiwan.....	377.4	United Kingdom.....	412.8
Spain.....	327.1	Netherlands.....	396.0
Japan.....	240.1	Taiwan.....	392.9
Indonesia.....	162.5	Canada.....	311.7
Venezuela.....	158.0	Zaire.....	268.0
Federal Republic of Germany.....	153.0	Korea.....	262.8
U.S.S.R.....	151.8	Switzerland.....	249.9

Note: No such authorizations were issued by Eximbank with respect to the Soviet Union during fiscal year 1972, fiscal year 1975, or in fiscal year 1976 to date.

Sources: Data for fiscal year 1973 from "Eximbank and the World of Exports"; data for fiscal year 1974 from "Export-Import Bank of the United States—Cumulative Records."

TABLE 3.—EXIMBANK COMMITMENTS OUTSTANDING AS OF OCT. 31, 1975

[In millions of dollars]

Name of country	Regular loans	Name of country	Total exposure ²
Brazil.....	1,184.1	Brazil.....	1,865.9
Spain.....	1,073.3	Taiwan.....	1,458.5
Taiwan.....	885.3	Spain.....	1,349.1
Japan.....	770.5	Mexico.....	1,278.9
Iran.....	734.8	Japan.....	1,238.2
Mexico.....	688.5	Korea.....	935.2
Yugoslavia.....	517.8	Iran.....	921.5
U.S.S.R.....	467.9	Yugoslavia.....	895.2
United Kingdom.....	454.1	Argentina.....	619.4
Indonesia.....	442.4	United Kingdom.....	593.3
Korea.....	440.2	U.S.S.R.....	467.9
Norway.....	360.1	Australia.....	439.9

¹ "Regular loans" do not include cooperative financing facilities or relending facilities.

² "Total exposure" includes regular loans, loans sold with recourse, cooperative financing facilities, relending facilities, guarantees and insurance.

Source: Export-Import Bank of the United States, "Monthly Report to NAC Principals, October 1975."

CCC LENDING TO THE U.S.S.R.

Of the \$750 million CCC line of credit made available to the Soviet Union in July, 1972, \$549.7 million was actually utilized. All of this has been repaid with interest except for \$137.9 million. The entire line of credit will have been repaid by March 1, 1977. Interest rates on these loans ranged from 6½ percent to 9.5 percent. None of the more recent sales of wheat and feedgrains to the Soviet Union have included government credits and no such credits are anticipated.

Senator INOUE. Our next witness is the distinguished Secretary of Commerce, the Honorable Rogers C. B. Morton.

Mr. Secretary, it is always good to see you, sir. Welcome.

STATEMENT OF HON. ROGERS C. B. MORTON, SECRETARY OF COMMERCE, DEPARTMENT OF COMMERCE; ACCOMPANIED BY ARTHUR T. DOWNEY, DEPUTY ASSISTANT SECRETARY FOR EAST-WEST TRADE

Secretary MORTON. Thank you, Mr. Chairman. Thank you very much for the opportunity to testify before this committee on the American role in East-West trade in 1976-80.

To supplement my remarks here today, I would like to submit for the record detailed answers to each of the questions you asked in your letter of invitation.

And also, Mr. Chairman, I would like to introduce Mr. Arthur T. Downey, whom I am sure you know, our Deputy Assistant Secretary for East-West Trade, in the Department of Commerce.

In addition, I would like to recommend for the committee's use a published report entitled "The U.S. Role in East-West Trade: Problems and Prospects." I had prepared much of this material for these hearings when they were originally scheduled last July.

I would like to begin by clarifying the term "East-West trade." My observation is that, to many individuals, it means trade between the United States and the Soviet Union. In fact, East-West trade is a multibillion dollar exchange of goods and services between more than a dozen industrialized Western nations, and nearly a dozen centrally planned Socialist countries in Asia and Eastern Europe.

Twelve years ago, in 1963, the two-way volume of this overall trade was small—only a little over \$7 billion. However, by 1974, it totaled over \$43 billion—about six times the 1963 level, and we are projecting a 1975 level of nearly \$50 billion.

For many years, the U.S. role in East-West trade was negligible. Only recently have we begun to have some involvement, although even now, our role is small. Our transition from inactivity to interest in East-West trade has been rapid and not without its problems and lessons.

U.S. interest in East-West trade increased significantly following the 1969 policy statement in the Export Administration Act, encouraging trade with all countries with which we have diplomatic or trading

relations. This statement led to a number of initiatives in the governmental and private sectors which resulted in increased U.S. exports to the Socialist countries.

To some it looked like smooth sailing ahead for the renewal, expansion, and normalization of U.S. commercial relations with the East. However, much of the forward movement toward normalization seems to have ended this year, with the enactment of the Trade Act of 1974. Subsequently, the Soviets announced they could not bring into force the 1972 U.S.-U.S.S.R. Trade Agreement. As a result of these events, elements of the U.S. business community are having second thoughts about moving aggressively into socialist country markets.

I believe that we should find a way to change policies which have handicapped us in the tough competition for socialist country markets.

There are sound reasons, both political and economic, why we should expand our commerce with the socialist countries.

In today's world, no nation is self-sufficient—either in the raw materials and products needed to sustain its industries and its people, or in the advanced technologies that are vital to the efficient production of goods and services. Trade offers a peaceful, mutually beneficial alternative to the acquisition of these materials, services and technologies, by political or military means.

Trade, cannot, of course, insure peace in the world; but certainly, freer trade can assist in the creation of an environment which encourages all partners to avoid political confrontation that can escalate into military conflict. I believe the socialist countries recognize this fact, that we should mutually embrace freer trade as one means of advancing our goal of world peace.

We in the United States also have much to gain in economic terms from East-West trade. We import large quantities of industrial raw materials and energy. We must pay for these imports, and ultimately we can pay for them only by exporting goods and services. The Socialist countries, with 25 percent of the Earth's land mass, are a source of many raw materials, and with 30 percent of the Earth's population, represent one of the world's great and fastest growing markets.

They have ambitious development goals that require the importation of large quantities of Western goods and technology. To meet their development requirements, these countries could buy as much as \$45 billion of manufactured goods from the West as a whole in 1980—as much as \$175 billion over the 5-year period 1976-80.

We, in the United States, are late starters and lagging performers in the intense competition for the rapidly expanding Socialist markets for manufactured goods. The United States normally supplies about 16 percent of the world's imports of manufactures. Yet, in 1974, we were able to capture only a 4-percent share of the Socialist market.

And 1975 is not likely to show much improvement. The difference between a 4-percent U.S. share and a 16-percent share of possible 1980

Socialist country manufactured goods imports from the West of \$45 billion is very significant in terms of U.S. jobs, and the U.S. balance of payments. Unless we take steps to improve our competitive ability, our share of this growing market will remain small and could diminish.

Why the lagging U.S. performance? The reasons are several. One reason is our late entry into the competition for this trade. However, even now, our efforts to expand this trade are impeded by legislative constraints and public attitudes. While significant changes in U.S. policy have occurred, doubts still remain in the Congress, as well as in the minds of the public, concerning the wisdom of conducting trade with our former cold war adversaries. These doubts must be resolved, as they have been in Western Europe, Canada, and Japan, before the United States will be in a position to realize our full share of East-West trade benefits.

One result of U.S. policies has been a preference of the socialist countries to direct their trade toward our Western competitors—toward those who trade with them without discriminatory tariffs and credit restrictions.

From the viewpoint of the Socialist countries, by not making available normal exporter credits and by retaining discriminatory tariffs, the United States is seen to continue to treat them as unworthy trading partners. This may suggest to them that we do not fully wish to normalize our overall bilateral relationships.

The Socialist countries will not perish economically without U.S. trade, nondiscriminatory tariff treatment, and U.S. Government supported credits. Our small 4-percent share of the West's manufactured goods exports to the Socialist countries testifies that we are not indispensable to the Socialist countries as a supplier of manufactured goods. Large offerings of governmental export credits from our Western competitors provide evidence that the Socialist countries have significant alternative credit sources.

There are fundamental misunderstandings on the part of many with respect to just what is involved in both "most-favored-nation" treatment and Government export credits. I would like to review both briefly.

The first misunderstanding that should be corrected is the idea that MFN treatment for the Socialist countries constitutes preferential treatment. Not so. It is the normal tariff treatment we accord to over 100 of our trading partners—virtually all of our partners, except most of those in the Socialist group.

The fact that virtually all other industrialized Western nations grant these countries nondiscriminatory tariff treatment bears further witness that MFN is normal—rather than exceptionally favorable—treatment. It also confirms that the Socialist countries have normal access to large potential markets, relative to their limited export capabilities.

The role of credits for financing U.S. exports is often misunderstood as well. International commerce based on credit financing has been common trading practice for centuries. Therefore, the fact that about one-half of the trade between the industrialized West and the Socialist countries is credit financed merely reflects normal commercial practice.

I think there have been two basic concerns on the part of some Americans about credits for the Socialist countries.

The first concern reflects a belief that vast amounts of funds have been, or will be, used to finance exports to the Soviets and other Eastern European countries to the detriment of U.S. industry's investment needs. This concern may be understandable—given the exaggerated publicity of proposed multibillion-dollar deals for development of natural resources in the Soviet Union—but the facts are quite different. The total credits extend to date, both by our commercial banking system and by Government agencies, has been small relative to the exports involved.

Furthermore, the foreign lending capacity of our banking system is limited both by public law and by individual bank's own internal restrictions. In fact, the real problem may be that our banking system's lending capacity could be inadequate to finance an expanding regular trade, even without spectacular multibillion-dollar transactions.

A second concern is based on the belief that, through the extension of official credit, we are somehow subsidizing or giving aid to our former cold war adversaries. The fact is that the vast majority of our exports to the Socialist countries has been paid for in cash or through the use of credits from our commercial, profit-oriented banking system. Certainly, our commercial banks are not subsidizing anyone. Their loans are made at competitive market rates, and the interest these loans earn is a plus in our balance of payments.

The governmental credit support has also been relatively modest. Exports to the Soviet Union over the period January 1972 through September 1975 totaled nearly \$3.3 billion. As of August 31, 1975, the Export-Import Bank has disbursed only about \$130 million of loans to finance trade, and it has commitments to another \$338 million to support exports still in the pipeline, and not yet reflected in trade statistics.

The Commodity Credit Corporation advanced some \$550 million to support a portion of the large grain sales to the Soviets in 1972-73. As of November 26, 1975, about \$385 million had been repaid, plus about \$58.9 million in interest, leaving only \$175 million still outstanding.

The controversy as to whether official government credits involve a subsidy is a complicated one and will not be settled here today. However, I would like to make two brief points:

First, the Export-Import Bank is not supported by tax dollars. Rather, it is funded by borrowings in the capital markets.

Second, our Western competitors have been generous in credit offerings to the Socialist countries. In fact, they have made available to the

Soviets alone, approximately \$9 billion in governmental export credits since the beginning of 1974.

Until such time as our competitors abandon governmentally backed export credits, we will continue to lag behind in export sales if we do not offer similar credits. If the benefits of such credits—in the form of job creating exports and positive balance of payments effects—exceed the cost of such credits, and we believe they do, then it is eminently good economic policy to match the competition.

I would like to turn to another basic concern: There is worry that the sale of our commercial technology may strengthen the Socialist countries, especially the Soviet Union, at our expense.

Although a subject of concern in several quarters, the regulation of the export of strategic items and technology is not an issue. The Export Administration Act of 1969, as amended, authorizes the President to control exports from the standpoint of their significance to the national security of the United States.

Pursuant to this statute, U.S. controls are administered primarily by the Commerce Department in close cooperation with other agencies, especially the Departments of Defense and State.

The administration of these controls is aimed at barring export transactions that would make a significant contribution to the military potential of any other country which would prove detrimental to the national security of the United States.

Of more recent interest is the growing view that technology is a commodity that should be hoarded, and not sold, at least to Socialist countries. The fact is that we have commercial technology to sell, and we can profit by selling it. Such sales often lead to continued business, since they provide an incentive for the buyer to stay with the seller's particular technological system.

Most of the advanced commercial technology sought by the Socialist countries is also held by other Western countries. Though we have sometimes hesitated to sell, others usually do not. With respect to a few items in which we hold a near exclusive lead, the Socialist countries can buy less advanced—but perfectly employable—technology elsewhere and use it as the basis for development.

It is also sometimes argued that goods manufactured in Socialist countries, using American technology, will compete with American goods in third country markets, or even in our own domestic markets. Some even see the possibility of a flood of Socialist goods in the United States, especially if MFN status is accorded them.

I would respond, however, that Socialist imports of capital goods embodying U.S. technology are primarily to aid production of goods for their own domestic consumption. Additionally, in most instances where the Socialist countries have produced relatively high technology goods for export, difficulties with quality control and after-sales servicing have significantly limited penetration in foreign markets, particularly in the United States.

If, however, there is disruptive penetration of the U.S. market, the provisions of the Trade Act of 1974 provide the greatest possible flexibility to deal with the problem. The act requires that trade agreements with the Socialist countries, extending MFN, contain strong safeguard provisions, including an appropriate consultation mechanism.

The President may also take unilateral action to restrain disruptive imports of Socialist origin. The market disruption test for the Communist countries is intended to be more easily met than the serious injury test which applies to non-Communist countries.

Finally, the flow of technology in East-West trade has not been a one-way flow. We have acquired a number of technical licenses from the Socialist countries in recent years. The Soviet Union in particular is a world leader in certain areas, especially in basic research. Working together, we have the opportunity to match their basic research with the U.S. aptitude for applied technology. Working separately, we duplicate each other's costly efforts.

In taking the measure of our situation, this is what I see: East-West trade is a global operation, involving all the industrialized Western nations and all the Socialist countries. The pace of expansion of U.S. commercial relations with the Socialist countries which had quickened over the last few years has now slowed.

The Trade Act has made it difficult to normalize commercial relations with the Socialist countries. This affects the U.S. ability to compete with other Western industrialized nations, and has left some U.S. businesses uncertain as to whether they should commit resources to East-West trade.

The United States is, and must continue to be, a major international trading nation. We must import to obtain the materials needed to fuel our production, and we must export to utilize our productive capacity fully. As traders, we cannot afford to handicap our commercial relationships with nearly a third of the world's population.

Partly as a result of our earlier aloofness to East-West trade, we are well behind our West European, Canadian, and Japanese competitors in the development of trade in manufactured goods with the Socialist world.

If we now reverse, or fail to press forward the trade normalization initiatives of recent years, the economic costs of lost opportunities in the years ahead can be great indeed.

It is important that the Congress and the public recognize that our national interest can be served by normalized commercial relationships with the Socialist countries. I am grateful to this committee for providing a forum for the articulation and consideration of the issues raised by U.S. participation in East-West trade.

I welcome this review, and I believe it can be a significant step in the creation of an environment in which American business can successfully compete with the other Western countries for an enlarged share of the Socialist markets.

[The table referred to follows:]

U.S. TRADE WITH SOCIALIST COUNTRIES

[Millions of U.S. dollars]

Country	Total 1973	Total 1974	January to October 1974	January to October 197
Exports:				
Albania.....	0.22	0.49	0.44	0.64
Bulgaria.....	6.47	21.96	17.97	27.84
Czechoslovakia.....	71.85	48.58	35.01	38.71
German Democratic Republic.....	28.01	20.88	18.95	14.93
Hungary.....	32.80	56.17	49.28	69.71
Poland.....	349.32	394.59	318.05	435.23
Romania.....	116.51	117.12	277.56	168.63
Total East Europe.....	605.19	819.79	657.27	754.69
U.S.S.R.....	1,187.10	607.36	459.81	1,245.28
PRC.....	689.10	806.85	783.87	228.70
MPR.....	.03	.01	.01	.01
Total Socialist countries.....	2,481.42	2,234.01	1,900.95	2,228.67
General imports:				
Albania.....	.74	.48	.25	2.76
Bulgaria.....	4.46	8.40	7.65	19.83
Czechoslovakia.....	35.15	45.56	38.00	27.55
German Democratic Republic.....	10.52	14.13	12.15	8.98
Hungary.....	16.42	75.41	67.67	28.72
Poland.....	181.90	275.93	216.36	201.94
Romania.....	55.70	130.52	112.15	95.37
Total East Europe.....	304.63	540.43	454.24	385.15
U.S.S.R.....	213.75	349.52	285.95	214.47
PRC.....	63.95	114.69	99.48	119.57
MPR.....	1.84	1.52	1.52	1.23
Total Socialist countries.....	584.17	1,006.16	841.19	719.42
Trade balance.....	+1,897.25	+1,227.85	+1,059.76	+1,509.25
Trade turnover.....	3,065.59	3,240.17	2,742.14	2,948.10

Senator INOUYE. Mr. Secretary, I thank you very much for your very informative and important statement.

I have a series of questions submitted by Senator Pastore, who has requested that I forward them to you for your response.

I have also prepared a long series of questions I wish to submit to your office for similar response.

Secretary MORTON. All right.

Senator INOUYE. I have a question before me submitted by Senator Long, and he has requested that I ask you this in open session.

The legislative history of the Trade Act of 1974 clearly indicates that one of the main reasons for the creation of the East-West Trade Board was to safeguard against technology transfer to Communist countries which might be damaging to the national security.

Despite this, the Secretary of Defense has not been made a member of the Board.

Chairman Russell Long of the Finance Committee, who sponsored the amendment creating the East-West Trade Board and was the floor manager of the Trade Act of which it was a part, has communicated with you on several occasions urging that the Secretary of Defense be made a member of the Board.

What is your personal position on this question? Can you tell us why the Secretary of Defense is not now a member of the East-West Trade Board? And can you tell us if and when he will become a member of the Board?

Secretary MORTON. I think I can answer the question very briefly.

An Executive order is in preparation at this time, to include the Secretary of Defense on the East-West Foreign Trade Board. I have taken the position—and the position of the Department of Commerce is—that he should be included as a member.

I want personally to say, however, that I took the position reluctantly for this reason: One of the principal activities of the Export Administration Review Board (EARB), of which the Secretary of Defense is a member, is to deal with the national security aspects of a given technology, as in providing the final cabinet-level review of significant export license applications.

There were some individuals who felt that both the EARB Board and the Defense Department could function more objectively in this area if the Secretary of Defense were not a member of the East-West Foreign Trade Board.

However, a final judgment was based on getting the job done. I believe we would move forward more expediently and it would be in the better interests of the country to include the Secretary of Defense on the Board. This is now in the process of being accomplished by Executive order.

Senator INOUE. Thank you very much, sir.

In your statement you noted that our trade with the Soviet Union constitutes about 4 percent of the Western trade, and therefore we lack any significant economic pressure upon the Soviet Union, and for that matter the Soviet Union could do without our trade if that became necessary.

I believe you would agree with me that it would be unwise for the United States to be significantly dependent upon any one country or any group of countries for any sort of basic commodity.

For example, we have learned as a result of the embargo on oil how dramatically it can affect our economy, and the economic pressures put upon us by the OPEC countries are still affecting our economy.

In recent days it has been suggested that we should assist the Soviet Union in developing their gas and oil resources. The rationale given for this was that we would begin purchasing or trading with the Soviet Union to get these energy resources and to lessen the pressures placed upon us by the OPEC countries.

I don't know what your position is on this, but I would feel that the pressure that the Soviet Union can put upon us, if our purchases became significant, would be just as great, if not more significant, than that exerted by the OPEC countries.

What is your view, sir?

Secretary MORRIS. I feel that today the OPEC countries are in a very strong position to control world energy prices, and that the entrance into the market of new and significant sources of supply from the Soviets, from the North Sea, from China, and from other areas, will put the price of energy on a nonpolitical basis, and back onto a more realistic supply and demand basis.

And I feel that shut-in resources across the country should be uniformly developed, if we are going to have energy prices that do not have significant political overtones.

Whether we actually gain access to the energy supplies developed is, I think, an academic question. But what would happen is that these supplies would enter the marketplace, they would begin to put selling

pressure in the marketplace, and I think we would ultimately achieve a more realistic energy price for our consumers.

Therefore, though I do not believe that we should put any large investments into the development of Soviet natural gas or oil, I think that we should encourage them to develop their energy resources in order that the number of sources of energy will become more diversified. This will tend to make oil and gas more available at reasonable prices to the consuming nations.

Senator INOUE. At the end of World War II we were the undisputed rulers of the seas. Our merchant fleet was No. 1. We had no competitors to speak of.

Today I believe we rank No. 14, and our American bottoms carry approximately 5 percent of all of the goods that we either export or import.

The Soviet Union, at the end of World War II, was not even considered in the merchant fleet comparisons. Ten years ago it was about No. 14. Today it is No. 1.

The number of supercontainers being built there at this moment I believe exceeds the number of supercontainers we have in the whole American fleet.

The Far East Shipping Co., which is totally owned by the Soviet Government, and the Baltic Steamship Co., are now in operation, and even before they began sailing their first ships, they were advertising that they would carry commodities at anywhere from 15 to 30 percent less than those carried by American merchant fleets or others in the Conference.

This committee has made an attempt to encourage competition so that our fleet would not be totally wiped out.

During the oil embargo, during the cold war, when it became necessary for the United States to ship massive amounts of military cargo to Israel, I recall we called upon American shipowners with ships under foreign registry to assist us in this endeavor. When Liberia and Panama learned of this, they immediately issued orders telling the American shipowners that if this were done, their ships would be taken off the foreign registry, and therefore we were not able to call upon American citizens to assist us in carrying out American policy.

So therefore it is possible for shipping interests to put the squeeze on us. We are concerned that if the Soviet Union is permitted to expand its merchant fleet, as they are at the present time at the expense of the American fleet, the squeeze could develop.

Now we have a measure which has been opposed by the administration. What are your thoughts on this?

Secretary MORTON. Are you talking about the cargo preference bill?

Senator INOUE. No; this would require the Soviet Union's FESCO or Baltic to come before the Maritime Commission and demonstrate that their rates are commercially competitive.

Secretary MORTON. I feel we have to go about the question of protecting our position on the high seas by developing a more broadly based set of programs than we have today.

As you know, we subsidize the operation of American flagships in order to make them competitive with the operation of foreign ships. We also subsidize American ship construction in order to offset the differential which exists between foreign yards and American yards, primarily because of the difference in labor costs.

We also have the Jones Act which limits our coastal trade to American ships, and we have a good many other policies that have grown up over the years and created the flag of convenience fleet.

I think that the whole program has to be reviewed, and the whole matter of cargo preference has to be reviewed, if we are going to maintain a highly competitive position on the high seas.

We have never answered the question, in my view, of exactly how much merchant marine we need, and how much subsidy, and in what form is required. We expand in times of stress—World War II, Korean war, the Vietnamese struggle—and then when such crises are over, and other priorities come into being, we reduce the whole thing. It has been like a bellows, expansion and then reduction.

We create an insurance policy in the so-called reserve fleet to take care of rapid expansion. However, the problem is that the so-called reserve fleet is obsolete and in fact has to be obsolete given the policies under which we operate. If we are going to expand the fleet every 20 years and then reduce it after the expansion is no longer required, the ships, come the next expansion, are going to be 25 to 30 years old.

I feel that we are going to have to have rate negotiations, and in some cases bilateral negotiations, similar to the negotiations we have just completed with the Soviets for the transportation of grain from the United States to the Soviet Union.

That agreement requires that we have access to at least one-third of the freight. It also sets mutually acceptable minimum freight rates.

Unless we pursue that kind of policy, we are going to see more layoffs of American ships.

The policy we pursue has to be, in many cases bilateral. I feel squeamish about putting \$500 or \$600 million a year in the subsidy of a merchant marine and not having some kind of agreement, international agreement, that will result in equitable rates.

Therefore, I personally favor every vehicle that we can put together that insures us against rate cutting practices, particularly in foreign government controlled shipping operations.

I don't think we have any other choice downstream.

Senator INOUÉ. I am very happy to hear that, sir. As noted earlier, about 5 percent of the goods shipped in and out of the United States are carried by American bottoms.

From the standpoint of our national security, is that a safe percentage?

Secretary MORRIS. Well, you have to look at that, Senator. Our liner trade is a lot better than that. It is the large amount of goods that the bulk carriers transport that makes that figure as low as it is.

But I don't think that is a figure we should live with. I think it is way too low, and I think we have to do something about it.

You will find that our American flag ships, all of which have to be built in this country, have been operating with a subsidy. Consequently there is the need for tremendous appropriations. It gets down to a matter of priority. In our attitude, we are just not a maritime nation. I think this is a very shortsighted attitude, because I believe as world trade gets more competitive, the nation that can deliver the goods, and can deliver the goods at the lowest rate, is going to originate the goods.

I think that shipping can be used as a tremendous sales lever by countries to sell their goods abroad. However, at this point in time, we probably are at the bare minimum in terms of a merchant marine.

I just think we have been very shortsighted about it.

But every time the issue goes through the budgetary process, whether it is downtown or whether it is in the Congress, the numbers get so big they shake everybody.

Senator INOUE. Your response is most encouraging, sir.

Secretary MORTON. I wish I could wave a magic wand and change the complexion of the merchant marine. I don't want to be so optimistic as to say we can. We had a hard time this year with the budget, and then we had the Seatrain problem in New York. I caught all kinds of Hail Columbia, you know, for putting the EDA funds back into that shipyard to finish those two ships and to keep that going. There is just this feeling that investing in the merchant marine is not the best way for the United States to spend its money.

Senator INOUE. Thank you very much.

Senator STEVENSON.

Chairman. I have just a couple of brief questions, Mr.

First, Mr. Secretary, did I understand you to say a moment ago that the transportation agreement with the Soviet Union for the transport of grain had been concluded?

Secretary MORTON. We have negotiated it at our level and certainly it has got to go to other levels. The State Department has to become involved. But as far as the Administrator of the Maritime Administration, Mr. Blackwell and his Soviet counterpart are concerned, they have agreed on a formula for the rate, and they have tied it to the Transatlantic rate.

Senator STEVENSON. Have they agreed on a rate that their Soviet counterparts have accepted?

Secretary MORTON. Yes, sir.

Senator STEVENSON. Does it include a minimum of \$16 a ton?

Secretary MORTON. Let me read this:

The mutually acceptable minimum freight rate of \$16 per U.S. flag ship carriage of bulk agricultural products from United States to the U.S.S.R. covers the period of September 22, 1975, through December 31, 1976. However, as stipulated in the September freight rate agreement, payment of the \$16 rate after December 31, 1975, for calendar year 1976 is contingent upon the conclusion of a new maritime agreement to be effective January 1, 1976. Assistant Secretary Blackwell recently returned from negotiations of the new maritime agreement in Moscow and discussions are to continue in Washington sometime this month.

Therefore, at that level the \$16 minimum rate and additionally the formula which adjusts that rate based on the Transatlantic rate have been agreed upon.

Senator STEVENSON. Maybe I didn't follow all of that, but if I did, what you are saying is that nothing is or will be agreed on until there is a new maritime agreement and that it has not yet been negotiated?

Secretary MORTON. That is correct. But I think at our level, the Department of Commerce and Maritime Administration level, we have an agreement with the Soviets which, if that part of the negotiation survives through the final development of the maritime agreement, will maintain the \$16 rate.

I don't think they will go back on their word—with the necessity they have for moving this grain. I am confident that the negotiations carried out by Mr. Blackwell have not been in vain.

Senator STEVENSON. Are our exports of U.S. technology available to the People's Republic of China on the same basis as they are available to the Soviet Union?

Secretary MORTON. I want to make sure that you are talking about whether they are on the same basis as far as credit is concerned, or whether they are on the same basis as far as the sophistication of the technology?

Senator STEVENSON. Sophistication of the technological items.

Secretary MORTON. They go through the same process, and I hope the answer, and am confident the answer is yes, they are.

Although I am not really technically qualified to elaborate, there certainly might be some reasons that a technology might be available to one country and not the other.

Generally, however, the answer is yes, they are available to both on the same basis.

Senator STEVENSON. As a general proposition, they are?

Secretary MORTON. Yes, sir.

Senator STEVENSON. That is good. Thank you very much, Mr. Secretary.

Senator INOUE. Senator Griffin.

Senator GRIFFIN. Mr. Secretary, I want to join in welcoming you to the committee over on this side of the Capitol.

Secretary MORTON. Thank you.

Senator GRIFFIN. I am aware of course that in general our trade with the Soviet Union has not been primarily in the manufactured goods. I take it that generally we have been importing raw materials and things of that kind from the Soviet Union; isn't that true?

Secretary MORTON. On the import side?

Senator GRIFFIN. Yes.

Secretary MORTON. I thought the figures and the products would be the best answer.

It is \$324 million for 1974 and it breaks down as follows: \$187 million for nonferrous metals; \$103 million for petroleum products; and about \$34 million for other raw elements, metal ores, scrap, chemical compounds and so forth. This comprises about 93 percent of all U.S. imports from the U.S.S.R.

Senator GRIFFIN. I voted against the Jackson amendment, but if we had accorded MFN treatment to the Soviet Union, it could lead to greater imports of autos and trucks especially when the Kama River truck plant starts operating. What am I going to tell my automobile workers up in Michigan, when we get into competition for the sale of manufactured goods such as that?

Secretary MORTON. It is almost impossible for me to believe that the Soviets, starting from scratch in the automobile export business, would be able to do very much to disturb the share of the market of the American automobile manufacturers.

Foreign manufacturers today have about 20 percent of the total automobile business in the United States. I think that in retrospect the automobile manufacturers were not quite aggressive enough in meeting the competition of foreign cars. For example they were not quick enough in responding to the demand for small, lightweight cars, and as a consequence, foreign manufacturers like Volkswagen began to develop a fair share of the U.S. market.

I think the automobile industry has changed and is now more responsive to consumer demand. Certainly, if you look at the new models the industry is bringing out, in its efforts to meet the energy shortage, the trend of rising foreign imports appears to be going the other way.

If Detroit, with all of its engineering capability and production capability, isn't able to compete with the U.S.S.R. in the U.S. market, I think something is dreadfully wrong. I just don't believe that there is such a threat from that country.

In the event, however, there is disruptive penetration of the U.S. market, we have built into the Trade Act all of the safeguards that are necessary to prevent any inordinate encroachment into the sales of any kind of manufactured goods in the domestic market.

Senator GRIFFIN. I want to make it clear that I am on your side in this thing. I hope that it works out.

But I also can understand the fears that some have as they look down the road and contemplate competition with a wage rate that doesn't go up as it does in other free countries.

We have competed with manufacturing in other free societies, and their wage rates are going up, so that that is no longer such a big problem. But the Socialist and Communist countries, where they can control the wage rate in a more rigid way, really creates some concern.

Secretary MORRISON. We have to watch it, Senator, and I think we will.

The mechanisms are there. That is what GATT is all about, and that is why we now have a trade representative of ambassadorial rank. I think everybody, however, realizes if we are going to sell something, we have to buy something.

Senator GRIFFIN. We are not going to see too much of you around here, I guess, which I am very sad to see.

We certainly appreciate the great work you have done. I want to say that both as a colleague in the House and in the administration.

Secretary MORRISON. Thank you very much, Senator. I appreciate it. It has been a great experience; a wonderful 15 years for me.

Senator GRIFFIN. Thank you, Mr. Chairman.

Senator INOUE. I would like to associate myself with my colleague in thanking you for your service you have rendered this committee and your spirit of cooperation that has always prevailed in our relationship.

Although you have announced you will be retiring to the Eastern Shore, if I know Rogers C. B. Morton, that will be just temporary; won't it?

Secretary MORRISON. Well, when the bell rings, I guess the fire horse tends to jump into the harness.

But there are a lot of things I would like to do, and one is put my nose back under the tent of the private sector.

I am very much interested in the conversation that we had. I have a feeling our whole transportation system is out of balance. I don't think the different modes of our transportation system are balanced properly for the long range development of our economy and our society.

I think the railroads are in the same shape as the merchant marine, and I hope I can possibly get involved and help in some small way to change that.

I thank you very much, sir.

Senator INOUE. I wish you the very best in your future endeavors. [The following information was subsequently received for the record:]

THE SECRETARY OF COMMERCE,
Washington, D.C., April 6, 1976.

HON. DANIEL K. INOUE,
Chairman, Subcommittee on Foreign Commerce and Tourism, Committee on
Commerce, United States Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed are the answers to the questions, submitted to Secretary Morton in your letter of December 19, arising out of the Committee's December 11 hearings on East-West trade.

Additionally, we will soon be forwarding to you detailed comments on all of the issues raised in your letter of invitation. As you will recall, Secretary Morton indicated that he would provide this material as a supplement to his oral remarks.

I am very appreciative of the interest you have displayed in East-West trade, as reflected in the way you have conducted these hearings. In my opinion, your selection of witnesses has been excellent and the questions you have posed have been most perceptive, serving to pinpoint the basic and crucial issues in East-West trade. As a result, the Committee report will be a unique and invaluable resource to those concerned with this area of U.S. commerce. Thank you for focusing so effectively on this important subject.

I am looking forward to more Commerce Committee activity and I hope to work closely with you and your staff in the future.

With best wishes,
Sincerely,

ELLIOT L. RICHARDSON.

Enclosure.

GENERAL

Question 1(A). I am certain that you would agree that not all trade is economically desirable. Some deals may be economically unfeasible, concessionary, or otherwise detrimental to the general welfare. Would you agree that there may be some transactions which should be discouraged? If so, what criteria would you as Secretary of Commerce establish to determine whether a particular commercial deal should be encouraged or disapproved?

Answer. Judgment regarding the economic feasibility or desirability of a given transaction are, to some extent, a function of perspective. Within an industry, a given transaction may not be feasible when viewed in terms of the resources and alternatives available to one firm; whereas another company, faced with different resources and alternative opportunities, may make an opposite judgment. Both decisions may nevertheless be valid.

The perspective on that same transaction may change once again when viewed at the macroeconomic level. A transaction which may generate a substantial profit for a single enterprise could possibly adversely affect the U.S. economy in some way. Similarly, a transaction which makes economic sense for the nation as a whole, such as the consolidation of a given industry, or the substitution of foreign for domestic sources of a particular product may adversely affect individual firms.

This mesh of interrelated and sometimes conflicting interests applies to both purely domestic transactions and international transactions. As a nation we have, however, consciously limited the power of Government to intervene in most areas of economic decision making, generally deeming these decisions more appropriately made in the private sector.

For the most part, Government is not competent to make determinations as to what is best for the U.S. party to a given transaction, nor does it have access to the proprietary data which must form the basis for understanding individual transactions. Any attempt to acquire the capability and data necessary to make such judgments would undoubtedly require a bureaucracy of horrific proportions. Moreover, such attempts would usurp basic rights of private management and stockholders without providing any assurance that the decision process would be improved, either from the viewpoint of individual firms or the nation as a whole.

However, I would agree that there are certain cases, distinguished by a very significant potential impact on the national economy, where the clear national

interest requires Government intervention. Such is the case in situations of short supply where the inflationary impact of foreign demand might cause the Government to intervene to limit the quantity of the commodity available for export. In the case of the recent grain sales to the Soviet Union, the magnitude of the Soviet purchase, and the implications for a broad segment of the U.S. economy made Government intervention necessary. In this instance, however, Government's role was limited to setting quantitative guidelines for future transactions, rather than involving participation in decisions on price and other terms of the transaction.

There are additional criteria for government intervention, including those established by the Export Administration Act—national security, short supply and foreign policy. Nevertheless, I would be loathe to establish any further basis for Government intervention in private transactions, beyond the need to ensure that such transactions are carried out in accordance with the law. Even this sort of intervention, however, would largely be of an *ex post facto* nature.

The opening of commercial, cultural, scientific and political relations with the socialist countries has provided relatively safe channels for competition between our different economic systems. As these relations develop, I believe they will reaffirm our belief in the superiority of the American system. It does not follow, of course, that every individual transaction will result in a profit to the firm concerned, or that in every individual transaction the U.S. as a whole will reap the absolute maximum of gain that might have been achieved. Just as is the case in the remainder of our foreign trade, and, indeed, in our domestic commerce, some undertakings will be more successful than others and some way, in fact be unsuccessful. We recognize that structural and systemic differences between market and nonmarket economies, as well as unresolved political issues, preclude our conducting East-West trade in exactly the same fashion as the rest of our international trade. Nevertheless, we must not allow a relatively small number of transactions with centrally planned economies to push us into a headlong rush to government controls, which would produce an abridgement of basic entrepreneurial freedoms, an unwieldy bureaucracy, and an exchange of the best of our system for the worst of theirs, with no demonstrated benefit to the American economy.

Question 1 (B). Although you appear, on page 13 of your statement, to dismiss the threat of communist competition, could not some industries, in services and manufacturing, be effectively challenged by Soviet, Chinese or Eastern European firms?

Answer. United States imports from the centrally planned economies (CPEs) are very small, running about one percent of the U.S. total imports. Over one-half of these imports from CPEs consist of raw and semi-processed materials and foodstuffs, including mineral fuels, platinum, tin, chrome, tungsten and other nonferrous metals and diamonds. These are products which the United States needs to obtain through purchases abroad in any case.

U.S.S.R. and PRC purchases of U.S. technical and capital equipment have been destined primarily to aid production of goods for domestic use in these countries. In the case of the U.S.S.R. they have been concentrated in metal-working equipment (particularly for truck and tractor production), mineral exploration and transportation, construction and materials handling equipment, fertilizer and other chemical plants. The products of such equipment and technology are, for the most part, unlikely to offer significant competition to American products because of the tremendous backlog of Soviet internal demand, on the one hand, or because they (e.g., oil fertilizer) would be among products in which the United States is a net importer on the other.

To the extent that China has made purchases of U.S. equipment and technology, these have been primarily for transport equipment (e.g., aircraft), fertilizer factories and mineral extraction equipment, especially in the petroleum sector. The production of such equipment and technology is unlikely to offer significant competition to American products as long as China's huge domestic requirements remain unfulfilled.

The situation in Eastern Europe is less clear. Due to increasing trade deficit problems, these countries have set the development of export industries as a major goal in their new five-year development plans. Of necessity, therefore, their purchases of equipment from the United States (including heavy machinery, such as construction and transportation equipment, and electronic and precision equipment) are going to be directed toward achieving this goal. They have also expressed great interest in buying equipment or enter-

ing into cooperative arrangements to develop the food processing and chemical sectors. Whether the development of export industries in Eastern Europe, with the help of American equipment, will lead to large enough increases in American imports to threaten domestic suppliers is impossible to predict at this time.

Therefore, while the threat of competition from imports of the CPEs' products can be considered small, it cannot be dismissed altogether. Indeed, the essence of international trade is widening the scope of competition so that producers and consumers can enjoy the fruits of higher productivity. It is possible that the CPEs might eventually become more competitive in third country markets. Nevertheless, we consider this competition healthy. At the same time, we understand the importance of safeguarding American firms against unfair competition, particularly given the ability of the CPEs to set export prices without consideration of the profit motivation necessary and inherent in the free enterprise system. It is for this reason that the United States has instituted a comprehensive safeguard system to insure that the American market and American firms are protected against possible unfair trade practices.

Question 1. (C) Is it your contention that current safeguards are adequate and that no additional ones are needed?

Answer. Protection against unfair trade practices, such as dumping and export subsidies, is afforded by the U.S. Antidumping Act and by countervailing duty provisions which apply to both market and nonmarket economy countries.

Additional protection from market disruption by communist country products specifically is provided by the market disruption provisions of the Trade Act of 1974 (Section 406), which permit the imposition of relief measures (tariffs, tariff rate quotas, quantitative restrictions or orderly marketing agreements, or some combination of such measures) with respect to imports from the communist country involved which have been determined by the International Trade Commission to be a significant cause of material injury or threat thereof to a domestic industry. These relief measures may be imposed by the President on an emergency basis whenever there are reasonable grounds to believe market disruption exists, pending an investigation and report by the International Trade Commission.

Furthermore, under the Trade Act of 1974, safeguard arrangements against market disruption must be included in any bilateral commercial agreement concluded with a nonmarket economy country. The Trade Agreement concluded in 1975 with Romania includes such safeguard procedures. The 1972 Trade Agreement with the U.S.S.R., now in abeyance, also provided for measures to deal with instances of market disruption.

Thus, it would seem that current safeguards are adequate without additions. In fact, an opposite problem may arise in the future. In formulating U.S. policies in this area, a balance must be struck between the maintenance of adequate protective measures for U.S. industry and the provision of sufficient market access for the nonmarket economies to permit the development of mutually beneficial trade flows.

The nonmarket economy countries are particularly sensitive to the potential use of U.S. antidumping and market disruption mechanisms as a bar to U.S. sales. The antidumping and countervailing duty statutes are designed basically for application to exports from market economies and there are basic problems in applying them to nonmarket economy exports. Yet these Acts, as well as the market disruption provision of the Trade Act (Section 406), are currently applicable to exports from the communist nations. As our commercial relations with these countries are normalized, we should examine whether reliance solely on the market disruption mechanism of the Trade Act may not provide the most efficacious protection for the American market, while at the same time offering the least potential for unduly impeding the normalization of commercial relationships with nonmarket economy countries.

Question 2. By and large, the nonmarket countries exercise rigid central control over the growth of interdependence and international interest groups, while the existing United States Government philosophy is that of minimum intervention in the market. Does this situation not therefore result in an advantageous market position for the nonmarket nations vis-a-vis private companies?

How does the U.S. Government attempt to aggregate leverage among U.S. enterprises or to provide direct support for or advice to U.S. firms in their negotiations with the nonmarket communist countries?

For many reasons, the socialist countries, particularly the Soviet Union and China, have advantages over private firms which they have been willing to use. Could the position of U.S. firms be improved through more active governmental efforts including more comprehensive advice to companies, scrutiny over specific

transactions based on broad national interest criteria, and adjusting the level of trade in response to a nation's diplomatic or international economic behavior?

Answer. Because of the parallel nature of these two questions, I would like to combine my response.

Certain negotiating advantages may accrue to the foreign trading organizations of the communist countries because of their monopsonist position as sole purchaser of given products for an entire economy and the sizeable purchasing power they can command. In some instances Foreign Trade Organizations (FTO's) may be able to solicit detailed proposals from several potential suppliers and then play competitors off against each other, utilizing the proprietary data so obtained. This technique, known as "Whipsawing" is, of course, not limited to trade with the Communist countries or even to international trade. However, it does appear to occur with some regularity in trade with the communist countries and, on some occasions, it may have induced a firm to reduce its profit margin or to make other concessions, such as lowering interest rates on trade credits offered.

We in Commerce do warn American firms that such practices are sometimes employed by state foreign trade organizations. However, the competitive advantages of the foreign trade monopsonist should not be exaggerated. While they often make large purchases for an entire market, orders are usually not large relative to aggregate American or world demand and do not, therefore, enable the FTO to exert any lasting influence on market terms or prices. Moreover, many American firms active in Communist markets are large multinational enterprises which already supply a significant share of the world market for a particular product. Their substantial technical and marketing expertise usually equals, and often exceeds, that of the Communist trade organizations. While representatives of the trade organizations have a well-earned reputation as capable businessmen and tough bargainers, there is no indication that they have beguiled American corporations into a consistent pattern of lower profit margins on their contracts. Should they be successful, the condition would be only temporary, since our market mechanism is self-correcting and U.S. firms could be expected to pursue more profitable alternatives elsewhere.

While more active governmental efforts might marginally improve some aspects of the position of American firms vis-a-vis a monopsonist communist buying organization, such efforts are not generally necessary, would be difficult to implement fairly where more than one U.S. firm is competing for an order, and would run counter to the basic private market orientation of our economic system.

Traditionally, the government has become involved in the detailed activities of U.S. firms in East-West trade only if national security concerns are at stake, or to advise firms when they voluntarily request assistance on specific transactions from the trade specialists in the Bureau of East-West Trade, or other government representatives. To extend this involvement by requiring government scrutiny over a broader range of commercial transactions, on the basis of more general economic and national interest criteria, would involve a basic alteration in our traditional economic system. Such a response to Communist trading practices is neither necessary nor desirable.

With several communist countries, we have the joint commercial commission mechanism to resolve what may be considered unfair business practices by either side. With other communist countries, we deal directly with the respective trade and foreign affairs ministries. Were we to aggregate our competitive power to increase pressure on communist buyers, sentiment could develop to use it in other cases. This would draw the government into even greater participation in private commercial transactions, in order to alleviate problems which, in fact, have a relatively small impact on the U.S. economy.

The additional power that the government could bring to bear in support of U.S. firm's winning individual contracts is debatable. Because trade with the U.S. is, at present, small compared to the overall trade volume of most communist countries, direct government involvement would not enhance our competitive position. Moreover, in the case of those relatively few products in which the United States is the sole global source of supply, the American firm's bargaining position is already strong and no government assistance is required. In the case of those products available from both United States, West European and Japanese suppliers, it is unlikely that official government assistance could meaningfully alter the actions of communist government purchasing enterprises.

Question 3. How much of the \$9 billion credit offered to the Soviet Union since the beginning of 1974 has been concessionary, that is below market rates?

Answer. Trade credits extended to the Soviet Union are basically of two types, general lines of credit which must be utilized within a specific time period, and

credits granted on a case-by-case basis for individual export transactions. Either type may involve government backing in the form of guarantees, insurance or even direct loans.

It is important to note that the stated interest rate charged the Soviet Union is not the sole criterion for assessing whether lending by foreign governments is concessionary. Simply providing long term funds at fixed interest rates is a concession, because similar borrowings on Western private sector capital markets would require the Soviets to pay a floating rate. Furthermore, foreign governments can offer the Soviets preferential lending terms by permitting grace periods (possibly interest free) before repayments are due and by varying or omitting commitment fees on unused credit. In addition, France, Britain and Italy have expanded their export credit insurance programs to include inflation risk coverage. Under such plans, exporters are reimbursed for losses they may incur on fixed price export contracts resulting from inflation affecting production costs. Soviet buyers usually demand the benefit of fixed prices, and inflation insurance facilitates compliance by European sellers.

If government-backed loans for trade financing were not available, Soviet borrowers would, as an alternative, have to draw either upon the international Eurocurrency or domestic finance markets. In the past, Soviet medium term Eurocurrency loans have been arranged at a floating interest rate of about 1.25 percent above the London interbank lending rate. On individual Western country domestic capital markets, the Soviet Union might borrow at slightly above the prime rate, depending on the availability of funds for domestic users.

In some instances, the stated interest rate on Soviet loans has been publicized. The table below provides a comparison of that rate with both the contemporaneous prime lending rate and the London interbank rate. It is evident that significant concessionary (i.e. at interest rates less than the Soviets would pay for alternative sources of funds) lending has occurred.

INTEREST RATES ON SELECTED SOVIET CREDITS COMPARED TO ALTERNATE SOURCES OF FUNDS

Lender	Date	Amount	Stated interest rate	London interbank rate	Domestic prime rate
General credit lines to the U.S.S.R.:					
France	December 1974	\$2,800,000,000	7.2-7.55	11 $\frac{1}{2}$ %	15 $\frac{1}{2}$ %
United Kingdom	February 1975	2,300,000,000	7.2-7.5	11 $\frac{1}{2}$ %	12 $\frac{1}{2}$ %
Canada	May 1975	490,000,000	6.5-8.0	9 $\frac{1}{2}$ %	8 $\frac{1}{2}$ %
Italy	November 1975 ¹	900,000,000	7.0-8.0	11 $\frac{3}{8}$ %	12%
Care-by-care credits:					
Italy	1974	855,000,000	7.2-7.5	4 12 $\frac{3}{8}$ %	16
Do	December 1975 ¹	200,000,000	2 7.25	10 $\frac{1}{2}$ $\frac{1}{8}$ %	16
West Germany	1974	700,000,000	(²)		
Do	1974	400,000,000	(²)		
Do	December 1975 ¹	460,000,000	(²)		
Japan	June 1974	450,000,000	6.38-7.25	12 $\frac{3}{8}$ %	11-11 $\frac{1}{4}$ %
Do	July 1974	550,000,000	6.38-7.27	11 $\frac{1}{2}$ %	11-11 $\frac{1}{4}$ %
Do	April 1975	223,000,000	7.55	9 $\frac{1}{2}$ $\frac{1}{8}$ %	11 $\frac{1}{2}$ %
Do	Mid-1975 ¹	150,000,000 ¹ $\frac{1}{8}$ %	NA	9	11
Do	December 1975 ¹	100,000,000 ¹ $\frac{1}{8}$ %	6-6.5	10 $\frac{1}{2}$ $\frac{1}{8}$ %	7 $\frac{3}{4}$ %
Do	December 1975	52,000,000	6.75-7.25	10 $\frac{1}{2}$ $\frac{1}{8}$ %	7 $\frac{3}{4}$ %

¹ New credit publicized since testimony was prepared.

² Estimated.

³ West German lending may, in some instances, be subsidized by the individual seller company but not by any governmental agency.

⁴ Average rate during 1974.

Question 4. In addition to export financing, what kinds of competition from foreign governments does the Department face in its efforts to promote American exports and/or projects in socialist countries?

Could you please be specific as to the competing programs and countries?

Answer. The principal competitors of the United States in East-West trade are Austria, Belgium, Canada, the Federal Republic of Germany, France, Great Britain, Italy, Japan, and Sweden. All of these countries have government-sponsored or quasi-governmental programs to promote the sale of their products and technologies to the socialist countries. In addition, they frequently have very senior government officials, at a level comparable to Cabinet rank in our country, accompany their trade missions whenever the prospect for sales at the multi-million dollar level exist, whereas in the U.S. trade missions are rarely led by officials more senior than a Deputy Assistant Secretary.

Although direct and accurate comparisons of their programs with those of the United States are not possible because of conceptual and statistical differences, information is available to give us some general impressions at least and, in some cases, rather specific outlines of their principal promotional activities. Unfortunately, however, there is no reliable information available to measure the effectiveness of their trade expansion efforts.

Japan.—The Japan External Trade Organization (JETRO), perhaps the most prominent of the many Japanese governmental bodies engaged in promoting foreign trade, had a budget of \$26 million for Japan's fiscal year 1974. Twelve percent of JETRO's trade promotion events in 1974 were staged in the socialist countries. It is believed that Japan's budgetary allocations for promoting trade with the PRC are several times the amount allocated to the other nonmarket economies. Japanese companies participating in JETRO's promotional programs bear half the actual, direct expenses of the trade promotion effort while JETRO pays the entire cost of market research, provides attendants at exhibitions for companies unable to send their own representatives, and bears the publicity costs.

Great Britain.—The British Overseas Trade Board (BOTB) of the Department of Trade has a budget of \$25 million for calendar year 1975 to promote British trade throughout the world. We do not have a breakdown of the amount devoted to promoting East-West trade. Because Britain relies heavily on international trade, it offers more benefits to the participants in its trade missions, exhibitions, buying groups, and seminars than does the U.S. Department of Commerce. The BOTB charges participants in overseas trade fairs \$6 per square meter including construction of the exhibit areas and utilities, whereas USDOC charges between \$100 and \$200 per square meter for fairs in Eastern Europe. Further, the BOTB pays some of the travel expenses for company representatives. In the area of "Inward Trade Missions" BOTB's promotional efforts differ very sharply from the programs USDOC can undertake. The BOTB will pay up to 75 percent of the return airfare for buying groups from Eastern Europe, 50 percent of the travel costs in Britain, a contribution toward hotel accommodations, and 50 percent of the cost of a reception. USDOC does not pay any of these costs for buying groups visiting the United States. The BOTB also pays some of the costs of overseas market research for industry groups, the percentage depending upon the number of companies requesting the research. The BOTB has specifically ruled out any form of full-cost recovery fees for its programs.

Federal Republic of Germany.—During its current fiscal year, Germany is spending \$4.3 million on 12 trade fairs in the socialist countries of Eastern Europe, but it is of interest to note that recently the FRG spent \$7.5 million on a single highly successful trade fair in the PRC. Depending upon the type of participation in a given fair, the German Government may bear from 50 to 100 percent of the costs; of course, the more directly sales-oriented the fair, the more the individual company must pay. The day-to-day work of trade promotion is handled by the German Chamber of Commerce. About 55 percent of their costs are borne by the German Government. The German Government has a budget of \$3.5 million a year to provide overseas market research for various industry groups.

Canada.—For their fiscal year 1975 the Canadians have a budget of \$700,000 (out of their total trade promotion budget of \$6.7 million) to promote trade with the socialist countries. The Canadians help to defray the living expenses of incoming mission members and pay their return airfare. The return airfare for members of Canadian trade missions is also paid for by the Canadian Government. The Canadians also have a program for export market development wherein the government furnishes financial assistance in the precontractual work for capital projects, in market identification, non-recurring costs prior to marketing campaigns, and with invitations to foreign buyers to visit Canada.

Question 5. On page 5 you note that doubts about the desirability of East-West trade will have to be resolved before we will be in a position to realize our full share of benefits. Has the Department or any other agency of the Federal Government attempted to assess comprehensively the benefits and drawbacks of American trade with the Eastern bloc nations? If not, why not? Why would not such an attempt be worthwhile?

Answer. A careful assessment indicates clear and substantial net benefits to the U.S. from a continued expansion of trade in non-strategic goods with the socialist countries.

While the political benefits from an expansion of trade cannot be quantified, it is clear that increased commerce and the person-to-person contacts involved

contribute generally to an easing of tensions that is an important ingredient in achieving overall political progress and maintaining peaceful relations.

It is difficult to identify specific political objectives that have been or can be achieved by an expansion of our East-West trade. The socialist countries want to expand trade with us because it is in their self-interest. But, from their viewpoint, the benefits of trade with the United States are limited, since they have other Western sources for most of the items they require. This fact seriously limits the U.S. ability to use trade to achieve specific political objectives. Further, establishing specific public, quid pro quo linkages between trade and political objectives significantly reduces whatever leverage might otherwise exist, because such efforts focus public attention on the concessions extracted, thereby effectively decreasing the likelihood that they will be made.

It should also be noted that the Trade Act of 1974 has distinctly limited the flexibility of Administration actions that could be used to encourage an expansion of our trade with the socialist countries, thus further limiting whatever capabilities might otherwise exist to use trade to achieve political objectives.

The economic benefits of trade with the socialist countries are much easier to assess. A surplus of \$5.3 billion on trade with these countries over the three year period 1973-75 indicates a significant contribution to creating jobs for U.S. workers and to strengthening our balance of payments situation.

The economic benefits of this trade are, however, not contingent on a continued U.S. surplus situation, though continued surpluses do seem likely for a number of years. The socialist countries are an important source of many raw materials our industries must import. Further, to the extent that socialist exports of manufactured goods are able to compete successfully in the U.S. market, our consumers benefit, in terms of both price and quality, from the added competition for our market.

It is also important to recognize that, on the whole, our exports to the socialist countries tap unused productive resources and add to our total product and income while, conversely, imports from these countries largely displace imports that would come from other countries, rather than from U.S. production. For this reason, a failure to expand trade with the socialist countries to the maximum extent consistent with other non-economic considerations would represent lost exports without a commensurate reduction in imports. Thus, a failure to expand this trade would have a very direct impact on our employment, balance of payments and total production.

Some of our citizens have expressed concerns about East-West trade. Because the basis of their concerns are the perceived "costs" of trade with the Eastern countries, a discussion of the concerns can provide a useful framework for a kind of cost-benefit analysis of East-West trade. In attempting this analysis, if the perceived costs can be shown to be insignificant, the well-established benefits of the trade will prevail over the costs.

At the heart of the concerns, is, I believe, often a degree of discomfort or uneasiness with a new policy of "doing business" with our cold-war adversaries. There is a vague, if unspoken concern that, given our past and continuing adversary relationships, whatever is to their advantage is necessarily to our own disadvantage.

Certainly, it is correct to assume that they would not trade with us unless it was to their benefit to do so. But it does not, of course, follow that trade that benefits the socialist countries is necessarily disadvantageous to us. Rather, trade occurs only if both parties perceive it as mutually beneficial.

More specific citizen concerns include fears that we may, in our trade with the Eastern countries, export items that jeopardize our national security. In fact, of course, our high technology exports to these countries are regulated by the Export Administration Act, administered by the Commerce Department. The Department, in close cooperation with other agencies, including the Department of Defense, reviews, in a thorough and painstaking manner, applications for exports to the socialist countries. Those exports that could contribute to communist country military capabilities which would prove detrimental to the U.S. national security are denied.

Another concern held by some is that export of our technology will enable the communist countries to make a quantum jump in their manufacturing capabilities and, subsequently, to flood our own U.S. markets, or third markets to which we export, thereby displacing U.S. jobs. In fact, however, the socialist countries are seriously limited in their export capabilities, both by the unfilled demands of their own consumers and by systemic difficulties inherent in centrally

planned economies. These difficulties hinder their ability not only to absorb new imported technology, but subsequently to keep it current. By the time an imported technology has successfully been integrated, Western techniques have often advanced to new levels. The same systemic problems limit their capabilities to meet Western quality and service standards and handicap their ability to penetrate Western markets. Finally, if disruptive penetration of U.S. markets does occur, the market disruption provisions of the Trade Act of 1974, applicable specifically to exports from communist countries, and applying disruption standards more easily met than those applicable to imports from market economy countries, provide a very firm line of defense for domestic American producers.

There are also those who see a disadvantage in trade with the socialist countries because such trade is seen to strengthen socialist economies and, indirectly, to assist their military effort by releasing resources from consumer goods to the military sector. There are two principal counter arguments. First, even though socialist imports of technology have grown rapidly in recent years, they are still relatively small. The Soviet Union, for example, in 1974 imported \$2.1 billion of Western technology machinery, an amount equivalent to less than 0.3 percent of its Gross National Product. This is hardly sufficient to be the basis of significant restructuring of the Soviet economy, but it will benefit that economy, just as Western imports from the East benefit Western economies. Secondly, it should be noted that, other than for the Western credits utilized, the Soviets and other Eastern countries paid for imported goods with exports of goods, raw materials, gold and services that were, as a result, denied to their own consumers.

I believe "export credits" are another concern that some of our citizens have about East-West trade. Circumstances created an image where some see massive U.S. Government export credits financing Soviet purchases, in a kind of U.S. "giveaway" that subsidizes the Soviet economy. In fact, however, our government export credits have been relatively modest, considering the volume of our exports and normal international trade financing practices. This is treated in considerable detail in "The United States Role in East-West Trade, Problems and Prospects", a Department of Commerce assessment published in August of 1975.

As noted previously, trade benefits both parties or it does not occur. Conversely, a failure to trade represents a loss to both parties. But there are perhaps those who feel we should abstain from trade because the loss suffered by the other side would be greater than the loss we would suffer, thus leaving the United States with some sort of net advantage, or perhaps a smaller disadvantage growing out of an abstinence from trade.

The Administration believes that policies of blockade or trade minimization, pursued by the West in previous years, were not appropriate and therefore should not be resurrected. Similarly, the Congress, in drafting the Export Administration Act of 1969 maintained this position by declaring it is "the policy of the United States to encourage trade with all countries with which we have diplomatic or trading relations." However, even if the United States did desire to reinstitute the trade minimization policies of the past, other Western nations would be most unlikely to follow our lead. While we believe even a unified Western embargo on or minimization of trade with the East would be undesirable and costly to all concerned, unilateral U.S. restrictions on trade with the socialist countries, would, without similar actions by other Western countries be almost totally ineffective in denying the benefits of trade to the socialist countries, with the costs of such restrictions borne almost solely by the United States.

The foregoing arguments apply in the aggregate, to our trade with the East viewed as a whole, rather than to individual transactions. There are those who argue that the enormous bargaining power of the large socialist Foreign Trade Organizations, particularly those of the Soviet Union, disadvantage our individual firms, leaving them open to "whipsawing" or other negotiating techniques that will lead to transactions in which the benefits of trade go largely or solely to the socialist country.

There is, of course, no assurance that the benefits of each individual East-West trade transaction in which a U.S. firm participates will be divided equally between the socialist trading partner and the U.S. firm; there is not even assurance that each such transaction will result in a profit for a U.S. firm. But neither is there any such assurances that U.S. firms will profit in other international trade transactions, or even in domestic transactions.

While there is much evidence that the socialist countries are tough bargainers, there is equally strong evidence that they stick to the terms of agreements:

that have been reached. American firms are rapidly learning the peculiarities of East-West trade. They are not strangers to tough bargaining sessions, and they do not want the U.S. Government interposed between them and socialist country buyers. Except for controls on the export of certain items for national security, foreign policy, or short supply purposes, there is no current need for the government to impose special rules on the conduct of business between U.S. firms and socialist buyers—rules that would not apply to transactions with our other trading partners—and no reason to interpose government into the negotiating process between buyers and sellers.

The U.S. Government is ill-equipped to judge the profitability of individual transactions, either from the standpoint of the individual firm concerned or from a "social" viewpoint, which would attempt to quantify the national benefits of individual transactions. U.S. firms who do not find trade with the socialist countries to be profitable will not long remain in that trade. Our market economy system, supplemented by national security export controls and, in some instances by arrangements such as those involved in restrictions on grain shipments and the subsequent grain agreement with the Soviets will provide the proper guidance and direction to long-term trade with the socialist countries.

In summation then, an assessment of the benefits and drawbacks of East-West trade indicates that it can make a contribution toward the achievement of political objectives, and that there is a significant positive balance of economic benefits in such trade.

Question 6. Assuming for the sake of argument that many of the allegations about the loss of business to foreign competitors because of American restrictions are true, is it your position that commercial considerations alone should be the sole determinant of our East-West trade policy?

If the answer is yes, why?

If the answer is no, what other factors would you suggest as important in our policy determination?

Answer. The goals and objectives we seek in our East-West trade policy are multifaceted. There are positive economic benefits to the United States in the expansion of trade with the nonmarket economy countries. They are both a potentially significant market for our exports, and an important source of vitally needed raw materials.

Nevertheless, the nature of our overall relationships with the Communist countries requires that considerations beyond those of a purely commercial character enter into the determination of our East-West trade policy. Satisfying broader national interest requirements which include national security, maintenance of adequate domestic supplies and foreign policy considerations may, on occasion, lead to U.S. actions that result in a loss of business to foreign competition. But the broader national interest must, of course, be primary in situations where it conflicts with narrower commercial interests.

It is clear that progress in trade is very closely related to the resolution of key political issues, and in fact can create an environment in which progress on other political issues can be achieved. We believe this should always be a consideration in the formulation of our policy in the area of East-West trade. East-West trade can contribute significantly to international stability by creating a communist stake in the continuation of such trade, thereby providing a motivation to the Communist countries to exercise restraint in the conduct of their foreign and domestic policies. Further, increased trade with the U.S. can provide the East European countries with an alternative to tightening economic ties with the Soviet Union. In determining our overall policy, we recognize that satisfying the desired of these countries to turn outward is in our national interest and that expansion of East-West trade is one means of effecting a strengthening of this positive trend.

Despite this relationship between East-West trade policy and our broader foreign policy goals, we should not exaggerate the contribution that trade can make to these goals. Trade, although it does improve the environment in which political and military differences are discussed, is not a predominant policy instrument or lever for the resolution of basic differences. Experience, in fact, has demonstrated the counterproductive effect of using trade beyond its limitations as a *guid pro quo* from settlement of specific political issues.

Question 7. In addition to the general matters you mention in your statement which operate to keep the American share of East-West trade small, there have been other problems in our dealings with the nonmarket countries, for example, in the area of business facilitation, access to end-users, provision of economic

and financial data, and so forth. Some problems, such as the ability of American firms to establish branch offices, have been or are in the process of being resolved. What other similar factors still exist to inhibit American trade with the socialist countries?

What is being done to remove these barriers?

What forum or mechanism is the United States using to eliminate these problems?

Answer. While many problems of business facilitation still persist for American businessmen dealing with these countries, U.S. Government efforts have brought about a qualitative improvement in the centrally planned economy (CPE) trading environment, and forums exist for continued efforts toward improvement.

Examples of recent progress toward improving the ability of American firms to do business are the decision by the U.S.S.R. to provide Soviet Chamber of Commerce support for trade promotion activities staged by the U.S. Commercial Office in Moscow, some movement toward better access to economic information about the U.S.S.R., some improved knowledge about procedural and legal aspects of U.S.-U.S.S.R. trade, and the increase from 19 to 22 in the number of American firms permitted to open offices in Moscow. It is particularly worth noting that this progress occurred after the suspension of the Trade Agreement, which (in Article 6) provided the basis for the accreditation of offices for U.S. companies in the U.S.S.R.

A trade agreement was concluded with Romania in April 1975 and came into effect in August 1975. It covers many areas of business facilities, as Congress mandated in the Trade Act of 1974. In addition, all of the Eastern European countries, except Albania, have passed legislation permitting foreign firms to open representational offices and have increased access to end-users.

The People's Republic of China now has limited correspondent arrangements with several American banks, quotes forward rates for Chinese currency, denominates contracts in dollars, and has agreed to the use of some Western labels in textiles.

Despite these gains, many problems of varying degrees of significance, still remain in our trade relations with the socialist countries. These problems do not necessarily put American firms at a competitive disadvantage relative to other Western and Japanese firms, because these firms are confronted by similar problems. Nevertheless, the problems frequently constitute serious impediments to the conduct of business.

One of the principal problems is the lack of sufficient specific market information to enable firms to explore commercial possibilities. Further compounding the general lack of information are the limitations placed on access by firms to the ultimate end-users of their products.

A second difficulty in the business facilitation area concerns the procurement of offices in the socialist countries. A U.S. firm must first obtain permission to open a permanent office, often a lengthy process. Once permission is granted, the company may have to occupy temporary quarters in hotels which are small and extremely expensive. The short supply of trained secretarial help and standard office equipment in these countries is often the complaint of firms even after they move into permanent offices. It should be noted in the case of the U.S.S.R. that we anticipate a marked improvement in the office space and equipment situation when the new international trade center, a project U.S. firms are helping to design and construct, is opened in Moscow in 1978.

Travel restrictions are a further impediment to the normal conduct of business, since they apply to commercial visitors as well as to other travellers. These controls, for example, can prevent or delay the travel of a businessman to a plant or institute to supervise or inspect the installation or operation of equipment his firm has sold.

Restrictive practices on visa issuance is another obstacle to the smooth conduct of business. Issuance by both the United States and socialist countries of multiple entry/exist visas for commercial personnel resident in each country would enhance their ability to negotiate transactions more quickly and effectively. Some progress is being made on this issue, but much remains to be achieved.

Other problems often cited in relations with the PRC are the inability to obtain exclusive marketing arrangements, Chinese unwillingness to use Western contract language, undependability of shipping and packaging, and unsophisticated banking practices.

We are making an effort to resolve or ameliorate these problems, even though some appear to be inherent in doing business in state-controlled economies. A principal forum for discussing business facilitation problems with respect to the Soviet Union is the Joint U.S.-U.S.S.R. Commercial Commission which has a Working Group on Business Facilitation. The American-Polish Trade Commission and the American-Romanian Economic Commission serve the same function with Poland and Romania. Organizations of private American firms and economic and trading organizations in the socialist countries provide another forum for discussing and resolving problems. These Joint Economic Councils have been established with the U.S.S.R., Poland, Hungary, Romania, Bulgaria, and Czechoslovakia. A constant dialogue through exchange of letters and other contacts between the Department of Commerce and CPE government trade officials are also utilized to examine business facilitation issues. We hope eventually to negotiate under section 405 of the Trade Act, commercial agreements with the countries of Eastern Europe covering these business facilitation problems and such matters as arbitration arrangements and protection of patents, copyrights and industrial property rights.

Additionally, the resolution of outstanding issues such as MFN, U.S. claims against Czechoslovakia, and Export-Import Bank credits for the U.S.S.R. and some of the countries of Eastern Europe would clearly contribute to a further easing of business facilitation problems. Diplomatic relations with the PRC favorable tariff treatment for Chinese exports and a resolution of U.S. private claims and blocked PRC assets would have a similar salutary effect by helping to normalize many aspects of commercial relations. However, problems considering business facilitation will probably continue to operate monopsonistic foreign trade structures in state-controlled economic systems so dissimilar to our own. In the meantime, effort will continue to lessen their impact on the conduct of mutual trade.

ROLE OF THE DEPARTMENT

Question 1. How many staff members does the Bureau of East-West Trade have? How many serve in a promotional capacity? How many are secretarial and professional? How does this compare to the figures in 1972, 1973, 1974? What were the Bureau's appropriations for the same years?

Answer.

BUREAU OF EAST-WEST TRADE, PERMANENT PERSONNEL AND OBLIGATIONS

	Fiscal years -			
	1973	1974	1975	1976 ¹
End of year, permanent personnel.....	224	223	231	226
Professional.....	170	177	188	184
Secretarial.....	54	46	43	42
Export administration.....	144	133	142	141
Professional.....	109	108	120	119
Secretarial.....	35	25	22	22
East-West trade expansion.....	80	90	89	85
Professional.....	61	69	68	65
Secretarial.....	19	21	21	20
Obligations, actual (millions):				
Export administration.....	\$4,075	\$4,391	\$4,714	\$5,024
East-West trade expansion.....	1,428	3,867	3,771	4,284
Total obligations.....	5,503	8,258	8,485	9,308

¹ Permanent personnel staffing as of Dec. 31, 1975. Obligations are estimate for fiscal year 1976.

Question 2. How does the number of personnel compare to those in the other agencies such as State and Treasury Departments, which also have major roles in East-West trade?

Answer. Treasury Department personnel in East-West trade: Office of East-West Economic Policy—Professional, 4; Secretarial, 2; plus staff support from different sections as needed.

State Department personnel in East-West trade: Office of East-West Trade—Professional, 8; Secretarial, 5; plus staff support from desk officers as needed.

Question 3. How many personnel does the Department of Commerce allot to staff the Joint Commercial Commissions?

Answer. The Department of Commerce employs two professionals and one secretary to serve as the administrative nucleus for Joint Commercial Commissions. In addition, regional desk officers and trade assistance personnel, contribute heavily to substantive briefing materials and preparation for meetings of the Commissions.

Question 4. Although the activities of the Bureau are described in the Department's publication on the "U.S. Role in East-West Trade", could you briefly describe what you view are the functions and mission of the Bureau?

Answer. The Bureau's program is designed to redress a quarter century of minimal U.S. involvement in East-West trade, which has deprived most U.S. businessmen of commercial experience with centralized, state-managed economies and their foreign trade organizations. The Bureau's mission is to expand and facilitate U.S. commercial and economic relations with the U.S.S.R., Eastern Europe, the People's Republic of China and with other centrally planned economy countries as changing circumstances warrant, consistent with the national security of the United States, the nation's foreign policy objectives, short supply considerations, and the desire to promote exports.

The functions of the Bureau include helping American businessmen explore the socialist markets and offering them continuing information, advice, and assistance with the unfamiliar aspects of East-West commercial undertakings. We help U.S. firms take part in trade fairs, exhibitions, and technical seminars; we analyze economic developments in socialist countries and assess their potential as markets for U.S. products; we provide staff support and representation to the Joint Commercial Commissions established with the U.S.S.R., Poland and Romania; and we provide extensive staff support to the President's East-West Foreign Trade Board. In addition, the Bureau administers the Export Administration Act of 1969, as amended, and regulates U.S. exports in accordance with strategic, short-supply, and foreign policy considerations.

Question 5. Approximately how many businessmen have been assisted by the Bureau since its formation? How many requests for assistance have been received and handled?

Answer. A complete accounting of the numbers of businessmen aided by the Bureau of East-West Trade since its formation in 1972 is not available—assistance has occurred in a number of different ways, through activities overseas at the East-West Trade Development Office, Vienna, the East-West Trade Center, Warsaw, and the U.S. Commercial Office, Moscow, as well as activities in the various divisions of BEWT here in Washington. However, the division of eight professionals organized specifically to deal with trade development and assistance problems has dealt with an average of 130 assistance matters every month in 1975.

EXPORT CONTROLS

Question 1. The BEWT has a promotional function. At the same time it has responsibility for administering controls over certain American exports. This dual function seems to be anomalous and potentially incompatible since one could imagine a situation in which the Department may have supported a trade promotion activity which resulted in exports which had to be denied a license. Does the Bureau see a potential inconsistency in these functions?

Answer. It is true that the BEWT has responsibilities for both promoting EWT and for administering controls over certain American exports. Such duality of functions need not be incompatible, and indeed offers certain advantages in both the planning of a trade promotion program and the assisting of American firms.

To be effective, a trade promotion effort realistically must take account of all factors affecting trade prospects. Export licensing requirements are a fact of life in East-West trade and, therefore, must be considered along with market information, competitive capabilities of U.S. firms, etc.—in the selection of trade promotion events. Otherwise, we face the danger, suggested by the question, of supporting trade promotion activities which result in contracts which cannot be consummated for lack of an export license. However, we do not want to limit the legitimate sales opportunities of American companies, any more than we want to expose them to promotional costs in vain. The Department seeks to avoid both these extremes, and the existence of promotional and licensing functions in the Bureau assists us in developing an appropriate trade promotion program.

The Bureau seeks to ensure that all firms contemplating participation in a departmentally sponsored trade promotion event are fully apprised of the licensing requirements for their products. They are strongly urged to contact the Office of Export Administration at the earliest possible date, and are warned by the Office

that, where a license is required, a license exhibit is not and does not assure a license to export for sale. The decision whether or not to participate in a particular trade promotion event in light of available information is the prerogative of individual companies.

The Bureau's administration of export controls enables the Bureau to provide U.S. firms with a full range of assistance. In trading with the nonmarket economy countries, American companies not only are faced with a host of unique problems, but also encounter more frequently export licensing requirements. Thus they not only seek assistance in their trade promotion efforts, but also require guidance in export administration matters.

Question 2. In cooperating with our allies on export control matters under the auspices of COCOM, are there still significant areas of disagreement on the kind of exports which should be controlled? How many items remain on the COCOM embargo list?

Answer. Our COCOM allies are committed to export controls over strategic-use commodities and, in general, we detect no significant disagreements over the need for security controls or what types or classes of commodities should be controlled. The basic list of categories of general industrial equipment which should be controlled has remained static and there has been no significant trend toward reducing controls in that portion of the COCOM List covering munitions and atomic energy items.

There are, however, areas of differing opinion between the U.S. and its COCOM partners over specific control parameters for particular commodity categories recognized as warranting control because of their strategic significance. For example, COCOM accepts the necessity of controlling certain electronic measuring instruments, but may have varying views whether one control parameter should be set at 12GHz or 18GHz. Another area of difference is what circumstances justifies the export of a controlled-commodity as an ad hoc exception to the embargo. These areas of disagreement usually stem from differing assessments of such considerations as bloc capability to produce comparable equipment, availability of such equipment from non-COCOM members, military vs. civilian end-use patterns for a particular commodity, and, in the case of exception requests, the nature of the end-use and end-user. Another factor which cannot be divorced from the assessment-forming or decision making process of a COCOM member is the hard problem of balancing long-range security considerations against short-range economic well being, especially in times of economic stress. Disagreements on such questions are usually settled or compromised at the COCOM negotiating table.

The COCOM list currently in force was revised in 1972 and covers some 150 general industrial, munitions, and atomic energy commodity areas. Another review was completed in December 1975. The results of that review, which included some deletions, revisions of parameters, and the addition of a few commodities, will become effective March 17, 1976.

Question 3. Have any examples come to your attention in which our allies may have sought significant and potentially unnecessary exemptions to the COCOM list? What items specifically?

Answer. We believe that a degree of subjectivity is involved in deciding what constitutes a "significant and potentially unnecessary exemption", either as a deletion from the embargo list or as an exception to the embargo. Both those submitting and those reviewing exceptions must make such subjective judgments. All COCOM members will react on the basis of their individual assessments. There have been, and will continue to be, intra-COCOM differences based on these assessments, particularly concerning commodities which can be used in both the civilian and military sectors. Examples of where the United States usually differs with its COCOM partners are: certain levels of numerically controlled machine tools, some classes of computers, certain types of telecommunications equipment, and semiconductor devices with certain operating characteristics. Generally, we discourage exports to the socialist bloc of those commodities which we consider would be detrimental to the national security of the United States and its allies both by opposing changes in the parameters of equipment embargoed and by objecting to ad hoc exception requests to the embargo on such equipment.

Question 4. How does the U.S. monitor the activities of our allies with respect to shipment of high technology or potential military hardware?

Answer. The most common monitoring mechanism is through the COCOM exception procedure. If a COCOM member wishes to export a COCOM-controlled

commodity, it must first apply to the Committee for authorization to export that commodity. Each member has the right of veto and, if the request does not receive unanimous concurrence of the Committee, the export is denied. Secondary monitoring devices include the various intelligence sources, and the monthly COCOM statistical reports received from the business community.

Question 6. What criteria are used to determine which high-technology exports are subject to national security export controls? For example, what was the basis for approving the recent export license for one firm's computer while another was denied?

Answer. Section 3(1) of the Export Administration Act of 1969, as amended, states that it is the policy of the United States "... (B) to restrict the export of goods and technology which would make a significant contribution to the military potential of any other nation or nations which would prove detrimental to the national security of the United States." In implementing this policy, the Department places under export control (requires a validated license for), either unilaterally or in cooperation without COCOM partners, those commodities that:

(1) have direct military use or are designed for use in the production of military end products (unless the commodities are otherwise controlled by the Office of Munition Control, Department of State);

(2) have both military and civilian use, provided the former use is judged to be significant and its unrestricted export could prove detrimental to our national security;

(3) are used in the production of both military and civilian products, provided the former use is judged to be significant and the indigenous production in the communist countries is judged to be insufficient in relation to their needs.

With regard to technical data, the Department has found it necessary to maintain a broad control over the export of unpublished industrial data to communist destinations to assure that the data can not contribute to the production of military or military-related products.

Computers fall in the category of commodities controlled because they have significant military as well as civilian use. The Department examines each proposed export of commodities in this category and makes an exception to its denial policy where there is adequate evidence that the commodity will be used in the communist country by a civilian user for a civilian end use. In the case of computers, an additional element is introduced.

Because computers can be located in a civilian end use environment but hooked to a military user by telephone lines, the Department, in conjunction with its advisory agencies, including the Department of Defense, attempts to devise safeguards to inhibit such use. Where such safeguards cannot be devised, the application is denied. This would be the basis for distinguishing between two cases, one of which could be denied and one approved.

Question 6. Are U.S. exporters placed at a disadvantage by more restrictive export controls and more cumbersome licensing procedures than their West European and Japanese competitors?

Answer. Since most of the commodities controlled by the Department for national security purposes are internationally controlled in accordance with agreements reached with our COCOM partners, differences in the size of the control lists do not significantly disadvantage U.S. exporters in relation to their competitors in West Europe and Japan. There are, however, certain aspects of U.S. controls that are not matched by the other countries. Thus, the Department controls the export of technical data and, in certain instances, the foreign product of U.S.-origin technical data to a greater extent. We also maintain control over the reexport of U.S.-origin commodities and data previously exported and over the use abroad of U.S.-origin parts and components in the production of foreign products destined for a communist country. To our knowledge, controls exercised by the other COCOM countries are not as extensive. The general premise behind these controls is that they are needed in order to prevent frustration of the direct controls that are mandated by the Export Administration Act of 1969, as amended.

There have been complaints that the Department's licensing procedures are more cumbersome than those of the other COCOM countries. When the Export Administration Act was under consideration for extension in 1972, this matter was addressed by Congress. The Equal Export Opportunity Act of 1972, in addition to extending the Export Administration Act, also required the Department to submit a report to Congress within nine months of enactment. The report, among other things, required a listing of U.S. export licensing procedures "that

may be or are claimed to be more burdensome" than the procedures of other COCOM countries, and the reasons for retaining them in their present form. The Department accordingly reviewed its licensing procedures with its advisory agencies. The Department and its advisory agencies agreed that some of the procedures, relating to informing exporters and to exports of parts for servicing, were not more burdensome than those of the other COCOM countries.

Certain other procedures relating to license processing and interagency review were found to warrant retention with only limited modifications. Still others, though apparently more burdensome than the procedures of some or all of the other COCOM countries, were still under review when the Special Report was due for submission to the Congress, and the Special Report, dated May 29, 1973, noted this. These procedures involved means of obtaining and evaluating information on end uses, end users, and ultimate destinations; licensing of temporary exports of strategic goods for display and demonstration in communist countries; and ways to prevent frustration of U.S. controls over exports of strategic goods through reexports, use of U.S. origin components in foreign products, or use of U.S. origin technical data abroad to produce strategic goods for export to communist countries. A supplemental report to Congress on these unresolved matters was included in the Quarterly Report to Congress for the 2nd Quarter, 1974. The judgment at that time was to liberalize to some extent the controls on use of U.S. origin components, but to retain the other policies without change.

In essence, where it was found that the procedures were more burdensome and were retained despite this fact, it was because they were needed to carry out the provisions of the Export Administration Act.

Question 7. The Department has instituted procedural changes designed to expedite the handling and processing of applications for export licenses. Please explain what these modifications have been.

Answer. The Department has, completed or has underway a number of procedural changes. Additional personnel are being applied to the processing of applications, and the resources of the Institute for Computer Sciences, National Bureau of Standards, are being used to assist in the review and analysis of computer export transactions that present special control policy problems and in the review of export controls over computers in general.

In addition, the Department is developing a computerized retrieval program that will provide a readily accessible source of essential information describing U.S. license applications (approved, rejected, and pending) for installation of computer equipment in communist countries. Use of the program will eliminate much of the manual searching of files, and accompanying delay that is presently required in order to obtain information basic to the making of licensing decisions.

A new position, Special Assistant to the Director, OEA, has been established to provide the Director with the means to identify problem cases, to anticipate delays in their processing, and to take preventive action.

An informal working group, at the Deputy Assistant Secretary level, has been formed to deal with policy issues related to export license applications and other matters that cannot be resolved at the working level.

A tracking and status retrieval system has been made operational in the Office of Export Administration. The new system is intended to show the current processing status of each pending application, thereby giving Commerce management a tool to use in identifying those applications that are not being processed in a timely manner.

Pursuant to the provisions of Section 4(h)2 of the Export Administration Act of 1969, as amended, the Department is consulting with the Department of Defense with the objective of reducing the types and categories of export transactions that need not be referred to that agency for review.

Question 8. What kind of consultative procedure does the Department maintain to advise the Congress of decisions by the Department on export controls?

Answer. There is no formal consultative procedure. The Department responds, of course, to queries by committees or members of Congress on specific export control decisions. In addition, the Department submits formal reports to The President and the Congress as required by Section 10 of the Export Administration Act. This report lists the types of commodities and technical data approved and denied to communist destinations as well as provides details on changes in controls and related matters. The report was submitted on a quarterly basis through the first quarter of 1975. The reports are now submitted semi-annually, as required by Public Law 93-608, of January 2, 1975.

Question 9. Approximately what percentage of export license applications has been rejected? How does this compare to previous years?

Answer. Approximately eight percent of applications for licenses to export to communist destinations were rejected in 1975. Approximately six percent were rejected in 1974. The percentage for other years in the recent past generally follow the same pattern.

Question 10. What forms of interagency consultation and coordination does the Department maintain with other agencies, particularly the Defense and State Department, when deciding on applications?

Answer. Section 5 of the Export Administration Act of 1969, as amended, requires the Department, in determining what shall be controlled and the extent to which exports shall be limited, to seek information and advice from "the several executive departments and independent agencies concerned with aspects of our domestic and foreign policies and operations having an important bearing on exports." This provision is implemented both formally through the Advisory Committee for Export Policy (ACEP) structure, and informally through consultation with specific agencies on specific transactions. A subcommittee (Operating Committee) of the ACEP meets weekly to discuss policy problems and license applications of particular concern. Various agencies are represented at a senior staff level. Representatives from the Departments of State and Defense, and the Energy Research and Development Administration representatives and an observer from the CIA attend each meeting; other agencies attend when matters in which they have an interest are on the agenda. If the Operating Committee cannot reach unanimous agreement in a situation where a policy or licensing decision is required, an informal ACEP working group, at the Deputy Assistant Secretary level, attempts to resolve the matter. Should this fail, a formal ACEP meeting at the Assistant Secretary level is scheduled. Issues unresolved at the ACEP level are referred to the Export Administration Review Board, composed of the Secretary of Commerce as chairman, and the Secretaries of State and Defense, and soon to include the Chairman of the East-West Foreign Trade Board. The heads of other agencies may be invited to attend EARB meetings if matters of interest to them are scheduled.

The Department also consults with other agencies outside the formal ACEP structure. For example, the Department of State is consulted on applications to export to destinations where State has particular foreign policy interests, ERDA is consulted with respect to applications to export certain nuclear-related commodities. All applications to export to communist destinations, including Yugoslavia, that are not reviewed in the ACEP structure are referred to the Department of Defense, pursuant to Section 4(h) of the Export Administration Act of 1969, as amended, unless the commodities proposed for export are of a type or category that the DOD has specifically determined need not be so referred.

Question 11. It has been charged that there is a significant backlog of export license applications in Commerce. What is the present number of unprocessed applications? How does this compare to 1972 and 1974?

Answer. Currently there is a significant backlog in applications to export computers, computer-related equipment and other high technology electronic equipment to communist destinations. Our response to Question 7 details the steps we are taking to expedite the handling of these applications. The Department received approximately 52,000 applications in 1975, or about 200 each working day, for export to all destinations.

The following table shows the backlog of cases at various times since May 1974, the earliest time for which comparable data is available.

As of —	30-89-day-old cases	90-day-and-over cases
May 1974.....	196	269
May 1975.....	452	331
January 1976.....	906	486

Question 12. Does the Department have any method for processing and expediting non-controversial matters first rather than handling all applications sequentially?

Answer. Yes. Every effort is made to process non-controversial applications as rapidly as possible without regard to the order of their receipt. All applications

are screened upon receipt and routed to licensing officers or technicians according to the potential problems involved. As a general rule, applications to export to Free World destinations are non-controversial. These are reviewed to assure, to the extent possible, against the unauthorized diversion, once exported, to a restricted destination. Approximately 80 percent of the Free World applications are processed within five days of receipt; more than 90 percent within 10 working days and more than 95 percent within 15 working days.

Applications to export to communist destinations require a much longer processing time because what is being sought by the applicant is generally an exception to an embargo policy. This often is time- and manpower-consuming and generally requires interagency consultation as well as consultation with our COCOM partners. Ten percent of communist destination applications are processed within five working days and approximately 35 percent within 15 working days.

Question 13. How many personnel in the Department work on export controls?

Answer. Export control activity in the Department is centered in the Office of Export Administration. Current authorized headcount for the Office is 142 permanent positions, although an additional 22 employees have been requested for fiscal year 1977.

In addition, the Deputy Assistant Secretary for East-West Trade and his deputy devote a portion of their time to export control activities.

Central support also is provided by other elements in the Bureau of East-West Trade, as well as the Office of the General Counsel, the National Bureau of Standards, and other operating elements in the Department.

At present, these permanent personnel are assisted by 14 temporary employees.

QUESTIONS OF SENATOR PASTORE

Question 1. What action has Commerce Department taken to comply with Export Control Act of 1974 to revise strategic list prepared under the Battle Act of 1951 to conform to new Congressional policy of embargoing or controlling only significant military technology?

Answer. The Equal Export Opportunity Act of 1972, which amended and extended the Export Administration Act of 1969, required the Department of Commerce to remove from U.S. unilateral control those items that are available without restriction from non-U.S. sources in significant quantities and comparable in quality to those produced in the U.S., except where it was demonstrated that the absence of those controls would prove detrimental to the national security.

That review was undertaken by the Department in conjunction with the other U.S. Government agencies involved in strategic trade controls, and the results of that review were reported to the President and the Congress in a Special Report dated May 29, 1973. In brief, that review reduced the number of U.S. unilaterally controlled commodity categories from 550 to 73. This reduced unilateral list includes commodity categories that the Department and its advisory agencies considered to be of such significant military use as to warrant continued unilateral control, and "basket" categories that contain an unknown, but large, number of commodities, some of which clearly warranted continued control because of their military use. Since 1973, there have been some further deletions, including removal of identifiably nonstrategic commodities from the "baskets," as well as additions in cases where the commodity involved was identified as being of strategic significance. The Department believes that the process of continuous monitoring of the U.S. unilateral list, plus the periodic reviews of the COCOM international list, result in limiting coverage in the U.S. control list to those commodities—hardware and technology—which are capable of making a significant contribution to the military potential of the communist countries that would be detrimental to U.S. national security.

Question 2. In compliance with the Jackson Amendment giving Defense Department special responsibility for defining high technology in East-West Trade, how is Commerce Department implementing Defense Department determination of technology products and know-how?

Answer. The Jackson Amendment (i.e., Section 709 of the Military Procurement Act, Public Law 93-365) which, in essentially the same language, was subsequently added to the Export Administration Act of 1969 by the Export Administration Amendments of 1974, requires the Secretary of Defense to review proposed exports of goods and technology to communist destinations, including Yugoslavia. If the Secretary of Defense determines that the export of such goods or technology will significantly increase the military capability of such country, he is

required to recommend to the President that such export be disapproved. The Export Administration Amendments also authorized the Secretary of Defense, in consultation with the Department of Commerce, to determine the types and categories of transactions which should be reviewed by him to carry out the purposes of the amendment.

The Department of Commerce has scrupulously complied with this mandate. There have been consultations with the Department of Defense to eliminate from review certain types and categories of commodities. All applications to export to communist destinations, including Yugoslavia, commodities or data not so excluded from review are referred to the Department of Defense, either through the ACEP structure procedure, which involves review by other agencies as well, or bilaterally. No such application is approved without Defense Department concurrence.

Question 3. Is it the policy of the U.S. Government to embargo or restrict the export to Eastern European countries of technology products which will increase the industrial efficiency and productivity of their factories?

Answer. No. Section 3(1) of the Export Administration Act of 1969, as amended, states that it is the policy of the United States "to restrict the export of goods and technology which would make a significant contribution to the military potential of any other nation or nations which would prove detrimental to the national security of the United States." (emphasis added). Thus, there are two guidelines that determine what exports should be restricted: there must be the capability of making a significant contribution to the military potential of the East European countries and this contribution must be of such a nature and magnitude as to prove detrimental to our national security. An increase in the general industrial efficiency and productivity of a factory per se is not a sufficient basis on which to restrict exports.

Question 4. On what basis of current Congressional action is the U.S. still basing policy guidelines to U.S. manufacturers or exporters on the opinions or recommendations of other members of COCOM, including French and Japanese competitors?

Answer. Section 3(3) of the Export Administration Act of 1969, as amended, states that it is the policy of the United States (A) to formulate, reformulate, and apply any necessary controls to the maximum extent possible in cooperation with all nations and (B) to formulate a unified trade control policy to be observed by all such nations. In addition, the policy set forth in the Mutual Defense Assistance Control Act of 1951 (Battle Act) provides for a system of strategic trade controls, maintained by the United States and other cooperating countries to assure that the essential elements of national strength and security are preserved. This policy is carried out through the Coordinating Committee (COCOM), a 15 nation body consisting of the United States and its NATO allies, less Iceland, plus Japan.

The COCOM arrangements provide that no commodity may be placed under international control or removed from such control except with the unanimous consent of all COCOM members. Also, as part of the COCOM agreement, each nation has agreed to consult with its partners on individual exceptions to its embargo policy for proposed exports of commodities subject to the unanimous agreement to control. Any COCOM country can object to a proposed export of such commodity from another country and by this objection halt an exception.

Question 5. Does the Commerce Department intend to assign to the Export Administration Review Board the task of reviewing current export control policy and procedures or must this be turned over to the East-West Foreign Trade Board and require revision of present membership to include the Defense Department?

Answer. The Export Administration Review Board (EARB) and its predecessor, the Export Control Review Board, were established by Executive Order. The current Executive Order, No. 11533, dated June 4, 1970, states in Section 3 that "The Secretary of Commerce may from time to time refer to the Board such particular export license matters, involving questions of national security or other major policy issues, as he shall select." In the Department's view, the legislation establishing the East-West Foreign Trade Board does not alter the role of the Export Administration Review Board in matters involving export control policy to all destinations, including the communist countries. The Department intends to continue this role of the EARB. The Chairman of the EARB has invited the Chairman of the East-West Foreign Trade Board to EARB meetings to ensure appropriate coordination of functions, and it is expected that he will soon become a regular member of the EARB. With respect to the composition of the East-West

Foreign Trade Board, the President recently appointed the Secretary of Defense to be a member.

Senator INOUE. Our final witness this morning is the distinguished Chairman of the Export Import Bank, Hon. William J. Casey.

Mr. Chairman, you have been most patient in waiting this morning. I would appreciate it if you could summarize your statement, and without objection the full statement will be made a part of the record.

STATEMENT OF HON. WILLIAM J. CASEY, CHAIRMAN, EXPORT-IMPORT BANK, WASHINGTON, D.C.

Mr. CASEY. Yes; I think that would be the best way to do it, to permit me to focus on the specific questions which Senator Magnuson asked.

Senator INOUE. Fine.

Mr. CASEY. The first of those questions concerned the competitive practices and their impact on our trade with the nonmarket countries.

We have been doing very well in world trade generally, we had a trade deficit of \$3 billion last year, and a trade surplus of probably \$10 billion this year.

We have not enjoyed comparable success in the Communist markets. Last year's trade surplus was about \$1¼ billion with the Communist countries, and will not be improved significantly, and our exports to Eastern Europe, Russia, and China have fallen sharply, while our competitors have moved ahead strongly.

Our sales in Eastern Europe went from \$820 million in 1974 to \$483 million in the first 6 months of this year, and our sales to China went from \$820 million in 1974 to \$147 million in the first half of this year.

In our sales to the Communist nations, we are far behind other industrialized nations and losing ground. In 1974 our exports to these countries were only 16 percent of the sales made by France, Germany, Italy, Japan, and England. Our share of the export market represented by the Communist nations is now less than one-third of our share of the total world market. In the first 6 months of this year, our share of the Communist market dropped sharply to 12 percent. While our share erodes, the market is a growing one.

These are total figures, including grain. As Secretary Morton indicated in his testimony, if you take manufactured goods alone, our share is much more modest.

For example, the Soviet imports from the United States and our five leading trade competitors totaled \$3.3 billion in the first 5 months of 1975, up 63 percent from the \$2 billion the Russians imported in the first half of 1974.

Now there does appear to be a direct relationship between official credit support for East-West trade and market share.

During the first half of 1975, the period when our share was falling off so sharply, our principal competitors were increasing concessional lines of credits to the Soviet Union by nearly \$3 billion. Their bilateral lines of export credit to that country now total about \$10 billion. Indications are that increased credit lines from our competitors while we entirely terminated our credits put U.S. suppliers out of the picture on over \$1 billion in export orders we seemed likely to get during that period.

I will submit a breakdown of these credits for the record.

While Eximbank currently makes no new credit authorizations to the Soviet Union, it does extend credit to three Eastern European countries, Poland, Yugoslavia, and Romania. Over 3 years, fiscal 1973 through 1975, U.S. official commitments through Eximbank to Poland, Romania, and the U.S.S.R. now total about \$648 million. In that same period our five principal competitors extended credits valued at more than \$14 billion to those three countries.

Our loan commitments to the Soviet Union, made over 15 months in 1973 and 1974 stopped at \$470 million. One of our European allies has already made credit commitments in excess of five times that amount, \$2.5 billion in all.

Senator Stevenson, with respect to your colloquy with Secretary Simon, that is West Germany. They are making available major officially supported credits, which they make through guarantees with the banks, but those credits won't go without the guarantee of the German Government.

It is my estimate that Germany, France, Japan, Britain, Italy, and Canada have over \$15 billion in outstanding commitments and credit lines to the Soviet Union, over 30 times our authorizations.

Now let me go to the second question which deals with the implementation of the Export Bank amendments of 1974.

Our facilities are now available to only three Communist countries, Poland, Yugoslavia, and Romania. We have authorized \$122 million for Poland, \$900 million to Yugoslavia, which has been open to our financing for a much longer period of time, from 1968 as compared to 1972 for the other countries, and \$57 million to Romania.

As a result of the 1974 legislation, Romania was closed out to your financing for about 9 months or so. With the recent signing and congressional approval of the remaining trade agreements, we made our first new commitment of some \$10 million to Romania last month, and several other proposals are under discussion there.

To date there have been no transactions with the Communist countries which call for meeting new requirements under the law, namely, a Presidential determination of national interest on individual cases involving more than \$50 million and notification with a waiting period of 25 legislative days with respect to transactions combining credit and a guarantee of \$60 million more.

We do have two substantial applications under consideration that could require Presidential determination, because they are in the national interest.

As for the Soviet Union, apparently there is no activity at all there. Exposure was about \$470 million when we stopped last year. Today our total commitment in Eastern Europe and the Soviet Union is about \$1.6 billion, which is 6 percent of our worldwide lending.

If we drop Yugoslavia, we drop to about \$650 million or about 3 percent of our worldwide lending, so that is a significant amount of Communist country financing thus far.

Let's bear in mind it is relatively new and it will probably grow rapidly.

The third question Senator Magnuson asked dealt with our consultation with the Communists in the development of future export financing policy.

We think this is very important. The policy of the Bank has been changing rapidly. A year and a half ago the Bank had a pattern of

complying with almost each and every loan and a 6-percent interest rate, and 45 percent loan, 45 percent guarantee.

We have modified those policies, charging interest rates much closer to market, $8\frac{1}{4}$ to $9\frac{1}{2}$, and we have doubled the guarantee fees. We have become more selective, handling each transaction individually and shaping the particular kind of package which seems to be enough to make the export fly, at the same time conserving our funds as best we can, to spread them more widely to develop exports. And we have succeeded in getting a greater participation in assuming the risk and funding on the part of the private banks.

I think Senator Stevenson can testify to this, or confirm it, that we keep the Banking Committee, the Finance Subcommittee in both houses, informed on these problems and seek their advice, and keep them informed of how our policy changes and the rationale behind whatever we do.

We also prepare and submit to the Congress twice a year a report which spells out what other countries are doing, what their financing practices are, what kind of competition they are offering, and our success in meeting that competition.

I think we have spelled out in a very stark way that in many respects we have come close to meeting the competition, we were able to provide workable financing packages, but almost invariably we are confronted with lower interest rates, and larger financing.

We have got to compensate for that by getting the private banks to meet the magnitude of the financing we make available and our manufacturers, exporters, have to be good enough in price and performance to overcome the disadvantage of that financing. On the whole I think, particularly with the more competitive rate for the dollar, which is not what you call a plus, but it has helped our exports and it has helped us to get more attractive financing than some of our competitors offer.

In talking about consultation with Congress, I would like to point to our annual report, which in my statement spells out in a comprehensive and candid way, I think, the long-term problem we have in meeting the competition which the other countries offer, because they get annual appropriations, while we operate on a self-sustaining basis, which I think is a very good thing.

But this has relevance to East-West trade, because as we increase interest rates, in the minds of these countries we are a 6 or 7 percent outfit, and when they come back and find us charging 8 percent, it is quite a shock. We have been meeting resistance with respect to the interest rate.

And I think this question of how you become competitive over the long haul, and at the same time effectively operate on a self-sustaining basis in view of the higher cost of money in the private market, which is the source of the funds, is something the Congress should examine closely.

I am bold enough to suggest that perhaps my statement in the Bank's annual report might be useful insight in the record of this hearing. We supply it for that purpose.

The fourth question of Senator Magnuson went to the role of the Bank in the development and implementation in East-West trade policy and its relationship to the executive agencies.

Now the Export Import Bank is an independent agency, responsible for carrying out an act of Congress. It cooperates closely with and relies on the agencies of the executive branch.

The larger transactions are sent to NAC of which State Department, Treasury, Federal Reserve, Commerce Department, Export Import Bank are members. It goes over there for the advice of the NAC; foreign policy guidance from State, implications for commerce, information and judgment on the financing position of companies and as Director of the Bank, I have the responsibility of making the credit decision in establishing the lending policies in light of the statutory standards, reasonable assurance of repayment, facilitation of exports, the financing of future exports, and a consideration of possible adverse effects on the American economy in terms of job shortages and so on.

The Bank authorizes loans subject to export. No export, no loan. The loan moneys are disbursed to the exporters. So the matters of protecting our security interests is in the hands of the exporting licensing machinery, and if that works satisfactorily, as I believe it does, there would be no export of anything that would rebound to our disadvantage, and in that case there would be no loan.

So in this respect we don't have the expertise in the bank to make security judgments, but we rely entirely on the established export control machinery.

The fifth question of Senator Magnuson was the effect on American business of a limitation on Eximbank financing of exports in the nonmarket countries. Last year our principal competitors made substantial commitments to support credits to the Soviet Union which are spelled out in my statement, and some of the interest rates are 7.5 percent, some are down to 7.2 or 7.3. Most of these countries have similar lines available to other East European countries.

Just this week we had to compete with an official credit of 80 percent of the export price at an interest rate of 6.5 percent offered by one of our competitors. This went below the 7.5 percent we thought we agreed upon a year ago, but it was explained that it was because it arose from a line of credit which was committed before our credit agreement of last October here in Washington.

U.S. firms currently have projects involving more than \$8 billion of exports under active discussion and negotiation with the Soviet Union, and this excludes the natural gas and other major energy deals that we have all heard about.

Commercial agreements involving over \$1 billion were nearing completion a year ago when the Trade Act was enacted, and the Soviet reaction required Eximbank to shut down operations in that market.

Some of the companies that have been working with the Soviet Union will proceed with their projects by sourcing the necessary equipment in Europe and Japan where they will have access to official export credits.

The United States, as a result, will lose the employment and other economic benefits that would come to us if we had been able to finance those projects in sources within the United States.

To illustrate, U.S. contractors for fertilizer plants will probably build several multimillion dollar ammonia complexes with equipment manufactured by the Japanese and European licensees. Numerous suppliers have contacted us about the cheaper official credits being

available elsewhere. The U.S.-Soviet Economic Council tells us they have identified 47 pending projects in nonenergy sectors, which involve approximately \$8 billion in exports if Eximbank financing were available.

Senator INOUE. Mr. Chairman, may I interrupt you there? We have just been notified there is a vote pending on the floor, and we will not be able to return after that because of another meeting. Senator Stevenson has a question he would like to ask you at this point.

Senator STEVENSON. Thank you, Mr. Chairman. I have a couple of quick questions.

First, on the subject of West Germany, I have the report submitted by the Eximbank to the Banking Committee Subcommittee of which I am chairman, which lists the Soviet's lines of credit, concessionary lines of credit in a number of other countries. It makes no mention of West Germany.

I have heard recently from the West Germans that their country is no longer providing credits on concessionary terms to the Soviet Union.

Can you supply us with the exact information?

Mr. CASEY. I think I can tell you very quickly.

Senator STEVENSON. We really don't have time, I am afraid.

Second, Mr. Casey, you are familiar with the report of the GAO on the operations of the Eximbank. If you have not done so already, could the bank reply to all of the conclusions of that report in writing in some detail?

Mr. CASEY. We would be glad to. It is all in my annual report, but I will give you my correspondence with Mr. Staats. There was nothing wrong with the report, it was accurate, they just put a misleading headline on it.

Senator STEVENSON. This is correspondence which followed the report?

Mr. CASEY. Oh, I am sorry, you are talking about the East-West report?

Senator STEVENSON. It was the recent GAO report, which I thought went beyond the East-West trade.

Mr. CASEY. Yes, that is what I am talking about. It was pointed out that the Bank's reserves were not increasing—

Senator STEVENSON. Yes, that is the one. I haven't seen it. We would like to have a rebuttal from the Bank to all of the conclusions in that report.

Mr. CASEY. All right.

Senator STEVENSON. Finally, I want to say that as chairman of the Subcommittee on International Finance, it has been a pleasure to have worked with Mr. Casey for the last 2 years on the Export Import Bank. He came in at a critical time, and he has been responsible for numerous reforms in the Bank's operations. He has been an outstanding chairman of that institution, and I personally am sorry to see him leave it.

Thank you.

Senator INOUE. As chairman of this subcommittee I would also like to join you in that statement. It has been most helpful, sir.

I have a long series of questions here which I would like to submit to you for your response in writing, and we will make that a part of the record.

The bell has just indicated this is the last call, so I would like to recess these hearings—

Senator STEVENSON. Mr. Chairman, could I ask unanimous consent to put the copy of the letter I referred to President Ford into the record?

Senator INOUE. Without objection, it is so ordered.

[The statement and letter follows:]

STATEMENT OF WILLIAM J. CASEY, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. Chairman, I am pleased to contribute whatever I can to the inquiry you and your colleagues are making into East-West trade and its policy implications. I can probably be most helpful by telling you about our experience and observations on the financing of East-West trade and the effects and policy implications in extending or withholding credit on exports to the Communist nations.

While the United States has been doing very well in its external trade worldwide, converting a trade deficit of \$3 billion last year to a surplus probably over \$10 billion this year, we have not enjoyed comparable success in the Communist markets. Last year's trade surplus of about \$1¼ billion in our trade with the Communist nations will not be improved significantly this year. Except for sporadic sales of grain, our exports to Eastern Europe, Russia and China have stagnated while our competitors are moving strongly ahead. Our sales to Eastern Europe went from \$820 million in 1974 to \$483 million in the first half of 1975; to the Soviet Union from \$612 million last year to \$525 million in the first six months of this year; and to China from \$820 million in 1974 to \$147 million in the first half of this year.

In our sales to the Communist nations, we are far behind other industrialized nations and losing ground. In 1974, our exports to these countries were only 16 percent of the sales made by France, Germany, Italy, Japan and England. Our share of the export market represented by the Communist nations is now less than one-third of our share of the total world market. In the first 6 months of this year, our share of the Communist market dropped sharply to 12 percent. While our share erodes, the market is a growing one.

For example, Soviet imports from the United States and our five leading trade competitors total \$3.3 billion in the first 5 months of 1975, up 63 percent from the \$2 billion the Russians imported in the first half of 1974.

There appears to be a direct relationship between official credit support for East-West trade and market share. During the first half of 1975—the period when our share was falling off so sharply—our principal competitors were increasing concessional lines of credits to the Soviet Union by nearly \$3 billion. Their bilateral lines of export credit to that country now total about \$10 billion. Indications are that increased credit lines from our competitors while we entirely terminated our credits put U.S. suppliers out of the picture on over \$1 billion in export orders we seemed likely to get during that period.

While Eximbank currently makes no new credit authorizations to the Soviet Union, it does extend credit to three Eastern European countries, Poland, Yugoslavia and Romania. Over 3 years (fiscal year 1973-75) U.S. official commitments through Eximbank to Poland, Romania and the U.S.S.R. now total about \$648 million. In that same period our five principal competitors extended credits valued at more than \$14 billion to those three countries.

Our loan commitments to the Soviet Union, made over 15 months in 1973 and 1974 stopped at \$470 million. One of our European allies has already made credit commitments in excess of five times that amount, \$2.5 billion in all. It is my estimate that Germany, France, Japan, Britain, Italy and Canada have over \$15 billion in outstanding commitments and credit lines to the Soviet Union, over 30 times our authorizations.

This is the background to an examination of the issues involved in East-West trade. East-West trade is growing and will continue to do so with or without U.S. participation. Japan and Europe are moving in aggressively to bid for this business. We must decide then whether our balance of present policies toward East-West trade are achieving the objectives we intended, or are producing entirely different results.

NATIONAL INTEREST CONSIDERATIONS IN EAST-WEST TRADE

The Soviet Union is an excellent market for the sale of non-strategic United States technology, capital goods and equipment owing to its ambitious development programs. In addition to the foreign exchange which would be generated by these sales, and the improvement in our trade balance and the value of our dollar, the United States economy would be benefited by the increased domestic production and employment necessary to supply the Soviet market. It is estimated that each billion dollars of export sales assisted by Eximbank in fiscal year 1975 supported, directly or indirectly, about 44,000 full-time U.S. jobs. Moreover, increased exports encourage greater productivity and economies of scale which accrue to the benefit of domestic consumers in the form of lower prices.

A good illustration of the mutual benefits provided by East-West trade is the arrangement whereby Occidental Petroleum Company will construct facilities in the Soviet Union for the production and shipment to the United States of nitrogen-based fertilizers while at the same time constructing facilities in Florida for the production and shipment to the Soviet Union of phosphate materials. In addition to the export sale of \$400 million of pipeline, storage tanks and ammonia plant equipment, there is an expectation that the tankers required to ship superphosphoric acid from the United States and ammonia, urea, and potash from the Soviet Union, may be built here in the United States. Moreover, as more than \$500 million will be invested in the United States in connection with the mining of phosphate rock in Florida, it is estimated that approximately 3,000 construction jobs and 2,900 permanent jobs will be created. The most interesting aspect of this arrangement, however, relates to the exploitation of the Soviet Union's plentiful supply of natural gas to supply our own needs for nitrogen fertilizers derived from that resource and the exploitation of our abundant supply of phosphate rock to supply their needs. If we were to manufacture these fertilizers in the United States, we would be forced to draw upon our own natural gas reserve in amounts large enough to heat 1.12 million homes, and by developing an additional export market for our own phosphate materials, the deal contributes to a net surplus in our trade balance.

I recognize that there are certain considerations germane to East-West trade which require particular attention and more than ordinary prudence. Our most obvious concern relates to the transfer of technology or equipment which may have military or strategic potential to the recipient. However, the various licensing procedures administered by the Department of Commerce are designed to prevent the export of technology or equipment which could add to the recipient's military or strategic capability.

Furthermore, if we were to withhold our technology and equipment from the world market, we would lose roughly one-half of our nonagricultural export sales. Needless to say, this is something we cannot do if we are to continue to import the things we need and still preserve a favorable trade balance and a sound dollar. The only serious question we face is where to draw the line with respect to a particular foreign market.

I am not implying that these risks are imaginary. I admit that they present very serious questions and that other aspects of East-West trade also provoke legitimate concern. Trade with the Communist world involves unique problems occasioned by state control of the economy and the related productive and financial institutions. A Western seller is rarely on an equal footing with a Communist buyer in contract negotiations.

The 1972 United States-Soviet grain sales put us on notice that a planned economy has an enormous advantage in dealing with a market economy, particularly a market economy with no-nonsense antitrust laws, and that we are vulnerable to dislocations in our economy which can result from the exercise of the concentrated buying power of a planned economy, particularly in the commodities area. We might very well have to improve our safeguard machinery to insure that individual United States sellers will not unwittingly contribute to the depletion of resources required for our own needs, thereby causing higher domestic prices and the disruption of our productive and distribution systems.

A related problem involves the preference of certain Communist countries for buy-back requirements. If Eximbank is requested to support the financing of a U.S. export to a Communist country and a buy-back arrangement is involved, then it is incumbent upon Eximbank to consider the net economic benefits to the

United States. The export, of course, carries with it income, employment and balance of payments benefits. But in our decision whether or not to approve the transaction, we will want to be sure that we take into account the potential for any serious adverse effect for the U.S. economy.

The point I wish to emphasize, however, is that we should approach these risks and problems with a view to balancing the opportunities and benefits and exploiting those areas which provide maximum benefits. This is not an easy task but one we must undertake unless we want to see our principal competitors walk away with opportunities that could be ours.

PRESENT EXIMBANK PARTICIPATION IN EXPORT TRADE

Eximbank facilities are presently available to only three Communist countries: Poland, Yugoslavia and Romania. Authorization levels are as follows: Poland \$122 million; Yugoslavia \$900 million; and Romania \$57 million.

Between 1972 and 1974, Eximbank credits were also available to the Soviet Union; however, since January 1975, the Bank has been prohibited under section 402 of the Trade Act from making credit available to that country.

Section 402 also temporarily prohibited Eximbank activity for Romania during 1975. After Congress approved the bilateral U.S.-Romania Trade Agreement in July 1975, Eximbank resumed authorizations for Romania.

In summary, Eximbank authorizations to Eastern Europe and the Soviet Union total approximately \$1.6 billion at this time, or about 6 percent of our outstanding commitments worldwide. If we exclude Yugoslavia, our total commitments of approximately \$650 million are less than 3 percent of our commitments worldwide.

EXIMBANK LEGISLATION GOVERNING EAST-WEST TRADE

Since 1935, the statutory purpose of the Bank has been "to aid in financing and to facilitate" United States exports. In 1971, that purpose was expanded by an amendment to the Bank's statute which expresses the policy of the United States "to foster expansion of exports of goods and related services, thereby contributing to the promotion and maintenance of high levels of employment and real income and to the increased development of the productive resources of the United States." Over the last decade, however, the Congress has placed a number of limitations on the Bank's ability to implement this policy in connection with exports to Communist countries.

Section 2(b)(2) of the Export-Import Bank Act of 1947 provides that the Bank may not participate in export transactions with a Communist country unless the President has determined that such participation would be in the national interest and reports his determination to the Congress. Following such determinations, Eximbank facilities became available for exports to Poland (1972), Romania (1971), the Soviet Union (1972) and Yugoslavia (1968).

However, additional legislation was enacted by the Congress last year to inhibit further our ability to participate in East-West trade.

The President must now make a separate national interest determination under Section 2(b)(2) with respect to each transaction in which the Bank would extend a loan in the amount of \$50 million or more.

Section 2(b)(3) prevents the Bank from finally approving a loan or financial guarantee or combination of the two which exceeds \$25 million for the export of goods or services "involving research, exploration, or production of fossil fuel energy resources" in the Soviet Union unless it has submitted a statement to the Congress "at least 25 days of continuous session" prior to the date of final approval.

Section 7(b) was added to our statute for the purpose of limiting additional loans and financial guarantees to the Soviet Union to \$300 million, none of which can be used for exports associated with the production of fossil fuel energy resources and not more than \$40 million of which can be used for exports associated with research or exploration of fossil fuel energy resources. A related limitation was incorporated in Section 613 of the Trade Act of 1974.

Section 402 of the Trade Act prohibits Eximbank from extending credit or participating in the extension of credit to any nonmarket-economy country which denies its citizens freedom of emigration. The President may waive this prohibition with respect to a particular country if he certifies to the Congress that he has received assurance from that country that it is taking steps to achieve

freedom of emigration for its citizens. Currently, this prohibition applies to all Communist countries except Yugoslavia, Poland and Romania.

To date there have been no transactions with Communist countries which fit the requirements for Presidential determinations on individual cases or for submission to the Congress under the other sections of pertinent legislation. We do have one or two substantial applications under consideration which will require individual Presidential determinations; a truck manufacturing facility and a television picture tube plant both probably involving Eximbank credits of over \$50 million. Both of these cases will probably also involve total Eximbank involvement of over \$60 million so that they will be submitted to the Congress for the 25-days of continuous session prior to our final approval.

EXIMBANK PRACTICES IN EAST-WEST TRADE TRANSACTIONS

Eximbank neither favors nor disfavors buyers in Communist countries. We evaluate them the same way we evaluate buyers in any other market. While we are responsive to the basic foreign policy guidelines established by the Congress and the Executive Branch, we are an independent agency and are required to make our commitments in accordance with the statutory responsibilities assigned by the Congress to the Board of Directors of the Bank. Accordingly, we apply the criteria incorporated in our statute in determining the creditworthiness of a buyer and, if applicable, the viability of the related project.

We also take into account our other legislative directives such as those concerning the effect of our programs on employment, domestic supply and the competitive position of our exporters in foreign markets. Any transaction with a Communist country in which Eximbank might participate has to reflect the same reasonable assurance of repayment that is required generally, and the interest rates, maturities and other terms are the same as those applied generally. The related exports have to result in the same favorable impact on the U.S. economy and provide as many jobs, and as much incentive to domestic production, as exports to anywhere else.

Our disbursement procedures also follow the pattern which prevails generally for all of our credits. Funds are disbursed directly to the supplier within the United States and only for the items specified in the loan documentation. No funds are placed at the disposal of the borrower.

Since World War II, the Communist countries with which we do business have established a record of paying their commercial obligations when due. Their eagerness to import Western capital goods and equipment constitutes a strong incentive to maintain their credit standing. In addition, the size and strength of the Soviet economy, its vast resource potential and the ability of Comecon countries to channel resource usage to meet international financial obligations, all contribute to the solid credit rating enjoyed by Eastern Europe, Poland, Romania and the Soviet Union all follow a practice of organizing their major project development in such a way as to provide for exports to hard currency markets in a volume sufficient to cover the servicing of the external debt incurred in connection with the project.

Although Poland, Romania and the Soviet Union do not publish all of the financial data customarily published by the industrialized market economy countries, we have gathered sufficient data to make proper credit evaluations on the transactions approved to date. Moreover, Poland and Romania have begun to release more information to Western creditors as their external borrowings have increased. Eximbank has no intention of relaxing its informational requirements to accommodate the practices of any borrower country.

With respect to the question of whether specific goods or services might have strategic implication, Eximbank relies on the decisions made by the appropriate United States agencies which are responsible for implementing export controls. As we are a bank and not a licensing agency, we do not participate in these decisions.

As you know, the East-West Foreign Trade Board has been established under Section 411 of the Trade Act, and I serve as a member of that Board. I am thus able to participate in the coordination of our credit and other policies with respect to East-West trade. Through this participation I can insure that Eximbank operates in a manner consistent with our overall national policies. Moreover, that Board has a statutory responsibility for reporting regularly to the Congress, and this will give us an appropriate avenue for keeping the Congress abreast of policy considerations generally while I continue to keep individual Committees of the

Congress, and their respective members, fully informed as to specific Eximbank activity.

In addition to our budget presentations and regular contacts with Committees of the Congress and their members about Eximbank activities, we publish periodic reports which summarize our programs and actions—an Annual Report and a semi-annual "Competitiveness" Report. The latter is responsive to the requirement in our statute that we support export credits on terms and other conditions which are competitive with those available from governments whose exporters are the principal competitors with U.S. exporters. This report describes in considerable detail the forms of foreign credit competition, our competitors' activities in East-West trade, how Eximbank support compares with such competition, and our efforts to negotiate ways to minimize competition in government-supported export financing.

THE NEED FOR EXIMBANK IN EAST-WEST TRADE

Some people ask why government credits should be made available to Communist countries. Indeed, many people ask why government credits are necessary in international commerce at all. The answers to these questions are to be found in the nature of world trade itself.

Trade in many countries involves political and commercial risks which private sources of credit are simply not prepared to take. These risks, at least in the eyes of private exporters and banks, intensify in Communist countries. Moreover, private capital is often not available in the amounts required to finance many large projects, such as large raw material mining installations. In other situations, commercial credit is not available for the maturities required if a project is to be economically viable on its own. Once again, major power projects and mineral resource development projects are cases in point.

Government credit should generally not be withheld for these types of projects in Communist countries if such credit is available to other countries because project economics and the limited capabilities of the private capital market require such supplemental official financing.

In addition to the problems encountered generally in the private financing of export sales, there are unique factors at play in financing exports to Communist countries. Many commercial banks are concerned about the extent of their commitments to the Soviet Union (and to a lesser extent Eastern European countries) because of the National Bank Act which prohibits banks from lending over 10 percent of their paid-in-capital and unimpaired surplus to any single borrower. In the Soviet Union and in most Eastern European countries there is only one borrower—usually the Foreign Trade Bank. Even where loans are made directly to foreign trade organizations, the guarantee of the Foreign Trade Bank is usually required. Thus, the impact of the 10 percent legal lending limitation is a significant factor in assessing the potential role of the private sector in East-West trade. The combined legal lending limit of America's top 100 commercial banks for any one Communist country is estimated at \$2.5 billion. Eximbank repayment guarantees alleviate the impact of this limitation as a bank is not required to charge such a guaranteed credit against this limitation.

Commercial banks are working with borrowers in Eastern Europe to overcome their lending limit problem by identifying an industrial borrower which represents a productive concern with obviously substantial capital assets, in contrast to foreign trading organizations consisting of staff operations.

The guarantee of the Foreign Trade Bank may also be required in these cases, but possibly only in the form of a foreign exchange assurance. One or two cases of this type have been developed, but so far, the Controller of the Currency has not been asked to rule on any specific case involving multiple borrowers in Eastern Europe. A proper framework adhering to U.S. Government policy in this area will have to be developed if this approach is to have much promise for the future.

In addition to the possible impact of the 10 percent legal lending limitation, our exporters have to reckon with self-imposed limits which most commercial banks have placed on their exposure in individual markets as a matter of internal policy, based in part on the banks' perception of the political risks involved. An Eximbank guarantee eliminates this concern.

Another obstacle in financing exports in Communist countries but which also applies to other countries, is the Johnson Act or Debt Default Act of 1948. This Act prohibits the making of loans by private parties in the U.S. to any foreign government or representative acting for it while such government is in default on obligations to the United States. As interpreted by a succession of U.S. At-

attorneys General, loans made for specific exports under terms customary in international trade are excluded from the prohibitions, as are export loans involving Eximbank participation. However, there are criminal penalties for violations of the Johnson Act which deter the mobilization in the United States of financing for large projects which require sufficiently long terms to succeed, for fear that the parties might be challenged as going beyond the export financing terms allowable under existing interpretations of the Johnson Act.

If the Johnson Act were to serve a useful purpose by encouraging East European countries to resolve outstanding financial differences with the United States, then its continued existence might be considered justified. However, the fact that it is a criminal statute with vague generalizations concerning culpability, leading to a serious stunting of the growth of debt capital availability to support East-West trade, calls into question the usefulness of its continued existence.

The most compelling reason for expanding Eximbank participation in East-West trade, however, is the need to meet intense official credit competition from the Bank's counterparts throughout the industrialized world. As I indicated earlier, our principal competitors have made substantial commitments to support exports to the Soviet Union: France has extended a \$2.8 billion line of credit; the United Kingdom has determined to support \$2.3 billion of its exports; Italy has approved \$900 million in credit to support such exports; and Canada has announced a \$500 million line of credit. In addition, there are about \$1.5 billion in credit commitments from Japan for a variety of projects. Most of these credits bear interest rates of about 7.5 percent. And most of these countries have similar lines available in other East European Communist countries. Recently in some of these markets we have seen official credits offered as low as 6.5 percent.

United States firms currently have projects involving more than \$8 billion of exports under active discussion and negotiation with the Soviet Union excluding the major energy deals. Commercial agreements relating to about \$1 billion were nearing conclusion when the Trade Act forced Eximbank to shut down operations in that market last year.

In the absence of official export financing from Eximbank, some of the companies involved are likely to proceed with their projects by sourcing the related equipment in Europe and Japan where they will have access to official export credits. The United States, as a result, loses the employment and other economic benefits we would reap from domestic sourcing. For example, the United States contractors for certain fertilizer plants will probably build several multi-million dollar ammonia complexes with equipment manufactured by their Japanese and European licensees. Numerous suppliers have contacted us to describe how they are losing business because of cheaper official credits being available elsewhere for exports of capital equipment ranging from machine tools to heavy trucks. Whenever possible they try to sell from the U.S., but the competition from foreign credits leads them to source their sales abroad so they can use those credits.

The U.S.-Soviet Economic Council has identified 47 pending projects in non-energy sectors which would involve approximately \$8.4 billion in U.S. exports if Eximbank financing were available. Without Eximbank participation, these same projects will generate only \$1.1 billion in U.S. exports, with the balance of the orders going to competitor countries. Among the most important sectors, projects in chemicals and related products would be worth \$2.4 billion in U.S. exports with Exim support, and a mere \$240 million without the Bank's involvement. Potential U.S. exports of \$1.8 billion encompassing various metals projects will, according to the Council, simply vanish altogether without Eximbank availability.

Let me give you a few specific examples of what is happening in this regard. A \$30 million contract for mining shovels to the Soviet Union was lost by a U.S. supplier because its licensee in Japan was able to obtain a low-interest government loan.

An American paper company engaged in developing a pulp and paper complex in the Soviet Union now plans to shift the purchase of some \$800 million of the related equipment from the United States to Canada, England, Finland and France which have agreed to provide financing. This equipment, which includes: 5 paper machines and auxiliary equipment worth \$150 million; bleaching plants, lime kilns, and auxiliary equipment worth \$80 million; electric-power generating equipment worth \$250 million; and structural steel, pumps and valves worth \$70 million. It has been estimated that this lost export business could have supported more than 35,000 jobs for American workers. It would also have strengthened the worldwide competitive position of United States equipment suppliers and their ability to meet growing world demand for pulp and paper equipment.

Some United States firms may be able to justify the more costly dollar financing, assuming they can raise it in the United States and Eurodollar private capital markets, if they are offering equipment available only in the United States or have substantial cost or technical advantages. However, there are very few such goods. In most cases, the export will still go forward but the United States firm will shift most of the manufacturing, with the attendant balance of payments and job benefits to Europe and Japan. The benefits to the United States will be confined to royalties, management fees and, perhaps, the opportunity to buy and market worldwide some of the eventual output.

POLICY CONSIDERATIONS

Eximbank can be especially useful in developing sound East-West trade relations as there has been a history of relatively few commercial transactions in these markets. In more specific terms, past experience has shown that Eximbank's role in East-West trade has been primarily that of a catalyst in initiating, pulling together, and supporting various levels of financing. For most types of capital equipment purchased by the Communist countries, medium- and long-term financing is critical. They are not exporting enough to pay cash in hard currencies for the equipment and technology they want. Furthermore, as long as substantial competition exists from government-supported credits in other major exporting countries, Eximbank has a critical supporting role to play in facilitating United States exports to the Communist countries.

In East-West trade, as in trade with other countries where Eximbank supports United States exports, we expect that Eximbank's willingness to participate with the private sector will help private financing institutions through the difficult initial period so that the private sector will ultimately play a larger role in export financing.

Eximbank's general approach to credit financing at this time is to balance a number of factors: the Bank's overall cost of money; competitive terms and interest rates offered by other official export credit institutions and foreign governments; and the degree of possible participation by the private sector. Our most recent pattern with respect to direct credits involves our direct participation in an amount equal to between 30 and 55 percent of the United States costs, with a mean of about 40 percent, and interest rates within a band of $8\frac{1}{4}$ to $9\frac{1}{2}$ percent geared to the length of the credit, with maturities appropriate for the type of project and in line with customary practice in international trade.

On the other hand, our competitors have generally been covering 75 to 85 percent of export costs with official support at a concessionary interest rate around the level of 7.5 percent, although their maturities have not always been as flexible as ours. While our higher interest rates have not been competitive with theirs, we have done our very best to structure our overall financing packages to remain as competitive as possible without ignoring the various other factors which guide our overall policies.

Because of the generally greater support provided by our principal competitors, and because of disparities in the terms, rates and conditions they offer, we are actively engaged in negotiations to harmonize the various credit terms being offered by the principal industrialized nations. These negotiations are very difficult because of the differences in our respective governmental credit and insurance systems, the different economic situations of our respective balances of payments, pressures from domestic economic interests and different appraisals of the world economic climate. However, we are persevering and we feel that we have made some progress in at least getting our competitors to raise their interest rates a little closer to the higher rates we charge. We are continuing our negotiations and hope for even more progress.

PROSPECTS FOR EAST-WEST TRADE

The potential market for United States goods and services in the Communist countries is very substantial. The 5-year development plans of these countries contemplate major imports of capital goods and technology from the West. The United States is second to none in these sectors, and our exporters should receive their due share of their potential sales.

The Commerce Department, assuming a 15 percent annual growth rate, has estimated that the Communist countries, including the Peoples Republic of China,

could achieve an aggregate import volume in manufactured goods of \$46 billion a year by 1980. Over the 1976-80 period, such imports could total \$175 billion. Commerce also estimates that in 1980 total United States exports could reach levels of \$2.4 billion to Eastern Europe, \$3.1 billion to the Soviet Union and \$1.7 billion to the Peoples Republic of China.

It is clear that the Soviet Union has decided that the best way to accelerate its economic development is to acquire technology, capital and management skills from American, European and Japanese companies by offering them the opportunity to cooperate in developing the large ore and natural gas deposits and the great forest resources which exist within the Soviet Union. In addition, they seem prepared to offer opportunities to build production facilities which have high energy and to which accessible and cheap raw materials can be transported easily. American companies are very interested in winning their share of these projects, and they are actively negotiating for mutually beneficial arrangements.

The Soviet Union's internal needs and export aspirations are likely to provide Western firms with opportunities to participate in new aluminum, ferro-alloy and petrochemical facilities in Siberia. In these energy intensive operations, power costs can run from 10 percent of total production costs to as high as 20 percent. As energy costs elsewhere in the world increase, the huge hydroelectric plants in eastern Siberia having large amounts of unused capacity for producing low-cost power can provide a critical competitive edge in manufacturing operations which are energy intensive. This Soviet advantage is multiplied in the case of countries whose manufacturing facilities depend on imports of raw materials which are readily available in the Soviet Union.

Obviously, there are competitive considerations here which deserve very careful study and thought. If there is to be cooperation with the Soviet Union in the energy field, for example, the price, supply and other advantages to our economy should be such that the capital could not be used more advantageously in developing our own energy sources. On balance, the Soviet Union should also recognize the importance of mutual economic benefits if it is to acquire the technology and develop the foreign exchange earning capacity to permit the continued purchases from the West which it seeks.

These cooperative projects can have several advantages from our viewpoint. They could provide us with long-term supplies of energy and raw materials to support our domestic needs. They would stimulate exports of larger volumes of American capital equipment. The goods which would be produced by that equipment would on the whole compete with imports from other sources rather than with U.S. domestic production. And the close involvement of American industry should provide some assurances of compatibility with United States domestic economic interests.

I am not proposing at this time new Presidential national interest determinations to make Eximbank facilities available in markets other than those for which such determinations presently exist. Thus, I am speaking only of Poland, Romania, the Soviet Union, and Yugoslavia. However, the Soviet market, practically speaking, is largely denied to our exporters because of the absence of Eximbank facilities. If Eximbank facilities are not made available to help finance United States exports major requirements set forth in the Soviet Union's current five-year plan will simply be filled elsewhere.

The President has advised Congress that he believes remedial legislation on official credits and Most Favored Nation tariff treatment for the Soviet Union and other Communist countries is urgently needed. I have suggested some of the economic benefits to the United States economy in terms of production, employment and raw materials supply that can flow once Congress has acted.

CONCLUSION

It is clear to me that expanding economic cooperation through East-West trade is in our national interest. In weaving a fabric of peace, mutually beneficial trade is an important thread, and Eximbank can play an important role in helping U.S. business participate.

The nature of world trade is undergoing a change which, in my opinion has vast implications for our economy and for our policy on East-West trade and export financing. Trade has become less a matter of exchanging products and more a matter of cooperative development in which technology and capital from one

country are applied to the development of raw materials and low cost energy in another in order to efficiently produce goods which are marketed world wide. We see examples of such arrangements in huge petrochemical, paper, natural gas, and mineral projects in the Soviet Union, Poland, the Middle East, Latin America, Africa, and Indonesia.

The exchange of products is based on price and production advantages which have become increasingly temporary in character as technology moves rapidly around the world and as advanced countries can adopt or otherwise catch up with improvements in production methods in a few years. On the other hand, efficient energy sources, such as hydropower, and proximity to raw materials and markets are more permanent advantages. The Soviets are offering cooperative arrangements to develop and market their natural gas, their pulp and timber and their coal through the application of their cheap hydropower and to apply such power to the production of aluminum and ferro alloys for sale worldwide. These projects require vast amounts of capital, but they have the potential for commanding a correspondingly vast share of the world market.

If the United States does not fulfill its potential role in the East-West trade, I am concerned that we will lose not only valuable export sales but also the opportunity to participate in the experience of producing and marketing the products to be derived from this activity. In short, I am afraid that this economic process of cooperative development, production and marketing will bring Europe, Canada and Japan more closely together with Eastern Europe, the Soviet Union and China, as well as the less developed world, and that we can find ourselves outside looking in with respect to a substantial sector of the world economy.

MAY 23, 1975.

HON. GERALD R. FORD,
The President, The White House,
Washington, D.C.

DEAR MR. PRESIDENT: The Secretary of State's recent statement in St. Louis about the importance of U.S. alliances with other industrial democracies was most welcome.

I urge you at the NATO Summit meeting in Brussels to take up the impact of credits from the industrial democracies for the Soviet Union on its military capabilities. This subject begs for cooperation between the NATO nations and some appreciation of the military, as well as the commercial, consequences of continued large-scale credit for the Soviet Union. It has a GNP second only to our own, is now the world's foremost oil producer and enjoys a substantial and growing payments surplus.

Through COCOM attempts are made to coordinate export policy with respect to goods and technology of military significance to the Soviet Union. At present no mechanism exists to coordinate credits for the Soviet Union. Indeed, the industrial democracies, the U.S. government temporarily excepted, are competing among themselves to extend more subsidized credits to the Soviet Union for exports which typically are for the development of Soviet technology and industrial capability. Only rarely is the West afforded access to the Soviet consumer market for finished goods.

Such credits take on the character of foreign aid and assist the Soviet Union to develop its military capabilities. They have directly assisted the development of such facilities as a truck factory with obvious military potentials. They also release Soviet capital resources for purely military objectives.

It is incongruous for the United States and its allies to subsidize, directly and indirectly, the development of Soviet military capabilities and deprive themselves of capital resources with which to develop their own military and industrial capabilities.

As it is now, the industrial democracies are competing among themselves, on the one hand to diminish their burdens of mutual defense, while on the other hand to aid in the development of Soviet military and industrial capabilities. As you know, the United States has already extended about \$1 billion in subsidized credits to the Soviet Union. Our allies are doing likewise. Some coordination among the allies might diminish the pursuit of inconsistent ends, perhaps upon some understanding that credits will be made available through a consultative process as progress with the Soviet Union is achieved on such large issues as mutual and balanced force reductions, SALT and peace in the Middle East. It could lead to a relaxation of tensions between East and West.

The disarray among the industrial democracies is disturbing and too reminiscent of times past. I, therefore, urge you to take up the subject of credits for the Soviet Union at the meeting in Brussels. I believe that your trip is most timely, symbolically important, and am hopeful you can achieve progress on the substantive questions.

With the highest regards,
Sincerely,

WILLIAM J. CASEY.

Senator INOUYE. The hearing will resume at 10 o'clock tomorrow morning in the same room, and our first witness will be Robert S. Ingersoll, Deputy Secretary of State.

[Thereupon, at 12:40 p.m. the hearing was recessed, to reconvene at 10 a.m. the next day.]



AMERICAN ROLE IN EAST-WEST TRADE

FRIDAY, DECEMBER 12, 1975

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met at 10:04 a.m. in room 5110 Dirksen Senate Office Building, Hon. Daniel K. Inouye presiding.

Senator INOUE. This morning, we shall resume our hearings on the "American Role in East-West Trade: Prospects, Problems and Issues, 1976-80."

Yesterday, we received the testimony of the Secretary of the Treasury, Mr. Simon, the Secretary of Commerce, Mr. Morton, and the Chairman of the Export-Import Bank, Mr. Casey.

We shall proceed with the testimony of other witnesses representing the administration.

As our first witness today, I am pleased to welcome once again to our committee the distinguished Deputy Secretary of State, Hon. Robert Ingersoll.

STATEMENT OF ROBERT S. INGERSOLL, DEPUTY SECRETARY OF STATE; ACCOMPANIED BY KEMPTON JENKINS, DEPUTY ASSISTANT SECRETARY, CONGRESSIONAL RELATIONS

Mr. INGERSOLL. Mr. Chairman, I am pleased to have this opportunity to appear before the committee today to speak about the role of East-West trade in our foreign relations.

As you are aware, our relations with the Communist countries entered a new phase more than 3 years ago. Progress in political relations was marked by the Berlin settlement, advances in the arms control negotiations, and the Moscow summit in the spring of 1972. This opened the way for progress in trade and economic relations which led to the conclusion of the commercial agreements with the Soviet Union later that year.

Not only in the U.S.S.R., but in China and Eastern Europe as well, we have regarded the development of trade and economic relations as the natural outgrowth of political progress.

The development of East-West trade brings important economic benefits. Our exports of industrial and agricultural goods to this fast-growing market still represent less than 3 percent of our total exports, but they create earnings for American firms and jobs for our farmers and workers. These countries are sources of valuable raw materials, like metals and petroleum products.

The economic benefits of this trade have been described by other participants in these hearings in detail.

East-West trade also improves the environment for future progress on political issues. Trade relations, like cultural and scientific relations, can bring expansion of contact, continuing interchange, and a degree of interdependence which contribute to the growth of shared interests, greater stability and mutual restraint.

We must be careful, however, to assess the political implications of East-West trade realistically.

We should not overestimate the political leverage we can obtain from our economic relations with these countries. The U.S. share in East-West trade is relatively small. For the vast majority of traded goods, the Communist countries can find sources of supply outside the United States.

In order to insure that any of the special restrictions we may place on trade and financial relations with Communist countries are effective, we should keep our policies and practices reasonably consistent with those of other western industrialized countries.

We should also not try to tie individual trade transactions to specific political concessions—for example, concessions on arms control issues. The temptation to do this can be great if we have something to sell that the other side wants very badly.

Even if political concessions could be extracted in this way, they would be likely to evaporate once the terms of the commercial transaction had been met. We would then be left with a business deal in which we had given away some real economic benefits in return for vague political promises.

Trade transactions, like political and arms agreements, must be able to stand on their own merits.

We also have to remember then neither the United States nor its allies, who are heavily engaged in trade with the Communist world, nor the Communist countries themselves, are prepared to relinquish basic interests or fundamental principles for the sake of trade.

We recognize that Communist governments, some more than others, engage in practices which are incompatible with our ideals. We and the Communist states still regard ourselves as engaged in a struggle between antagonistic systems.

But the existence of differences between us and the Communists, profound as they may be, should not deter us from cautiously seeking ways to discover and cultivate our common interests. This applies to restraining the strategic arms race, to dealing with the global problems of food, energy, and the environment, and to the expansion of our trade and economic relations.

It also contributes to confining the struggle between our systems so that we may avoid resorting to force and armed conflict.

If we approach East-West trade in this realistic way, I believe that it can have an indirect, but broad and long-lasting payoff. It has benefits above and beyond the sum total of the transactions involved. Over time, increased trade can erode the autarkic tendencies of the Communist countries and tie them more closely into the world economic system.

East-West trade can have a real impact on the economies of the Communist countries and on their economic decisionmaking. To in-

crease their exports to the United States, as all of them, and especially the Soviet Union, wish to do, they must devote resources and skills to production and marketing of the kinds of goods and services which are salable on the American market.

Increased acceptance by these countries of the responsibilities inherent in more normal trade relations would reduce their capacity for, and their interest in, disrupting the trade and economic system created by the Western countries over the past 30 years.

Thus, over time, U.S. trade with Communist countries can help to build a continuing relationship—a relationship which the Communist countries have an interest in maintaining and which they would find costly to repudiate. In this way, trade adds an element of restraint and stability to our overall relations.

The failure to permit trade to develop normally not only reduces our potential economic gains, but also inhibits progress toward these political goals.

It is logical that if we seek to expand trade with the Communist countries over the coming years, we will need at the same time to develop a structure of policy and legislation to support this expanded trade. Such a structure must permit steady progress toward more normal relations on the basis of mutual benefit.

Since not all problems can be foreseen, the structure must also permit the resolution of disputes and take into account the very basic differences between market and nonmarket systems.

The Trade Act of 1974 offers such a structure. It provides that most-favored-nation tariff treatment can be extended to nonmarket economy countries only on the basis of a trade agreement.

Such a trade agreement must provide safeguards against the possible disruption of our markets; it must protect industrial property rights and copyrights; it must ensure arrangements for the settlement of commercial disputes; it must facilitate trade promotion; and it must be subject to suspension or termination for reasons of national security.

To protect our security interests, the present structure of unilateral and multilateral strategic export controls must also be maintained.

Some changes in existing legislation are required, however, if we are to create a legal structure which will permit improvement in our trade relations with the nonmarket economy countries. For example, we favor legislation to allow for nondiscriminatory, nonconcessional financing of trade which is essential to the maintenance of our competitive position.

We also favor modification of section 409 of the Trade Act to give us greater flexibility in our relations with Czechoslovakia.

Since the Johnson Debt Default Act of 1934 no longer serves its original purpose of protecting American investors against defaulting governments, consideration might be given to its repeal.

The repeal of section 511 of the Trade Agreements Extension Act of 1951 which embargoes the importation of certain furs from the U.S.S.R. and China would remove an obsolete impediment to trade.

In last Europe, the effect of existing legislation has varied from country to country. Poland and Yugoslavia with which the United States has had GATT relations for a number of years were exempt

from the provisions of section 402 of the Trade Act, and our trade and political relations with those countries have continued to progress.

Romania, continuing to pursue its independent foreign policy, negotiated a trade agreement with us under the provisions of the Trade Act, and so the general improvement in United States-Romania relations noted over several years continues.

Hungary, Bulgaria, Czechoslovakia, and the GDR, following the Soviet lead, have stated that they are not prepared to negotiate trade agreements under the emigration provisions of the Trade Act. Although U.S. trade with most of these countries has increased in recent years in the absence of MFN, the full potential of their markets cannot be enjoyed by American exporters so long as we are not in a position to extend MFN to their products coming into our country.

It is not easy to quantify these losses, but we do know the extension of MFN is clearly encouraging trade expansion with Poland and Romania, where total trade turnover in each case is expected to triple between 1974 and 1977.

Our inability to proceed toward normalization of trade relations with these other four countries reduces our flexibility and our capacity for developing appropriate and effective policies. It thus involves not only economic loss for both sides, but also a political irritant.

The Trade Act has not directly affected our trade or political relations with the People's Republic of China. The Shanghai Communique of 1972 continues to serve as the framework for the development of our trade. At this stage of our relationship with the PRC, a broad understanding of how trade relations should develop is not yet attainable.

The administration fully supports the objectives of section 402 of the Trade Act and we share the views of those who believe that the United States must work to bring about increased emigration from the U.S.S.R.

Since the passage of the Trade Act, both the United States and the U.S.S.R. have tried to sustain trade. We have, however, paid an economic and political price in opportunities lost. The rise in overall trade in 1975 points not to a continuing dynamism in our commercial relationship, but to greatly increased grain sales and deliveries of industrial goods ordered before 1975.

Several major projects have been diverted from American companies this year, and in some cases, we have been told plainly that the switch was politically motivated. While we have cut off the flow of Government-sponsored credits to the U.S.S.R., Western Europe and Japan have been competing with each other to offer more, and the total available to be drawn on is now some \$10 billion.

Not surprisingly, trade flows along the same lines as these credits. Since the last Eximbank loans were extended in May of 1974, the U.S. share of new Soviet orders of machinery and equipment from Western countries has fallen from its 1973 level of about 22 percent to about 14 percent in the first 10 months of 1975.

Our inability to use the facilities of the Export-Import Bank to finance our trade with the Soviet Union also has broader implications. Providing access to Exim facilities is not a one-way concession. Exim loans are tied to U.S. exports and to specific projects, whereas the

credits that the Soviet Union can obtain commercially at only slightly higher interest rates are not.

Through the Eximbank, we can also control the flow of credit in ways that we cannot in private financial markets.

Our inability to grant most-favored-nation treatment to the Soviet Union also involves lost opportunities. The Soviets would prefer to pay for their imports with increased exports, instead of financing them with costly credits. By discriminating against Soviet exports, we limit the expansion of our mutual trade.

In doing so, we inhibit the growth of our own exports, and we forego some of the indirect political benefits that come from an expanding trade relationship. The absence of MFN also makes long-term projects in which repayment takes the form of products produced less attractive with the United States than they are with other countries which apply nondiscriminatory tariff.

An additional economic price has been the cessation of Soviet payments of their lend-lease obligations. The lend-lease agreement reached in 1972 provided for the payment of three installments, totaling \$48 million, by July 1, 1975. These have been paid in full. The repayment of the balance of \$674 million was made conditional on our granting most-favored-nation tariff treatment to the Soviet Union. This will not be paid until MFN is extended.

Finally, the trade agreement would have protected American industry more fully against market disruption resulting from Soviet imports. It would also have encouraged the use of procedures for the arbitration of commercial disputes. These benefits are not available to us as long as the agreement remains in abeyance.

We regret these lost opportunities. We also recognize, however, that Soviet emigration policies are a matter of continuing concern to the public, the Congress and the administration. The future evolution of these policies will be watched closely. We share the urgent desire of the Congress to find a way out of the dilemma which will achieve our primary humanitarian purpose. Our concern for basic human rights is lasting, not transient.

We hope to work closely with the Congress, not only on overcoming the legislative impasse, but on all aspects of our economic relations with nonmarket economy countries. Congress should play a key role in East-West trade as it does in other areas of trade policy.

We would welcome any suggestions for improvements in the consultative arrangements between the administration and the Congress so that we can work more closely together.

In addition to our efforts to develop an overall structure of policy and legislation to support the expansion of East-West trade, there are times when we need to develop special arrangements to deal with special problems. One such special case was the grain agreement which Undersecretary Robinson signed in Moscow on October 20.

It is designed to deal with the recurrent problem of the sudden, large grain purchases which the Soviets make when their harvests fall short of their needs. These purchases have periodically disrupted world markets, pushed up prices, and forced the President to impose various ad hoc restrictions on grain exports.

The Soviets have agreed to purchase at least 6 million tons of grain per year, and they can purchase an additional 2 million tons without government-to-government consultations. More, of course, can be purchased on the basis of such consultations.

We are not obliged to sell if our grain supply falls below a specific level. Sales will be at market prices prevailing at the time of the purchase. The agreement involves no U.S. Government credits.

Under this agreement, our farmers will be able to take advantage of the large Soviet market on a regular basis without price effects harmful to the American consumer. At the same time, the United States-Soviet Maritime Agreement which is still under renegotiation, but which we hope will be renewed before the end of the year, enables U.S. shipping to carry a fair share of the grain cargoes at profitable rates.

The grain agreement is a positive step in our relations with the Soviet Union. It encourages a long-term interrelationship between our two economies, involving implicit political constraints.

The Department of State played a role in the negotiation of the grain agreement that was consistent with the role we play in other areas of international economic policy. Undersecretary Robinson led our negotiating team, pursuant to instructions developed in the White House by an interagency team. He worked closely at every stage with the Department of Agriculture, relying heavily on the expertise and sound judgment of the Assistant Secretary of Agriculture, Richard Bell, who was with him in Moscow.

We decided that it was appropriate to conclude this as an executive agreement instead of a treaty. It does not affect U.S. law, and no new legislation is required to implement the commitments that we made. We also had a strong interest in obtaining a firm Soviet commitment upon signature.

At the time we signed the grain agreement, we exchanged letters of intent with the Soviets on an agreement for the supply of oil.

We expect these negotiations to begin in the near future.

The oil agreement, we envisage, would give us an option, not a commitment, to purchase up to 10 million metric tons of Soviet crude or petroleum products each year. This would represent about 200,000 barrels per day, only 3 percent of our annual imports.

We should not, however, underrate the significance of such an agreement. It would mean a net increase in the amount of oil available to the free world and would represent a further diversification of our sources of supply.

Although the U.S.S.R. is now the world's largest oil producer, with production averaging about 9.5 million barrels per day, we do not expect it to become a major oil exporter. Its exports are now 2.3 million barrels per day. Most of this goes to Eastern Europe. Unless the Soviet Union can exploit major new sources, we expect its exports to diminish in coming years as its own economy develops and its consumption increases accordingly.

It is not realistic to expect the Soviets to give us a sizable discount on the oil that they sell us. They do, after all, have other potential hard-currency buyers, and we are not giving them a discount on our grain. However, the price will have to be set at a level that we find satisfactory in order for the purchases to be made.

In conclusion, the Department of State continues to believe that the Peterson report of August, 1972, is the proper guide to our economic relations with the Soviet Union and Eastern Europe. The report states that:

Closer economic ties bear both cause and effect relationships to relaxation of political tension. Improvement in political relationships is a prerequisite for improved economic relationships, but, once in place, economic ties create a community of interest which in turn improves the environment for further progress on the political side.

If political accords with the Communist countries are to endure, they must be buttressed by concrete progress, by tangible benefits, and by economic self-interest.

If we are to preserve the gains of the recent past, we must improve the basis of our trade and economic relations with the Soviet Union and other Communist countries. As Secretary Kissinger said in his testimony before the Senate Foreign Relations Committee last year:

"We face an opportunity that was not possible 25 years or even a decade ago. If that opportunity is lost, its moment will not quickly come again. Indeed, it may not come at all."

In sum, I believe that we must take additional steps to promote both liberalized emigration and improved economic and political relations with the East. If you in the Congress share this view, I hope that you will make suggestions as to how and when we should proceed in order to move toward both these goals. They need not be contradictory objectives as long as we concentrate on the results we seek and are pragmatic in the approach we adopt.

Thank you, Mr. Chairman.

Senator INOUE. Thank you very much, Mr. Secretary.

We have prepared a series of questions which we wish to submit to you for your careful consideration and response. However, I have a few questions I would like to ask at this time.

Your statement suggests that it would be unwise for this country to tie political and military considerations to trade agreements; that trade agreements should be able to stand on their own merits; and that it would be unwise to link them with political strings.

I believe you expressed this concern when you opposed the action taken by the Congress to tie the matter of Jewish emigration to trade. How do you, in that light, rationalize the administration's position on the trade embargo to Rhodesia?

Mr. INGERSOLL. The trade embargo to Rhodesia?

Senator INOUE. The State Department has strongly opposed any action taken by the Congress to continue and maintain normal trade relations with Rhodesia because of Rhodesia's internal racial policies.

Mr. INGERSOLL. We are following international policy there as established by the U.N. Security Council. And we are actually following our commitment to abide by certain Security Council resolutions in that respect. It is for this reason we favor repeal of the Byrd amendment.

Senator INOUE. I am sure you will agree with me that when it comes to the United States itself, we pick and choose, don't we?

In recent days, out of 10 resolutions, how many are we supporting?

Mr. INGERSOLL. Well, I haven't counted the 10.

Senator INOUE. It seems to me every time I pick up the paper, the U.N. is passing a resolution condemning the United States. This morning, Mr. Moynihan in strong, emotional tones, condemned the action taken by one of the committees which reported that we were maintaining a vast military presence in the Virgin Islands to subjugate the Caribbean people when we had only 14 Coast Guard men.

I don't suppose we support that resolution.

Mr. INGERSOLL. No. I think there is a difference between U.N. Assembly resolutions, many of which are made for political headlines, and the U.N. Security Council resolutions in which we have a veto. The General Assembly has only recommendatory powers except in the case of certain matters internal to the U.N. such as those concerning the U.N. budget—including assessments of member states—and elections to U.N. bodies. While the charter obligations of U.N. members place them under a *moral* obligation to give Assembly recommendations due consideration, particularly in the case of recommendations that a member state has supported, Assembly resolutions entail no legal obligations except for those internal matters referred to above.

Senator INOUE. Was that the rationalization we have adopted—that it is international law?

Mr. INGERSOLL. Actually, there are few decisions the U.N. can make that we could consider legally binding. The Security Council has acted only once to impose sanctions under chapter VII when it decided on economic measures against Southern Rhodesia. The United States then issued an Executive order implementing this decision as far as the U.S. Government and corporations are concerned. This action was, however, partially vitiated by Congress with the Byrd amendment which the Department considers puts us in violation of our legal obligations under the charter inasmuch as it permits the purchase of chrome from Rhodesia. The United States also considers itself—and other U.N. members—legally bound to pay its regular assessments to the U.N. (The same applies to assessments for those specialized U.N. agencies to which we belong). These are the main examples of U.N. decisions that we consider to have legal force.

Senator INOUE. I just can't avoid mentioning the matter of the Johnson Debt Default Act. In recent weeks, we have spent many hours discussing debt default as it relates to the city of New York. And we have placed horrendous conditions upon the people there. We have insisted upon steps being taken by that city that we have never asked any other foreign country to take.

Why is it so wrong to just keep this in there? This is almost like New York City Debt Default Act, only it applies to other governments rather than cities of the United States.

Mr. INGERSOLL. You mean why is it not in our interest to continue—
Senator INOUE. To be consistent in our policies.

Mr. INGERSOLL. The Johnson Act has been so amended and interpreted that it now applies only to certain Communist countries—Czechoslovakia, Hungary, Poland, and the U.S.S.R.—and it prohibits only certain kinds of private credits for those countries. It is a discriminatory and obsolete impediment to the private financing of East-West trade, and I favor its repeal.

Senator INOUE. Don't you think we should retain it, so that it would be our policy to encourage countries to clear their debts with us to the maximum extent?

Mr. INGERSOLL. I think that it may give us a signal—

Senator INOUE. I am the chairman of another subcommittee, Foreign Operations Subcommittee, which deals with the moneys for foreign countries. And in recent days, it has been a time of great difficulty for me. We will soon begin deciding upon grant programs for countries, and we have yet to take a hard look at any country.

Recently, with one stroke of the pen, we decided to clear India of an outstanding debt amount of almost \$1 billion because it was in our best interests. But here in the case of New York, we have made it very clear that if you are not able to balance your books, if you don't raise your taxes, if you don't do such and such by a certain date and if you don't pay by a certain date, then, you are going bankrupt.

I have some great difficulties explaining this to my constituents.

Mr. INGERSOLL. The Indians are still obligated to pay their dollar debts to us. These were in local currencies.

Senator INOUE. The local currencies, but it cost us that much to get the local currency.

Mr. INGERSOLL. They were loans extended to the Indian Government for food aid. And the amount of the debt was such that it was considered that it would not be repaid in the foreseeable future and was a debt hanging over the Indian Government that would be very difficult for them to perhaps ever pay. It converted a loan to a grant to a country that has been short of food for a long time.

Senator INOUE. I can understand the position taken by the Government, but I found it rather difficult to see the consistency in the treatment accorded our friends abroad and our own American citizens.

Mr. INGERSOLL. Well, I think it is a matter of extending, you might say, grant aid or humanitarian aid to those that probably cannot sustain themselves, and we do so within this country. We extend grants to many people, as charitable grants.

I have not been involved in the domestic discussion with New York City, but I don't believe they are involved yet in a charitable institution. And, therefore, I assume the administration doesn't think that they quite compare with some of the grants we have made for humanitarian purposes.

Senator INOUE. I am sorry I brought this up, but there is an anomaly in our treatment of foreign countries and of our own municipalities.

Mr. INGERSOLL. I can understand your concern.

Senator INOUE. There has been a number of cases—the most prominent one involves the Fiat operation in the Soviet Union—that have proved unprofitable and, potentially for the Western firm, commercially unsound.

Assuming that the administration does not want to support or encourage bad transactions or unfeasible transactions, what criteria does the U.S. Government use to determine whether certain transactions should be discouraged or encouraged both for the welfare of the company and the general public?

Mr. INGERSOLL. Well, I am not fully acquainted with the standards used by the Eximbank, but I assume that they rely upon the companies to negotiate a sound arrangement for whatever sale they are making.

The Fiat arrangement, I happen to be acquainted with because I visited that plant, and it is a good plant. But I am not sure the Fiat Co. made too much out of it. In that case, it was a matter of designing an automobile and equipping the plant for production of that. And the Fiat Co. permitted certain terms in the agreement which made it difficult for them to come out with a profit.

I think that most of the projects that the U.S. companies are involved in involve a matter of selling equipment and not guaranteeing a turnkey plant such as this one was with the Fiat Co.

And I think that the U.S. companies are the better judge of what the terms are upon which they can make a profit than any government agency. I would imagine we would have to rely upon them for that.

Senator INOUE. Yesterday, my colleague Senator Cannon pointed to the policy of the Eximbank to provide low-interest loans to foreign countries to purchase our commercial passenger aircraft, which in turn would be used to compete with American-flag carriers overseas. American-flag carriers are required to go to the domestic market and pay a higher interest rate to buy these jets, thereby placing our airplanes at a disadvantage. How would you rationalize this?

Mr. INGERSOLL. Well, I think in all those cases, and when I was in Japan, I was involved in some of those sales as Ambassador there, they involved the competition with other manufacturers throughout the world.

The sale is going to be made. The terms of sale offered by foreign manufacturers usually are comparable or even more favorable than ours. Our economy benefits by the employment given to American workers for the construction of those plants, and I believe that we should continue to support those manufacturers because of the benefit it gives to our economy.

We are not going to change the credit terms that are extended to the foreign airlines because the credit extended by other countries is as favorable or more favorable than that of the United States.

Senator INOUE. Are you suggesting that there are foreign aircraft manufacturers which are truly competitive to our Boeing and Douglas aircraft, 707, 747, and such at this time?

Mr. INGERSOLL. Yes.

Senator INOUE. I have been given the impression that dollar for dollar, pound for pound, yen for yen, there is nothing in the world today that can really compete with our passenger planes. That is why you see our planes flying all over the world.

Mr. INGERSOLL. I think that has been true, but I think there are planes now, particularly for wide-bodied, short-range use, such as the European Airbus, that are fully competitive and getting the orders. I know of recent orders where the U.S. companies have lost out. It may be that the credit terms that we extend and the Eximbank terms, while not too far from commercial rates at the present time, are not as favorable as terms extended by particularly the European countries.

Senator INOUE. I can understand when the competition is keen, we

might be able to use this financial subsidy, but where the competition is nonexistent, I don't see the necessity for providing favorable credit.

Mr. INGERSOLL. I can understand that qualification, and in terms of long-range aircraft, I think the United States still is superior. But airlines in recent months are buying for flights within, say, Europe or Africa or Asia. And we are hit with very tough competition both on performance as well as on credit terms.

In those cases, I think we should extend Exim loans.

Senator INOUE. I can see the justification to this. Yesterday, the Secretary of the Treasury, Mr. Simon, noted that the major industrialized Western nations have expressed a desire to expedite an agreement to prevent export credit competition. What is the present status of the negotiations?

Mr. INGERSOLL. Well, I think that those countries that have banks similar to our Eximbank are in the process of trying to develop what is considered a noncompetitive rate structure of interest rates so that the terms of the loans will not be the determining factor in the sale of products.

We have not been able to get full agreement by these foreign export credit banks, particularly in the terms of the credits and in the percentage of the total transaction for which they will extend a loan.

At the present time, our general policy has been to extend 35 to 40 percent of the purchase price from Exim, 10 percent on a downpayment, and the balance from commercial banks. Our foreign competitors will extend up to perhaps 80 percent from the Exim equivalent. And it is in that range where we are noncompetitive, and we do not seem to be able to influence these foreign banks to maintain the same kind of standards that we do.

Senator INOUE. Are you optimistic, sir?

Mr. INGERSOLL. No; I am not, not in getting them to come down to our level. Of course, we could go up to theirs, but I am not sure that is in our best interests either.

Senator INOUE. I note that Executive Order 11846 of March 27 provides that the Secretary of State shall advise the President and prepare the necessary documents with respect to freedom of emigration and related extension of MFN tariff treatment. What role does the East-West Foreign Trade Board play in this area?

Mr. INGERSOLL. The East-West Foreign Trade Board must carry out the terms of the 1974 Trade Act. And they do not implement the discussions with respect to emigration. That is conducted by the State Department.

But those talks, as you are well aware, have not been productive since the first of the year. Members of the Senate and the House visited Moscow during the summer, and I think they learned some of the concerns of the Soviet Union with respect to the terms of the Trade Act.

We hope that out of these hearings which you are conducting, there may be found a solution which will enable us to not only extend MFN to the Soviet Union and Eastern European countries, but to find a way to improve emigration of Jews from the Soviet Union.

Senator INOUE. Does the Trade Board provide any input or play any role in advising the President on MFN or emigration matters?

Mr. INGERSOLL. It does. Although, as I say, it does not have much flexibility under the present Trade Act.

Senator INOUE. You have indicated in your statement that it would be desirable to have strong congressional support if we are to develop and unify the United States position on trade policy. Do you have any suggestions as to what should be done to achieve a consensus? Do you see any participation of congressional delegations in negotiations or procedures for providing prior consultation? Or should the Congress come in after the fact?

Mr. INGERSOLL. I think these hearings will provide a basis for the policy decisions that Congress should make in conjunction with the administration. And from that base, then, consultation should take place with the appropriate committees of Congress as negotiations are underway.

I think the executive branch of the Government should maintain its responsibility for the actual negotiations. But as in the case of the grain agreement we recently made with the Soviet Union, there was considerable consultation with Congress as this was going on both before and after. And I think this is the manner in which such negotiations should be carried on.

Senator INOUE. The grain agreement you mentioned was brought into being by executive agreements. Why didn't you decide on the treaty route instead? Is an executive agreement enforceable?

Mr. INGERSOLL. Yes, it is enforceable. As I mentioned, there was no requirement for any new legislation. And our particular interest was in being able to sign the agreement at the same time that we reached the agreement with the Soviet Union so it would become binding.

If it were subjected to the treaty process, it might have been delayed to such a time that it might not have been concluded.

Senator INOUE. That's part of the democratic process, isn't it? It might be slow, but are you not desirous of having congressional participation?

Mr. INGERSOLL. There was congressional participation. And the general terms of the agreement were discussed with the various committees of Congress. We think that in that type of a negotiation—in fact, I think most trade negotiations—it is not feasible to discuss all of the details or submit all of the details for congressional approval as the negotiations are proceeding.

Senator INOUE. As I indicated, Mr. Secretary, we have additional questions we would like to submit to you for your response. I also have questions from Senator Stevenson which I hope you will respond to.

Mr. INGERSOLL. I will be glad to, sir.

Senator INOUE. Senator Buckley?

Senator BUCKLEY. Thank you, Mr. Chairman.

I am sorry, Mr. Secretary, that I couldn't be here for your presentation. We have several rings operating simultaneously in this circus.

I have glanced through it, but I would like to concentrate on a couple of areas having to do with the interplay of political considerations and trade.

One of the arguments that has been advanced by the State Department against conditions such as the one which the Senate attached

to the trade bill last year is that, on the basis of subtle, discrete diplomacy, we could achieve greater results than the bludgeon that the Congress attached.

I know that in December of 1974, in his appearance before the Senate Finance Committee, Secretary Kissinger reported on assurances that had been received from the Soviet Government as to their intention to maintain a policy of permitting free emigration in numbers that would reflect the numbers of people who wanted to emigrate from the Soviet Union.

Now, in point of fact, there has been a decline in the emigration from the figures of 1973—a rather significant decline. And after the nature of the assurances had first been disclosed I believe in early November—and at the time the Senate acted, I happened to be in the Soviet Union, and I heard firsthand from a number of people in the Jewish community and other communities who wished to emigrate, that, coincident with the announcement that an understanding had been achieved, the Soviet authorities had increased their repression on people seeking to exercise the right of emigration in an attempt to scare off applicants.

What reason is there to believe, therefore, that if the Senate had gone along with the State Department's recommendations, there would in fact have been an increase of emigration?

Mr. INGERSOLL. Well, I think the record of emigration from the start of our efforts to increase the number, beginning in 1970, of a total of 1,000 and going up to 1973, a total of about 35,000, all of this was achieved through what we term quiet diplomacy, encouraging the Soviet Union to increase emigration.

They also responded to specific cases that were brought to us by members of the Jewish community. All this was done in diplomatic conversation with the Soviet Union.

Beginning in 1974, the idea of tying MFN to emigration began to become very much of a public issue in the press and in the Congress. And I do not know what went on within the minds of the Soviet leaders, but I can imagine that they resented the fact that we were trying to interfere in their internal affairs through leverage that we thought was sufficient to force them to agree to the numbers that were then being discussed.

The Soviets, as I understand it, still say that nearly all those who wish to leave the Soviet Union are permitted to do so.

Senator BUCKLEY. Which, of course, is a lie.

Mr. INGERSOLL. The indications are that there might be more that wanted to leave if the conditions existed under which they could leave.

Senator BUCKLEY. Well, I spoke to an awful lot of people who wanted to emigrate but certainly have not had permission. As a matter of fact, I carried to West Germany a list of 2,500 Volga German families, which had sought to leave but were denied permission.

But let us just go into another case. The case of Romania. It is not true that the Congress authorized MFN for Romania with an understanding that there would be a liberalization of emigration there? Is it not also the fact that despite those assurances, there has been a decline in emigration from Romania?

Mr. INGERSOLL. No; I don't believe those facts are true, Senator. I believe that emigration has increased, and I think the Congress is going to review those figures before June of next year.

I don't know where you get the figures.

Senator BUCKLEY. Perhaps my information is wrong, but I am informed that whereas we had a rate of about 3,700 in 1973, we were down to about 2,000 in 1974.

Mr. INGERSOLL. I would like to have Mr. Jenkins comment on this if I may.

Mr. JENKINS. Senator, we recently had our Ambassador from Romania, Harry Barnes, back here and had some meetings with people both in the Senate and House to discuss the performance of Romania under the trade agreement in terms of emigration. Mr. Barnes pointed out to among others Senator Ribicoff, the fact that the number of applications and number of people who had been granted permission to leave has in fact increased in terms of the percentage of applicants, and not only in terms of emigration to Israel, but also in terms of cases being allowed to come to the United States, there has been a dramatic increase.

Mr. INGERSOLL. Your figures may be looking at the early part of the year before the agreement was in effect. But the recent trend, Senator, has been upward.

Mr. JENKINS. We also have had the comments and testimony from Rabbi Miller and other leaders in the Jewish community in this country who have found the Romanian performance in fact has been quite good.

Senator BUCKLEY. I am afraid we have five bells up there now. We have to run to vote, but I would like to come back if I may.

Senator INOUE. Mr. Secretary, would you remain here? We will be back in about 10 minutes?

[Recess.]

Senator INOUE. We shall resume our hearings.

Senator Buckley?

Senator BUCKLEY. Thank you.

I believe we were on the subject of Romania.

Mr. INGERSOLL. And emigration.

Senator BUCKLEY. At the time of the interruption.

I do have some figures here, Mr. Secretary, that indicate that about 3,700 people left in 1973, 3,700 in 1974, and then a month-to-month breakdown for 1975 does show an upsurge, a very dramatic upsurge. I will just quote figures.

January, 70; February, 45; March, 100; April, 80; May, 50; June, 210; and July, 430. And it was at the end of July that the Congress approved the MFN for Romania. Then, in August, we go back to 250; September, 295; October, 360; and November, 125. December, an expectation of less than 50.

So if we compare 1975 with the prior year, we find that just over 2,000 people will have left, or about 45 percent less than in each of the 2 prior years.

Mr. INGERSOLL. Well, our evidence of improvement in the Romanian emigration comes primarily from our Ambassador and from the Jewish community who have been monitoring this. There are a fewer number of applicants who want to emigrate from Romania now that they know they can get out any time they want to.

It may be not convenient to move and sell their house immediately. They want to wait until they can dispose of it. There may be other reasons. But the indications are that there has been a considerable relaxation of, you might say, harassment or inability to make applications. The percentage of applications granted to those made has increased.

We do not think that you are going to be able to monitor this from the standpoint of numbers themselves because there isn't such a large reservoir of those who want to leave Romania as there was in some past years.

And I think the best indication is from the Jewish community within Romania as to whether or not those that want to leave can leave. And we have received indications from them that there is a considerable improvement, and they are satisfied with the progress that is being made.

We will be glad to keep you informed on how this progresses. We have been keeping some of the other interested Senators informed, and we would be glad to keep your office informed, sir.

Senator BUCKLEY. I would appreciate that.

I would just note for the record in June 1975, Rabbi Miller informed, I think, the Congress that the Association of Romanians in Israel had estimated that there were 10,000 of their relatives who had applied to leave Romania. So this does suggest the volumes that at one point at least expressed a desire to leave.

Mr. INGERSOLL. Yes. Rabbi Miller has been involved in the evaluation of the results since July. And he has at least told us he is satisfied with the progress that is being made.

We also understand that in Israel itself the number that they would like to see leave has at least come up to their expectations.

Senator BUCKLEY. Thank you. Romania, of course, is Romania, and the Soviet Union is the Soviet Union. I do know that when I was in Moscow in November of 1974, I was informed by Andrei Sakharov as well as leaders of the Jewish community that they anticipated a possible rise in the percentage of people who had already applied who would be permitted to leave followed by a dramatic decline in applications.

The dramatic decline would have nothing to do with the feeling of the individuals that as they could leave at any time or that they need not be in any hurry, but rather because of the pattern that had already been initiated before the Congress acted—intense harassment, ripping out phones, picking up off the street, extended to not only people who applied, but to their relatives, employers, anyone they were connected with.

In other words, these pressures would dry up the supply.

I would like to move on now to another area. Remember, I remain a skeptic in this general field. What is it that we have to gain in effect from increased trade with the Soviet Union?

I go on the following premises, and if my premises are unreasonable, please do not think you are insulting me by pointing out the lack of reasoning.

The Soviet Union seems to interpret détente in quite a different way from the way people in the United States are apt to. My understanding is that they have announced explicitly that they regard détente as merely a shift of the ongoing struggle to the end between the Com-

munist system and the free world except that instead of manifesting the struggle through military confrontations, they move on to political, economic, and other areas.

It is also my understanding that the Soviet Union is devoting an incredible portion of its GNP into expanding and modernizing every branch of the military capabilities, conventional as well as strategic.

It is further my understanding that the Soviet economy as far as consumer goods, agriculture and so on, can be charitably described as in shambles. At least, they are falling further behind even in their own satellites. It is reported that the Soviets are desperately anxious not only for our goods on favorable terms, but most particularly for our technology.

Now, would it not follow that to the extent that we make it easy for the Soviets to meet their domestic consumer needs, including food, they are able to continue their extraordinary concentration of their own resources on military matters?

Mr. INGERSOLL. Well, first, I would agree with you that they have stated they intend to continue the struggle between our ideologies. I think we intend to as well from the standpoint of espousing—

Senator BUCKLEY. I am not sure we do. I would have to disagree. I don't think we are on the offensive.

Mr. INGERSOLL. Well, I hope that we will continue to espouse our way of life, and I think we should.

Senator BUCKLEY. But they talk of competition in a different sense, I believe.

Mr. INGERSOLL. Perhaps so. But they have been continuing their increase in military efforts over the years, the past 20 or 30 years. So that any increase in trade with us does not necessarily mean there will be a further increase in their military effort.

I think also that if the consumer demand in the Soviet Union—and I understand it is significant—is permitted to be fulfilled that there will be more pressure for more consumer goods. And as the general public in the Soviet Union enjoys a better standard of living, there will be more pressure for a diversion of effort from, heavy industry and military equipment to the consumer sector.

By providing technology and equipment that can produce consumer goods, I think we are enhancing that drive of the Soviet citizen to have a better life. I think as they have a better life and have a stake in greater prosperity that they would have less tendency to want to disrupt the world community.

And I think it is on that basis that we believe that we should trade with them and that we should help them build up their consumer economy particularly.

Senator BUCKLEY. You mean the Soviets would be less likely to engage in adventures in Angola and places like that as the consumers of American products.

Mr. INGERSOLL. We would hope so.

Senator BUCKLEY. Frankly, I am not sure I am persuaded that the Soviet citizenry is able to exert the kind of influence over the Soviet leadership that your discussion suggests or that economic well-being necessarily creates conditions in which people seek peace.

I am just thinking of the German example where Germany in effect declared war on its principal trading partners.

I know much of the argumentation focuses on the symmetry of benefits we have in trade. Is it not true that the net economic benefits derived by the United States are marginal at best in comparison with the very large gains that the Soviets stand to gain, especially in terms of transfers of technology?

Mr. INGERSOLL. I didn't hear that last.

Senator BUCKLEY. Transfers of technology. In other words, if you are trying to draw an economic equation, the quid pro quo, they have far more to gain from trade than we have.

Mr. INGERSOLL. I think that is a matter of the terms of any sale that is made between the United States and—

Senator BUCKLEY. I am talking about the total economies of the two countries.

Mr. INGERSOLL. Well, I say the same thing. If the terms of any particular sale do not give economic benefits to the seller, then I don't think the sale should be made.

Senator BUCKLEY. I am not talking about the seller; I am talking about the economic benefits for the U.S. economy as a whole.

Mr. INGERSOLL. Ours is larger in GNP than theirs. And, therefore, a single sale by us represents a lower percentage of our total economy than it does with them if that is what you mean.

Certainly, we benefit in jobs and profit gained by manufacturers whenever we make a sale, whether it is to the Soviet Union or anybody else. The terms that are negotiated certainly are considered by the seller as adequate for his compensation.

And this is the free market system. The Soviet Union may feel that they are getting a greater benefit. But most sales agreements have a mutual benefit. Otherwise, they do not continue to exist.

Senator BUCKLEY. Perhaps between the direct participants, but I am asking whether or not it is in the interests of the United States to provide special export financing at preferential rates and the likes to a system that has declared its lack of friendship for our system and that continues to invest huge amounts into military hardware that can only have a destabilizing influence on the security of the world.

Mr. INGERSOLL. Well, at the present time, much of the technology that we have is available to them from other sources, from Europe, Japan, Canada, or Australia. And I think that all we do is deny the United States the benefits that might be gained from this trade and the political benefits that I have described.

Senator BUCKLEY. I would agree that there are any number of particular items that are available other than from the United States. On the other hand, is it not correct that because of our size which tends to be comparable to the size of the Soviet Union, we have developed a certain capacity in terms of complex systems and scale and so on that really uniquely we are able to provide, capacities that the Soviet Union perhaps uniquely is able to absorb?

Do we not have in other words, something to sell that cannot be secured from other countries?

Mr. INGERSOLL. There are some high technology items which we refuse to sell them for that very reason. And this is controlled within our Government through the procedures and also in conjunction with other highly developed nations through Cocom where we all agree to the degree of technology that we will transfer, not only to the Soviet Union, but to other Communist countries.

Senator BUCKLEY. I am not talking about it in that limited sense, but rather our capacity to bring things together in a very large scale, a complete system of technology.

I would like to cite as an example the Kama River truck plant. My understanding is that the United States uniquely could supply the overall manufacturing capability in terms of knowhow, technology, and so on, to bring all of this thing together into a plant that could produce 150,000 trucks per year.

This was something that European manufacturers and so on who participated in that project couldn't do.

Mr. INGERSOLL. I don't believe that is true, Senator, because I happen to have been involved in the early stages of that before I came into the Government. And I was acquainted with some of the efforts that were made by the Soviet Union to get a turnkey contract from some manufacturers in the world. General Motors was approached, Ford Motors, International Harvester in this country, Mercedes in Germany, and other countries in Europe.

They found out that there wasn't any one company that would take on the entire project. And they have had to buy piecemeal the various elements of the project. And whether or not we could have transferred it, we didn't. Nobody elected to pursue that.

But I don't believe we are the only county that could have done it even if somebody had decided to do so.

Senator BUCKLEY. My understanding is that our critical contribution was the management ability to integrate these things into a single operation.

Mr. INGERSOLL. Oh, no. I don't believe that. I think that there are companies in Europe that could do the same thing and were considered, were offered the opportunity. They declined to do so just as our companies did.

Senator BUCKLEY. I do believe, Mr. Secretary, that there is a difference of opinion there. And perhaps we can explore that later.

Mr. INGERSOLL. Well, you may be referring to a computer that was offered to them by the United States. I mean the American companies competed for sale of a computer there. There were opportunities from other countries to supply the computer, and the technology is available in the other countries.

We happened to have won out on that, and the transfer of that particular computer went through the procedures in our Government. And with the safeguards that were applied and accepted by the Soviet Union, it was felt that we could make that sale.

This is the only integrating force that I understand exists there because this is a computer required to schedule and control the operation. That is what you may be referring to.

Senator BUCKLEY. I am referring to more than that, and I shall mention some examples at a later time in which America is able to compete in this world despite higher labor costs because, among other things, we can bring NASA programs together and things of that sort. We have a high capacity, as I understand it, to coordinate highly complex individual operations into a whole.

Mr. INGERSOLL. You are talking about the management techniques?

Senator BUCKLEY. That's right.

Now, my understanding also is that the Soviets have a very large interest in turnkey operations, to have the Western firms, United States or other, set up a gas liquification plant or some other thing.

Let us get back to the Kama River truck plant. That plant will have a capacity of 150,000 trucks per year. My understanding is that our domestic capacity is 100,000 trucks per year.

Mr. INGERSOLL. It depends upon the size truck you are talking about.

Senator BUCKLEY. Is my figure correct?

Mr. INGERSOLL. We produce about 2.5 million trucks, but not of that size.

Senator BUCKLEY. Now, is it correct that 150,000 trucks of this size far exceed the capacity of the Soviet infrastructure to absorb?

Mr. INGERSOLL. You mean the market in the Soviet Union?

Senator BUCKLEY. Yes; infrastructure.

Mr. INGERSOLL. You mean the production infrastructure?

Senator BUCKLEY. They will be producing far more trucks than they can normally use.

Mr. INGERSOLL. I am not sure that that is true. They have a great need for transportation. Their highway and their rail system is not adequate to take care of all their transportation needs. I think a great many of these trucks are to be used in construction. They are very large trucks. They are to be used in construction of dams, canals, whatever it may be, as well as transportation.

Are you making the point that they might divert this to military use? Is that the idea?

Senator BUCKLEY. Military and export.

Mr. INGERSOLL. Well, I think that is perfectly proper if they want to export a truck or if they want to—

Senator BUCKLEY. What I am getting at is the proposition which people who are encouraging trade talk about—establishing long-term markets for American goods that create long-term employment in the United States. I am just wondering to what extent the turnkey approach adopted by the Soviet Union may not in effect create short-term American jobs and also long-term competition.

And earlier in answering the chairman's questions, you referred to the Fiat experience. My understanding is that Fiat is now encountering competition in Western Europe with Fiats produced in Russia by essentially a slave-labor system.

Mr. INGERSOLL. In the United States as well. They are considering importing some of those cars here.

But I think the amount of competition is relatively minor. The demand for cars in the Soviet Union is overwhelming, compared to the capacity they have, probably the only time they export is when they want to get some hard currency.

It is not a very large percentage of their production or very large amount of the market in Europe or the United States.

Senator BUCKLEY. But with respect to the 150,000 heavy trucks, my understanding is that the existing highway system—gasoline, pumps, and so on—is such that this exceeds the short-term absorptive capability of the Soviet Union.

Mr. INGERSOLL. I think the same thing is true of the automobile production, but we hope it might require them to put more of their

resources into construction of roads, repair shops, all that goes into the infrastructure for automobiles and trucks and not devote so much to military industry.

Senator BUCKLEY. Do you really believe that shift will take place?

Mr. INGERSOLL. Well, the pressures are certainly being created. That Togliattigrad plant is turning out about 121 cars a day, and I think as those get around the countryside, there are going to be demands for increased services for those cars very definitely.

Senator BUCKLEY. Thank you, very much.

Thank you, Mr. Chairman.

Senator INOUE. Thank you, Mr. Secretary. We appreciate it very much.

Mr. INGERSOLL. Thank you.

[The following information was subsequently received for the record:]

THE DEPUTY SECRETARY OF STATE,
Washington, D.C., January 16, 1976.

The Hon. DANIEL K. INOUE,

Chairman, Subcommittee on Foreign Commerce and Tourism, U.S. Senate.

DEAR SENATOR INOUE: I am enclosing our replies to the written questions that you forwarded with your letter of December 18.

I enjoyed the chance to participate in your hearings, and I hope that you will not hesitate to ask if we can be of further assistance to the Committee.

Sincerely,

ROBERT S. INGERSOLL.

Enclosures.

Question 1. The Congress has been widely criticized for linking the granting of MFN and emigration issues. Why, however, does this differ in principle from the linking of trade and political objectives in detente policy?

Answer. I agree that trade is linked to the political objectives of our policy toward the communist countries, and in my statement at your hearing on December 12, I tried to explain the nature of this link. As I said then, I believe that trade can, over the long run, have a positive impact on Soviet behavior by eroding their traditional policy of autarky and by tying them more closely into the world economic system. Trade can help to build continuing relationships which the Soviet Union has an interest in maintaining, and would find it costly to repudiate. In this way, trade can contribute to restraint and stability in our political relations.

On the other hand, attempts to tie trade transactions directly to specific political concessions are not likely to succeed, especially when we try to extract concessions on matters that the Soviets consider to be within their domestic jurisdiction. Specific trade initiatives should be weighed primarily on their own merits. It is unreasonable to expect the Soviets to pay fair compensation for goods and services and then to attempt to exact concessions in unrelated fields as well. It is by the judicious management of economic relations in an overall sense that we can hope to foster restraint in Soviet international behavior. This will also help create a climate allowing us to seek the amelioration of humanitarian problems.

Question 2. In view of the impasse which we have reached in our political relations with the Soviet Union generally, specifically in Angola and Somalia, at the SALT and at the MBFR talks, is it still the view of the Administration that detente has worked? If it is, please specify those areas in which detente has led to an accommodation between the U.S. and U.S.S.R.

Answer. First of all, we would hesitate at describing US-Soviet relations in the three fields you mention—Angola, SALT, and MBFR—as being at an “impasse.” Progress has been made, and we remain confident that those problems which remain will be resolved. The very concept of SALT talks was once considered impossible, but they have led to several important agreements which have enhanced nuclear stability. As the Secretary has said, 90 per cent of SALT II issues have been settled. MBFR is entering a more active phase with the introduction of new proposals. Angola remains a matter of great concern, which we

are following closely. The point is that all of these issues would be much harder to deal with without the policy of active engagement with the USSR called "detente."

Beyond these issues, there are other areas in which our relations with the Soviet Union have been made more productive and advantageous for both sides. One example is Berlin, which used to be a focal point of recurring East-West crises but in recent years has been relatively quiescent. In the Middle East, while Soviet behavior has not always been helpful in promoting measures which contribute to the cause of peace, it has been generally restrained and less disruptive than in the past. Finally, of course, in our bilateral relations we have advantageous cooperative endeavors underway with the Soviet Union in a variety of areas such as preventing incidents at sea, cooperation in health, and protection of the environment. In the economic field, we have just concluded a longterm agreement on Soviet grain purchases and a maritime agreement of considerable benefit to American shipping and maritime union interests.

Question 3. Would you specifically but succinctly describe the objectives of our East-West trade policy?

Answer. Our objectives are—

To create a measure of interdependence through expansion of trade, so that the East develops an interest in creating and maintaining political conditions which make trade possible;

To secure the benefits of trade for our workers, producers, and consumers;

To protect our national security through strategic export controls;

To protect our firms and workers against unfair import competition;

In the long run, to engage communist countries in world markets and the multilateral trading system.

Question 4. Would you say that our commercial policy has developed principally within a political context or has it been left to the private sector? Should our East-West commercial policy be left solely to the private sector, other than those issues involving national security? If it has been left to the private sector, how has the Administration been able to adjust and reconcile private interests to the national interest? What criteria are used in this process?

Answer. The possibility of conflict between private interests and the national interest is not unique to East-West trade. The Government sets commercial policy where the operations of private firms might run counter to the national interest as determined by our political process. In many areas, governmental commercial policies are applied worldwide, and East-West trade, as well as trade with non-communist countries, are affected. Among these areas are tariff policies (the communist countries to which tariff policies apply are Yugoslavia, Poland, and Romania, which enjoy most-favored nation status); Eximbank lending policies (which affect those same three countries); antidumping laws and laws on countervailing duties; non-tariff regulations on imports; short-supply controls on exports; laws and regulations on shipping, air transport, and fisheries; and the like. In addition, the Government sets commercial policy specifically toward the Eastern countries in a number of important fields. The Government regulates the export of goods and technology which have potential military application. The Government provides special safeguards against disruption of our markets due to imports from communist countries, both under Section 406 of the Trade Act of 1974, and bilaterally in the trade agreement with the Soviet Union (now in abeyance) and that with Romania. We have negotiated improved facilities and market access for our firms operating in the USSR, Poland, and Romania. Under law, the Eximbank has never extended financing to communist countries unless a determination is made by the President that the extension of financing is in the national interest.

At the same time, there is natural and healthy reluctance, based in part on the traditional relationship between the Government and private industry, to expand governmental decision-making into areas where historically the marketplace has operated. These areas include the determination of prices; the decision to import, to export, or to produce and consume at home; the decision to lend or to borrow, and on what terms; the decision to sign or reject a contract. There is a general presumption that the national interest is served when private firms decide these matters on the basis of their own commercial considerations.

It is true that the marketplace may function imperfectly, and when it does, governmental intervention may be helpful. Large, sporadic Soviet purchases can disrupt the normal operation of the free market in a manner detrimental to our overall national interests. The enormous fluctuations in Soviet demand for

grain, the ability of the Soviet Union to mask its requirements, and the inflexibility of supplies of grain at certain times during the crop year, combined in 1972 and 1975 to produce such disruption. The U.S.-U.S.S.R. long-term agreement on grains, by stabilizing annual Soviet purchases within a certain range, should prevent similar situations in the future. At the same time, the grains agreement does not attempt to inhibit the market from determining the price which the Soviets, or other buyers, will pay. Public and private interests are thus reconciled.

Question 5. A centrally planned economy, particularly of the size of the Soviet Union and PRC, has many advantages over foreign firms and can play companies and countries off against one another. Do you think that the United States should act to enhance the bargaining power and leverage of American companies dealing with non-market nations? If so, how? Secretary Simon noted that the major industrialized Western nations have expressed a desire to expedite an agreement to prevent export credit competition. Would you please keep this Committee informed of all further significant efforts to limit export credit competition.

Answer. Non-market nations conduct their foreign trade through state-owned foreign-trade organizations, or FTO's, each of which has a monopoly on trade in the products assigned to it. It is often argued that FTO's, as monopoly buyers or monopsonists, enjoy an advantage in bargaining with competing would-be suppliers, particularly in large markets such as the Soviet Union or the PRC.

The Soviets in particular are noted for employing a negotiating technique which, especially when first encountered, is distressing to the American businessman. It is common practice for a Soviet FTO to solicit bids from several potential suppliers, and then to play competitors off against each other. This whipsawing is not unique to U.S.-Soviet trade, and indeed may be employed by American firms dealing with each other. However, the Soviets, operating in secrecy on the basis of calculations known only to themselves, seem to have a special propensity and talent for using this tactic.

On the other hand, Soviet FTO's exhibit a marked preference for dealing with known suppliers. Once a Western company wins a Soviet customer, the FTO is likely to remain a buyer for some time. The strong interest of the Soviet state in "long-term arrangements" inhibits its use of whipsawing.

If East-West trade transactions showed a pattern of low profits for the Western partners, this would be evidence that the Soviet Union and other centrally planned economies consistently hold bargaining advantages. This evidence is lacking. Companies which find the return on business with the Eastern countries unsatisfactory can be expected to turn to other areas in which the returns are higher. Although an FTO has monopsony power in its own market, that market is often small in global terms. To the extent that size does confer bargaining power, American corporations, especially those which control important shares of the world output of a given product or service, are well positioned to hold their own in negotiations. And private firms, not the U.S. Government, are competent judges of their own interests. Government intervention is required only when the activities of private firms run counter to the national interest, a point discussed above in response to question 4.

The question has often been asked whether U.S. anti-trust laws prevent American companies from forming bidding consortia or otherwise associating to strengthen their bargaining position against state-trading monopolies. In fact, no antitrust case related to East-West trade has ever been brought by either the Justice Department or the FTC. Our antitrust laws are designed to protect American consumers and American competition. They would not prevent the formation of certain consortia or associations for the purpose of bargaining with foreign monopolies, so long as United States domestic or foreign commerce is not affected. The Webb-Pomerene Act (15 U.S.C. Sections 61-65) explicitly permits the formation of associations to engage solely in the export trade, provided that such associations, register with the FTC, and that their activities are not in restraint of trade within the United States or of U.S. export trade.

With regard to our negotiations with other Western countries on export credits, we have hopes that agreement will be reached. The Treasury Department has the leading role in these negotiations, and I am sure that a request to Under Secretary Yeo for information on the talks will receive a full and prompt response.

Question 6. Do you believe that on the whole American trade with the non-market countries has been beneficial to the U.S.? On what criteria do you base your answer?

Do you believe that the U.S. should make periodic, comprehensive assessments of the overall benefits of trade with the east bloc nations? What criteria should we use in making this evaluation?

Answer. We can assess the benefits of trade with nonmarket countries by referring to the objectives of our East-West trade policy and examining to what extent these objectives have been or are being achieved.

Although our trade with nonmarket countries is only a very small percentage of our world trade, the gains to our producers and consumers have been substantial. The expansion of trade with these countries has opened new markets of great promise for many American firms and is providing substantial numbers of new jobs. Our earnings of foreign exchange from exports to these countries have increased our capacity to import from around the world. Our large trade surplus with the nonmarket nations—\$1.5 billion in the first ten months of 1975—strengthens our balance of payments and adds to the value of the dollar.

Achievement of our political objectives is much more difficult to assess. Trade is only one factor, and not necessarily a decisive one, in our overall relations with the communist countries. Even so, the expansion of trade does appear to have given both sides an interest in preserving the trading relationship and the political conditions which make trade possible. The benefits which flow from this mutuality of interest are inherently difficult to measure. They often consist of actions not taken and confrontations which do not occur. Nevertheless, ever since it became clear that the U.S.-U.S.S.R. trade agreement would not enter into force, both sides have tried to maintain trade. The bilateral mechanisms, such as the Joint U.S.-U.S.S.R. Commercial Commission, created to foster trade, were not dismantled. The governmental commercial offices opened by each country in the other remained in place. The political understandings—including those on Berlin, on limitation of strategic arms, and on the basic principles of U.S.-Soviet relations—which made the expansion of trade possible, have not been abrogated.

It has also been our objective to assure that progress in trade relations keeps pace with progress in political relations, reinforcing past accomplishments in the political field and improving the environment for future progress. Again, assessment is inherently difficult. Impediments to the improvement of our trade relations with many of the communist countries have limited the flexibility of our trade policy. Where these impediments have been overcome or do not exist, as is the case with Romania and Poland, a good political relationship has indeed served as a base for improved trade relations, and progress in trade relations has helped to encourage further advances in the political field. Even in the Soviet Union, where the impediments to improvement in trade relations are most keenly felt, the growth of trade has accompanied an easing of tensions and an increased willingness on the part of the Soviet Union to cooperate with us on a broad range of economic and political issues.

Reports on elements of our trade and trade relations with the communist countries are submitted to the Congress quarterly by the East-West Foreign Trade Board and the International Trade Commission under the Trade Act, and semiannually by the Department of Commerce under the Export Administration Act. Other studies, such as the recent Department of Commerce report on the U.S. role in East-West trade, appear from time to time. These reports do not attempt to assess the political benefits which may be derived from East-West trade. A comprehensive assessment of benefits, which would include non-economic issues, could be undertaken only in the context of a general report on U.S. relations with the communist countries. This could be attempted, but the difficulty in quantifying political gains would make it of doubtful utility as a measuring device. It would also complicate our relations with the countries concerned to cite political advantages believed to have been gained as a result of trade.

Question 7. We have seen in certain cases, such as the 1973 Agricultural Cooperation Agreement (provision relating to forward estimates of grain data), that the Soviets have always adhered precisely to the provisions of agreements. What should the U.S. response be to Soviet non-compliance?

Answer. Under Article II of the U.S.-U.S.S.R. Agricultural Cooperation Agreement of 1973, both sides committed themselves to exchange forward estimates of production, consumption, demand and trade of major agricultural commodities. So far, the Soviets have declined to give us forward estimates of their production and trade of grain. On repeated occasions at meetings of the Joint Committee on Agricultural Cooperation and of the Joint Working Group on Agricultural Economic Research and Information, we have pressed the Soviets to give us this information. The Soviets have replied that they understand "forward

estimates' to mean the kind of long-term projections that are contained in their five-year plans, which they have given us.

Some progress was made at the most recent meeting of the Joint Committee in Moscow last October, when the Soviets agreed to consider ways to satisfy the U.S. more fully on this point in the future. We will keep pressing for concrete results.

The Soviets have implemented other aspects of the Agricultural Cooperation Agreement fully. About fifteen U.S. delegations have travelled to the U.S.S.R. each year to study various aspects of Soviet agriculture, including the progress of spring and winter wheat crops. A comparable number of Soviet delegations come here each year to study U.S. agriculture. Over time, in the context of the long-term U.S.-U.S.S.R. grain agreement and the discussions on an international grain reserves scheme—in which the Soviets are participating—the Soviets may provide us more information about their reserves, crop forecasts and trade.

Persistent pressure on the Soviets for compliance is the way we are dealing with the Agricultural Agreement. There are, of course, various other ways to deal with cases of non-compliance—for example, termination of agreements, refusal to carry out some of our own obligations, or introduction of extraneous forms of leverage. Responses are made to fit the circumstances of each individual case, based on our judgment of what course of action is likely to be most effective in terms of our overall interests.

Question 8. Many of the arguments made in behalf of removing the restrictions on increased credits and MFN center on the loss of business to our competitors. Is it your view that competitive commercial considerations should be the sole criterion for determining our trade policy or should our trade policy be determined in a larger framework of national interest? Which ones?

Assuming, for the sake of argument, that jobs and profits are lost because of public policy determinations not to compete or to restrict exports, do you believe that the general public should assume part of the burden which may otherwise fall on a single firm, industry, or economic sector?

Answer. Competitive commercial considerations are not and should not be the sole determinant of our trade policy, although they have great importance. There are times when national security or national interest must override the interests of private firms, and when the Government must adopt policies which weaken the competitive position of American companies in foreign markets. The embargoes we maintain on trade with Cuba and Vietnam are examples of such policies. If this Administration did not regard the expansion of U.S. trade with the Soviet Union and other communist countries as in the national interest, it would not recommend that impediments to expansion be removed, regardless of competitive commercial considerations.

We are also striving to align the policies of the industrialized Western nations, so that each country's drive for a competitive position on Eastern markets does not damage Western security or economic strength. Coordination of Western trade policies toward the East is by no means easy to achieve. In many areas, including credit harmonization, the role of GATT, and the multilateral trade negotiations, East-West trade issues are intermingled with complex global problems. In addition, the economic significance of trade with the communist countries varies among the Western nations, some of which are less willing than others to sacrifice a competitive edge for what may appear to be a less valuable benefit.

Nevertheless, competition potentially detrimental to Western security has very largely been eliminated through the continuing operation of COCOM, the coordinating committee of fifteen NATO countries plus Japan, which regulates strategic exports.

The question of generalizing the burden of jobs and profits lost because of policy determinations that restrict exports or damage competitiveness involves considerations of equity and practicality. It is difficult to know in what way this burden is now distributed, to determine whether the distribution is inequitable, and to discover by what means any inequity might be reduced or eliminated.

To some extent, the burden is already generalized. Profits not realized and wages not paid are not taxed, so that general tax revenues are reduced. To the extent that the burden is concentrated on particular firms, industries, or sectors of the economy, the effects of public policy may already have been discounted as a cost of doing business or as an element of risk. For example, the pervasive effects of public policy determinations on the heavily regulated munitions industry must be treated in this way. Policies, laws, and regulations restricting exports in the national interest, like governmental activities to protect public health, may

be considered a framework within which businesses must operate, not a special burden imposed upon them.

Those persons most severely affected by export-restrictive policies may be impossible to identify. How could one identify the worker who does not get a job in the plant that is not built because an export contract was not signed? If the affected party cannot be identified, he cannot be assisted.

For these reasons, it is my judgment that a program to provide assistance to firms, industries, or sectors affected by export-restrictive policies is neither necessary nor practical. I would, however, be most interested in learning your views on this matter.

Question 9. Why does Executive Order 11846 of March 27 provide that the Secretary of State, rather than the East-West Foreign Trade Board, shall advise the President and prepare the necessary documents with respect to freedom of emigration and related extensions of MFN tariff treatment?

Please provide us with a country-by-country list of negotiations and the status of these negotiations, which might lead to normalization of our commercial relations with the non-market countries. What are the prospects that other Communist countries could receive MFN treatment and Eximbank financing in the near future?

Answer. Executive Order 11846 of March 27, 1975, provides that the Secretary of State shall prepare the necessary documents with respect to freedom of emigration and the related extension of MFN tariff treatment for a number of reasons. First, the State Department is in the best position to collect from its posts abroad the information needed for the reports and documents called for in Sections 402, 403 and 409 of the Trade Act. For example, the report under sections 402(b) must include information on the nature and implementation of emigration laws and policies, and on restrictions or discrimination applied to or against persons wishing to emigrate. Second, these issues may involve particularly sensitive political relations with foreign governments, where the Department of State has the central role. For example, it is particularly appropriate for the Department of State to prepare the report called for in Section 402(c). This report concerns the receipt of assurances that a country's emigration practices will henceforth lead to the achievement of the objectives of the Section. Such assurances would normally be received through diplomatic channels.

Romania has concluded a Trade Agreement under Title IV of the Trade Act. Hungary, Bulgaria, Czechoslovakia and the GDR have stated that they are not prepared to negotiate trade agreements under the provisions of the Act. The Soviet Union has said that it will not implement the Trade Agreement concluded in 1972 under these provisions. Poland and Yugoslavia already received MFN treatment and are therefore not subject to exemption from the provisions of Section 402. At this stage of our relations with the PRC, a Trade Agreement is not yet attainable. Negotiations are not contemplated with those countries with which we do not have diplomatic relations—such as Cuba, Albania, and the Mongolian Peoples Republic.

Question 10. Did the East-West Trade Board decide on the embargo of grain sales to the U.S.S.R.? If not, who did? If so, what was the basis for this decision?

Did the Board develop the U.S. position for the recently completed long-term grain supply agreement between the U.S. and the Soviet Union?

Answer. The President decided on the embargo of grain sales to the U.S.S.R. on the basis of advice from the Secretaries of State and Agriculture and other members of the Economic Policy Board. An overwhelming majority of those consulted was in favor of imposing the embargo.

Although this decision was not made by the East-West Trade Board, the Board and its Working Group kept a close watch on the embargo and on the subsequent negotiation of a long-term grain agreement.

The embargo was imposed in order to enable the Administration to determine whether the U.S. grain crop would be large enough to enable further sales of grain to be made to the Soviet Union without harmful effects on world market and U.S. consumers.

Similarly, although the negotiating position for the long-term grain agreement was developed in the framework of the EPB, the progress and results of these negotiations was discussed by the East-West Trade Board.

Question 11. As we all know, the Secretary of State announced that the Soviet Union would not implement the 1972 Agreement as a result of the refusal of the U.S. to extend the Soviet Union unconditional MFN treatment. Was this position communicated to the U.S. orally or in a written form? If the latter, can you share that communication with this Committee. If not, why not?

Answer. The Soviet position was communicated to us in written form. The entire content of this communication was faithfully reflected in the statement made by Secretary Kissinger at a press conference on January 14, 1975, in which he reported that the effort to secure Soviet agreement to the conditions of the Act had broken down. It is not our practice to release unilaterally private communications from other governments. To do so would interfere with frank and productive exchanges.

Although the 1972 Agreement has not entered into force, both sides have, in practice, implemented a number of its provisions—notably those relating to business facilitation and to the opening of a U.S. Commercial Office in Moscow and a Soviet Trade Representation in Washington.

Question 12. Although the Trade Agreement is not in force, the Soviet Union continued to discharge one obligation which it assumed—repayment of the Lend Lease debt. Why have they done so?

Answer. The repayment of the Soviet Lend Lease debt was not covered by the U.S.-Soviet Trade Agreement of October 18, 1972, but by a separate agreement concluded on the same day.

This separate Lend Lease Agreement provided for the payment of three installments, totalling \$48 million, by July 1, 1975. These have been paid in full. The repayment of the balance of \$674 million was made conditional on our granting most-favored-nation tariff treatment to the Soviet Union. This balance will not be paid until MFN is extended. Under the terms of the 1972 Lend Lease Agreement, the Soviets would be obliged to resume their Lend Lease payments when MFN is extended. Renegotiation of the agreement would not be required.

Question 13. Restrictions on the granting of MFN and other restrictions on American trade with East bloc countries are uniform. Nevertheless, why has the United States not pursued a policy which would attempt to maximize our trading relations with individual socialist countries, particularly those which are not aligned with the Soviet bloc?

Answer. The Administration has approached the development of economic relations with communist countries with deliberation, taking into account the entire range of our policy concerns. As our political relations with individual communist countries improve and broaden, we are prepared to deal with economic relations on a comparably broad basis. On the other hand, we should not reward hostile conduct with economic benefits, even if for the time being we must ourselves forgo commercial opportunities. With this approach we hope over time to build relationships that communist countries would have an interest in maintaining.

Within this policy context we treat relations with each communist country in terms of considerations specific to that country, and the degree of its independence of action can be an important factor.

With the People's Republic of China we are determined to complete the normalization of relations on the basis of the Shanghai communique. At this stage a broad understanding of how trade relations should develop is not yet attainable.

In Indochina, as the President stated on December 7, the healing effects of time are required. If the new regimes exhibit restraint toward their neighbors and constructive approaches to international problems, we will look to the future rather than the past. Elsewhere in Asia, we face continuing instances of unfriendly conduct on the part of one regime.

In Cuba, the political conditions for improvement in trade relations do not exist. As Secretary Kissinger has stated on several occasions, the U.S. is prepared in principle to enter into serious negotiations with Cuba on the basis of reciprocity. However, the United States cannot accept Cuban intervention in Angola or meddling in Puerto Rico. Our trade relations with Cuba will not change until Cuba begins to conduct a responsible foreign policy.

In Eastern Europe, we now enjoy good trade relations with Poland and Romania, as well as Yugoslavia. It is our policy to maintain and improve these relations. At the other extreme, we have no trade with Albania, which has shown no interest in establishing diplomatic or trade relations with us. Hungary, Bulgaria, Czechoslovakia and the GDR, whose officials had previously pressed for normalization of economic relations, have followed the Soviet lead in refusing to negotiate trade agreements under the emigration provisions of the Trade Act.

Not least among the considerations that affect our economic relations with individual communist countries in different ways is the diversity of legislative re-

restrictions that must be taken into account. Legislative restrictions on the granting of MFN and other restrictions on American trade with communist countries are not uniform. Under Section 402(e) of the Trade Act, extension of MFN and government-supported credits to Poland and Yugoslavia is not subject to the conditions applied to other communist countries, though imports from both countries are subject to the Act's market disruption provisions. Extension of MFN to Czechoslovakia is, in addition to the conditions of other Sections of Title IV of the Trade Act, subject under Section 408 to renegotiation of a claims settlement satisfactory to Congress. Limitations on government-supported loans and financial guarantees are imposed specifically on exports to the USSR under Section 613 of the Trade Act and the Export-Import Bank Amendments of 1974. Section 502 (b) of the Trade Act contains an exception, intended to apply only to Yugoslavia and Romania, to the exclusion of communist countries from eligibility for designation as GSP beneficiaries. Section 511 of the Trade Agreements Extension Act of 1951 embargoes the importation of certain furs only from the USSR and China. In addition to these provisions of law which specifically distinguish among the communist countries, other legislation, such as the Johnson Debt Default Act of 1934 and the Trading with the Enemy Act of 1917, affect various communist countries in very different ways.

Question 14. It is rumored that a private American consortium may be putting together a deal for the exploration of oil in Irkutsk. What is the U.S. policy with regard to U.S. private investment in Soviet oil exploration or the development of other Soviet energy resources?

How has this transaction been possible without Eximbank financing?

Answer. U.S. and Japanese firms have been working with the Soviet Government on the development of a project to supply large quantities of natural gas from the *Yakutsk* area of Eastern Siberia to markets in the United States and Japan. (No such projects are envisaged for the Irkutsk area.) The natural gas would be transported by pipeline from Yakutia to the east coast of the USSR, where it would be liquefied for transport by LNG carriers to regasification facilities in Japan and the U.S. The cost of this project (1973 estimates) would be over \$3.2 billion. In order to secure this business for U.S. manufacturers Eximbank financing probably would be needed in view of the size of the project.

This project, however, is still in the planning stage. U.S. and Japanese firms and the Soviet Government are discussing the possibility of investing a total of \$400 million in natural gas exploration. The Soviets initialed an agreement with the Japanese export-import bank in July 1975 earmarking \$100 million for the project, contingent on U.S. financing of an equal amount. U.S. commercial banks are considering the possibility of advancing the money on commercial terms without Eximbank backing. If the financing can be secured, the Soviets will purchase geologic and seismic equipment in the U.S. and Japan.

The U.S. does not object to the participation of U.S. firms in energy-related commercial transactions—such as the sale of non-sensitive technology and equipment for pipelines, drilling and exploration. A major LNG project like the one envisaged for Yakutia raises a number of complex issues, however. The U.S. Government is in the process of developing a policy on LNG imports.

Senator INOUE. Our next witness is the Deputy Special Representative of the Office of the Special Representative for Trade Negotiations, Hon. Clayton K. Yeutter.

STATEMENT OF CLAYTON K. YEUTTER, DEPUTY SPECIAL REPRESENTATIVE, OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Mr. YEUTTER. Thank you, Mr. Chairman.

Senator INOUE. Thank you, Mr. Chairman.

Mr. YEUTTER. Thank you for pronouncing my name correctly. That doesn't usually happen.

Mr. Chairman, Senator Buckley, in the interests of time I would simply suggest that we place my prepared statement in the record,

and I will summarize the basic points for you very quickly. And then you may ask me whatever questions you would like.

Senator INOUE. Thank you, Mr. Ambassador. Without objection, your full statement will be made a part of the record.

Mr. YEUTTER. Thank you very much, Mr. Chairman.

First of all, I simply note from the standpoint of the Special Trade Representative's Office that we certainly share the viewpoints on trade policy that have been enunciated by the prior witnesses of the last two days.

We see a great deal of potential for expanded trade with the Eastern European countries and the Soviet Union and to some extent certainly with the People's Republic of China in due time.

But we have to be able to compete for that trade, and credit is an important element of that competition. Just as when you and I buy an automobile or washing machine here in the United States, we look at both the selling price and credit terms. Just as most of us do, the buyers of Eastern Europe also look at selling price and credit terms.

Now that we have moved past the era when the United States was unable to compete because of an over-valued dollar and where we now are today quite competitive in terms of selling price, we still must be able to compete on the other element of this package, the credit terms.

If we can operate without one arm tied behind our backs in the area of credit, we will do very well in the markets of the Soviet Union and Eastern Europe because, as I already indicated, we can compete in a good many products in terms of selling price.

Without question, the market is there, Mr. Chairman, and I speak in that regard not just from my present position in the office of the Special Trade Representative, but also in my former position as Assistant Secretary for International Affairs in the USDA.

I don't want to preempt Secretary Butz' comments in this regard by any means, but I believe all of us recognize that in both agricultural and nonagricultural products, the demand for U.S. goods is there. In terms of agriculture, it is because these countries have the wherewithal to alter and upgrade their diets. That means the greater use of livestock and poultry products and consequently the consumption of U.S. agricultural products which are an input in that process.

On the industrial side, there is a great need for capital, and the United States today is an excellent source of capital and an excellent source of technology.

So we have some economic advantages that will permit us to compete in those markets probably over and beyond the expectations that most of us enunciate. In other words, I really believe, Mr. Chairman, that all of us are too conservative in our estimates of potential trade with Eastern Europe and the Soviet Union in particular.

I would expect that if we can correct some of the problems that are being enunciated to you in these hearings, that trade between our respective parts of the world will expand more rapidly than any of us have estimated to date.

Now, from our specific standpoint, we are obviously interested as trade negotiators in bringing the Eastern European countries and the Soviet Union into the international trading framework which we

have in the world today. The basic framework, of course, is the General Agreement on Tariffs and Trade which was first implemented in 1948.

Quite a number of these countries are members of GATT, and quite a number of them are participating in the present trade negotiations in Geneva, the multilateral trade negotiations. By and large, it is the members of the GATT who are involved in these negotiations in Geneva, but there are also some non-GATT countries there. And one of those is Bulgaria from the group which is being discussed here today.

We are also interested from the standpoint of bilateral agreements as you know because under the Trade Act, section 405, bilateral agreements must be executed in certain ways that were prescribed by the Congress.

The only one executed to date was just recently with Romania as you very well know. There may be others in the future. If so, we will be intimately involved in their negotiation.

From that standpoint, Mr. Chairman, the present provisions of the Trade Act are excellent. We believe that the base for the establishment of sound trading relationships with the Eastern European countries on a most-favored-nation basis is a valid one and one in which the interests of the U.S. Government and the U.S. public and the U.S. companies are firmly and decisively protected.

In other words, we really do not need to expand the legislative authority in terms of adequately protecting all of the U.S. interests in sales to Eastern Europe, and investments in Eastern Europe. It certainly will be helpful clearly in the overall trading relationships if we can afford most-favored-nation treatment to the countries that are involved here.

That is a complex issue as you well know, a very sensitive issue, as you well know, and we hope these hearings and additional consultations between the executive and legislative branches will lead to a solution that will permit us to offer most-favored-nation treatment.

I would simply add to that the assurance to you, Mr. Chairman, from us both with respect to bilateral agreements that we might negotiate and with respect to the multilateral negotiations, that we will do our very best to secure a satisfactory quid pro quo for any concessions we might make. The Trade Act requires that we do that.

There is specific language which mandates that we do that, and do it in an effective manner. And we will certainly do our very best to comply. It is not easy to develop comparable concessions from the Eastern European nations and with the Soviet Union in this regard because of the different economic systems that they have.

Whereas others can afford tariff concessions to us, for example, many of these countries do not even have tariffs.

In the nontariff areas, those that do not have a price involvement work reasonably well in this regard, but if price is a factor, these countries cannot respond to us in as readily a manner as can countries of the Western World.

Giving you an example, we are dealing in Geneva with customs regulations. Certainly, the paperwork in customs is essentially the same in all countries around the world. And if we can improve the system

of customs regulations, everyone benefits. And concessions can be made in Eastern Europe as well as they can in the United States.

Essentially the same thing is true for standards. If we are to have a meat inspection standard that is universal, there is no reason why the same standard could not be applied in Poland, for example, as in the United States.

It gets more complex, of course, in issues such as dumping or subsidies because those can readily be quantified in the Western World with the pricing systems that we have. They are much less readily quantified in Eastern Europe where the pricing system is not so apparent.

So in some areas of the negotiations, we can handle the mutual concessions and the mutual obligations as well with these countries as we can with any others. In other areas, it is more difficult, and we simply have to use more imaginative ways of dealing with it.

Mr. Chairman, I believe that is sufficient as a prepared statement. We appreciate your interest in this subject. We will follow your hearings very carefully, and we are very much interested in the critical issues that are being delineated here.

And I would be prepared to respond to any questions you might have.

Senator INOUE. I noted in your statement that Poland, Hungary, Czechoslovakia, Romania, Bulgaria, and Cuba are participating in the multilateral negotiations in Geneva.

Mr. YEUTTER. That is correct.

Senator INOUE. Are there other Communist countries also sitting as observers?

Mr. YEUTTER. That is correct.

Senator INOUE. But there are two glaring omissions, the People's Republic of China and U.S.S.R. Can you give us any reasons why these two countries are not participating?

Mr. YEUTTER. Those are two glaring omissions, Mr. Chairman. We would like to see both of them participate in the multilateral trade negotiations, and we would like to see both of them ultimately become members of the General Agreement on Tariffs and Trade.

We do not know all the motivations for the absence of these two major powers. We do know that the Soviet Union gave careful consideration to participating in Geneva, and ultimately made a decision not to.

We do know that they likewise gave careful consideration as to whether or not to send observers that would actively follow the negotiations. And their role has certainly been exceptionally low profile in that respect.

But I suppose one can readily assume, Mr. Chairman, that part of the reason is the outcome of the Trade Act of 1974 which to them was certainly not satisfactory. Clearly the provisions which have been discussed here quite thoroughly over the last 2 days were unsatisfactory from that standpoint and clearly did not provide much of a motivation for them to participate in these negotiations or likewise to ponder more fully the possible joining of the General Agreement on Tariffs and Trade. Until most-favored-nation treatment is granted for example the Soviets could not benefit from tariff cuts made by the United States during the multilateral trade negotiations.

Senator INOUE. Would you say that the Eastern European countries would move forward even without Soviet leadership? I am asking this because the Soviets are not involved here.

Mr. YEUTTER. Yes.

Senator INOUE. Would they independently move forward?

Mr. YEUTTER. Yes, sir, Mr. Chairman. I am confident that that would be the case. These countries are participating vigorously in the negotiations in Geneva, some more than others for the simple reason that some have larger delegations than others, and some have a more direct interest in the particular topics than others.

But they are all there. Some are especially active. And clearly, they have some self-interest in the negotiations that differs from that of the Soviet Union. For example, many of the countries of Eastern Europe would like to export greater quantities of agriculture goods into the European community. We share a common interest in that regard because the common agricultural policy of the European community has caused us some difficulties in the way of market access as well.

So they hope to benefit in that regard from the negotiations. And, of course, they hope to benefit by increased access to the U.S. market from the negotiations in exchange for which we will certainly ask for some concessions from them.

But, yes, they have sufficient independence and autonomy in my judgment, Mr. Chairman, to participate actively and to make a significant contribution to those negotiations totally aside from what the Soviet Union may or may not choose to do.

Senator INOUE. Do you play any role in policymaking in East-West trade relations or do you simply negotiate?

Mr. YEUTTER. We would like to think that we play a role in policymaking as well, Mr. Chairman. Yes, we do. Ambassador Dent, as you undoubtedly know, does sit as a member of the East-West Trade Board, and we participate in all the interagency discussions in this area. And likewise insofar as trade policy is concerned, the specific area of trade policy as contrasted to overall East-West policy, we chair the interagency groups in that regard. We also participate actively on the Joint Commissions with the Soviet Union, Romania, and Poland.

Senator INOUE. Are you playing any role in the decisions to limit export credits?

Mr. YEUTTER. The basic negotiations in that area, Mr. Chairman, of course, involve the attempt to have a gentlemen's agreement on the terms. We have been involved in the periphery of that. We have not been in the leadership role because this has primarily been the responsibility of the Departments of State and Treasury. But we are very much interested even though the issue is basically peripheral to our negotiating responsibilities.

Senator INOUE. You have indicated that the results of East-West trade have in the past been clearly beneficial to the United States. Can you tell us how?

I ask this because Senator Buckley prior to this suggested it wasn't beneficial.

Mr. YEUTTER. Yes. I certainly believe that to be the case and believe it strongly to be the case, Mr. Chairman. Simply from a standpoint of

looking at the data, of course, that proves to be so because we have been in a surplus position with these countries for a good long period of time, and a rather healthy surplus condition. And I firmly believe that will continue.

The basic reason for that is that these countries have the need to make capital investments and by and large, they must go through this capital intensive phase or the intensive phase of large capital investments before they can significantly expand their exports to the Western World. And that means that for quite a period of time, the nations of Eastern Europe will need to be dependent upon credit. They will be in a deficit position in terms of international trade.

Over time, obviously, that deficit will need to be narrowed and hopefully eliminated because that is in the best interest of everybody. No country can maintain a trade imbalance forever as we found out sorely some years back,

But in the short run, and the short run certainly means the next few years, Mr. Chairman, we will continue to be in a surplus position and probably in a rising surplus position vis-a-vis those countries.

Senator INOUE. Mr. Ambassador, you have been very helpful this morning. I would like to submit to you as I have to the others a series of questions for your consideration and response.

Would you also please give my regards to Ambassador Dent.

Mr. YEUTTER. I would do so, Mr. Chairman.

I would simply add in closing in response to your earlier comments about the need for increased liaison between the executive branch and the Congress on delicate issues like this that we in the STR spend an enormous amount of time in this kind of liaison activity, first because we believe it ought to be done that way and second, because it is also required by the Trade Act. And hence, we spend many hours with your colleagues in the Senate Finance Committee and likewise your counterparts in the House Ways and Means Committee. But we are most appreciative of the opportunity to also spend some time with you and your committee and others such as the Senate Agricultural Committee where trade interests are predominant from time to time as well.

Thank you very much.

Senator INOUE. Thank you very much.

[The statement follows:]

STATEMENT OF AMBASSADOR CLAYTON K. YEUTTER, U.S. DEPUTY SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Mr. Chairman and Members of the Committee: Thank you for extending to me this opportunity to participate in these hearings on the current status of East-West trade. This review of the U.S. role in East-West trade is both important and timely. Ambassador Dent had looked forward to being with you, and regrets that he is out of the country and unable to testify today.

I would like to discuss with you why we feel the prospects for trade between the United States and non-market economy countries are promising, how we could be in a unique position to negotiate both bilaterally and multilaterally new opportunities for U.S. suppliers, and finally how we are currently prevented from realizing the opportunities that exist.

Political detente has provided a climate in which improved commercial relations between East and West can be developed, and has helped open doors to Eastern markets which have been closed since the early 1950's. Gradually, Eastern European countries are turning from autarky to fuller participation in the international trading system. This reflects a deliberate and welcome decision by

non-market economy countries to depend more heavily on international trade for their own economic development.

This policy shift has been accompanied by rapid economic growth in recent years. National income in Eastern Europe grew by more than 8 percent in 1973 and by 6 to 7 percent in 1974.

External trade has been a dynamic component of the recent economic growth in Eastern Europe and has significantly exceeded growth in national income. This trade is increasingly oriented towards the West. Trade between Communist countries and developed market economies was \$17.4 billion in 1971, \$19 billion in 1972, \$30.8 billion in 1973 and reached \$43.5 billion in 1974. The West has accumulated increasing trade surpluses during this period. In recent years the U.S. has maintained an annual surplus of well over \$1 billion in trade with Communist countries.

The future could be even more promising. The most recent economic plans of the Communist bloc countries call for continued substantial trade increases. They provide for continued high rates of growth in capital investment in which the share of imported equipment is rising in all major non-market economy countries. Additionally, there is increasing recognition that continued growth requires imports of quality steels and chemicals from the West. Expected increases in imports of consumer goods will also feature importantly in trade with the West. Added to exports of agricultural commodities and raw materials which have traditionally provided the bulk of our trade with the non-market economy countries, these developments present clearly promising opportunities for U.S. industry and agriculture. We should take advantage of them. Other countries are doing so.

As new economic policies in non-market economy countries have led to improved access for Western goods, Western European Governments have taken steps to promote the expansion of trade. France, the U.K., West Germany, Italy and various other countries have increased the volume of goods permitted to enter under their existing quotas and have extended the list of goods exempt from licensing arrangements. Early this year, Austria eliminated altogether its quota restrictions on imports from Eastern Europe. Various Western countries have liberalized import deliveries made under industrial cooperation contracts. All Western European countries grant the Soviet Union and the countries of Eastern Europe most-favored-nation treatment. This is done in the full expectation of reciprocal benefits.

The USSR has completed government-to-government trade and cooperation agreements with nearly all major Western developed countries. Eastern and Western Europe have been linked by a proliferating network of similar agreements. These agreements provide the necessary framework for businessmen, and have proved to be a useful instrument in the furtherance of trade and economic cooperation.

In the absence of similar government-to-government agreements between the United States on the one hand and Eastern Europe and the USSR on the other, our businessmen have had to take the lead on their own. The private sector has made the contacts and developed the groundwork upon which a fruitful commercial relationship depends. Their efforts have led to a five-fold increase in exports to Communist countries in the last three years. Our exporters are now in a most favorable position to benefit from the realignment of currencies which has ended the era of the over-valued dollar. The comparatively high rates of inflation suffered by our major trading partners have made our exports increasingly competitive. If we can turn deficits in our trade with other market oriented countries into surpluses, our prospects in trade with non-market economy countries, where we have consistently been in surplus, are that much more promising.

The potential for increased exports translates into great potential for increased jobs. This point cannot be over-emphasized. Too often nations are tempted to turn inward in times of economic difficulties, fearing prospective imports while ignoring potential exports. We in the United States are now presented with a clear opportunity to ease domestic unemployment by taking advantage of the increased demand abroad for U.S. goods.

However, despite the new receptivity of non-market economy countries to trade with the U.S., despite the competitive dollar and despite the noteworthy efforts of private industry, there are signs that if we do not act to put our businessmen on the same footing with their competitors, East-West trade will increasingly belong to the Europeans and the Japanese.

We cannot expect non-market economy countries to purchase U.S. goods when our discriminatory duty rates make a mutually advantageous trading relationship impossible. The United States grants most-favored-nation treatment to the products of all but a handful of Communist countries. The most-favored-nation principle has, since the mid-1930's, been the cornerstone of the United States trade agreement program. It is the basis upon which the international trading rules of the General Agreement on Tariffs and Trade have been developed. It is a precondition for a significant trading relationship. It is not a special privilege extended to a few, but the norm of the international trading system.

Similarly, discriminatory restrictions on credits must be removed if we are to continue to develop mutually beneficial economic relations with the East. As East European and Soviet deficits with the West mount, their need for credit becomes more acute. If our exporters can offer competitive goods, but are not allowed to compete in providing financing, valuable sales will be lost.

The Trade Act of 1974 authorizes, for the first time in many years, trade agreements between the U.S. and non-market economy countries on both a bilateral and multilateral basis. It provides a sound economic framework for trade with Communist countries. However, because of what most of these countries view as unacceptable political conditions on expanding trade with the East, the economic objectives of the Act have been largely frustrated.

In drafting the Trade Act, the Congress recognized that there are fundamental differences between trading with market and non-market economy countries. Title IV contains carefully drawn provisions designed to ensure a satisfactory balance of concessions in trade with the East. Most-favored-nation treatment may be extended only after a bilateral trade agreement meeting the specifications of section 405 of the Trade Act has been consummated. Thereafter, for as long as a "section 405" agreement is in effect, trade barrier reductions negotiated as a result of either bilateral or multilateral trade negotiations can be extended to a Communist country, provided that the U.S. is given satisfactory reciprocal concessions.

Under section 405 of the Trade Act, the Congress has required that a satisfactory balance of trade in both goods and services be maintained over the life of an agreement extending most-favored-nation treatment to a non-market economy country. This includes reciprocal concessions for any reduction of U.S. tariffs or non-tariff barriers negotiated with other countries and extended to such countries. Also required are provisions for the protection of U.S. nationals with respect to patents, trade marks, copy rights and industrial rights and processes. Furthermore, in order to provide Americans with the ability to adequately conduct business in Communist countries, extensive provisions on business facilitation are also required.

The balancing of benefits under commercial agreements with state-trading countries is necessarily somewhat imprecise. Therefore, we must periodically review the operation of the agreements to assess this balance. Nevertheless, the results of East-West trade have, in the past, been clearly beneficial to the United States and we fully expect that results under any future agreement will be equally beneficial.

In addition to the provisions of the Trade Act designed to insure that the U.S. will receive reciprocal economic benefits from negotiated trade agreements—clearly a necessary precondition for satisfactory agreements—the Trade Act is also properly concerned with the need to protect American workers and industries from market disruption that might be caused by increased imports from Communist countries.

Increased trade—including increased imports—is to be expected from any trade agreement; however, since non-market economy countries have the ability to concentrate production and exports by central directive, the United States must insist on safeguard provisions to protect against disruption of domestic markets. Tight safeguard provisions will be included in all section 405 agreements. The trade agreement with Romania approved by the Congress in July—the first and only agreement that has been negotiated under the provisions of Title IV of the Trade Act—includes stronger safeguard provisions than have ever before been negotiated under a trade agreement.

In addition, section 406 of the Trade Act establishes a procedure by which domestic producers or workers may petition the U.S. International Trade Commission for import relief from market disruption. Relief under section 406 is more readily available than relief from injury caused by imports from market economy countries. Also safeguards can be imposed without delay if the President

determines emergency action is required to protect U.S. industries and workers from injury.

Finally, in this brief review of the provisions of bilateral agreements with Communist countries, I should note that such agreements do not prevent the United States from taking any action deemed necessary for the protection of our national security.

As trade between East and West grows, participation of the non-market economy countries in the international trading system becomes more important. Integration of these countries in a trading system designed for market economy countries poses one of the difficult problems we and other Western countries must deal with in the Multilateral Trade Negotiations (the MTN) currently underway in Geneva.

Poland, Hungary, Czechoslovakia, Romania, Bulgaria and Cuba are all participating in the MTN. They are involved in both tariff and nontariff barrier negotiations. We are studying ways of assuring that satisfactory reciprocity will be given for concessions offered by the U.S.

Neither we nor most other developed countries believe that tariffs maintained by non-market economy countries significantly influence trade flows. Thus while we are prepared to extend the benefits of U.S. tariff concessions to those countries eligible to receive MFN, we do not believe that tariff cuts by Poland or Romania offer satisfactory reciprocity.

When Poland and Romania joined the GATT, they were required to commit themselves to increasing imports from GATT members by certain amounts. These import commitments were a substitute for the tariff schedules of market economy countries. In the MTN it may be necessary to seek further commitments along such lines. One possibility might be to negotiate commitments for increased imports within product sectors. No policy decisions have yet been made in this regard. They will have to be made as the MTN progresses.

Another important issue will be making participation by non-market economy countries in agreements on non-tariff barriers meaningful. In the MTN we are, for the first time, negotiating on a wide range of nontariff barriers to trade.

Proposed agreements on such matters as product standards and customs matters will not involve the price mechanism and thus the East Europeans should be able to participate in much the same manner as Western countries. The participation of Eastern European countries should give our exporters assurances against arbitrary practices.

In other cases the problems are more difficult.

The application of a government procurement code to non market economy countries presents obvious problems; contract awards based on open bidding may be fundamentally incompatible with a planned economy. However we want to explore whether mutually beneficial participation by state trading countries in a procurement code is possible.

In other codes such as Subsidies/Countervailing Duties special rules for state trading countries will have to be developed.

Subsidy/countervailing duty rules are essentially irrelevant to imports from non-market economy countries. The nature of their economies make it difficult, if not impossible to determine whether a bounty or grant is being bestowed on exports. No countervailing duty complaint has ever been brought under U.S. law against imports from a non-market economy country. It makes considerable sense to provide special rules for imports from non-market economy countries in any subsidy/countervailing duty code—perhaps in the context of safeguard procedures.

Antidumping complaints have been brought under U.S. law against imports from non-market economy countries. The difficulties in administering the anti-dumping law in such cases illustrate the problems of applying rules based on market price mechanisms to imports from state trading countries. In dumping cases, home market value has been very difficult to determine and Treasury has had to compare export prices from the state trading country with prices for similar merchandise charged by firms in market economy countries at a comparable stage of development. This procedure is unsatisfactory. Under such circumstances, a finding of sales at less than fair market value could well be made on the basis of factors over which the state trading country has no control. Here, too, a safeguard test could make considerable sense.

While bringing Eastern Europe fully into the international trading system on a meaningful basis cannot be accomplished overnight or without difficulties, we believe that to date significant progress has been made. Eastern European

countries are working actively and constructively in Geneva and, on a number of issues, are working closely with the U.S. Delegation. In the important area of agriculture, for example, we have a strong mutual interest in encouraging liberalization and expansion of agricultural imports into the European Community and other markets.

At present the promise of expanded commercial ties with non-market economy countries through agreements under the Trade Act remains largely frustrated. The Soviet Union and most other Communist countries have objected to what they view as unacceptable political conditions on the extension of MFN and credits. The Administration has consistently viewed these provisions of the Trade Act as counterproductive to both commercial and humanitarian interests. There has been considerable discussion and consultation between the Administration and the Congress on this issue and hopefully the dialogue will continue until a solution is reached.

In closing, let me note that, under the Trade Act, the Special Representative for Trade Negotiations is responsible to both the President and the Congress for administration of the United States trade agreements program. Ambassador Dent and all of us at STR are very much aware of the constitutional responsibility of the Congress for trade matters. We recognize that a successful trade policy requires close cooperation with the Congress. This is as much the case for trade agreements with Communist countries as with other trade agreements. To date we have negotiated only the Romanian agreement under the provisions of Title IV of the Trade Act. In that effort we were careful to consult fully with the Congress and I believe that the experience was satisfactory on both sides. I trust that we will continue to cooperate to realize the full potential of East-West trade for the United States.

[The following information was subsequently received for the record:]

DEPUTY SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS.

Washington, D.C., January 26, 1975.

HON. DANIEL K. INOUE,
*Committee on Commerce,
U.S. Senate,
Washington, D.C.*

DEAR SENATOR INOUE: Attached are STR's replies to the questions following up on the first round of your hearings December 11-12.

I enjoyed the opportunity to participate on December 12. As the hearings proceed, and as questions arise where this Office can usefully contribute, please feel free to request further information.

Best regards.

Sincerely yours,

CLAYTON K. YEUTTER.

Question 1. Have the P.R.C., the USSR, and the other Communist non-participants indicated a willingness to adopt standards developed at the Multilateral Trade Negotiations in their trade practices and activities?

What would happen if they do not do so? What would be the effect of their recalcitrance on the multilateral trading system?

Answer. While five Communist countries are participating, to date those Communist countries not participating in the MTN have not expressed any interest in adhering to the GATT or adopting any of the trading rules being negotiated in Geneva. At the same time, they have not ruled out acceptance of such international trading rules.

I believe that as these countries seek fuller integration into the world trading system, they will first seek to become contracting parties to the GATT and then will examine on a case-by-case basis the possibility of accession to particular codes of conduct which may result from the negotiations.

The failure of the USSR, East Germany, Albania and the Communist countries of Asia to participate in the GATT or in agreements reached in the Multilateral Trade Negotiations will not have any significant impact on the world trading system. This is the case because the trade flows are relatively small and on issues of significant trade interest such as grain reserves, the Soviets are participating in international discussions. However as trade grows we would hope that greater integration of these countries in the international trading system will evolve.

Question 2. The Special Trade Representative is a member of the East-West Foreign Trade Board. What exactly is the role of the STR in East-West trade policy-making?

When did the STR begin playing this policy-making role?

Answer. STR is a member of the East-West Foreign Trade Board and Ambassador Dent has played an active role in the policy deliberations of the Board. While Secretary of Commerce, he established close personal contacts with leaders of Eastern Europe and has maintained these contacts as the Special Representative for Trade Negotiations.

Under the Trade Act, the STR has negotiating responsibilities both for multilateral and bilateral trade agreements. STR is leading U.S. negotiating efforts with those communist countries participating in the Multilateral Trade Negotiations underway in Geneva, and participated fully in the negotiation of the U.S.-Romanian bilateral trade agreement.

STR is represented on the Joint Commercial Commissions with Poland, Romania and the USSR.

STR participated in the negotiation of the Long-Term Agreement with the USSR and has been actively involved in the Joint Commissions since their inception. Our participation on the Foreign Trade Board and responsibility for negotiation of commercial agreements dates from the signing of the Trade Act of 1974.

Question 3. How many STR staff members work on East-West trade issues?

Answer. STR is not organized on a geographic basis and so no staffer works solely on any limited geographic area. At present, three of a total professional staff of thirty deal regularly with East-West trade matters. In light of STR's expanded responsibilities under the Trade Act, the Office has requested additional personnel, including one professional economist to assume certain responsibilities for East-West trade.

Question 4. What effort is being made within GATT and the MTN to examine the extent to which participation by non-GATT members in the international trade affects or threatens the viability of the multilateral trading system?

Answer. Participation of non-GATT members in the MTN has been encouraged. Seventeen non-GATT members are negotiating in Geneva. Their participation raises certain questions, but it is not an East-West trade problem. Of the seventeen non-GATT members active in the MTN, only one—Bulgaria—is a Communist country.

The problem raised by non-GATT member participation in the MTN is the degree to which benefits of concessions negotiated depend upon general obligations under the GATT. For example, a tariff concession may be useless if the country giving the concession is under no obligation not to impose quantitative restrictions on imports which would provide a level of protection to domestic interests comparable to that provided by the tariff. While there has been no formal GATT review of this issue, STR has been examining the problem and believes that either (1) prior to the implementation of any agreement, non-GATT members should seek accession to the GATT, or (2) each agreement should include a provision pursuant to which non-GATT members would, for purposes of concessions granted and commitments given under such agreement, assume GATT obligations.

Because all major trading countries are GATT members, the adverse effect of non-GATT member participation in the MTN and in the trading system generally is limited. At the end of the MTN the United States believes any potential problems will be further reduced.

Question 5. You have urged that the U.S. participate more fully in East-West trade. Yet we have seen that not all transactions have been economically viable. Some transactions, therefore, simply should not have taken place, and at some point the general public—either through tax write-offs or commodity shortages or the like—will pay for these commercial mistakes.

What criteria would you apply to prevent such losses and to assess the macro-economic benefits of East-West trade?

Answer. Many commercial transactions entail a degree of risk. This is true whether the firms involved are doing business in the same town, or in different parts of the country, or with a long established foreign trading partner, or with a Communist country. The normal presumption, however, is that if both parties freely enter into the contract both stand to benefit by the transaction. The basic thrust of U.S. international economic policy since World War II has been to create a climate facilitating the freest possible flow of goods, services, and

capital. The GATT was established to minimize or eliminate government distortions or interference in trade. Therefore, I do not believe it is generally necessary for the government to step in and supervise transactions between U.S. firms and Communist countries to determine whether the transaction is economically viable. If a firm has a product or service or technology it wishes to sell to the Soviet Union it can determine better than the U.S. Government which price is profitable. If the firm itself could potentially benefit from a transaction but the sale would jeopardize our security interests, our export controls will prevent such a transaction. On the import side, if firms are purchasing goods in such quantities that the imports are a significant cause of material injury or a threat thereof to U.S. workers or producers, the Trade Act allows us to place restrictions on those imports. Beyond these necessary safeguards on the export and import sides, I believe government oversight of individual transactions would be costly, counterproductive and contrary to the freedom to enter into contracts.

Question 6. In your statement, you state that the results of East-West trade have, in the past, been clearly beneficial to the U.S. Please explain how you reached this conclusion and the specific objective bases upon which you based this conclusion?

Answer. During the 1972-74 period the U.S. accumulated a trade surplus of almost \$3.7 billion with Socialist countries. This provided a welcome and substantial boost to our balance of payments during the period when our overall trade picture was shifting from the chronic deficits of the late sixties and early seventies to the healthy surplus of 1975.

These countries have become important purchasers of U.S. foodstuffs, helping to enable U.S. farmers to shift in recent years to full production. As a result U.S. farmers are receiving their income from the marketplace and the taxpayer is no longer being assessed payments for price supports. U.S. workers and producers of such manufactures as machine tools and equipment, pumps and compressors, aircraft and parts, automobile manufacturing equipment, and electrical machinery and apparatus are benefiting from substantial exports of those products.

It has been estimated that each \$1 billion of exports creates 44,000 jobs. It can readily be seen that the healthy surpluses of recent years have thus had a salutary impact on U.S. employment.

The benefits of imports to the consumer are well established. Imports increase the range of products from which he can choose, and by adding to supply help to keep prices down. In a period where we are becoming increasingly aware of the shortages of numerous raw materials we can stand to benefit significantly from increased trade with the Soviet Union, an important source of numerous raw materials, as well as the People's Republic of China. Platinum group metals have become a significant U.S. import from the USSR, while tin and tin alloys constitute an important import from the PRC.

Thus East-West trade has had a healthy impact on our balance of payments, has provided profits for U.S. farmers and manufacturers, jobs for U.S. workers, and a wider variety of goods at competitive prices for U.S. consumers.

Question 7. What are the prospects for reaching agreements with other Socialist countries under Title IV of the Trade Act and with which countries, if any?

Answer. Romania is the only country which has expressed willingness to conclude a trade agreement under the existing provisions of the Trade Act. No other Socialist country is now willing to accept those terms. A decision to enter future negotiations would have to be made in the context of our overall relations with each country.

In the event that the Jackson-Vanik Amendment were revised in a manner the Soviet Union could accept, we could extend MFN to the Soviets under the terms of the 1972 agreement. This could pave the way for conclusion of agreements, along the lines prescribed in Section 405, with Hungary, Bulgaria and perhaps East Germany. With Czechoslovakia, the issue of the claims settlement addressed in Section 408 of the Trade Act would have to be resolved.

Senator INOUE. There is a vote pending in the Senate at the present time so I will call a short recess. And the final witness this morning will be the Assistant Secretary of Agriculture for International Affairs, Hon. Richard Bell.

[Recess.]

Senator INOUE. Mr. Bell, I welcome you to the committee, sir, I am sorry to keep you waiting this long. But we do have interruptions at this time of the year for voting.

So if you will proceed, I have been advised that you would like to have your full statement submitted for the record and that you will summarize.

**STATEMENT OF RICHARD E. BELL, ASSISTANT SECRETARY FOR
INTERNATIONAL AFFAIRS, DEPARTMENT OF AGRICULTURE**

Mr. BELL. Yes, I would, sir.

I first of all would like to apologize for Secretary Butz not being able to be here this morning. He had intended to, but early in the morning, he had been called before the Budget Committee of the House of Representatives. That hearing was delayed in beginning, and the discussion has been more spirited than we had expected. And he is still there.

If I may, then, I would like to take the statement we have prepared and submit it in the record and give a brief summary of the important points that are in it. And then if you have any questions, I would be pleased to answer them.

Senator INOUE. Without objection, the statement will be made a part of the record.

Mr. BELL. I want to emphasize, Mr. Chairman, that when it comes to U.S. trade with the Communist countries of Eastern Europe, the People's Republic of China and the Soviet Union, we are primarily talking about agricultural trade. Agricultural trade has made up about 70 percent of the total trade of the United States with those countries. And at the present time, we have had a few very important events the past year which bear this out.

At the present time, the Soviet Union has purchased about 13 million tons of grain from the United States in the current 1975-76 marketing year. There has recently been completed a new 5-year agreement providing for the trading of grain for the next 5 years, beginning in 1976 through September 1981.

We have had a fourfold increase in grain sales to Eastern Europe and a doubling in the total value of the U.S. agricultural exports to that area.

We have had 160 percent growth in sales to Communist areas as a whole despite a falloff in shipments to the People's Republic of China.

And the prospects for continued imports of grains and protein meals in the Communist countries of Eastern Europe and the Soviet Union continue to be very promising.

Secretary Butz, during the latter part of November, made a tour through the East European region covering Yugoslavia, Romania, Hungary, and Poland. He came back with his views reinforced that that region of the world is going to continue to be a very important market for American agricultural products. And we are quite intent on attempting to continue to develop it.

In fiscal 1976, we are estimating that U.S. exports of agricultural commodities to Communist countries will be about \$3.2 billion, made

up mostly of about \$2.1 billion to the U.S.S.R. and \$1 billion to the East European countries.

We do not expect there will be very large sales to the People's Republic of China due to a record harvest in that area.

As a result of the growth in agricultural exports to the Communist areas, total exports of agricultural commodities to all destinations from the United States will continue to run at a record level in fiscal 1976. In fact, most of our sales to other regions will be down, but the increase in sales to Eastern Europe and the Soviet Union will enable us to have another record year in agricultural exports.

We need these record agricultural exports, Mr. Chairman, in order to keep our farmers and the farm plant in the United States running at full production and maintaining a prosperity and satisfactory incomes in the rural areas.

We recognize in the Agriculture Department that international trade is a two-way street. And because of this, we are quite interested in seeing an increase in imports of products and commodities from the East European area and from the Soviet Union and the People's Republic of China.

We also recognize very much the important element that credit plays in developing markets in the East European area. When Secretary Butz visited the East European area, he was continually asked about the availability of CCC credit. And we hope we will be able to use that tool more fully in the future than we have in the past couple of years.

I would like to emphasize that CCC credit, as we call it, is a commercial type of credit arrangement. We loan the funds at commercial interest rates. The main advantage of the credit to East European countries, for example, is that the repayment terms are longer than they normally could get from American banks or foreign banks.

As a result of that, they like to use it to develop their livestock industries. And we from the U.S. agricultural standpoint are interested in seeing that some of this is extended.

We do have limitations, of course, on how much we can make available each year, and the Communist areas have to compete with the other countries in the Western World.

With that, Mr. Chairman, if you have any question, I would be happy to try to answer them.

Senator INOUE. Mr. Secretary, as you know, we have made it our national policy to normalize relations with the East in a process we call détente. What role does agricultural trade play in achieving this goal of détente or maintaining détente?

Mr. BELL. We think, Mr. Chairman, that agricultural trade has been very important in terms of bringing forward the policy of détente. We were able to play a part in the early days of détente by providing a line of credit for the sale of agricultural commodities to the U.S.S.R. in the summer of 1972.

Also, it was agricultural products which began to open the trading relations with the People's Republic of China. It was grains, oil seeds, cotton, which enabled us to begin a trading relationship with that country after almost a lapse of 20 years.

So we think that agricultural trade does play a part in the easing of relations with the Communist areas which we generally define as being détente.

Senator INOUE. Would you say that our agricultural trade policy is linked very closely to the political policy that exists between the United States and the Soviet Union?

Mr. BELL. We recognize that agricultural trade policy must be decided taking into account the political considerations. We would like to try to have an agricultural trade policy which could be worldwide in scope. And generally, it is.

But we do recognize when you get into the Communist countries of Eastern Europe the Soviet Union and PRC, political considerations must be taken into account. We are interested in developing trade basically on a mutually beneficial basis, and we would hope that there would not be overriding political considerations which would interfere in our general trading of commodities with that region.

Senator INOUE. I appreciate your candor because all of the other witnesses have suggested that we should separate political considerations from our trade policy; that trade agreements should rise and fall on their merits; that we should not be concerned with restrictions related to migration.

Mr. BELL. Well, our view is, Mr. Chairman, basically that trade should be on a mutually beneficial basis in the commercial sector. I merely said we recognize that in deciding policy questions regarding trade that political objectives do get involved in all trade, and particularly with the East European area and other Communist areas.

Senator INOUE. We have received several estimates on the 1975 Soviet grain crop. Your department, I suppose, should have the best estimate. What is the estimate?

Mr. BELL. Our current estimate, Mr. Chairman, is 137 million tons which would put the estimate about 60 million tons below last year's harvest and about 80 million tons below the harvest goal.

We recently revised downward our estimate of crop based upon recent statements by members of the Soviet Government. A few months ago, we were carrying a figure of about 160 million tons, but we have felt, though, that there is enough evidence now to revise downward our earlier estimate.

To give some type of comparison with that, Mr. Chairman, the U.S. harvest of 1975 is about 250 million tons. So we are about 110 million tons higher than the Soviet crop.

Senator INOUE. We are not the only suppliers of grain and grain products to the Soviet Union. For the record, what other countries provide the needs of the Soviet Union?

Mr. BELL. The two other largest suppliers to the Soviet Union are Canada and Argentina, and Australia probably is third. Sometimes the West European countries supply grain to the East European areas as well as to China.

At the present time, the Soviet Union has purchased about 28 million tons of grains and oil seeds for delivery in 1975-76. About 13 million tons of that is from the United States.

Senator INOUE. If the United States refused to provide grain to the Soviet Union, would the Soviet Union be able to get their requirements from Canada and Argentina?

Mr. BELL. They could get some of their requirements from Argentina, Canada, and Australia, but certainly not all of it. In the current 1975-76 marketing year, the United States is going to supply about

half of the total world trade in grain. Total world trade in grain will be about 155 million tons; we will supply about 85 million tons.

I think it is important to recognize that limiting our sales of commodities to a certain country does not necessarily reduce the need in those countries. If we do not sell as much as some people would want us to, the foreign buyer will probably buy more from Canada, Australia and other countries, and we will replace them in other markets.

So it is a total world need that counts rather than just segments of it.

Senator INOUE. So it makes very little difference if we decided not to sell to the Soviet Union. Could they get it elsewhere?

Mr. BELL. They could up to a degree. I think it would have been difficult for them this year to arrange the purchase of 28 million tons from the world market as they did without having the United States involved. If we had not been willing to sell grain to them, they probably could not have bought 28 million tons from the world market.

Senator INOUE. In our trade with the People's Republic of China, I have noted that the Chinese have changed their requirements several times. Under those circumstances how do we get any long-term grain agreement with the People's Republic?

Mr. BELL. Our agricultural trading relations with the People's Republic of China has not developed to the extent it has in Eastern Europe and the Soviet Union. We were able to supply several million tons of grains and oil seeds to the Chinese in the 1972-73 marketing year as well as some cotton. Since then, our trade has tended to decline.

The Canadians and the Australians have long-term agreements to supply the Chinese with wheat. Those agreements basically fill the Chinese needs on an average year. The Chinese normally need about 3 to 4 million tons of wheat a year to fill the requirements in the North China area, particularly along the coastal areas.

Only if there is a crop decline is there a requirement for grain more than that.

I for one do not see great prospects for agricultural trade from the United States to China except perhaps for cotton. Our cotton exports have fallen off the last year basically because of the worldwide economic recession and reduced demand for Chinese textiles. Once we have recovery in the world economy, I think we again will begin to sell more cotton to the Chinese.

But as far as grains and oil seeds as food, I think the market potential there at the present time is limited, and I expect most of that to be met from Australia and Canada.

Senator INOUE. In 1972, when we made the massive sale to the Soviet Union, we found ourselves later beset with horrible winter conditions and high food prices throughout the world, and that also affected our consumers in the United States.

As a result, there have been many who have suggested that we should either slow down or stop our sales to the Soviet Union. What kind of machinery does the Department have to anticipate this type of dramatic change in world conditions that could affect our consumers?

Mr. BELL. There were a number of factors, of course, which occurred after the original sales to the Soviet Union in 1972 that had an impact on total trade in grain and oil seed the following year. The main event in my judgment was the fall off in rice production in Asia in early 1973.

This required the purchase of more wheat from us than normally was the case. And this was probably the factor that had more to do with the rise in wheat prices than anything else, including the sales of grain to the U.S.S.R.

One of the things we did, though, with the Soviets in 1973, we asked them to defer some of their shipments or takings of wheat they had purchased earlier and put it over into the following crop year. They agreed to do that, and we found that to be helpful.

With respect to trying to estimate the potential rise and fall in world food production and world trade in food, we find that, of course, difficult because we have not yet been able to forecast the weather. We have been able to do a fairly good job on that, though, sir, except for the U.S.S.R. The U.S.S.R. is a very large country; the weather is very variable; and they are undoubtedly the most unstable element in world food production. And this has an impact in world trade in food.

The new agreement with the Soviets, the long-term grain agreement, concluded in October, is basically a framework to try to develop a better system for trading grain with the Soviets than we have had in the past. I think the Soviets will be cooperative in this area, and I hope that part of the emotionalism which has been involved in trading grain from the United States to U.S.S.R. will be dissipated by the agreement.

Only time will tell.

Senator INOUE. During the period of grain shortage in 1973, we were constantly receiving reports that the grain that we had sold to the Soviets at the preshortage rates was being sold by the Soviets in turn to other European countries at a higher price.

Mr. BELL. We checked into that very closely, Mr. Chairman, and we in fact were never able to substantiate it. We were able to trace a few ships that stopped in Western Europe for repair, but in all cases, the ships continued on to the Soviet Union for unloading.

About the same time that we had press reports of these types of problems, the Soviets also made a sale of 2 million tons of wheat to the Indians. That wheat, though, all came from the Soviet domestic crop in the summer of 1973. There was no transshipment of U.S. grain. There was some transshipment of Canadian grain, but not United States.

Senator INOUE. We have several questions which I would like to submit to your office for your response.

Mr. BELL. I would be happy to, sir.

Senator INOUE. And if you will see the staff after the hearings, I would appreciate it.

Mr. BELL. Fine.

Senator INOUE. I would like to thank you very much, Mr. Secretary, and convey our best regards to Secretary Butz.

[The statement follows:]

STATEMENT OF HON. EARL L. BUTZ, SECRETARY OF AGRICULTURE

Mr. Chairman, I welcome the opportunity to appear before the Committee, and to discuss a subject of increasing importance to American farmers. The growth of trade between East and West is, in fact, an agricultural subject since more than 70 percent of all U.S. exports to the Communist countries consist of farm products.

Moreover, it is plain that agricultural trade will continue to be crucial to economic and political relations between East and West. Events of this year bear that out. We are seeing:

The purchase by the Soviet Union of 13 million tons of U.S. grains thus far and a 5-year agreement regarding future purchases.

A four-fold increase in grain sales to Eastern Europe and a doubling in the total value of U.S. exports to that area.

A 160-percent growth in sales to Communist areas as a whole, despite a falloff in shipments to the People's Republic of China.

Prospects for continued imports of grains and proteins as Communist governments move to raise the living levels of their people.

During the last half of November, I had the opportunity to visit four countries of Eastern Europe—Yugoslavia, Romania, Hungary and Poland. In all of these countries we met with high government officials.

My single overriding impression was of the commitment that leaders of those countries are making to an improvement in goods available to consumers. If "consumerism" is a factor in American politics—and of course it is—it is also an element in the politics of the Soviet Union and the nations of Eastern Europe. Even in the most tightly-controlled economies, there is evidence at the highest levels of new policies aimed at raising the level of consumer satisfaction.

This is certainly evident in efforts to expand production of animal products. In Hungary, we saw a poultry plant that produces 200 million baby chicks a year. In Yugoslavia, we saw an enormous cooperative farm which, among other things, is milking more than 20,000 cows. Romania has a hog complex that turns out 35,000 finished hogs a year.

In Poland, I was quite impressed with the improvement in consumer goods available since I visited that country 12 years ago. Grocery shelves are better stocked, and the waiting time for a new car or a new apartment has been greatly reduced. Still, supplies fall short of the improvement in incomes, and the Polish Government is working to make more goods available, especially food.

As these countries expand their animal agricultures, many of their leaders speak of becoming self-sufficient in feed grains. Personally, I doubt their ability to do this. As for proteins, they have no serious thought that they can meet their own needs in the years ahead. This has implications for American farmers.

In Bucharest, Angelo Miculescu, Vice Premier and Minister of Agriculture, said to me: "You have something more powerful than the atomic bomb—you have soya." This was the comment from a man who knows the United States and is intimately involved in the Romanians' effort to increase production of animal products. We spent two days with him, much of the time actually on farms.

Obviously the farms shown to visitors in Romania and other Eastern countries are not typical—they tend to be showplaces. Nevertheless, there is definitely a public drive to expand consumer goods—in particular high quality foods. Increased trade with the West—and the nature of that trade—bears that out.

In recent years the United States has exported to Eastern Europe about a million tons of soybeans a year, mostly in the form of meal since crushing facilities are limited in that part of the world. This year, East European nations have also boosted their import of U.S. grains, due in part to the failure of supplies they formerly brought in from the Soviet Union.

In fiscal 1976, U.S. grain exports to Eastern Europe are expected to include 3.2 million tons to Poland, 2.8 million tons to East Germany, and 1.2 million tons to Romania. This total of 7.2 million tons is quadruple the amount we shipped to those three countries last year.

The Soviet Union, meanwhile, has now ordered some 13 million tons of U.S. wheat and feed grains—out of around 25 million tons purchased in the world market against its 1975 crop shortfall. The extremely poor USSR harvest is causing liquidation of Soviet pig and poultry numbers and will probably cause further cutbacks in their herds and flocks this winter and spring.

So this is hardly a typical year in East-West trade. At the same time, the factors that make it atypical are also present in normal years—in less extreme form. Specifically, those countries are unable to produce enough feedstuffs to meet food production goals. U.S. farm products should continue to account for a large proportion of our trade with those countries.

In the last 3 years, U.S. exports to Eastern Europe and the USSR have in each case been more than two-thirds agricultural. Exports to the People's Republic of China have been 80 percent agricultural. For the last three years in

total, farm product exports made up 70 percent of all U.S. exports to all Communist areas. The percentage will be about the same in fiscal 1976.

For fiscal 1976, we are estimating sales to the Communist areas at \$3.2 billion—made up mostly of \$2.1 billion to the USSR and \$1.1 billion to Eastern Europe. It appears that exports to the PRC will be negligible due to a likely record harvest there, a serious problem with foreign exchange, and world recession that has reduced markets for textiles produced in China.

U.S. farm product sales of \$3.2 billion to the Communist countries compare with \$1.2 billion last year, \$1.9 billion the year before that, and \$1.3 billion in fiscal 1973—the year of the first large grain sales to the Soviet Union. In earlier years, total farm product sales to those areas never exceeded \$300 million.

Thanks to this \$2 billion gain in sales to Communist countries, we are estimating our total farm exports this fiscal year at \$22.7 billion. Sales to Western Europe—at \$6.8 billion—are off by \$400 million from last year. Exports to Asian countries other than the People's Republic of China will be about steady with last year at \$8.1 billion. Exports to Canada, Oceania, and Africa are little changed. Exports to Latin America are off substantially.

Without this growth of \$2 billion to Communist countries, we would experience an actual decline in our total overseas sales this year. We could ill afford this in a year of abundant supplies—a year in which American farmers are planting without restrictions for the coming season. U.S. farmers need a continuing growth in exports to the Communist countries—as well as to other parts of the world.

If we are to achieve this, we must not lose sight of the importance of trade as a two-way proposition. We have a considerable positive trade balance with the Communist countries—over \$1.2 billion last year. Those countries must be able to sell their products in the West if they are to buy in the West. A reasonable opportunity to export their products to the United States is certainly basic to growth in East-West trade.

Another element is credit. Without exception, the East European leaders I talked with last month raised the question of CCC export credit. We face a number of restrictions on the use of this credit, as well as a limitation on the total credit we can offer world-wide.

CCC credit is tied to commercial rates. CCC credit is in demand in Eastern Europe because it is available on 3-year terms, while commercial credit is usually on shorter terms. Moreover, I believe that each of our customers abroad wants to feel that he has equal access to export services available to other customers in like financial situations. I suspect this attitude extends to other U.S. Government programs as well as to credit offered through the Commodity Credit Corporation.

Mr. Chairman, I thank you again for the opportunity to meet with you. If there are questions, I will be pleased to address myself to them.

[The following information was subsequently received for the record:]

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., February 19, 1976.

Hon. DANIEL K. INOUE,
U.S. Senate.

DEAR SENATOR INOUE: In your letter of December 19, 1975, to Secretary Butz you requested that the Secretary respond for the record to several questions as an addition to the Department's December 12 testimony on East-West trade before the Committee on Commerce. We are pleased to submit the enclosed responses.

Sincerely,

DALE A. SHERWIN,
Deputy Assistant Secretary.

Enclosures.

Question 1. You are a member of the East-West Foreign Trade Board. Since its formation, what agriculture-related issues have been brought before the Board? What decisions have been taken pursuant to the discussion, if any?

Answer. Two agriculture-related items which have been brought before the East-West Foreign Trade Board for consideration are this year's purchases of grain by the Soviet Union and the negotiation of the U.S.-USSR grain agree-

ment. The Department has used the opportunity of meetings of the Board and its Working Group to keep other agencies abreast of events surrounding Soviet grain purchases. The Board decided at its July 11, 1975, meeting that because of the situation then developing, grain sales to the USSR would be monitored daily. Since the Economic Policy Board meets daily it was asked to do the monitoring.

A Department of Agriculture representative makes periodic reports to the Board's Working Group on past and prospective purchases by the Soviet Union, and gives status reports on the CCC credit situation. Board and Working Group meetings have also provided a useful forum for discussion of the U.S.-USSR grain agreement.

The East-West Foreign Trade Board has devoted much time to the question of MFN and the Trade Act of 1974, an item which is not solely agriculture-related but which continues to be of great importance to the agricultural community. We feel that lack of MFN and CCC credits have had an overall adverse impact on our agricultural exports to the nonmarket economy countries. Those sections of the Trade Act which deny most favored nation (MFN) treatment and put restrictions on the extension of CCC credits to most of the nonmarket economy countries spoil the whole climate for normalization of trade and undermine our efforts to develop long-term markets for our agricultural products in these areas. While we support the humanitarian objectives which led to adoption of those articles of the Act (the Jackson-Vanik amendments) which are objectionable to the Soviet Union and other nonmarket economy countries, we question whether these provisions have yielded the desired result. The Department supports the Board's decision to continue to seek ways of working with the Congress to solve this most important problem.

Question 2. Do you support, in general, the concept of long-term agricultural agreements designed to stabilize bilateral grain trade?

Why does the informal Polish agreement differ from the Soviet agreement?

Answer. In general, we do not support the concept of long-term agricultural agreements to stabilize bilateral grain trade. The Soviet agreement will serve to stabilize our bilateral trade but an agreement along lines of the Soviet model is not contemplated with any other country. We consider the Soviet agreement to be a unique solution to a unique problem—the ability of the Soviet Union to disrupt the world market with huge, unexpected purchases of grain. The agreement will stabilize and regularize Soviet purchases without interfering with the normal operation of the free market.

The Department would consider entering into information exchange arrangements with the nonmarket economy countries. To date, we have concluded two such arrangements: the U.S.-Polish Joint Statement on Development of Agricultural Trade of October 8, 1974 and the U.S.-Romanian Protocol on Development of Agricultural Trade of September 11, 1975. The arrangements were not entered into for the purpose of stabilizing bilateral grain trade. They are essentially means of improving the flow of agricultural economic information from countries where such information has not been readily available.

These informal understandings are valuable in that they give us a better assessment of import needs of the nonmarket economy countries and give greater assurances to our farmers that there will be sufficient demand world-wide for the commodities they produce. In turn, they give our trading partners the best possible assurance within the framework of the market system that supplies will be available to meet demand.

We do not have a Soviet-type agreement with Poland or with any other country because we do not need one. Poland is a traditional customer for U.S. farm products with whom we have established trading practices. Unlike the USSR, Poland has not been, nor does it threaten to be, a disruptive force in the world grain market. Consequently, a grain agreement with Poland would serve no useful purpose and, in our view, would be undesirable in that it would represent a step in the direction of bilateralism.

Although arrangements such as the U.S.-Polish Joint Statement are not bilateral agreements and in essence are really affirmations by both parties of multilateral trading principles, they can contribute substantially to growth of bilateral trade. During my November 1975 visit to Poland, Minister of Agriculture Barcikowski and I reaffirmed the October 1974 understandings. In addition, the Minister noted that Poland intends to purchase about 2.5 million tons of grain in the U.S. each year for at least the next five years. Our willingness to exchange assurances with Poland has helped secure a market for U.S. farmers at least twice as large as it has been over the past several years.

Question 3. Some have charged that the grain agreement places the Soviet Union in a better position than our allies, who may also be large customers. Please comment.

Answer. The U.S.-USSR grain agreement does not place the Soviet Union in a better position than our allies. It does, however, mean that up to the level of 8 million tons of purchases in any one season, the USSR will enjoy a position *equal* to that of other countries. During each of the past two years there were instances when export sales to the USSR were curtailed even while the rest of the world retained unrestricted access to U.S. supplies. The USSR was treated *less* favorably than other countries. The new agreement assures that, at least up to the level of 8 million tons, this will not happen in the future. The agreement does *not* give preference to the USSR for access to U.S. grain supplies. It merely assures that other countries will not have preference over the USSR in obtaining our supplies.

Question 4. How can the Department insure that the Soviet Union does not evade the provisions of the agreement, for example, through transshipments, establishment of straw corporations located in other Western countries etc.?

Answer. The Department will monitor U.S. exports to the Soviet Union pursuant to Section 812 of the Agriculture and Consumer Protection Act of 1973. While there is no specific provision in the agreement concerning noncompliance by either Party, failure by the USSR to live up to provisions of the agreement would become known and would then be taken up with the Soviet Government immediately. Further, Soviet non-compliance with the agreement would jeopardize their chances of getting the full amount that they may want in some future year when their needs for U.S. grain exceed 8 million tons. Transshipments are specifically prohibited by Article IV of the Agreement which states that all grain purchased by the Soviet Union must be used for consumption in the USSR, except as otherwise agreed by the U.S. and USSR. There have been allegations concerning transshipments in the past, but to our knowledge, none has been substantiated.

To ensure that the Soviet Union meets its obligations under the agreement, we must rely to some extent on the good faith of the Soviet Union. We believe that the USSR shares with the United States a strong interest in the successful operation of the agreement. As a practical matter, the Soviet Union acknowledged by entering into the agreement that it will be a large importer of grains, particularly feed grains, for the foreseeable future and that it will have to depend on the U.S. as a major supplier of these commodities. Also, the Soviet Union, like any other state, has a general interest in maintaining the credibility of its international undertakings.

Question 5. It has been alleged by some opponents of the agreements that they constitute a de facto form of export control to the extent that they provide, at a minimum, a suggested ceiling without actually having the President resort to the Export Administration Act. Please comment.

Answer. The U.S.-USSR grain agreement does not of itself limit the export of U.S. grain or establish any controls to limit exports except for the provision requiring prior consultation with the U.S. Government for purchases exceeding 8 million metric tons. The agreement is designed to reduce the disruptive effects of large, sporadic Soviet grain purchases. We do not view the agreement as means to restrict trade. On the contrary, it will provide a framework for expanding trade.

The agreement provides a base annual market on which we hope to build each year. The base market of 6-8 million metric tons is not small. The 8 million ton figure which the USSR could take without consulting the U.S. Government is almost 2 million tons more than average annual purchases of all U.S. grain by the Soviet Union during fiscal years 1972-75. Five years ago, no single country took as much as 8 million tons of U.S. wheat and corn a year.

Further, the 8 million ton figure is not a ceiling for Soviet purchases. The agreement merely provides for consultations at the government level prior to purchases of more than 8 million tons of wheat and corn in a given year. Such consultations are not new or unusual. We meet periodically with many of our trading partners to discuss their needs and the U.S. supply situation.

Question 6. In the 1972 Soviet grain purchase, the USSR was able to obtain CCC credits. Since that time the role of CCC credits has been limited, and much of it has been repaid. What is the present role of credit in sales to the nonmarket countries? Does credit play any role in grain sales by our competitors?

Answer. Under Title IV of the Trade Act of 1974, all nonmarket economy countries except for Poland and Romania are now ineligible to receive CCC

credits. Poland is a traditional CCC credit customer and with the aid of credits, we have developed a large, long-term market for our agricultural products in Poland. The CCC Credit Program has been used actively to promote exports to Romania since 1970, and sales of more than \$120 million of agricultural products have been financed since that time.

We feel strongly that CCC credits are a valuable market development tool. In a normal situation where commodities are in abundant supply and buyers are free to choose among several sources, considerations such as the availability of credits are often the decisive factors in the purchaser's decision to buy from one source over another. Although we see considerable market potential for our commodities in Eastern Europe, the non-availability of credits will make development of these markets difficult.

Details of financing arrangements of competing export nations are not readily available. A number of exporting countries have government entities which make sales and arrange financing. However, most do not have clearly defined programs and credit terms are not usually publicized. The secrecy surrounding offers of financing by competing export nations and their variance, transaction-by-transaction, make it difficult to discuss with precision the financing terms of these countries. With the shift to the seller's market in 1972, the importance of export financing in making a sale decreased. But with the harvest of sizable 1974 and 1975 crops, new competitive situations developed. The following countries are known to have used export financing to sell grain in Communist markets:

1. *Canada* has been selling grain to East European markets on credit for several years. Credit has even been advanced to cover transportation costs. (These are not covered by our own CCC credit export financing.) Canada has also sold substantial quantities of wheat to the People's Republic of China (PRC) on credit. We do not know the exact interest rates.

2. *Australia* has made substantial credit sales to the PRC. The interest rate for the September 1972 sale was reported to be quite low and the PRC had a choice of payment terms. Commitments from the 1974 and 1975 crops to the PRC are reported to carry a long repayment period and low interest rates.

3. *European Economic Community (EEC)* As a sales tool, credit takes second place to subsidies in export transactions of the EEC countries. They have used huge export subsidies to relieve surplus situations and prevent excessive build up of soft wheat stocks. However, in addition to the EEC export subsidy, the individual member countries can use long-term credit and low interest rates to make the actual grain price even more attractive. The combination of ready credit at low interest rates and the virtually unlimited export subsidy makes the EEC a very formidable competitor. In exports to Communist countries, subsidies rather than financing have been the important competitive factor.

Question 7. You are well known as a strong advocate of agricultural exports and have criticized those who would impose restrictions on such exports. Is it your position that agricultural exports should be totally unrestricted, including exclusion from the Export Administration Act of 1969, as amended, which provides for export controls where domestic shortages occur?

Answer. We do feel strongly that an aggressive agricultural export policy is essential to the well-being of the American farm sector and the entire U.S. economy. It is no secret that farm exports have been bailing out the U.S. trade balance for some time.

In 1975 we asked for an all-out production effort by U.S. farmers. We can continue to ask for and receive such an effort only so long as farmers are confident that there will be an unrestricted market for their products—a market in which normal market forces act to create a fair return for the farmer. Any arbitrary or impulsive action to curtail exports, no matter for how short a period, can be a serious depressant and serve to undermine our goals.

We would not go so far as to argue that agricultural items should be excluded from the Export Administration Act of 1969, as amended. One of the primary functions of American agriculture, after all, is to feed Americans, and it is useful for the President to have the authority to deal with any special shortage situation that might occur.

However, this authority should be used only as a last resort—in cases of a real crop failure. We have had situations in the past, the 1930's for example, where U.S. farmers encountered extended periods of drought, livestock herds were liquidated, and poultry farmers went out of business. In such emergency periods it might be necessary for the President to act to assure a sufficient food

supply for the U.S. We consider such a situation unlikely in the future, and we trust that the current agricultural programs of this Administration will assure that the short supply provisions of the Export Administration Act need never be used again for agricultural products.

Question 8. You have been quoted in recent issue of "Business Week" (Dec. 15th) as stating that American "agripower" has had an impact in our relations with the USSR. Did that article correctly represent your views?

Do you think that use of our leverage in the agricultural sector is an appropriate objective of our detente policy vis-a-vis the Soviet Union?

Answer. My views on the use of agripower vis-a-vis the Soviet Union were, in general, presented accurately in the December 15 issue of "Business Week." In the U.S. the tremendous productive capacity of the American farm community is a major source of this country's strength. The farm products which we are able to export each year not only create jobs here in the U.S. but help pay for the many imports we need. In recent years our agricultural exports have helped keep our balance of payments position strong and helped this country weather the oil price increases of the OPEC nations. We are projecting a positive agricultural trade balance for fiscal year 1976 of more than \$12 billion, which will pay for about one-half of our oil imports. Few countries can boast a similar record.

American agripower has clearly had an impact on our relations with the USSR. In recent years, the Soviet Union has embarked on a campaign to increase substantially supplies of quality food products, particularly meat. To achieve their goals, the USSR has had to import large quantities of grain and soybeans, much of which has come from the United States. In their two most recent poor harvests, 1972 and 1975, the Soviets have not resorted to large-scale belt tightening as they had done in the past. They have imported grains rather than slaughter livestock on a mass scale as they have done in the past and it is now evident that they do not intend to abandon their ambitious goals.

Even in a country like the Soviet Union which is hardly consumer-oriented, it would be difficult for the Soviet leadership to back down from their well-publicized goals. As is the case in any country, once expectations of the population have been raised, their nonfulfillment or even underfulfillment could be a source of internal tension. The Soviets know this. And we know this.

In the "Business Week" article, I mentioned Soviet noninterference in the Mideast peace talks as an example of the use of agripower benefiting U.S. interests. Undoubtedly, agriculture will remain a key element of our relations with the USSR. The extent to which agripower constitutes "leverage" as an objective of our policy vis-a-vis the Soviet Union would depend on how we define this very important word. To the extent that our agricultural productivity influences the Soviet decision making process, agripower does constitute a form of leverage in our dealings with the USSR. But I would strongly oppose attempts to use American agripower by restricting exports in an effort to force any country to take an action. Such action would be warranted only under very unusual circumstances.

When I visited Eastern Europe last November, Romanian Minister of Agriculture Miculescu told me I had something more powerful than the atom bomb—soybeans. Though exaggerated, his point is clear: food is power. We must use our agripower responsibly and with the utmost caution. The threat of agripower, like the threat of force, is usually much more effective than its actual utilization. I believe in the subtle use of American agripower when it is in our best interests but would oppose its use as a means of coercion.

In the field of agriculture, the U.S. can now bargain from a position of strength. We must keep in mind the source of that strength—the American farmer and our market-oriented farm policy. We have achieved our position not by advocating a larger government role in agriculture, but by getting the government out of the farmer's business and allowing him to produce without restrictions. I oppose the formation of any government body whose purpose would be to control agricultural production and exports.

The OPEC countries have achieved petropower by cutting back production and artificially increasing prices. We have achieved agripower by pursuing a policy of full production without controls and allowing the forces of the market to determine prices. In my view, our methods make better economic sense than OPEC methods and in the long run, agripower will be even more potent than petropower.

Our farm policy has been a success. The American farm community has responded to our calls for full production with bumper crops which have made us the world's largest exporter of agricultural products. I firmly believe that the

free market economy creates those conditions under which agriculture will produce most efficiently. There are a number of foreign countries which serve as an example of what results when the government interferes too closely in local farming operations. It is in our best interests to continue to pursue our policy of full production without controls and to use, responsibly and cautiously, the power that is ours.

Question 9. Under the terms of the 1973 U.S.-USSR Agricultural Cooperation Agreement, the Soviet Union was expected to provide information on forward estimates of production, consumption, demand and trade of major agricultural commodities (article II, paragraph 1). To some extent, the recent grain agreement has taken care of this by establishing a purchase range of 6 to 8 million tons annually.

Nevertheless what is being done to ensure that the Soviet Union provides the other information?

Why do we continue to allow the Soviet Union to purchase U.S. grains when they have not fulfilled the terms of the agreement?

What are the benefits the United States derives from the 1973 Agreement? Are they sufficient to overlook Soviet non-compliance with the forward estimates provisions?

Answer. The Soviets are committed to bilateral talks with the U.S. twice each year on the current situation and outlook for production, utilization and foreign trade of major agricultural commodities (forward estimates) in the two countries. The need for this information has not been eliminated by the new grain supply agreement, because it covers just part of total Soviet foreign trade in wheat and corn, adds nothing to data on their production and little on their utilization in the USSR, and provides no information needed on other grains and on other major agricultural commodities. Therefore, we are continuing to try to obtain these forward estimates through a combination of pressure and education. The Soviets understand our sensitivity over the lack of these data so far, and the way this detracts from success with other parts of the Agreement, so they realize that further inaction on their part could before long result in some cutback to technical information they want and are starting to receive. In addition to signalling our feelings along these lines, we use appropriate opportunities to try to convince them of the two-way benefits to the exchange of such data. We also plan to test some indicated Soviet willingness to work through joint forecasting study toward providing more information in the future.

Overall progress made under the Agricultural Cooperation Agreement through 1975 has been considered sufficient to overlook, so far, Soviet non-compliance with the forward estimates provision. In brief, this judgment is based on significant benefits obtained with respect to each of our five main objectives, plus prospects for further improvements and advances. Worthwhile progress has been made in the exchange of economic information aside from that part on the current situation and outlook (forward estimates). Contacts with Soviet institutions and individuals have been expanded considerably since the beginning of the Agreement. Exchange of agricultural research information and materials and technology is proceeding. Joint activities in the agricultural sciences necessarily have been largely exploratory and organizational to date, but have established a basis for mutually beneficial research projects in various areas. Market development for U.S. agricultural commodities, as well as for agriculturally related technology and equipment, has been aided by contacts made through team exchanges and by other Agreement activities.

We do not believe that Soviet non-compliance with parts of the information exchange provisions of the 1973 Cooperation Agreement is of itself sufficient reason to restrict agricultural exports to the USSR. The Department has consistently taken a position of government non-interference in private trade, except as justified by domestic legal authority. The Export Administration Act outlines in specific terms U.S. policy on export controls. Such controls may be imposed only (1) for national security reasons, (2) to further U.S. foreign policy, or (3) in times of short supply. We question whether use of export controls would be justifiable under these criteria.

Question 10. In the GAO report on agricultural attaches, GAO concluded that Agriculture should coordinate its planning with State and Commerce to ensure consistency with overall trade objectives and promotional emphasis abroad. What are the procedures to ensure that Agriculture's overseas trade activities are consistent with overall U.S. trade policy and objectives?

What is being done to coordinate planning in agricultural trade between your Department and State and Commerce?

Is there a plan for U.S.-overseas agricultural trade activities? If so, how was it developed?

What steps have been taken to implement GAO's recommendations in its report on agricultural attaches? GAO recommended, in terms of planning for Government trade activities, that the Secretary of Agriculture:

Establish individual country and/or regional objectives;

Devise appropriate strategies for accomplishing the stated objectives, including a delineation of priority attache activities;

Establish, where possible, benchmarks to permit objective evaluation of attache performance;

Work with State and Commerce in integrating Agriculture's plans into country commercial programs.

Answer. The joint USDA/industry market development programs are the most effective way to promote overseas sales of U.S. agricultural products. These programs are planned, implemented and evaluated jointly with trade associations and private firms in the United States and abroad. Since its inception two decades ago, the program has grown in both scope and sophistication. FAS has long had a system to plan and implement strategies for achieving program aims and establishing priorities. These strategies and priorities normally are communicated in writing to our posts abroad as instructions to undertake specific projects. Examples of such planning include: (a) a model FAS market development program planning system for cooperator and FAS projects; (b) a long-range (5-year) planning system for the market development program that outlines long-range program objectives and establishes marketing strategies and plans on an individual country basis; and (c) a long-range (3-year) program and budget planning system that has become an established element in the overall FAS management system.

Through the Agricultural Attaches overseas representation is provided to carry out the full range of USDA responsibilities abroad. Attaches are highly qualified professional economists, marketing specialists, and agriculturalists who are drawn mainly from FAS operating units—market development, commercial exports, commodity analysis, international trade policy and Public Law 480. They have primary responsibility for approving country marketing plans on a commodity-by-commodity basis and are also responsible for cross-country coordination at the country level. Direction and control from Washington involve establishing priorities and work assignments on a country-by-country basis. Control is exerted through our planning and management system and through direct day-to-day communication with attaches through cables, memoranda, conferences, and administrative-supervisory visits.

FAS has also established a performance evaluation system for attaches that is both objective and project achievement-oriented. The attache is rated by all important USDA end-users and his composite performance rating reflects as many as ten separate evaluations. For example, market development personnel rate him on his achievement in reaching the performance benchmarks established in advance for such projects. In addition, an FAS management-by-objectives system for an FAS program includes a clear statement of objectives; a plan to achieve the objectives; a statement of resource requirements; and an assessment process to help insure that objectives are being accomplished.

In essence, we think that the present system results in optimum coordination of program planning both in Washington, and at field level, while retaining the maximum input of highly competent agricultural marketing experts from both industry and government. While we agree that an even greater systematic programming of objectives and activities is theoretically possible, we believe that the current management effectiveness of FAS does not warrant the installation of an additional planning structure overlying our existing market development, reporting, and direct communication system.

Coordination with State Department and overall U.S. trade policy is carried out at the embassy level by our agricultural attaches, who work closely with their respective ambassadors and the latter's economic and commercial staffs. At the Washington level, the Departments of Agriculture, State and Commerce have collaborated on feasible projects to give impetus to the overall U.S. export expansion drive. We believe interagency cooperation for such activities as buying missions to and from the United States, referral of trade opportunities, trade center and trade fair promotions, is mutually beneficial and we will continue to participate actively in these cooperative efforts.

However, there is a fundamental difference between the FAS market development program and the Country Commercial Programs administered by the State and Commerce Departments which we believe must preclude the imposition of another layer of coordination over our market development program.

The FAS market development program involves the joint financing, planning, implementation and evaluation of each of its development activities with non-profit trade associations and private firms. It relies heavily on the close cooperation of private producers and traders both in the United States and abroad. The Country Commercial Programs, on the other hand, are largely government planned and operated.

We believe that the FAS system is the most effective means of promoting overseas sales of agricultural commodities and products. We therefore do not consider that it would be a good policy to shift a highly successful foreign market development program from the control of private business interests to the hands of government managers.

Question 11. In 1972 the Soviet Union made large purchases of U.S. grain which coupled with other phenomena, resulted in a world-trade rise in food prices. Clearly purchases of U.S. grains by the non-market countries has an influence on other countries and on the capacity of the United States to fulfill other obligations, such as sales to our allies and assistance to less developed countries.

How do you relate agricultural trade with the socialist countries to our global agricultural policy and to these other obligations— or do you think that there should be a relationship at all?

Answer. We are confident that if given the opportunity to produce at full capacity, our farmers will make available sufficient supplies to satisfy domestic consumption, meet the needs of our foreign customers, and still have enough to make significant contributions in the area of food assistance to developing countries. Purchases of U.S. grain by nonmarket economy countries in normal years have little or no impact on our other trading partners. Even in 1975 when the USSR and much of Eastern Europe suffered crop failures, larger-than-normal exports to the socialist countries have not affected our ability to meet the requirements of other overseas customers.

Since the Soviet grain purchases of 1972/73, our agricultural exports to the USSR have evoked a sense of emotionalism which is not warranted by the actual quantities of grain involved. Hopefully, the U.S.-USSR grain agreement will take the emotionalism out of our agricultural trade with the Soviet Union by eliminating the elements of uncertainty and surprise which have surrounded Soviet purchases in recent years.

Our trade with the nonmarket economies is still in an embryonic stage. In 1970, U.S. agricultural trade with the socialist countries of Eastern Europe and Asia was very small. Since that time trade in farm products with these countries has increased dramatically and we still see much potential for development of agricultural markets in these areas.

In our view, the development of agricultural trade is an integral part of a long term process of normalization of our economic relations with the nonmarket economies. We hope to continue to develop our trade relations both bilaterally in our agricultural agreement with the USSR and understandings with Poland and Romania, and multilaterally in such forums as the General Agreement on Tariffs and Trade (GATT). Despite basic differences in economic systems, there are no insurmountable barriers to closer trade relations with these countries and no *a priori* reasons to differentiate between socialist countries and our other trading partners.

Senator INOUE. These hearings will now stand in recess until next year at which time we will provide adequate notice for the continuation.

Until then, we stand in recess.

[Whereupon, at 12:40 p.m., the hearings adjourned, to stand in recess until further notice.]

AMERICAN ROLE IN EAST-WEST TRADE

FRIDAY, JANUARY 30, 1976

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met at 9:30 a.m. in room 5110 of the Dirksen Senate Office Building, Hon. Daniel K. Inouye presiding.

OPENING STATEMENT BY SENATOR INOUE

Senator INOUE. This morning, the Committee on Commerce resumes its hearings on the "American Role in East-West Trade: Prospects, Problems, and Issues, 1976-80."

Our hearings began on December 11 and 12 with the appearance of representatives of the executive agencies. Today, we shall receive the testimony of a distinguished panel of academic specialists, each of whom is a nationally known expert in this field. I look forward to today's session with great anticipation.

In 1975, our total trade turnover with the Socialist countries was approximately \$4 billion, up to \$3.24 billion in 1974. Preliminary figures show that exports totaled \$3.1 billion and imports \$900 million, for a surplus of approximately \$2.2 billion, a significant increase over 1974's surplus.

The largest component was trade with the Soviet Union, reflecting in large part the sale of grain to that country. Total trade turnover with Eastern Europe and the People's Republic of China remained stagnant or fell.

American attitudes toward trade with the Communist countries have undergone several significant transformations within the last decade. Hostility changed to euphoria and then, most recently, disillusionment. These wide swings in mood appear to indicate an unrealistic appraisal of the role of trade in détente and a lack of sufficient patience in awaiting the fruits of the process.

The future course of our commercial relations does not promise to be easy, and it is quite conceivable that certain issues may seriously disrupt those relations. Soviet-American relations have suffered serious reverses in the past, but the volume of trade has nevertheless slowly increased.

In our last session, we heard representatives of the executive agencies make a case for expanded trade with the Socialist nations. This morning, our focus will be on the development of public policy in East-West trade.

This issue raises more questions than can be reasonably covered during any hearings, but I hope that we can begin this morning to consider some of these questions.

What should be the paramount considerations from the U.S. point of view in East-West trade?

Is it possible to discern a national interest in such trade?

What is the appropriate role of Government in this trade and what should its relationship be to the private sector?

How can public and private interests be best balanced?

What can we learn from our previous experiences about how to deal with the nonmarket countries?

Is the Government organized in such a manner as to develop and implement a national policy?

What is the appropriate role of Congress in this process, and how can the Congress interact with the executive to improve our policy-making?

These are only some of the questions that come quickly to mind as we begin our hearings this morning.

As our first witnesses, I would like to welcome Profs. Herbert Levine and Donald Green from the University of Pennsylvania.

**STATEMENT OF HERBERT S. LEVINE AND DONALD W. GREEN,
PROFESSORS OF ECONOMICS, UNIVERSITY OF PENNSYLVANIA**

Dr. LEVINE. Thank you, Mr. Chairman.

My name is Herbert S. Levine. I am professor of economics at the University of Pennsylvania and a senior research consultant at Stanford Research Institute. I speak here as an individual.

I want to thank the committee for allowing me to speak before it. And what I would like to do in these discussions of the setting of public policy toward East-West trade is to focus in my brief remarks on the background issues that, I think, are important in the setting of policy toward East-West trade and especially toward United States-Soviet trade.

In analyzing and discussing and developing U.S. policy, it is, of course, imperative that one have a view about what Soviet intentions are in their expansion of their interrelations with the United States and, indeed, with the advanced Western capitalistic economies. That is what I would like to focus on.

I think, first of all, it is important to extend one's analysis historically backward, not only to the early years of Soviet power in Russia, but also to Russian attitudes toward the international economy even before the revolution. And as one does this in a very rapid historical overview, one observes that in what historians would refer to as the modern historical period, there have been subperiods of very intensive Russian involvement in the international economy. And one refers in this case to the period of starting as far back as the period of Peter the Great in the early 1700's, and the period of the 1890's, and period of the 1930's.

In each one of these periods, there was intensive development of Russian interaction with Western nations and especially in regard to the important of foreign technology and, indeed, foreign technologists from advanced Western nations.

Now, in analyzing the consequences and opportunities in regard to United States-Soviet trade, one's view of what Soviet policy toward involvement in the international economy is or will be is of crucial

importance. And I think in this regard, there are two major hypotheses about Soviet approaches and Soviet strategies toward interaction with the international economy.

The first, a traditional, widely held view, focuses on Russian, especially Soviet, desire to be free of dependence on other nations, to be able to defend its national sovereignty, and to develop an economic base that will provide it with the means of protecting its national independence.

The second pattern or second hypothesis is a much less widely held view, a nontraditional view, that looks upon the Soviet experience not as being so unique or the Russian experience not as being so unique, but of a more general pattern of the international economic involvement that comes with the industrialization process and embodies a significantly larger Russian acceptance of interrelationship with other nations.

And this is what I would like to pursue in the remainder of my brief remarks.

The first approach, the widely held, traditional one, is drawn from this very brief historical overview that I started with and argues that Russia's turning toward the West historically has been to build up its economic base to support its foreign policy, primarily military needs, in reaching parity with advanced nations with which Russia was in conflict or potential conflict.

This clearly is seen in the period of Peter the Great. It is also seen in Russia in the aftermath of the Crimean War in the middle of the 19th century and culminating in the very rapid industrialization drive in the 1890's. And it is seen in the Stalinist period of the 1930's.

There is much evidence that in these early periods of turning to the West for imports and for foreign technology that the aim was to build Russian power and to build national independence. This is clearly seen in many of the writings and pronouncements of Peter the Great in the early 18th century. It is seen in the debates and the attacks on the policy in the 1890's, the attacks on the architect of encouragement of foreign investment in Russia in the 1890's, Count Von Witte. And as an interesting comment, in one of Witte's speeches in defending his policy, he argued that increasing interrelatedness with foreign countries, especially foreign investment of modern technology in Russia, would help to build Russian independence, would give Russia the means of sustaining her independence. And in an interesting quote, he stated that:

"Only a disintegrating nation need fear foreign enslavement." And then he added, "Russia is not China."

And in Stalin's time, in a speech in the early thirties, Stalin made it clear that in order to survive the capitalist encirclement of the young Communist nation, the economic base had to be built. And for this, foreign technology was one of the requirements.

Now, the policy that was followed by Stalin in the 1930's was one of building up the Soviet economy, using in the early 1930's, relying heavily on, imports of foreign machinery and foreign technology. Indeed, in the early 1930's, foreign equipment comprised about 15 percent of total gross investment in the Soviet economy, a very, very substantial figure for as large a nation as Russia. But the importation of foreign equipment was sharply reduced in the midthirties and in

the latter half of the thirties, foreign equipment comprised less than 2 percent of total investment in Russia.

This sharp decrease has been termed by many Western analysts as the manifestation of a policy of autarchy on Stalin's part. I think that is a bad term to use to describe this policy. And although it may seem like I am pursuing a semantic issue, I think it is more important than just semantics.

I think that the degree of involvement that is embodied in a policy, a national policy, is really and should be viewed as a point on a continuum, a continuum that might measure the willingness to become involved in the international economy. This continuum has as its two extreme points, one, autarchy, no involvement at all; the other point, total interdependence. The measure involved in that continuum is the degree of disruption that would be visited upon an economy if the established foreign interrelationships were to be broken.

The Soviet Union, I believe, never really pursued a policy of autarchy. That is, no involvement, but in the thirties, the prewar period, the policy could better be described as one of minimal involvement with the major focus on nondependence on foreign capitalist nations, but using trade with these foreign nations where it was advantageous and where in the growth process it could be used and then perhaps reduced.

In that regard, the question then becomes has the Soviet Union in the current period changed its view, modified, any on this continuum? The first hypothesis argues no, that they haven't moved much at all in any significant sense and that what we are seeing currently is yet another period, maybe a fourth major period, of Russia turning to the West for modern technology to build up its economy. Once it has regained some degree of parity in economic levels and in levels of technology, not just gross output, then it will return inward once again and reduce its level of involvement.

This has been the historical pattern, this fitful development of involvement in the international economy and also of rapidity of growth and then a return to a more insulated, inwardly focused economy.

The second hypothesis, second possible approach, gives more attention to the general pattern of development of industrial nations rather than the unique features of Russian historical development and draws upon the data compiled by Simon Kuznets and others which tend to show that from the early 19th century to World War I, and from the end of World War II to the present that increasing industrial development has brought with it, has been accompanied by, a rapid increase in international involvement.

This pattern is not seen in the interwar period, but the interwar period can perhaps be viewed as an anomaly in the long-term periods, an anomaly in which capitalist economies were dominated by recession and then depression.

What is also important in this more general pattern is that when one looks at the data of what has been the product composition of international trade one does not really see the classical comparative-advantage specialization doctrine working itself out. That is, one trading nation specializes on one industry and the other on another industry or another sector of the economy and then trade. But advanced industrial nations trade with each other by specialization within indus-

tries—that is, intraindustrial specialization rather than interindustrial specialization.

This is also a very important element in the development of this second hypothesis.

A third element here is the impact of the rapid development, really, since the beginning of the industrial revolution, but certainly picking up in the post-World War II period of the development of science and technology and the international aspects of science and technology.

All three of these elements contribute to a somewhat different potential hypothesis about what Soviet, at least, future Soviet, policy might be toward involvement in the international economy. And that is that as the Soviet economy develops its industrial base, as it turns more toward modern technology and has to draw upon world science and especially as the realities of intraindustrial specialization are realized, that the Soviet Union may not follow in the future its traditional historical pattern of into the international economy and then out, but may in its development become somewhat more involved in the international economy.

Intraindustrial specialization is particularly important in terms of the political implications when one thinks of Russia and the Soviet Union in that it argues that the degree, the position on this continuum, of involvement need not go very heavily toward the interdependence end because trade among advanced industrial nations allows each industrial nation to really build the industrial structure, the wide industrial structure, and allows trade within those industries to be the major basis of international trade. So that the economic disruption that might be caused by a break of these trade relations is not nearly as drastic as would be so if advanced nations actually gave up an entire industry to a foreign nation from which it imported.

Now, if one tries to draw conclusions about which one of these hypotheses is the best forecast for where Soviet policy would be, I think it would probably be proper to say that if we could get into the Kremlin and into the minds of the members of the Politburo, that currently they have the first, hypothesis in mind, but my argument, would be the second hypothesis is one that will grow with further development.

And in the absence of major world crises over the next two decades in the slow, but steady growth of interrelatedness of the Soviet economy with foreign capitalist economies, in the demonstration to members of the Soviet decisionmaking bureaucracy, not just the leaders on the top, but those who contribute advice to the leaders on the top, that as the advantages of international and interrelatedness—not interdependence because that is a politically dangerous policy in the Soviet Union—but of growing interrelatedness with all of these protections that I have mentioned, as the advantages of these become more and more apparent to the members of the bureaucracy who have to deal with the operation of the Soviet economy, that their commitment to maintaining these relationships will build. And their voice in terms of whatever contribution they make to the actual conduct of Soviet foreign policy may over time make itself felt.

This brings me to my final statement.

In the questions put before the witnesses here, we have been asked what have been the effects of détente on Soviet policy. What can we

expect to be the effects. The chairman has already stated that in the early selling of détente, it's pretty clear now if it wasn't all the time, the strength of the leverage that we may get over Soviet policy from détente has been vastly overstated.

In the reaction to that, it is wrong to go to the opposite extreme and say there is no effect. The effect will be minor, but there will be more voices supporting Soviet moderation in its foreign policy. However, this is a very delicate instrument for us on our part. It cannot be wielded in gross ways which are viewed by Soviet leaders as an affront to their sovereignty.

In time as those interrelationships develop, its impact may indeed grow. But finally in my mind, there is a question of how in an open democracy such as ours and one that is obviously becoming more and more open in its conduct of policy and conduct of foreign policy whether we really have the ability to stay with such a policy with a payoff in mind that is far perhaps in the future. Perhaps it is so that in our political system the debates that take place in the open political forums, will force American policymakers to make more promises of payoffs in this policy than really the policy is able to support.

In the end we may run the danger that we are not able to pursue a policy that will lead the Soviet decisionmaking bureaucracy to maintain an increase in Soviet interrelatedness to the point where it does have a meaningful impact on Soviet policy.

Thank you Mr. Chairman.

Senator INOUE. Thank you, Professor.

I would like to ask a few questions based upon statements which you made in 1974 before the Foreign Relations Committee.

At that time, you expressed some skepticism about benefits we as a nation would stand to gain in comparison with the Soviet Union. What is your present view? Is it in our interest now to encourage trade with the Soviet Union?

Dr. LEVINE. I believe it is in our interest to encourage trade with the Soviet Union on balance. And I think many of these questions were reflected in my final statement about how we conduct our decision-making and our political processes.

I think, to begin, the potential benefits to the Soviet Union are clear. I think the data many people present about how marginal these benefits can be in terms of what the effect of imported technology might be on total Soviet economic performance misses a major point. Policy-making in the economic sector should be focused more on the increment to growth. It's really from the increment that the political leaders have discretionary power of allocation. When you're talking about the total GNP already allocated in the past, political leaders do not have very much power to reallocate. When you look at the potential benefits to the Soviet Union and how much increase in growth compared to the numbers without the imported technology, the advantages to the Soviet Union look larger.

The advantages to us are not insignificant, but they do not match the direct economic benefits to the Soviet Union. Imports of certain raw materials, timber, nonferrous metals, fuels perhaps, show potential direct economic benefit to us.

I think, though, in the larger scale, in the larger issues involved, that in order for us to match benefits much more thought has to be

given, as your committee is now giving to what types of institutional adjustment we have to make essentially in having private U.S. business units, corporations dealing with a centralized state trading organization.

The Soviets are in a position to take into account the total interests of their economy. In the United States generally speaking, a private corporation has to think about its own private interests.

Many things, for example, technology, are sold at what the economists would call the marginal cost to a private corporation which is rather low. But there have been national resources spent on the development of that technology including the whole scientific community in the United States and its contribution. One could argue theoretically that these should be charged. Whether we can develop those institutions to really work with American business and to affect the price relationships of what American business sells to the Soviet Union is an open question.

I think these are the issues that should be pursued. I have concerns whether we will be able to bring it off.

Senator INOUE. That significant matter is of concern to us. The Soviets can clearly articulate their national policy and national interest, whereas we have conflicting interests within the governmental and private sectors. What kind of relationship between Government and corporations should be developed to formulate and implement an East-West trade policy?

Dr. LEVINE. I think this is a vitally important question, one that deserves a great deal of study and great deal of work on institution building in the United States.

I think that work should be pursued. I think that ways have to be found for the public interest to be manifested, but within our own social institutions. I think this is the only way possible and therefore sort of the approach to an answer to your question has to be the development of some case of cooperation between Government and business, rather than Government control of business.

I think if we get into a position of Government control, if it's seen as control, that this will be very stifling to the development of American economic relations with the Soviet Union. But the type of institutions that would encourage cooperative behavior and cooperative behavior among competing U.S. firms runs into all sorts of antitrust questions and antitrust behavior and approaches to antitrust.

I think if a workable relationship in terms of U.S. national interest is to be developed that these are the issues that we are going to have to pursue.

Senator INOUE. Finally, I have a question that I think many of us have either spoken of publicly or thought about privately.

As you have noted, many responsible Members of the Congress have suggested that we should employ trade as a weapon in achieving détente.

More specifically, some have suggested we should halt grain sales to the Soviet Union to influence their policy in Angola. What are your thoughts on that, sir?

Dr. LEVINE. I have two thoughts. I think that the open challenge to Soviet foreign policy through economic weapons has in my view little probability of success.

The Soviet need for our technology is not that overwhelming that they can't survive without it. There are other sources not as desirable as the U.S. source but there are other sources of almost all of this technology.

Third, again there are limitations on our political ability to wield some of these weapons. I don't think that an American administration would really be willing to deprive the American farmers of several billion dollars' worth of foreign sales in a situation like Angola.

I think that would erupt in an internal political conflict in which we would not be able really to apply those weapons and certainly in no sense be able to do it in as centralized a way as the Soviets are able to use such weapons.

We should realize the political limitations on our abilities.

Senator INOUE. In your study of our negotiations with the Soviets, would you consider American negotiators to be good bargainers?

Dr. LEVINE. I think the grain agreement that was worked out was a very good bargain from our point of view. As you look into the technicalities of it, there are some issues that one at a minimum would want further information on. My colleague, Professor Green, and I were testifying not too long ago before Senator Stevenson's subcommittee on the grain agreement.

Mr. Robinson indicated that one of the American policies in those negotiations was to encourage the Soviets to participate in this developing world program that we are trying to pursue and support of building up world grain reserves.

This would require the Soviets to build more grain storage capacity. It is not clear to me—I think it's so that that is not part of the agreement. That was part of an understanding.

I think that understandings with the Soviets are not things that one can build too much policy on. If that had been written into the agreement, I think—and it's a major part of our policy—I think that would have been better.

But in general I think the grain agreement was very good for us and for our agricultural sector.

One more comment to expand my answer to your previous question. I think it's worth pursuing the development of relations for the long-term objective. This is what I would advocate, that the payoffs to us should not be viewed as what are the payoffs this year or next year, but that the policy of getting the Soviets involved in the world economic community is an important policy.

In this regard, the Secretary of State's use of the term "a web of interdependencies" is one that strikes the specialists on the Soviet Union's a little wrong, that the Soviets are not going to get themselves involved in an interdependent situation. That is part of overselling détente. But a growing degree of interrelatedness where the Soviets have a developed core of an industrialized economy that will maintain their military defense and their national sovereignty, but developing at a margin more and more interrelatedness, this is in our interest and should be encouraged.

Senator INOUE. Is it your suggestion that over a period of time there might be some noticeable change in ideology because of such interrelationship?

Dr. LEVINE. That's a very important observation and my view is perhaps different than those of my colleagues.

My view is that as an operational part of Soviet decisionmaking as a determining part of Soviet decisionmaking, Soviet ideology is not that important.

I think that Soviet policy is made in Russia's interest. They are a conservative nation in that they wish to conserve what they have achieved and wish to build stability around them rather than shake up the world order for the Communist doctrines.

The ideology plays a role as a faith in an ideological society. In that way I don't think we will see a change in that ideology.

Senator INOUE. Thank you, professor.

Dr. LEVINE. Thank you.

Senator INOUE. I would like to call on Dr. Donald Green, professor of economics, University of Pennsylvania.

Dr. GREEN. I'm an assistant professor of economics at the University of Pennsylvania and a research consultant with the Stanford Research Institute. I would like to focus my testimony this morning on the new 5-year plan: What sort of information is communicated by that plan, what we know of it at the present, and our preliminary analyses of the plan and its foreign trade implications.

In pursuing these issues, I will be referring to work that has been done with the Soviet econometric model which has been built at the University of Pennsylvania, a joint project of SRI and Wharton Econometric Forecasting Association. We presently have about 2 years' experience with econometric models for planned economies, but this is the first 5-year plan where we can do basic econometric analysis using the model. We are preparing a more extensive analysis of the 5-year plan for the Joint Economic Committee later this spring. I will indicate some preliminary impressions and I will be happy to leave some figures that are preliminary and need to be treated that way.

The first point, in terms of the 5-year plan that was announced in publications in the Soviet press, is that it is very much a modest plan in the historical progression of Soviet 5-year plans. Our preliminary analysis of the previous 5-year period as well as some indications that Soviets have made of their own fulfillment of that 5-year plan indicates that it was seriously unfulfilled. The targets announced in 1971 were not met in any category other than that of foreign trade and in a sense in the foreign trade domain, they underestimated really the expansion of their real participation in the world economy over the past 5 years. Our indication is that the present plan is really rather similar to the performance of the preceding 5 years and it is much less ambitious than the preceding 5-year plan.

In the construction of 5-year plans in the Soviet Union, traditionally, little attention has been paid to foreign trade. Typically, such a plan is a collection of desired large scale investment projects with an attempt to balance commodities needed and commodities supplied in each year of the period. There is some attempt to balance commodities over the 5-year horizon but primarily it is an emphasis on the large investment projects. Foreign trade traditionally in the Soviet Union has been regarded as a means to adjust at the margin.

Where commodities were deficient the Soviet Union would come to the Council of Mutual Economic Assistance and ask for greater deliveries from these Eastern European nations or they would resort to Western markets.

If they anticipate surplus production in certain lines then they orient the Ministry of Foreign Trade to look for expansion of the markets in those areas. Historically, 5-year plans have not been constructed with a view toward their interrelationship to the world economy.

This could have been the first opportunity during the preparation of the 5-year plan to pay considerable attention to the world economy. They know they have increased their involvement in world trade in the past years and that there are potential export markets for commodities which the Soviets have demonstrated a capacity to produce and market abroad.

Also, with the interest in the introduction of more up-to-date Western technology in many of their processing branches, that might also have encouraged them to—in the process of deciding on investment projects—to simultaneously consider their interdependence with Western economies.

From what we can see that is not communicated in the plan guidelines. This document conveys no more indication of their awareness of the importance of foreign trade in the fulfillment of output targets or in the introduction of new technology.

The section on foreign economic relations is similar to past plans. It states an aggregate target of foreign trade turnover and then comments at length about brotherly interdependence with Eastern Europe. The role of East-West trade is not prominent within the document as it stands. Even within the particular industrial investment projects identified, the role of Western machinery in such projects, a communication of the priority for machinery imports, is conveyed in the document.

During the last several weeks we have begun to evaluate the feasibility of the plan on its own terms. The first thing that we did was to construct a rather simple projection of the Soviet economy through 1980, one that would take into account expert opinions concerning the pattern of world trade, the movement of world trade prices, Soviet intentions with regard to defense, and with regard to labor allocation. This simple projection indicated that the growth targets of the plan are much more feasible than were those in preceding plans.

The foreign trade implications were quite striking. That simple projection indicated a substantial trade deficit both with CMEA, Eastern Europe and with the developed West. In terms of dollars, it indicated extensive trade deficits to the end of the decade of \$2-\$3 billion with CMEA and approximately \$2 billion a year deficits with the developed West.

In a sense such deficits with the West would require a great deal of interrelatedness in order to gain financing of such recurring deficits. We began to introduce plausible responses to such deficits on the part of the Soviet Union. In terms of the relationship with Eastern Europe, given that the increase in Soviet export prices—that mechanism has been agreed upon and that will tend to raise the value of their exports to Eastern Europe in the next 5 years. We felt the projected degree of

imports was still implausible and would not be supported. In a sense we restricted their derived imports of machinery and raw materials from Eastern Europe to bring that balance closer to what was historically to be judged as a feasible balance.

On the developed West side, one could hypothesize that the Soviet Union would not allow its projected needs as our model projects for imported machinery to be cut back. Instead, it would attempt to expand exports, to turn to the Western banks for further financing and perhaps to sell more gold on the open market, all ways of closing the hard currency deficits the Soviets faced.

With this intervention with the model by the analyst, we arrive at a "control" solution, one which is internally consistent and plausible. That is the first one we have done. This analysis indicates that the plan will generally be feasible with a moderate increase in East-West trade. Not at the rate that has been experienced in the past 5 years, but a moderate expansion of 10 to 12 percent per year in East-West trade.

And under our hypothesized response, the Soviet hard currency deficit is closed by 1977-78, and for the remainder of the decade it is roughly in balance. There are considerable doubts as to the capacity of the Soviet economy to sell that degree of exports in a Western World economy with a moderate recovery rate. Even if the Soviet economy itself can afford the transmission of such commodities overseas, they may be unable to sell such volume without cutting prices.

So, an alternative scenario is one which might be labeled "international" belt-tightening. We are familiar with the pressure put upon public officials to tighten their own belts. Similarly, there may be pressure within the political arena of the Soviet Union to restrict the growth of East-West trade because of the necessary level of grain imports. Because of the higher productivity of Western machinery, many sectors of the Soviet economy can put forth strong arguments that Western machinery would be profitable in their sector of the economy. The centralized authority will have to ration its scarce hard currency reserves. So, the belt tightening would involve really a reduction of that projected growth rate in machinery imports from the developed West, probably for 2 or 3 years through 1978.

That would bring the balance of trade back to levels that the Soviet Union has regarded as admissible for financing with Western credit. That is in the range of \$1 billion a year. There is a clear precedent for such belt tightening. After the harvest failure of 1963 and with similar demand put upon the system for hard currency, machinery imports from the developed West fell in real terms in the period 1964 to 1966 in several industrial categories.

Certain important sectors were protected from that belt tightening, particularly the petroleum sector. The petroleum sectors actually obtained increasing amounts of Western machinery. That was regarded as important for the expansion of the supply of petrochemicals, particularly fertilizers for Soviet agriculture.

Across the board there was a substantial reduction in imported machinery from the West. That had certain consequences domestically. In our own quantitative evaluation we found that that retardation of imported machinery was costly in the long run in the Soviet Union because of the fact that Western machinery is more productive and it also embodies technology that can be introduced into new machinery

for the Soviet Union. This contributed to a slowdown in the rate of growth in the mid-1960's, and a reduction in the level of capital investment in the economy. I think there is a plausible alternative to Soviet expansion which would in part burst the euphoria generated over East-West trade.

Finally, I would like to turn to really the implications of this type analysis for Western business interests and also in regard to public policy, if I may. I would believe that it is fair to say that, even in the context of belt tightening, U.S. exporters of technology items should do quite well relative to their trade competitors. This has to do with the competitive position of the dollar, and also with the embodied technology available in American machinery which, while it might be obtained elsewhere, is generally not in the forms which the Soviet Union would desire.

The Soviet Union has developed a scientific establishment which is very adept at utilizing American technology, using American technology in the redesigning of its own capital goods. So a diversion away from U.S. machinery suppliers, I think, is not in the cards. I think that U.S. exports should hold their own and actually improve their relative position in a general context of belt tightening.

Already we have seen the concern of Western banks with these implications for the Soviet Union. If the Soviet regime itself has not paid a great deal of attention to the need to export, Western banks are beginning to pay attention to it and beginning to scrutinize applications for credit in terms of the derived export potential in the Soviet Union.

Applications for credit to purchase machinery which supports extractive industries: Timber, paper and pulp, ferrous metals, may be looked upon more favorably by Western banking interests than machines merely imported to upgrade the technology of the processing sphere of the Soviet economy. If the Soviets pay attention to the pressure of Western financial interests, they will tend to look more and more on concentrating their imports in such fields as opposed to across-the-board increases. This, in effect, is contradictory to many of the stated long-term objectives of the Soviet Union which is to lessen its labor constraints through upgrading the technology in those processing branches; machine building, for example, is highly labor intensive.

The situation in the world market, e.g., the resistance to increased Soviet exports, may, in effect, push Soviet decisionmaking in routes that support their export expansion as opposed to what the Soviets would prefer themselves.

I mention the euphoria of East-West trade. Over the past few years it was very much in the Soviet interest to encourage that by beginning negotiations with more Western businessmen than they intended to complete contracts with. Also, they encouraged them to be optimistic in their projected sales to the Soviet Union. There are a number of reasons why that was advantageous for the Soviet Union.

It, first of all, motivated Western firms to supply a lot of preliminary information about technology, about the competitive advantages of their goods. In a sense the Soviet Union set itself up as a receptor of technical information and competitive information from separate corporations in the Western market. It also encouraged Western corporations, I believe, to enter into contracts really at lower

levels of return than they might otherwise demand from transactions in the West. In a sense it was a step in the door.

The notion was if one was able to draw upon a preliminary contract that those would extend to the real payoff in the future.

Furthermore, it also contributed to corporate lobbying in the political process here. It contributed to corporate lobbying for most-favored-nation status for the U.S.S.R., generally for détente, for pressure on this side, for SALT negotiations and so forth. It was all to the advantage of the Soviet position to encourage that euphoria.

When you turn to the implications for the U.S. Government I'm not as convinced that there is a compelling need for governmental intervention here in the sense which Professor Levine has already indicated. Our high technology goods are sold really at prices that often don't reflect that full social costs of technical development. That is true for our sales throughout the world. That is one of the burdens, I believe, which a leader in technology can hardly avoid. One can hardly avoid in a sense selling those high technical goods in world markets at prices which do not reflect full social costs. I think that any attempt to recoup those costs from the Soviet Union differentially from other trading partners is bound to be interpreted as an affront. We shouldn't attempt to impose high prices in technical goods sold to the Soviet Union. As for long-term agreements on basic homogenous commodities that don't embody technology, those are definitely an area in which Government intervention is called for. Although there are many of us that may disagree over the benefits of the U.S.-U.S.S.R. grain agreement, it was an appropriate role for the U.S. Government to intervene in setting the limits as such and in trying to regularize that process.

The main contribution that the U.S. Government might have extended in the recent past was to support the information which many in the academic community tried to communicate to Western corporations in the last 5 years that much of the euphoria was ill-founded. Having Government representatives reenforcing that euphoria, I think, led to many inappropriate individual actions by corporations.

As Professor Levine suggested earlier, it is difficult given our open political system for representatives not to promise too much.

A major act of statesmanship might well have occurred in 1971-72, when the upsurge in euphoria took place. From an economic point of view, from a reading of previous Soviet behavior in the world market, great credence should not have been placed in a continuation of 15 to 20 percent growth rates in East-West trade.

Thank you.

Senator INOUYE. Thank you very much. Your analysis indicates that the new 5-year plan is less ambitious than the last one and shows very little awareness of the importance of the world economy with respect to East-West trade.

At the same time you have indicated that American business should play an important role within the 5-year plan.

Does this plan take into consideration certain global activities such as monetary fluctuations, recurring crises such as the energy crisis, or for that matter, unpredictable congressional actions?

Dr. GREEN. No; it abstracts happily from all such troubles of the world. In terms of the published document it does not even convey

an indication that there are advantages in the Soviet Union trading in world economy which is suffering problems in energy or is suffering monetary instability.

One of the things that we are becoming very concerned with is really the capacity of the Soviet economy over the next 5 years to buffer itself from world economic conditions. Will the Soviet Union be trapped into defending the ruble as other economies have been trapped into defending the dollar and defending the pound? Will they allow positions of principle to impede economic interests in terms of adjusting exchange rates or in trying to manage their hard currency problems?

With hindsight, one might argue that the Soviet Union should have been selling gold at twice the volume during the preceding 3 or 4 years. They chose not to do so. In a sense there are extensive lags in Soviet learning as well.

And other economies have learned by crises. Japan will probably not respond as tardily to international monetary disruption as it did in 1971, for example. I expect the Soviet Union will not respond so tardily to advantages and also to adjustments which prevent the importation of world economic problems.

In a sense the deficient recovery in the West is a real deterrent to internal growth rates. If there are great advantages in an imported Western machinery, and yet you cannot finance them, that will result in a reduction in the growth of the Soviet economy.

Senator INOUE. You have indicated some doubt as to whether the Soviets can effectively buffer themselves from outside influences.

Does this indicate that the Soviets themselves feel confident enough that their economy is sufficiently insulated from outside influences?

Dr. GREEN. I think they are confident of that. We have not yet done sufficient analysis of the last 2 or 3 years to see what the internal price consequences may have been of world inflation.

We know that there are accounting difficulties internally by continuing to buffer the stable domestic price levels from world price levels. There is the necessity to make accounting transactions, the payment of subsidies to firms, the entering of imported machines at artificially low prices, et cetera. That type of buffering from market signals, in any case, will lead to inefficiencies. There are certainly influential people within the Soviet bureaucracy who are concerned with this problem.

Senator INOUE. Thank you very much, Dr. Green. Thank you again Dr. Levine.

Our next witness is Marshall Goldman, professor of economics, Wellesley College, Wellesley, Mass.

**STATEMENT OF MARSHALL GOLDMAN, PROFESSOR OF ECONOMICS,
WELLESLEY COLLEGE, WELLESLEY, MASS.**

Dr. GOLDMAN. The question of whether or not détente and trade with the Soviet Union is an advantageous policy for the United States to pursue is not an easy one to answer. When writing my book on American-Soviet trade, I was never sure how my final chapter would end. Indeed there were four or five different versions and as so often happens with manuscripts, it is uncertain until the last minute what

the final version will be. After months of debate and indecision, I finally concluded that with all the costs taken into consideration, we are better off with détente and trade than without it.

All the issues that went into making such a decision are too lengthy to repeat here. Instead, as an economist, it seems more appropriate for me to focus on the economic costs and benefits of such trade. Having done that, I will then suggest some ways in which we might increase the benefits and possibly decrease some of the costs, in order to make the choice even more advantageous for the United States.

Let me begin first with the costs. There is no doubt in my mind that the transfer of technology in the long run is more advantageous to the Soviet Union than for the United States. It can be used for improvement of military superiority and economic competition.

The problem is what choice do we have to make. Bernard Baruch at one time said that the only thing that doesn't improve Soviet military capability is bubble gum. Unless we are prepared to restrict everything except bubble gum, then we don't have very much option.

Clearly, the Soviets have the ability to buy elsewhere. Indeed, there are some specialties where the West Europeans and Japanese are ahead of us in technology.

I would like to focus on those areas where the United States does not have superiority. It tends to be in industrial sectors where the Western Europeans have had a prolonged problem. They are short of national resources as opposed to the rich resources we have available. They, like the Japanese, have concentrated on synthetics and substitutes for raw materials.

In the same way, they focus on chemicals. In those areas we have a difficult time in competing with the Western Europeans and Japanese.

The Soviet Union, by definition, therefore, has many options that it can exercise from those countries which indeed may be more competitive than we are, particularly if our labor costs should be higher.

Another area where the American manufacturer faces competition is where technology does not move fast; where we may have developed a process, but the technology doesn't change for many years if at all. This then allows other manufacturers to adopt that technology and those processes.

The technology of manufacturing automobiles has not changed much. Once you have done it, it's easier for other countries to copy that.

What I would argue in this situation where there is strong competition from Western European and Japanese manufacturers is that the U.S. Government instead of taking the role of being a passive observer, should assume the role of a promoter of American trade.

The Russians have options elsewhere. If we don't sell it won't hurt the Russians. They will buy from other countries and other manufacturers. In large part, the policy of restraint has lost business for the United States.

I make an important exception when you can find something where there is a clear demonstration that it would immediately help Soviet military technology in ways that Japanese and West Europeans cannot supply.

Senator INOUE. Are you suggesting we are not doing this at the present time?

Dr. GOLDMAN. I am suggesting we are watching the military policy but we are not promoting the sale of American goods.

I feel strongly that we are not. Now, there are other areas where the United States is superior. Here the Western European competition does not match us. When this is so, we should exercise more restraint in our eagerness to sell, particularly where technology is fast moving such as in electronics or where there are advantages of scale or where our Government provides a mass market, for defense and space technology. The West European countries and the Japanese don't provide that kind of market and thus they find it harder to compete.

If the first cost of doing business with the U.S.S.R. is that they will gain advanced technology, the second cost is often thought to be that we will export these things to the Soviet Union and they will come back and start competing with us.

In some areas, that is true. For example the Soviet Union has an advantage from the fact it can muster larger quantities of capital and resources. Here it can be a very strong competitor.

For example, see what they have done in the fishing industry. There are few private investors that can afford to build up the fishing fleets that the Russians have. The same thing with dams. The Russians are strong competitors in selling hydroelectric plants and turbines. They are selling equipment to Brazil, Argentina, and Canada.

There are other areas where technology does not move fast. If they choose to the Russians can often mass produce certain products. Then they simply cut prices. They can do that because of the lack of connection between the ruble and foreign currency. Thus they have begun to sell tractors, cars and watches in foreign markets at cutrate prices. Again, if technology changes the Russians are caught with their pants down. This is happening in the case of watches.

Another area where the Russians may be stronger is in military activities and space. American manufacturers are finding strong competition from Soviet military sales.

Yet having seen what the Russians can do, it should also be said that we should expect some competition. After all, normally it's impossible to sell goods to an industrialized country without having some of those goods come back. Consequently, selling to the Russians is not as bad as it might be. The Soviet Union is one of the few instances where we can sell goods to a developed country and find that those goods are not coming back to meet us in the marketplace.

There are a long variety of reasons for that, which I have listed in the paper. Even where the Soviet Union seems to be strong, they are importing technology in fields such as coal, timber, and metallurgy.

In the first set of charts, you see the Russians export little in the way of machinery to the hard-currency countries but import large quantities of that kind of machinery. The Soviets simply find it hard to compete in the hard-currency countries.

What other costs are there? The Soviet Union sometimes will take advantage of us when it has to do with bargaining, and the two previous witnesses alluded to this. It happens that the social gains are not equal to the private gains accrued in an individual firm.

Often American firms are prepared to settle for less than the opportunity cost of the knowledge to the Soviet Union, and even for less than the full social cost of knowledge to the United States. The

reason for this is straightforward. Once a firm has developed a very unique body of technology, a large part of its total costs are already sunk. The cost of the transmission of that technology to one more buyer is a small part of the firm's total expenditure. In economic jargon, the marginal cost of the added sale is very much lower than the full cost of producing and selling the information. Yet from the selling firm's point of view, an added sale is economic once the sale price exceeds the marginal cost.

The national interest may also be involved here, particularly when the research and development costs for the technology are financed with public funds. One particularly unfortunate example of this, was the instance where reportedly, the United States sold the Soviet Union space suits that cost the American Government approximately \$20 million apiece. The sale to the Soviet Union was \$150,000 apiece.

The Soviet Union is a good bargainer. In the case of the first wheat deal, it was not a good situation for the United States.

Senator INOUYE. When did the space suit sale take place?

Dr. GOLDMAN. I don't have precise information about that. My impression is it took place 2 to 3 years ago. There are other instances where you can find this kind of thing happening because there aren't other governments or customers willing to buy products of our space technology. Who else do you sell space suits to? This is one of the hazards that exist.

One of the problems, according to many of the American corporations I have spoken to is that they are intrigued by the Soviet Union.

First of all, they are often willing to take an initial loss in the hope they can get their foot in the door. And they then hope to get subsequent contracts where they ultimately expect to make the money.

That first thrill is gone from many firms now. The Russians are monopsonists. They are often the only buyer. Moreover, the Russians don't have to worry about protecting a domestic seller.

When we, in the United States, buy from foreign companies, we have to worry that the American manufacturers will protest. When the Soviet Union goes into the market to buy something, it has clearly made the decision it will not worry about domestic producers and that they will then seek the cheapest price they can. Thus they can play one American manufacturer against the other.

Nor are other countries in exactly the same situation. Thus even though a country like Brazil, does not have many domestic manufacturers to protect, it does not have the size of the market that the Russians have. The U.S.S.R. is a temptation for the American manufacturer.

It's important to recognize that the Soviet Union does not always come out ahead in its bargaining. There have been many mistakes.

Yet the risks to doing business in the U.S.S.R. are high. American manufacturers, when they do compete, find they must make large expenditures of time and money. In one instance, a company spent as much as \$1 million to arrange for a \$10-million contract.

In other instances, I have documented \$300,000 to \$400,000 contracts to carry out a sale. If the whole thing falls through, it is just too bad.

You also have to understand that the Soviet capacity to buy in the future is going to worsen. That is indicated in the other table I have, which shows their poor balance of trade.

The Russians—in 1975, I estimate—will have a negative balance of trade of \$5 billion to \$6 billion. For the first three quarters of 1975, they have more than a \$2-billion deficit. When our quantities of grain enter into the last quarter, the deficit mounts up rapidly. That puts more pressure into the bargaining arena.

Now, I think, though having said that, I would add a warning that the Russians' 5-year plan, as I read it, shows a strong reliance on American technology that doesn't show up in the foreign trade sector of the plan. However, it does show up in the specific proposals made by industry.

The technology the Russians are talking about adding in the 5-year plan happens to be the same technology they are talking to American corporations and industries about buying.

If you compare this plan to the last 5-year plan, you can see specific references to industries in the United States that are being pinpointed. The Russians will find themselves interested in buying the technology, but under pressures because of the lack of hard currency. If the recession ends, the Russians will be in a stronger position to buy because, in 1974, they had a high surplus of earnings because mainly they export raw materials.

Now for the benefits of trade—the main benefit is that it's good for the American economy in a macro sense.

The balance of trade added close to \$1 billion worth of surplus for us in 1975. It helped agriculturally. It helped certain industries even though particular industries may have suffered.

Sales to the U.S.S.R. were important in the period of recession. There is no doubt that some industries were substantially helped with those kinds of contracts. In New England, industries would have closed down except that they had contracts from the Soviet Union.

Another benefit is that the Soviet Union can supply us with raw materials. It's clear that chrome and even petroleum can be imported by us. In 1974, we bought \$100 million worth of petroleum which, in this day and age, is not a major sum—but it helps.

Now what are the suggestions for reducing the cost and increasing the benefits?

The first thing to remember is that it is important to keep the Russians in the mainstream of world trade and not subvert our economic system to accommodate their needs and problems.

To some extent, as the Russians begin to sell or continue to sell more raw materials, this will be easier to do since the Russians are finding a ready market for their goods.

The Soviet Union is also building more companies that enter into international trade. The Russians have a series of banks, automobile companies, and refineries. They have been trying to build a refinery in Belgium. Maybe they would want to do that here in this country.

It happens that the Minister of Trade has been sick, and he is an old man. It's possible when he dies, that the structure will be changed and become less centralized by the Ministry of Foreign Trade.

The second thing is that it seems to me the United States should consider opening up new institutional approaches where we can do something to keep the price above the marginal cost.

Certainly it will be a difficult thing to measure marginal costs, but it's important to have more coordination among Government agencies and private companies.

I would like to see the Government play a more positive role. We should revise the antitrust laws and let companies coordinate their strategy. We should also let trade associations take a more active role in the negotiating process.

The FAA or ICC maybe can also help. It's not so outlandish. Of all places, it turns out that the Department of Transportation is coordinating the construction of a highway system in Iran. They are subcontracting the work to American contractors. That is exactly the way to do it.

We are doing this in the sale of cattle. There is a Vermont Cattle Trade Association which organizes cattle dealers. They then select certain cattle for export from the individual farmers so the farmers don't compete with themselves.

It will mean an increase in redtape. It's important to make sure we get more than the minimum price for what we are doing. If we don't, in the long run it will hurt American-Soviet trade.

In conclusion, trade with the Soviet Union is peculiar. At one time, the United States could control much of the flow of Western technology to the Soviet Union. Today we find our domination or technology transfer decreasing rapidly.

Instead of restraint or indifference, we should do all we can to promote the sale of American goods at a profit. Where we have a monopoly, we should exercise it and never accept the marginal cost for the sale of that good.

When a monopoly has been broken, we should recognize that. But in both instances whether there is competition or monopoly, one of our pressing concerns should be that American firms do not bargain their profit away. Both sides should profit. It's unlikely that trade in and of itself can assure détente. But if conducted improperly, it certainly can impede it.

Thank you.

Senator INOUE. Thank you very much. We have several agencies in the Government with vastly different policies toward the Soviet Union. Depending on the time of day of their press conferences, one agency might try to convince the Congress and people of the United States that there is a dangerous enemy across the ocean, and that we must spend billions more on defense. It would further suggest that this adversary of ours is constantly arming itself with only one thing in mind, our total destruction.

Then there might be another high-ranking administration official speak of easing tensions, while at the same time suggesting we pour in arms in Angola. Then we come to the department that is supposed to be in charge of foreign trade, and we find the commercial attachés in our agencies are usually the lowest man on the totem pole and often unqualified to assume economic positions, inadequately trained, and sometimes just waiting for retirement.

We have made attempts here to change our laws, as you have suggested, to ease antitrust restrictions, improve the Webb-Pomerene Act,

and in each case the Congress was opposed by the administration. Recently we put in a measure which was unanimously adopted by the committee, but violently opposed by the administration to require third flag carriers to appear before the Federal Maritime Commission to justify the reduction of tariff and to prove that it is commercially feasible.

We have seen the Baltic Steamship Co. in the Atlantic, for example, make drastic cuts in their tariffs. Our analysis shows that their tariffs are not cost-related.

So, whereas the Soviet Union had but a small merchant fleet at the end of World War II, they are No. 1 in shipping today.

How would you suggest we begin to bring all of these different agencies together so that we can at least speak with a single voice ?

Dr. GOLDMAN. I was going to try to make a joke, but it's not very funny. I don't think you want competition limited only to the corporate sector.

To some extent, I think in Government it's healthy to have some kind of competition. But there can be too much. We do need more coordination. To do this, I think there are certain ways to proceed. In my formal statement, I suggest a greater role of this sort for the Bureau of East-West Trade which I neglected in my summary.

That seems to be an ideally suited organization for this type of procedure. It doesn't have the clout of the Department of Defense or Department of State. But if somehow or other they could be upgraded, they may be the ones to indulge in more promotion. They have now after all, some commercial offices set up to aid businessmen in Moscow, Poland, and also Vienna.

It's more than a question of offices. It's more than sending over trading missions to the Soviet Union.

It might be possible for the Bureau of East-West Trade to involve some of the regulatory agencies in the United States. For example, other Government departments might be asked to think up projects and present them on a government-to-government basis. It happens this is what the Western Europeans do. In some cases the prime minister will come and make the presentation. I don't think we need to come to that. But certainly, it's not beneath the dignity of the Secretary of Commerce to present a package of goods on behalf of our Government and private industry. The Department of Commerce itself and its agency of Bureau of East-West Trade could easily do this if given more prestige.

Senator INOUE. Some Members of Congress say that instead of relaxing our restrictions on the export of high technology goods we should tighten them, that possibly we have been too liberal in our policy in certificating goods for export. What are your thoughts on that, sir?

Dr. GOLDMAN. As I tried to indicate in the paper, increasingly we are having less choice over the matter. We may say so. Then the Europeans or Russians may go to a subsidiary overseas or a foreign producer. Our control over world technology has diminished.

I, myself, in the past, have been very leery of selling American technology. This represents a change for me. But I am now convinced we have less say in the matter.

In the areas where we have some say, I argue yes indeed, we should use some of these things as a weapon.

Grain, I think, is more of a weapon than some of us realize. It's strange that America should try to use grain as a weapon instead of technology, but in dealing with the Soviet Union, we have more leverage there, although I agree there is a danger in applying too much leverage with the grain weapon. But I'm convinced it can be used.

I think the State Department has been too timid in the past. In some cases, just being suggestive may be enough in the use of these so-called weapons.

The Russians were quiet in the Sinai agreement because they were worried about getting the grain when the grain embargo was in force.

Senator INOUE. You have suggested where we do have a monopoly market of our goods that we should be a bit tougher. I can't understand why we spent \$20 million and then just got over \$150,000 back for the space suits. I realize it is a small item.

What rationale did the Government give for that?

Dr. GOLDMAN. I have not spoken to the firm or Government agencies involved. I have heard this from other organizations. The rationale would be that this is a sale we wouldn't have otherwise had.

Senator INOUE. Was this a sale of available suits, or did we make them to their order?

Dr. GOLDMAN. I would assume it was the sale of available suits, but the technology had been worked out largely because of the Government contracts and the taxpayers' money.

I think Professor Green said something that was interesting. Almost everything we sell doesn't bring the full cost of recovery when we export overseas. But some of the things we sell to the Soviet Union because it's a one-of-a-kind market, represent more of a loss than would otherwise be the case.

Senator INOUE. Your conclusion is that we are generally weak bargainers.

Dr. GOLDMAN. Yes; on the whole, we are weaker bargainers with the Soviet Union than other countries in the world. It's tied up with the mystique of selling to U.S.S.R. It's tied up with the fact that the Russians are skilled bargainers.

To some extent this is due to the fact that they have such a complicated bureaucracy and trading with them is a cumbersome process. Americans like to make contracts fast and get on with it. After a while, the Americans weary of the whole operation. If you have put in \$400,000 or \$500,000 or in the one case I mentioned, \$1 million—10 percent of the contract—in the process of traveling back and forth and drawing up proposals, you want to get something out of it.

You will settle for anything. In one case I know of, a company said, let's stop, write it off and that's the end of it. But usually once you have committed yourself, you want to bring home something. It's embarrassing if you are a vice president and try to justify the money without being able to show a contract.

Senator INOUE. Is this being repeated with the People's Republic of China?

Dr. GOLDMAN. Less so. Because the People's Republic of China has not bought the quantity of machinery that the Russians have. The Soviets have made large purchases of equipment.

For example the Chinese and Russians both wanted to buy ammonia plants from Kellogg. The Chinese were happy to accept standard plants which had a capacity of 1,000 tons of ammonia a day. The

Russians, because they want something a little larger and better than anybody else wanted plants that made 1,500 tons. You couldn't take that off the shelf.

The Chinese plants were standard design and you could give them a fixed price. If you enlarge the plant, then it takes more technology and it would cost a higher price. The Russians then say, why is our plant going to cost proportionally more than the Chinese.

It has not been as difficult to deal with the Chinese. The Russians, it seems—well, it seems it takes them longer to make up their minds.

Senator INOUE. Is it deliberate?

Dr. GOLDMAN. In some cases, yes. If you talk to Americans or Russians, they will describe how the Russians double team you. In some cases, it's indecision but in other cases it's deliberate. For example, you may be told to arrive so negotiating can begin on Friday. You arrive on Friday and they say, it's the end of the week let's wait until the beginning of the week, Monday.

Then on Monday, you can't see the person. Many Americans pick up and come home. In the case of the Kama River truck plant, the president of Swindle Dressler, flew home in disgust at one point.

Americans are not used to dealing that way. We think of ourselves as hardnosed but we lack the patience. If Jimmy Hoffa were alive, he would be a better negotiator for a lot of these things, perhaps, than American businessmen.

Senator INOUE. Is it your feeling that it is in our national interest to expand East-West trade?

Dr. GOLDMAN. Yes, again, that is not easy. Having discussed all of the handicaps and all of the hazards, I still think it is advantageous. I realize that every time there is increase in the American-Soviet contact, the Russians tighten the screws at home. Yet given everything, it's much better where there is trade, I'm convinced, than when there is not. In the long run, it may be that we will build up Soviet military and industrial technology so that we will be sorry, but I think it's worth the risk.

I have concluded in the fast changing world we live in that you better worry about the next 5 years than the next 25 years. On that basis, I'm happier to see the Russians drawn into world commerce. I recognize that taking them to Las Vegas and treating them like Americans will not suddenly make them want democracy. Moreover they can also retreat from world trade when they want. It's a slow tedious process.

In sum it's good for our own business, international commerce, civil liberties, and human rights.

Senator INOUE. Professor Goldman, thank you for your contribution this morning. You were most helpful. I received a great deal from your insights and analyses.

[The statement follows:]

STATEMENT OF MARSHALL I. GOLDMAN, PROFESSOR OF ECONOMICS AT WELLESLEY COLLEGE AND ASSOCIATE DIRECTOR OF THE RUSSIAN RESEARCH CENTER OF HARVARD UNIVERSITY

The question of whether or not detente and trade with the Soviet Union is an advantageous policy for the United States to pursue is not an easy one to answer. When writing my book on American-Soviet trade, I was never sure how my final chapter would end. Indeed there were four or five different versions and as so

often happens with manuscripts, it is uncertain until the last minute what the final version will be. After months of debate and indecision, I finally concluded that with all the costs taken into consideration, we are better off with détente and trade than without it.

All the issues that went into making such a decision are too lengthy to repeat here. Instead, as an economist, it seems more appropriate for me to focus on the economic costs and benefits of such trade. Having done that, I will then suggest some ways in which we might increase the benefits and possibly decrease some of the costs, in order to make the choice even more advantageous for the United States.

COSTS

Perhaps the major cost of American-Soviet trade is the fact that the Russians are primarily interested in obtaining our advanced technology. This is intended to improve their military capabilities and their economic productivity. There is no doubt in my mind that the sale of American technology does indeed enhance the Soviet Union in this respect.

The important question to ask here, however, is what control do we have over such technology transfers? If we wanted to, could we stop such transfers?

Bernard Baruch, when asked what goods do not enhance another country's military potential, replied, "Only bubble gum." In other words, almost anything we sell to the Soviet Union, from grain to machine tools, enhances Soviet economic and military potential. The problem is, however, that American superiority in wide areas of technology is no longer as great as it once was. Thus, if we refuse to sell, the Russians have discovered that indeed adequate, and some times superior, substitutes are available elsewhere.

The first thing to do is to look to see where American technology is not superior. Although there are exceptions, it seems fair to say that there are some areas of technological development where the West Europeans and Japanese have traditionally been on a par or ahead of us. Thus, because of their own limited resource endowment, the West Europeans and Japanese have concentrated on the development of synthetics and raw material conserving technology. For much the same reason, they have also done particularly well in the chemical industry.

Competition for American industry is also strong in those areas where technology has not moved fast. Thus it is usually easy for foreigners to buy American technology and adapt and, in many instances, improve it. This is particularly true in areas such as automobile manufacturing and metallurgy. Thus the Japanese and Europeans have become major factors in the automotive markets and in certain areas of electronics.

In considering whether or not to encourage or restrict the sale of such items, it should be kept in mind that our refusal to sell simply means that sellers in other countries will be able to fill the needs of the Soviet Union. Thus, instead of a negative or different attitude toward sales of such items, it might be worthwhile for the American government to promote and stimulate the sales of such products in the Soviet Union. Of course, if it can be shown that such items have a direct use in military industry, then a more cautious attitude is necessary, but usually the implication is that such goods would be available elsewhere.

The areas in which American control seems to be most effective would be in those areas where the United States has a clearly demonstrated superiority and where competition overseas is hard to find. This still holds for most of the advanced computer development as well as with certain advanced machine tool operations. In other words, in areas where technology moves very rapidly, the United States seems to be ahead. Frequently this is because of not only the engineering and inventive superiority which American industry still maintains, but because the development of such items requires large government support in the form of contracts and a large market to warrant the investment in the first place. These are areas where the West Europeans, because of the small size of most of their governmental units, and the Japanese, because of their small expenditures on defense, seem to be behind. However, even in such areas, the lead time in technological superiority seems to be shrinking. The implication is then that even in clearly demonstrated areas of American superiority, frequent reexamination of policy is essential.

Another cost of trading with the Soviet Union is frequently thought to be the danger that such sales will simply mean that the Soviet Union will start competing with us in third markets. Indeed, through the years the Soviet Union has begun to enter into foreign markets and some of our manufacturers are en-

countering Soviet competition. In particular, this competition will arise in areas where the Soviets have some built in advantages in the development of their technology. Thus the Soviet's economic system should be expected to do well when some process is not particularly noted for its technological complexity, but where there is a need for some central source to gather and direct large quantities of capital and resources. Thus the Russians have done an outstanding job in building up their fishing industry. Here their advantage seems based on the fact that they were able to direct large quantities of capital, more than any superiority in the development of particularly complicated ships. In fact, a large number of the ships being used in the Soviet Union have been built in other countries in both Eastern and Western Europe. But the important thing is that the Russians are able to put aside significant sums of money for the construction of the mother ships and the trawlers. In the same way, the Soviet Union has become a major factor in the shipping industry. Their merchant marine now has become a major competitive force. The Russians have also done well in the building of dams and turbines and generators because of their extensive experience in putting aside capital funds for the building of dams. The Russians have been able to sell some of this technology to dam builders in Canada and Latin America.

Another area where the Soviet Union is entering foreign markets is where again technology is not fast-moving but where the Soviet Union can copy the mass production operations that have long existed in the West. While Soviet products produced in such a way are not necessarily noted for their quality, the Russians may find that they can enter the market simply because they are able to cut the price to whatever length necessary in order to break into the market. This is because the domestic ruble bears no fixed relationship to international currencies. Naturally the Russians would prefer to sell for as high a price as necessary, but will find that if necessary they will sell at below the prevailing price. In this way, the Russians are selling such items as watches, cameras, tractors, and automobiles on foreign markets. As yet, they are still selling relatively small quantities of tractors and automobiles. Moreover, if technology changes suddenly in these areas, the Russians will find themselves at a serious disadvantage. Thus the move towards digital watches has cut into Soviet prospects for the future.

Finally, the Russians also expect to do well in the sale of military and space items, which have received priority attention in the Soviet Union. Here technology is important and usually advanced although still behind that developed in the United States. But American arms sales have found it necessary to compete more and more with Soviet sales.

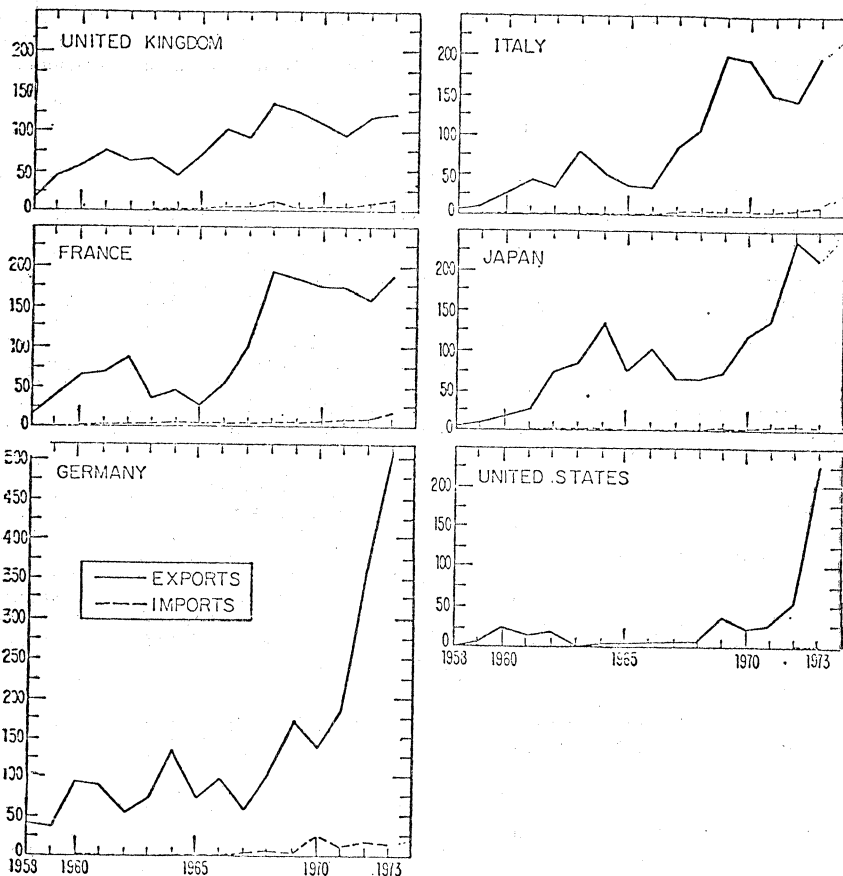
Generally it is necessary to point out that there are certain characteristics which will hamper and frustrate Soviet efforts to break into foreign markets and compete with American and western goods. These problems stem directly from the problems that exist inside the Soviet Union and frustrate their own internal operations. These have been spelled out at great lengths by other analysts, but to list them briefly: The Russians find it hard to innovate. They can have very advanced laboratories but find it difficult to move their inventions from the laboratory to the factory floor.

The Soviets seem best at the linear improvement of the technology rather than any discontinuous or startling advances. This is because their incentive system hampers any innovative changes. The Russians have always had difficulty in supplying replacement or spare parts. Their supply system, both internally and externally is hopelessly confused.

The Soviet Union finds it hard not only to adapt to internal market demands, but to foreign market demands. This is due to the lack of competition in Soviet industry. Given the Russian "take it or leave it" attitude, they simply are not concerned in meeting consumer demands. The Russians recognize this, and one way they have sought to cope with the problem is to hire western agents like Satra to market and give them guidance on the sale of their watches and cars.

Ironically, even in those areas where the Soviet Union seems to have an advanced technology and to have a reputation for the production of certain items, the Russians find it necessary to import technology, machinery and advice for the production of coal, timber, and steel. Indicative of how unequal the export-import flow of machinery is between the Soviet Union and the western countries, is the chart below. This shows that the Soviet Union does well when it can export as much as \$10 million worth of machinery to the hard currency countries, whereas it will import as much as \$500 million worth of machinery in the same year from the same country.

CHART 362
Imports and Exports of Machinery by Selected Countries in Trade with the USSR
(In Billions of Dollars^a)



Source: From annual issues of VT SSSR.

^aConverted from the ruble at the rate of 1 to \$1.11 prior to 1972; 1 to \$1.213 in 1972; and 1 to \$1.34 in 1973.

However, for the United States, the threat of a sudden outpouring of Soviet goods to the United States is not a realistic one. The Russians in a remarkable fashion, have agreed in the 1972 U.S. Soviet trade agreement, that "both governments agreed to consult promptly at the request of either government whenever such government determines actual or prospective imports of a product originating in the other country . . . could cause, threaten, or contribute to disruption of the market of the requesting country." In other words, we can request that the Soviet Union to cease the sale of goods to the United States when American industry is threatened. The threat, therefore, lies not in Soviet sales in goods to the United States but to third countries. Thus the threat of disrupting American markets is not a real one.

Another, and perhaps more serious cost of dealing with the Soviet Union, is the fact that the Soviet Union seems to be situated so as to take advantage of American companies in contractual negotiations over price. As Raymond Vernon and I concluded in a paper we prepared for the Department of Commerce, "On the whole the risk is high that the private U.S. firms will settle for less than the opportunity cost of the knowledge to the U.S.S.R., and even for less than the full social cost of the knowledge to the United States economy."

"The reasons for this . . . are fairly straightforward. Once a firm has developed a very unique body of technology, a large part of its total costs are already sunk. The cost of the transmission of that technology to one more buyer is a small part of the firm's total expenditure. In economic jargon, the marginal costs of the added sale is very much lower than the full cost of producing and selling the information. Yet from the selling firm's point of view, an added sale is economic once the sale price exceeds the marginal cost."¹

The national interest may also be involved here, particularly "when the research and development costs for the technology being offered were financed in large part with public funds and where the product has military potential." One particularly unfortunate example of this, was the instance where reportedly, the United States sold the Soviet Union space suits that cost the American government approximately \$20 million apiece. The sale to the Soviet Union was \$150 thousand apiece.²

The reason for all of this is that the Soviet Union is well placed as a bargainer. Because of the monopoly of the Ministry of Foreign trade, the Soviet Union is in a good position to play off one foreign seller against another. Moreover, when the Soviet government enters into the foreign trade market, they do so having clearly concluded that they are not going to buy from domestic suppliers. Thus in the bidding that takes place, there is no need to give preference for the high domestic bidder. This allows them to play off prospective competitors in a way that usually is unavailable to the more developed western countries who have their own domestic suppliers who often call for and receive national preference.

While it is true that a country like Brazil presumably should be able to take advantage of the same kind of bargaining stance, in practice it turns out that the Soviet Union is more advantageously placed. The reason for this is that the market in the Soviet Union appears to be so much larger. Thus there was a pronounced willingness on the part of American manufacturers to offer loss leaders in an effort to crack the Soviet market. The hope was that once the foot was placed in the door, there would be follow up purchases that would compensate for the initial bargains. That's not the way the Soviet Union normally operates, however. In addition, many American businessmen were initially infatuated with the idea of trading with the Soviet Union. Many of them devoted disproportionate time and talent in comparison to sales in other countries.

This is not to say that the Soviet Union in its bargaining always comes out ahead. In many instances poor bargains are made by the U.S.S.R. and indeed many firms have made substantial profits in their trading with the Soviet Union. Discussions with large numbers of businessmen indicate that many of them are very much satisfied with the business they have done. At the same time, however, there are many who have lost substantial sums of money for some of the reasons spelled out above. Moreover, there is a very high risk and very high expense involved in obtaining the contract in the first place. Because of the distance and the time usually required for negotiations with the Soviet Union, the cost in both time, talent, and frustration is very high. Contracts usually take a long time to negotiate. In at least one instance, a company has expended \$1 million to win a \$10 million contract. In other instances, I have found examples where businessmen have spent up to \$400 thousand to negotiate and design a proposal only to lose in the bidding to either another American company or a foreign company.

The pressures from the Soviet Union to negotiate tight and low price contracts will probably be accelerated in the months ahead. This means that Americans will come under more pressure to set low prices. The reason for this is that the Soviet Union has encountered severe balance of trade deficits. Much to their surprise, they ran full force into the worldwide business recession. Because they had convinced themselves that this would never happen, they made little or no provision for it and indeed ignored it. As a result the deficit for 1975 in their exports and their imports should be on the order of \$3 to \$4 billion.

¹ Raymond Vernon and Marshall I. Goldman, "U.S. Policies and the Sale of Technology to the U.S.S.R.," prepared for the Department of Commerce, mimeographed October 30, 1974, pages 29 and 30.

² Marshall I. Goldman, "Detente and Dollars: Doing Business with the Soviets," New York, Basic Books, 1975, page 244.

As the accompanying table shows, the deficit for the first nine months of 1975 already exceeded \$2.2 billion. When the grain purchases are added to the overall total, it is likely they will have a deficit of close to \$5 to \$6 billion.³

SOVIET TRADE BALANCES WITH HARD CURRENCY COUNTRIES

[In millions of dollars]

	1971	1972	1973	1974	1st $\frac{3}{4}$ ¹ 1974	1st $\frac{3}{4}$ ¹ 1975
Capitalist data:						
Imports from U.S.S.R.....	2,553	2,915	4,561	6,838	4,873	4,959
Exports to U.S.S.R.....	2,251	3,328	4,894	6,260	4,020	7,227
Balance for U.S.S.R.....	+302	-413	-333	+578	+853	-2,268

¹ 1st 8 mo for Italy, Netherlands, and Norway.

BENEFITS

In spelling out the costs, it was shown how some of the costs were actually not as significant as it was thought, and indeed, in some instances, might be benefits. In this section we will spell out briefly some of the benefits although most of them are obvious.

The first thing is that sales to the Soviet Union have been helpful to the American economy. While it is true that some companies have lost money, the overall effect has been positive.

The first thing to recognize is that agricultural products have frequently been the most important part of our exports. This is shown on the table on the next page. The machinery exports for 1975 have increased in dollar value. This is due in part because of the orders for the Kama River Truck Plant which were being delivered in increasing quantity in 1975 and also because of the inflation that was taking place and being reflected in the higher prices of machinery.

There is no doubt however, that the Soviet Union has cut down on some of its purchases in the United States and transferred them to countries in western Europe, particularly Germany, and to Japan. This is largely in response to the Soviet pique over the Jackson-Vanek Act setting conditions for the extension of Most Favored Nation treatment to the Soviet Union and over the Stevenson Amendment limiting access to the Export-Import bank.

Nonetheless, exports to the Soviet Union in 1973 totalled over a billion dollars and over 600 million dollars in 1974. It looks like the figures for 1975 will also be above a billion dollars. In 1975 in particular, this was an important stimulus to our economy which needed all the exports it could earn during the recession. These sales were not only good for the industrial workers and for farmers, but also for those corporations which did not underprice their products.

UNITED STATES EXPORTS TO THE U.S.S.R. BY MAJOR CATEGORIES

[In millions of dollars]

	1971	1972	1973	1974	1975 (3 quarters)
Chemicals.....	38	21	17	28	34
Manufactured materials.....	10	10	35	27	33
Nonelectric machinery.....	54	53	182	188	334
Electric machinery.....	6	7	14	28	
Transport equipment.....	3	1	8	9	
Miscellaneous manufacturing.....	7	9	10	15	16
Total manufactured products.....	118	101	266	295	417
Food.....	17	366	842	283	483
Crude material.....	27	71	78	25	26
Oil and fats.....		2	6		14
Total agriculture products.....	44	440	926	313	523
Combined total.....	162	542	¹ 1,195	² 609	940

¹ Excludes \$3,000,000 of reexports.

² Excludes \$1,000,000 of reexports.

Source: East-West Trade, Bureau of East West Trade, U.S. Department of Commerce.

³ Marshall I. Goldman, "The Soviet Union is Not Immune", *Foreign Policy*, Winter, 1975-76, page 76.

Another important by-product of such sales is the fact that this helped to improve our overall balance of trade. Our trade with the Soviet Union has been very one-sided thus far and has earned the United States a considerable surplus in the balance of trade.

It is true, of course, that while selling the Soviet Union these goods, particularly agricultural products, the supply remaining in the United States is smaller than it would otherwise have been, and that this has the effect of either pushing up domestic prices or at least curbing the fall that would otherwise take place in domestic prices. But again that is something that happens with anything exported from the United States. The problem heretofore has been that the Soviet Union, particularly in its purchases of our agricultural commodities, has darted in and out and this has caused disruption in the markets. The hope is with the new long-term grain agreement signed with the Soviet Union that there will be much less fluctuation in prices due to this.

It is also true that in some cases some corporations, particularly in Europe, did not fare as well in dealing with the Soviet Union as they had anticipated. The reason for this was that they signed contracts for repayment in goods produced in the Soviet Union and in Eastern Europe. This seemed to be smart policy in a time of prosperity, particularly when repayment was to take the form of raw materials. However when recession hit, and inventories began to accumulate, the Soviet-made or produced raw materials were simply added to the inventory pile and American exporters would have been much better off with currency rather than commodities.

It should also be recognized when dealing with the Soviet Union and selling the Soviet Union machinery that there is an advantage in that the Soviet Union, as was discussed earlier, is less likely to be a competitor with the American seller. The Soviet Union is one of the few industrialized countries that American manufacturers can sell to and not worry that in a very short period of time he will be meeting the fruits of that machinery coming back to compete with him. The question with the Soviet Union is whether or not it will ever compete on a significant basis, not whether it will be in a few months or year's time. In selling to the Japanese or to the West Europeans, the lag is a much shorter one and indeed it is to be expected that exported technology will be put to work immediately not only in domestic markets but also in external markets. Because of the planning and adaptive problems discussed earlier, we saw how the Soviet Union takes a much longer period of time to master the technology and to begin producing on its own.

Finally, another important benefit from trading with the Soviet Union is that as one of the world's most important exporters of raw materials, the Soviet Union can play an increasingly important role in supplementing our depleted raw materials. Already the Soviet Union is a major producer of chrome and in 1974 the Soviet Union provided us with over a hundred million dollars worth of petroleum. Conceivably it could be an even more important supplier in the future.

SUGGESTIONS FOR REDUCING THE COSTS AND INCREASING THE BENEFITS

As the Soviet Union becomes an increasingly important factor in international markets, there will be a strong temptation to restructure our economy to resemble more closely the Soviet system of foreign trade.

In some instances this may be inevitable, but it should be resisted wherever possible. A much more desirable strategy would be to encourage the Soviet Union to adapt its structure to resemble more closely that of the international trading community. This is not a futile hope. To the extent that the Soviet Union finds itself becoming a more active participant in international markets, this is more likely to happen. In other words, its raw materials command hard currency and consequently there is less need for the Soviet Union to enter into barter arrangements. Moreover, the Soviet Union has already established several western affiliates, and this should be encouraged. One of the most important examples is the Moscow Rahrodny Bank. There are other joint-stock companies set up in Western Europe which operate just as western companies do. The range of companies covers a spectrum from automobile dealers to petroleum distributors. For that matter, the Soviet Union should be encouraged to build and operate a refinery in the United States to sell Soviet petroleum.

There is also the likelihood of a significant change in Soviet operating patterns once the Minister of Foreign Trade retires or dies. Minister Patolichev has long been an opponent of change, but he has been quite sick recently and with

his departure, it may be easier to implement some of the reforms that many in the Soviet Union have been advocating.

But all the change should not come and should not be expected to come from the Soviet side. There should be some significant changes in operating style in the United States as well. This is particularly important if we are to hold the cost of our goods above the marginal cost.

There is a clear need for coordination among American sellers in order to eliminate or at least reduce the Soviet ability to play off one seller against another. With its position as a monopsonist, the Soviet Union should be faced by some kind of equivalent monopolist. There are several ways in which this can be done. Perhaps the most promising way would be to revise some of the anti-trust provisions or least interpretations. The Webb-Pomerene Act should also be re-examined in order to allow American firms to coordinate their strategies more effectively. While there are clear dangers in allowing American corporations to consort with each other about price, the main beneficiary at the present time of a policy which precludes such discussions, is not the American consumer, but the Soviet Government.

Towards the end of providing more coordination, the trade associations of the different industries might also play a more active role. For example, in the aeronautics industry, The American Institute of Aeronautics and Astronautics was approached by the Soviet Union to fulfill such a role, but the trade association felt reluctant to. Our trade associations should be encouraged rather than discouraged from taking on such a function.

There also is a much more active role for the government to play. Many of the organizations which currently regulate industry might also be encouraged to promote and serve as contracting agents. For example, in the sale of the air traffic control system to the Soviet Union, the FAA was approached to serve as a coordinator of such a sale. To its credit the FAA did ultimately take an active role even though the contract was lost to another country. Other organizations such as the FCC and the ICC might also be converted into such activity. Certainly the Bureau of East-West Trade under the Department of Commerce would make an ideal vehicle for providing a much more active role than it currently is doing or authorized to do.

Such a suggestion is not as outlandish as it might seem at first. Strangely enough the government apparently is already involved in carrying on such coordinating and indeed contracting activities. It seems strange that it should begin in the sale of goods to a country like Iran, but nonetheless it did. The Federal Highway Administration of the Department of Transportation has promised to provide 125 million dollars in road building equipment for Iran and to help Iran develop its highway system. The Highway Administration will buy and provide technical assistance from private contractors in the United States and the Highway Administration will then be reimbursed by the Iranians.⁴ The export of cattle from the United States has been coordinated this way for some years. The Holstein-Friesian Association of America has taken upon itself the responsibility for selecting cattle from individual farmers for sale not only to Eastern Europe, but to Western Europe and other countries as well. While this organization's function is primarily to serve as a middleman, it also serves to prevent individual competition between individual farmers.

One of the key functions of such an activity should be to be sure that something more than the marginal cost is being covered in the sale of technology and products to the Soviet Union. Undoubtedly increased activity by either the Bureau of East-West Trade or any of these other governmental organizations will increase the red tape and the time consumed in arranging for such sales. We are all aware of how cumbersome it is at present. Nonetheless, while it is true that we should also be looking for ways to accelerate the process of arranging for sales, it should not be forgotten that it is not just the American side which provides and imposes red tape. Most of the delays thus far have usually come from the Soviet side. It does not seem too much to ask that the Federal Government, particularly in areas where technology has been financed by the tax payer, be empowered to insure that a minimum price is charged for the sale of technology. It perhaps would be wise to establish a cut-off point, say for example 5 million dollars. This would mean that sales below that amount would not be subject to federal scrutiny. But above that price some examination does seem warranted. It is also true that it would be difficult to determine exactly what

⁴ The Wall Street Journal, May 27, 1975, page 7.

the marginal cost is and what a fair price would be, but despite such obstacles, additional intervention by some public body seems warranted to insure that the benefits of American-Soviet trade are not eroded.

CONCLUSION

In sum, trade with the U.S.S.R. is a peculiar phenomenon. Whereas at one time, the United States could more or less control much of the flow of western technology to the Soviet Union, today we find our domination over technology transfer diminishing rapidly. Thus our refusal to sell a wide variety of goods merely assures that the Soviet Union will transfer its order elsewhere. In such cases we should do all we can to promote the sale of American goods—but at a profit. Where we still have a monopoly, we should exercise it and never accept just the marginal cost for the sale of the goods. At the same time, we should be careful to insure that we recognize when that monopoly has been broken so as not to hold out for too large a price.

But in both instances, whether there is competition or monopoly, one of our most pressing concerns should be to insure that American firms do not bargain their profit away. American and Soviet trade, if conducted properly, i.e., at a profit for both sides, so that neither side feels it is being taken advantage of, can help to firm the desire for détente. It is unlikely that trade in and of itself can assure détente, but if conducted improperly, it certainly can impede it.

Senator INOUE. Our next witness is Dr. Marshall Shulman.

STATEMENT OF MARSHALL SHULMAN, DIRECTOR, RUSSIAN INSTITUTE, COLUMBIA UNIVERSITY

Dr. SHULMAN. I appreciate the invitation to testify before your committee. I have been impressed with the sobriety, deliberateness, and thoughtfulness of your investigations and it does seem to me that this kind of a thoughtful examination of our national policy, which was so lacking at the time of the passage of the Trade Reform Act of 1974, is now generally needed. Incidentally, I am no longer the director of the Russian Institute at Columbia.

Unlike the three previous witnesses who appeared this morning, I am not an economist. I work in the field of international politics and international relations. I am concerned about the political context of the questions before you, and would like to submit a brief oral statement on this subject.

The main thrust of what I have to say is that it would be wise to make some changes in the Trade Reform Act of 1974, as that act bears on our economic relations with the Soviet Union. I would like to say something about the political background now affecting United States-Soviet economic relations.

It is clear that although there has been a multiplication of contacts between the two countries the easing of relations that was projected at the time of the summit of 1972 has not progressed in the way that was then anticipated. Particularly in this country it is evident that the general climate of public opinion is more skeptical than it was about the ambiguous conception of détente, which has a range of meanings.

There are a number of reasons for this. On the American side in part it is because of the misconceptions about the nature of this relationship that were developed in 1972, in quite an indiscriminating way. There were quite fuzzy notions of what détente meant. To some there was an expectation that it meant an end to the rivalry and something approaching a rapprochement. Perhaps what we are experienc-

ing now is a healthy correction of some of the misconceptions of that time.

On the Soviet side also there have been misconceptions. There has been the expectation on the Soviet side that it is possible at the same time to move toward an easing of relations and yet to carry forward the ideological struggle, to carry forward the competition for influence without these objectives interfering with each other. We have seen that they do interfere with each other.

Also it is clear that the operational problems of having closer relations with the non-Communist world have obliged the Soviet leadership to tighten many aspects of their cultural controls which have awakened moral questions in the non-Communist world, which have complicated our relations.

The interactions that have taken place between the two countries in the last few years in the military, political, and economic realm have been instructive for us. They have certainly not borne out some of the high hopes that were projected for this relationship. On the military side, it is clear that the negotiations in SALT and for the reduction of European forces have not been anywhere near as productive as we hoped. Instead, we have seen a continuation of the military buildup.

On the political side there is competition for political influence in various parts of the world. This was to be expected from the Soviet definition of peaceful coexistence but their words were not taken literally at the time. It has a certain impact on public opinion now in the case of Angola because we didn't take this aspect of the relationship seriously enough.

It is clear that what we have is a mixed relationship. It involves elements of competition, which are likely to go on for some time. It has some elements of overlapping interests also, particularly in the effort to stabilize the strategic military competition.

The development of economic relations has been far short of Soviet expectations and also some of the projections that American officials made. It may be useful to go back and say a word about the place of the economic aspect in both the Soviet and the American approach to this relationship.

At the time of the party Congress in March of 1971, when the present policy was articulated in the Soviet Union, it was clear the economic motivation was an important element in the Soviet side. The Soviet economy has faced serious problems in productivity, agriculture, construction, transportation, and perhaps, most important of all, in advanced technology, as compared with other advanced industrial countries.

The interesting thing about this, I think, is that these problems are structural in nature. They involve organizational considerations. To remedy them would involve politically painful adjustments in the organization of the economy and the administrative system. This problem will take some time before it can be resolved. In the meantime it was felt that a substantial increase in the importation of technology, of management, of capital and also of manufactured goods and consumer goods would ease the immediate problems and would give the leadership time in which to face the organizational aspect of these problems. This, I think, loomed large in the debates that took place before the Congress on why it made sense from the Soviet point of

view to turn toward a policy of reduced tension with the West and with the United States in particular.

From the U.S. point of view the most important element has to do with the reduction of the threat of war. The feeling that was widely shared in this country was that whatever the differences in the nature of the system or incompatibility of our political aims in the world, nevertheless both countries have a stake in reducing the danger of nuclear war.

From the U.S. point of view the development of economic relations was a secondary aspect of it, important but secondary. Largely important because it had corresponded to an important motivation on the Soviet side. Therefore, it created an instrument which could strengthen the motivation of those in the Soviet Union who were supporting a policy of reduced tension and restraint in crisis areas.

From the U.S. point of view it is clear that although the Soviet Union obviously is an important element in our foreign policy, it may not be the central element. In our present period we are faced with trends in the world toward disintegration and anarchy. This involves many elements for which the Soviet Union is a complicating factor, rather than a prime cause. If we and the Soviet Union are locked into a high tension relationship then the other problems we face become more difficult and more unstable and the risks are greater. It is in our interest to have a relationship of reduced tension.

But in the facing up to the economic aspects of the relationship, I think there has not been a clarity about what our interests are. To some extent the argument was advanced that the development of trade relations might help in the modification of Soviet behavior, either in foreign policy or in its internal life. Some have argued it would create a degree of interdependence or it might strengthen some cooperative interests in the Soviet Union.

I think there was a feeling that to the extent that the Soviet Union could be drawn more completely into the world economy, this would be a stabilizing factor. But perhaps the most important element and this is one that seems plausible to me is that to the extent that there was the possibilities of increasing the flow of goods to the Soviet Union, creating an economic interest on the part of the Soviet Union in the maintenance of a relationship of low tension, this would strengthen their incentive for behavior with constraint in the crisis areas of the world.

However, as a consequence of the Trade Reform Act of 1974 and the restrictions placed on credits and most-favored nation and as a consequence the collapse of the trade agreement that we had reached with the Soviet Union, this instrument has been considerably weakened. It has not therefore been available to us as an encouragement to restraint in some of the crisis areas in which the Soviet Union has been involved since that time.

We are now in a period approaching the 25th Congress. There have been debates in the Soviet Union about what course to follow. The dominant position, as expressed by the Soviet leadership, is that the present course continues to be a prudent and effective one and should be followed. There are many who raise questions about whether or not the relationship of peaceful coexistence may have been disadvantageous.

Their perception of the military balance is quite different from the one heard here in Washington. What they have seen is a continued lengthening of the United States lead in advanced military technology. What they have seen in the political competition is that the United States has reduced Soviet influence in the Middle East substantially. There are many who also argue that as a result of many of the local conflict situations and as a result of the economic problems in the Western World that there are opportunities that present themselves for exploitation which have not been as fully prosecuted as might have been done with a more active, more militant policy than the Soviet leadership has been following.

There is a factor in the background that I think is useful to keep in mind that may be of importance to our long-term interest. That is, it appears to me that the Soviet Union is on the threshold of a wholesale generational change at its upper levels both in the party and in other aspects of the Soviet Government and that that new generation is likely to come to the top, perhaps within the next few years, 3 years, 5 years, it is difficult to say. We don't know a great deal about the younger generation. Some things however are apparent about it.

It is clear that by and large most of them are better trained technically than the generation they are succeeding. Most of them know more about the world than the generation they are succeeding. It is likely in terms of style, there will be more flexibility, more pragmatism. It is something clearly to be watched and to have in mind.

My concern is that to the extent this younger generation takes power in the Soviet Union, weighs alternative courses and considers the possibility of a foreign policy of restraint that it should not feel that that option has been closed off to it by actions on our part.

It does seem to me that the development of economic relations involves a balancing of risks and gains for us that have to be weighted. It has to be taken seriously, the possibility that transfer of technology may increase Soviet military capabilities, that it enables the Soviet Union to have a more active economic foreign policy.

On the other side it is clear that if we approach this question not on a yes-or-no basis but in a more differentiated way in terms of how much trade, of what kind, over what period of time, and under what conditions, we can, I think, manage an increase in our economic relations in a way that will correspond to our interests and will keep the risks involved within moderate levels. Therefore, what seems to follow from this is the need for the articulation of a national policy with regard to economic relations and one that will establish clear criteria, clear guidelines for the individual negotiators.

In my own view what we ought to project is an upward slope, perhaps over a 15- or 20-year period in which there would be a gradual increase in the volume of trade and a change in mix, with the most advanced technology down the road, 5 years, 10 years, 15 years, with the understanding that progress along the upward slope would depend on responses of restraint by the Soviet Union in crisis areas. It would be difficult for us to move up that slope if the Soviet Union were to behave provocatively in crisis areas.

We need more effective coordination of national policy than we now have. That is necessary to enunciate clearly the guidelines and criteria

to give us some basis for deciding what trade activities are in our interest. We should try to achieve as much coordination as we can with our allies so that we can have a unified approach. The degree of coordination required stems not only from the need to have a national policy, rather than to leave the matter to the interests of individual firms involved, but it stems from the fact that we have here the institutional problems that come from the matching of a pluralistic society with a highly centralized society system. It is true not only in this field of economics but in other aspects of our relations.

In our cultural exchanges it has been necessary for us in the universities to establish a single group to administer an exchange program. But in that way it is able to achieve an effective coordination of our efforts and to negotiate with the centralized institutions on the Soviet side that administer the exchange program.

Similarly, we need to achieve that degree of coordination in our economic relations. I am aware in the previous questioning you have raised the issue of the proper role of the Congress. My own judgment is that it is important for the Congress to have an oversight function. This is most effectively done in terms of working out an understanding with the administration on what the policy should be, and what the criteria should be, rather than in trying to become involved in the operational details of particular deals. In this way there can be the confidence that would be necessary for agreement on a national policy and on the criteria rather than an effort to participate in the day-to-day decisions or in the judgments about particular deals.

I come to the conclusion, Mr. Chairman, that it would be wise to make changes in the Trade Reform Act of 1974 that would make possible the measured and controlled expansion of trade with the Soviet Union, and that it would be understood that the principal function of this would be to encourage Soviet behavior with restraint in crisis areas of the world. This would be very much in the U.S. interests.

Thank you very much.

Senator INOUE. Thank you very much, Professor Shulman.

As you have suggested, one of the most misunderstood words today is "détente." How do you perceive our definition of détente as it relates to our relationship with the Soviet Union.

Dr. SHULMAN. From the U.S. point of view we approach détente as a long-term process in which we would recognize as our first priority in the short term, the effort to reduce the danger of war. First, by stabilizing the military competition with the Soviet Union and, second, by encouraging restraint in crisis areas. All other aspects are secondary to that overwhelming national interest. Over the long term—and this is a matter of decades—our interest would be in drawing the Soviet Union into a more constructive participation in international efforts to deal with global problems.

Perhaps I should try to capsulize it by saying that the détente is a mixed relationship: A continuation of political competition between the two superpowers and some elements of overlapping interest. The problem is to distinguish where there are the overlapping interests and carry them forward without confusing ourselves about the underlying competitive nature of the relationship.

Senator INOUE. Would you say the Russian definition and goals are similar?

Dr. SHULMAN. In some respects, Mr. Chairman. This has been articulated in the term "peaceful coexistence," which essentially in its initial formulation referred to a temporary and tactical expedient but which has taken on more and more of a long-term character, a long-term political strategy. It is viewed from the Soviet point of view as a way of carrying forward its interests without war by relying on long-term political and historical developments.

Senator INOUE. There is a relationship between political, economic, and military policies in both of our countries. It has been rather confusing not only for the people of the United States but also for the Members of Congress, is the way this policy is being enunciated.

Now, for example, when it comes to certain economic issues, executive officers are quick to oppose actions by Congress as being counter-productive or unhelpful to détente. Thus, for example, as I mentioned in the recent hearing on shipping problems, both the Commerce and State Departments were opposed to any sort of measure that would offend the Soviet Union. Yet we find when it comes to political and military questions, we seldom use the word "détente." Even while the SALT talks have been continuing, there have been advancements in military technology. Is this the way détente is being viewed in the Soviet Union?

Dr. SHULMAN. I think there are also tugs and hauls in the Soviet political system about this. If I may back up a little bit and address myself to the U.S. side for a moment, and then talk about the Soviet side.

There is, I think, a confusion in our national thought about the military side of our relationship. It is clear that a military equilibrium is necessary, is consistent with, and is a necessary component of the policy of reduced tension in the Soviet Union. There are areas of unclarity about the nature of that equilibrium. There are some that feel that the optimum security depends on trying to achieve superiority, and who feel that it is important to press our advantages.

There are others and I myself am in the second group, who feel that our optimum security would rest in trying to achieve an equilibrium at as moderate and stable a level as possible. Unfortunately, that point of view has a relatively small constituency in this country. I think we really don't understand our own interests in this field as well as we should.

Senator INOUE. The Soviets have the same policy of operating from the superior position do they not?

Dr. SHULMAN. From the Soviet point of view it is evident that there are the same tugs and hauls. The military are a strong element in Soviet life. It is at least as difficult for the Soviet leadership to act against the interests of the Soviet general staff as it is for the American administration to take an action that would be disapproved of by the Joint Chiefs of Staff, perhaps more so.

There are debates within the Soviet Union, it is clear, and there are pressures in different directions.

Moreover, there is a certain bureaucratic momentum involved in the military programs in the Soviet Union, as in the United States, which is difficult to bring under control.

Senator INOUE. My only regret is we don't have the time here today. I wish we had 1 day per professor. We could go into it in greater depth.

Our final witness is the professor of economics of the Department of International Business, School of Business, Indiana University, Dr. Paul Marer.

STATEMENT OF PAUL MARER, ASSOCIATE PROFESSOR OF INTERNATIONAL BUSINESS, INDIANA UNIVERSITY, BLOOMINGTON, IND.

Dr. MARER. Thank you, Senator. I appreciate the opportunity to address these issues at this forum. I will be very brief.

Perhaps one reason why I was asked to testify is because I am in the process of completing a major study, part of a team effort, on the East-West industrial cooperation. This study involved interviewing over 100 business firms that are intimately involved in U.S.-U.S.S.R. and U.S.-East European business.

I will put the experience of U.S. business in the Eastern market aside and focus briefly instead on the question of U.S. national interest and speculate under what conditions it might be appropriate for us to start changing our policy vis-a-vis some of the state trading countries of Eastern Europe.

U.S. national interest is multidimensional. Depending on the aspect one focuses on, a cogent argument can be made for liberalization of U.S. policy or for imposing additional U.S. Government controls.

Thomas Wolf made a useful distinction between defensive and offensive policy considerations. A defensive policy aims to protect the United States against dislocations that can arise from unbridled East-West commerce.

Defense policy safeguards that we do not become excessively dependent upon Eastern sources for key fuels and materials; prevents the massive export of scarce commodities which would aggravate domestic shortages and fuel inflation at home; insures that we do not transfer products or know-how which would strengthen the strategic might of a potential adversary; and makes sure that if the United States becomes a creditor to state-trading countries, it does not remain without recourse in case default is threatened by a debtor.

To be sure, many of the same considerations also enter into U.S. foreign economic policy with any trade partner. But because a state-trading monopoly can come to the United States in a potentially disruptive manner, relying on us as a market of last resort for purchases or sales, and because some of the automatic safeguards we have in trading with market economy firms, such as the free flow of information, are absent when trading with monopoly state enterprises, there is an important role for the legislative branch of the Government to establish special defensive East-West trade policies and guidelines for their implementation.

It would be easier, I believe, to obtain a political consensus on formulating defensive as compared with offensive East-West trade policies and to agree on guidelines and instruments to be used.

To be sure, the line of demarcation between defensive and offensive trade policies is not always clear. But one distinction is whether the

concern is basically an internal one focusing on impact on the U.S. economy, or an external one seeking to modify the behavior of a trading partner.

An offensive trade policy is pursued if its intent is to encourage another country to do something—for example, to liberalize emigration policies—or to dissuade it from doing something—for example, to intervene in Angola.

Under these latter categories are U.S. policies which discriminate against an Eastern trading partner, for example, depriving it equal opportunity with others to earn foreign exchange—by denying it MFN—to buy our technology—by discriminatory export control or nonstrategic items—or to finance its U.S. purchases—by denying it Eximbank credit.

There are many viewpoints on the pros and cons of using offensive policies in East-West trade.

The conclusions reached often depend on the assumptions made, most of which are difficult to substantiate or disprove.

We should start by having a focused debate on what we mean by the national interest and then how the national interest can be affected by the policies.

But irrespective of the merits of the arguments, I believe that the intent of Congress in putting on the law books special restrictions and conditions for East-West trade is clear; these are intended to affect our relations with the U.S.S.R.

My reading of the sense of Congress is that the East European countries are not the intended adversaries of the United States.

It is paradoxical, therefore, that the East European countries are more penalized by present United States-East-West trade policies than is the U.S.S.R., as the Soviet Union is less affected by our denial of MFN and Eximbank credits.

While Soviet exports to the United States are heavily weighted by raw materials and fuels—products which by and large are not subject to discriminatory tariffs—a much larger proportion of the East European countries' exports to the United States, actual and potential, consists of semimanufactures and finished industrial and consumer products, many of which are subject to discriminatory tariffs.

While the Soviets have been running balance-of-payments deficits that are modest relative to the size of their hard-currency exports and monetary reserves, the East European countries have been experiencing relatively large hard-currency deficits in recent years.

Given these new circumstances, whether the lumping together of the U.S.S.R. and the countries of Eastern Europe for the purpose of administering offensive U.S. trade policies is in the U.S. national interest depends critically upon our perception of the goals and strategies pursued by the leaders in Eastern Europe.

If Congress finds that these leaders are increasingly motivated by national rather than international purposes, then it would be in the U.S. interest to reassess our trade policies toward these countries.

Last summer, in ratifying the U.S. trade agreement with Romania, we had taken an important step in this direction.

An option for U.S. policy and initiative lies in further differentiating among the East European countries according to the degree they may be willing to cooperate with the United States.

At the same time, we must be sensitive to the fact that not all East European countries are in an identical position to make significant economic or political concessions to us.

Moreover, certain concessions by them become possible only after the U.S.S.R. has itself decided to make them.

Contingent upon our assessment of the motivations and actions of the governments in Eastern Europe, I recommend that Congress consider pursuing a trade policy toward Eastern Europe independent of our trade policy vis-a-vis the U.S.S.R. with a view toward attracting and conciliating these countries to the broad interest of the United States in détente, political stability, and worldwide economic progress.

To implement such a policy :

The U.S. should grant MFN to all or selected East European countries, irrespective of whether or not MFN is granted to the U.S.S.R., provided an agreement can be reached with them on mutual and non-discriminatory market access, on safeguards against market disruption, on settlement of prewar debts, and on the other nonpolitical issues listed in the Trade Act of 1974 ;

The President should be granted discretion on providing Eximbank support to help finance the private sector's exports to East European countries, irrespective of whether or not such discretion is granted with respect to the U.S.S.R. That is, Eximbank credit exposure to Eastern Europe should be determined on the same basis as for other countries. An assessment of the East European countries' capacity to repay might require Eximbank obtaining hitherto unavailable official information on the indebtedness and reserve position of the East European countries ;

Congress should abolish licensing requirements, except for specifically designated strategic items, on exports to state-trading countries with which the U.S. has a ratified trade agreement ;

The U.S. should adopt a policy of encouraging membership of East European countries in such international organizations as GATT, the IMF and the World Bank, and support the inclusion of these countries in multilateral discussions and negotiations aimed at setting up new international rules for foreign trade, investments and the world monetary system.

In addition to the direct economic benefits such a policy would yield to the United States by expanding trade along comparative advantage, the United States would gain indirect benefits as well.

Strengthening the economic position of the East European countries would improve their bargaining position within CEMA and help offset the increased economic dependence of these countries on the U.S.S.R. which inevitably follows when East Europe's hard-currency balance of payments deteriorates and imports from the West become increasingly difficult to finance.

A normalization of trade relations can also lead to a closer coordination of United States and East European negotiating positions on issues relating to the European Community's trade policies vis-a-vis nonmembers, since United States and East European interests parallel in many respects.

Senator INOUE. Professor, I am inclined to endorse your recommendation that we adopt separate trade policies for Eastern Socialist countries vis-a-vis the Soviet Union. How would the Soviet Union view this separate, discriminatory policy? Would they consider this provocative action on the part of the United States to divide the socialist world?

Dr. MARER. If the policies are administered with a sensitivity to this problem, then this issue would not really arise.

It seems to me it would not be in the U.S. interest to ask East European countries to make the kind of political concessions that the U.S.S.R. is not willing to make.

The U.S. policy could be based on our judgment as to what degree the East European countries are willing to come to terms with us on the economic issues raised in the 1974 trade bill.

If the economic issues are settled, we could normalize our trade with the East European world.

The Soviets should not see this as provocative, I don't think.

Senator INOUE. Do you agree or disagree with the step taken by the Congress to place restrictions in the trade act, more specifically on the Jewish emigration situation?

Dr. MARER. I am not certain if I would agree in the case of the U.S.S.R. I think perhaps it could have been done a little differently.

But I would not agree in the case of East European countries because these countries are not in a position to make the concessions that the U.S.S.R. may be in a position to make. Also, the nature and extent of the problem are different in the countries of Eastern Europe than in the U.S.S.R.

In trying to answer this question, I would be guided by the consideration as to how the United States would react if another super power would try to impose legal restrictions or conditions along these lines.

Senator INOUE. It would be a violent reaction.

Mr. MARER. I would think it would be.

The merit of the purpose of the Jackson amendment is not in question. The issue is whether putting it on the law books is an effective way to conduct international policy.

Senator INOUE. Is it your recommendation that we amend that section?

Mr. MARER. My recommendation is that there should be a very careful dialog and assessment among experts in the United States as to how offensive economic policies can be pursued vis-a-vis the U.S.S.R. and we should follow the conclusions of such a dialog.

Senator INOUE. Most of the recommendations set forth in your last two pages generally come under the leadership of the State Department, although it involves economic policy.

Do you think this is the proper way to handle the situation or do you believe we should further strengthen the Commerce Department?

Dr. MARER. I fully agree that this should be in the domain of the Commerce Department.

Senator INOUE. You agree it is not?

Dr. MARER. I believe the initiative at the present time is not in their hands.

Senator INOUE. How would you suggest we strengthen the Commerce Department?

I suppose you can do this by just Presidential attitude. But legally, how would you suggest we do it?

Dr. MARER. That is a very difficult question. I have not considered this issue before. It seems to me at the present time policies—whether this or that policy consideration is given more weight—is decided in good part by the influence of personalities. So that is one consideration.

Senator INOUE. We have tried many avenues and in each case we have been frustrated.

For example, we took a very small step and suggested that the commercial attaché be an appointee of the Commerce Department just as the agricultural attaché is appointed by the Department of Agriculture.

Today the commercial attaché is the appointment of the State Department.

Oftentimes one finds men and women filling slots with absolutely no commercial qualification. They are simply waiting for retirement. Here we have been frustrated when the administration says no.

There are people who automatically vote with the administration in those cases.

We haven't gotten very far. There are other steps we have tried to take in beefing up the Commerce Department, little ways such as USTS.

Can something be done to strengthen the position of the Commerce Department in not only this administration but in other administrations?

Dr. MARER. It is a very good question.

I agree with the kind of steps you mentioned.

Senator INOUE. If you have suggestions that you would like to submit to us or any one of the witnesses here on how this could be done, I can tell you this committee would be most grateful.

Dr. MARER. We would welcome the opportunity.

Senator INOUE. We have taken all kinds of steps and in each case we have been confronted by obstacles. Usually in each case we have the excuse of "détente" being thrown at us. So your assistance in this sector would be most gratefully acknowledged, I can assure you.

Dr. Marer, we have many questions we would like to ask you. In fact, I have here four pages of them. I am sorry, but I have a luncheon engagement with a very interesting international personage on a matter that relates to my other subcommittee. If I may, I would like to call a recess to this hearing.

I want to thank you very much for your assistance today and thank all of the witnesses for their contributions.

Thank you very much, Dr. Marer.

[Whereupon, at 12:05 p.m., the committee was adjourned.]

AMERICAN ROLE IN EAST-WEST TRADE

WEDNESDAY, FEBRUARY 4, 1976

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met at 2 p.m., in room 5110, Dirksen Senate Office Building, Hon. Daniel K. Inouye, presiding.

OPENING STATEMENT BY SENATOR INOUE

Senator INOUE. This afternoon the Committee on Commerce continues its hearings on "The American Role in East-West Trade." We shall have as our witnesses today Mr. Elmer Staats, Comptroller General, General Accounting Office; and Dr. John Hardt, the respected senior specialist in Soviet economics at the Library of Congress.

East-West trade has endured a period of unprecedented turbulence. Concern about the condition of this trade can be found in both the industrialized market countries and the nonmarket countries. Large balance-of-payments deficits have compelled the centrally planned economies to retrench and have made the Western countries wary about financing some types of transactions. Prof. Donald Green last Friday noted that the new Soviet 5-year plan may result in further belt-tightening and may have an important impact on East-West trade.

I think that it can be fairly said that we are entering a new era in East-West trade. No longer do we Americans entertain fanciful visions about what trade can do nor do we talk so casually of multibillion-dollar deals. On the part of the centrally planned economies, I am certain that there is an appreciation of the limitations of such trade and also a realization that the domestic economies of the nonmarket countries are in large degree affected by the global economy even if they are not interdependent.

But this new realism need not be a hindrance to increased trade. Indeed, it seems to me that a lack of realism is ultimately much more destructive to such trade because it encourages illusions and false hopes that cannot possibly be sustained over the long run.

It is my hope that these Commerce Committee hearings will encourage further analysis and consideration about the directions we wish East-West trade to take. Chastened and strengthened by our experiences, we can now proceed in a constructive and positive fashion to construct a framework in which that trade is to take place.

As our first witness this afternoon, I'm pleased to welcome a good friend of the committee, the Honorable Elmer B. Staats, Comptroller General of the United States.

**STATEMENT OF HON. ELMER B. STAATS, COMPTROLLER GENERAL
OF THE UNITED STATES; ACCOMPANIED BY J. KENNETH FASICK;
JOSEPH R. FERRI; AND RICHARD J. PRICE**

Mr. STAATS. Thank you very much, Mr. Chairman. We are happy to be here today and I'd like to introduce my colleagues here: Mr. Kenneth Fasick, the head of our International Division; and over here Mr. Ferri, who's Assistant Director and Mr. Price who is a supervisory auditor in that Division.

We are releasing today, Mr. Chairman, a summary report to the Congress entitled "The Government's Role in East-West Trade: Problems and Issues." This is a summary of a much longer report which is classified and which is, of course, available to you and what I will have to say here today will be in effect a summary of this summary statement. With your permission, I would like to read this and then we will be happy to respond to your questions.

The report, I might say, grows out of a number of previous efforts that we have made dealing with the general subject. In the last 2 years, as you will recall, we did a good deal of work involving the Russian wheat sales back in 1972. We have done a number of studies on Export-Import Bank's programs and in the field of trade generally. We have followed with great interest the testimony presented by administration officials in December before this committee.

We share their optimistic appraisal of East-West trade as a force contributing to U.S. economic benefits and to a relaxation of international tensions. However, we believe improvements can be made in executive branch operations to better protect U.S. national and commercial interests. Our report on the problems and issues of the Government's role in East-West trade contains recommendations for executive branch improvements and several important matters for consideration by Congress. We would like to discuss the major observations of this report with you and then be available to answer any questions you might have.

Our observations relate to four major areas of difficulty in the U.S. response to the issues involved with East-West trade: (1) Trade policy formation, (2) export promotion and financing programs, (3) export controls and technology transfers, and (4) reciprocity of benefits.

U.S. trade policy toward Communist countries has been motivated by a combination of political and economic factors. The foreign policy initiatives of the early 1970's offered a promising new period for East-West economic relations, and various bilateral commercial agreements negotiated between 1972 and 1974 have provided a broad framework for conducting trade.

The economic benefits of East-West trade are demonstrated by the favorable \$1.3 billion balance of trade in 1974, with a larger surplus of \$2.2 billion in 1975. U.S. trade with Communist countries has expanded rapidly since 1971, and total trade grew from about \$612 million to about \$3.9 billion in 1975.

Exports expanded from \$384 million to \$3 billion and imports from \$227 to \$900 million.

Exports of agricultural commodities rose from \$217 million to \$1.8 billion and averaged almost 80 percent of U.S. exports in 1973, but dropped to about 57 percent in 1975.

It is estimated that the percentage of exports of agricultural commodities in 1976 will increase as a result of large-scale purchases during 1975 by the Soviet Union and Eastern Europe.

Agricultural exports to the People's Republic of China will again be small because of good harvests and a problem with foreign exchange. Nonagricultural exports rose from \$167 million to \$1.3 billion.

Although most U.S. exports to Communist countries are now agricultural products, exports of manufactured goods have the greater growth potential in the longer term.

The renewed trade relationships required the executive branch to develop policies which attempted to recognize the different character of this trade. A network of special policy groups (The President's Committee on East-West Trade, March 1973, now the East-West Foreign Trade Board, March 1975), a separate bureau in Commerce (Bureau of East-West Trade, November 1972), and private and Government commercial commissions and councils (U.S.-U.S.S.R. Trade and Economic Council, October 1973, and Joint U.S.-U.S.S.R. Commercial Commission, October 1972) were established.

These actions were intended to enable the executive branch to monitor and direct U.S. trade efforts.

However, they have not fully responded to the unique conditions associated with East-West trade.

Needed actions which would improve the executive branch's capacity to better respond to such conditions include (1) more clearly defining diplomatic and commercial objectives, (2) clearly establishing the U.S. Government's role in such trade, and (3) improving the means for safeguarding U.S. national and commercial interests.

The commercial and diplomatic linkages in East-West trade policy are somewhat ambiguous. During our study, we found little evidence in the major White House trade policy studies of systematic examination of the sources and degrees of U.S. leverage and the practical ways of using such leverage to achieve diplomatic or commercial objectives.

Further, there is a lack of precision and consensus within the executive branch on the diplomatic objectives of such trade.

Commerce officials, for example, consider that commercial relationships should be pursued primarily for economic reasons.

On the other hand, officials within the Department of State believe trade should be linked with diplomatic objectives, but disagree on what the diplomatic objectives should be.

Another problem with the policy formation process is the lack of clarity as to who is really in charge of resolving issues.

Early East-West trade policies (1969-72) were formed under the aegis of the National Security Council/Council on International Economic Policy structure.

However, in 1972 the lead role for resolving the questions of granting most-favored-nation status and settlement of lend-lease debts was given to Commerce.

Later, the lead role for determining economic policies toward Eastern Europe was assigned to State.

Thus, there has been no consistent pattern of study, analysis, resolution, or implementation of policy issues.

Further, the policy formation process has not insured that the positions of all interested agencies were clearly defined and properly

analyzed before decisions were reached or implementation plans developed.

The principal reason for these problems in the policy process is the differing perceptions of executive agencies, each having certain interests and influence, on the direction and objectives for improving relations with Communist countries.

The ultimate emphasis and direction of policy is frequently shaped by the agency given the lead for determining policy options, as evidenced by Commerce determining the U.S. position in Soviet lend-lease negotiations, and by State for U.S. economic policies toward Eastern Europe.

Although there have been some improvements since 1972, such as establishment of the East-West Foreign Trade Board, significant problems continue in the policy formation process.

Many basic policy issues still need to be resolved, including the degree of Government involvement with the private sector, the manner and means of congressional consultation, and the criteria and standards for administering export controls.

For example, the prevailing executive branch philosophy of non-intervention in the marketplace limits executive branch involvement in U.S. company-Communist country commercial negotiations.

Greater executive branch involvement could help to mitigate the present imbalance in bargaining leverage enjoyed by the Communist countries.

In our opinion, such increased involvement is necessary in order to fully protect U.S. national interests and to permit more direct and effective support for commercial interests.

There are also trade policy formation matters which should receive congressional attention. Congress has constitutional responsibility for regulating trade, and it periodically legislates the administration of this responsibility to the executive branch.

From 1967 until 1974, when the Trade Act was enacted, there was no congressional delegation of authority to the executive branch, so trade issues were discussed or negotiated using Presidential constitutional authority for negotiating with foreign governments.

The President conducted such discussions and negotiations without seeking the consent of Congress, but generally kept congressional leaders informed through informal discussions.

It was during this period that the major policy positions and overall framework for East-West trade were established.

Although the Trade Act provides for some degree of congressional involvement in trade with nonmarket economies, it does not resolve many problems related to bilateral trade agreements.

For example, the recently signed long-term grain supply agreement with the Soviet Union was an executive agreement which was not subject to congressional approval.

To clarify the congressional role on trade, consideration might be given to establishing a joint congressional-executive branch group to address the question of Presidential authority for negotiating trade and economic issues.

Procedures for (1) obtaining information from the executive branch, (2) resolving questions on the use of executive privilege relating to trade matters, (3) congressional participation in planning for trade

negotiations, and (4) positions to be taken in meetings of bilateral commissions and organizations could also be considered.

Further, East-West trade involves the entire spectrum of political, strategic, and economic issues, and these are not within the jurisdiction of any single committee of either House of Congress.

For example, in the Senate, the Finance Committee is concerned with the granting of most-favored-nation tariff treatment and the Banking, Housing and Urban Affairs Committee is concerned with Eximbank financing and export controls.

In the House, the Ways and Means and the Banking and Currency Committees have parallel concerns. This suggests that there is no legislative counterpart to the executive branch interagency policy structure which deals with the linked issues involved in East-West trade.

Congress, therefore, should also consider establishing procedures for addressing the interrelated issues involved.

EXPORT PROMOTION AND FINANCING

One of the greatest difficulties inherent in trade with the centrally planned economies of the Communist countries is the imbalance favoring the Communists when the West's free market policies and practices are applied.

With few exceptions, the Department of Commerce has adapted its normal promotional activities to the Communist markets.

These exceptions or tailored approaches included executive-level and industry-organized, government-approved trade missions.

The appropriateness of executive-level missions is questionable because there is an implied favoritism associated with firms of the participants selected by the Government.

The industry-organized, government-approved missions are supposed to include products of a single theme having good prospects for sales.

However, missions often are constituted of diverse product lines, have created an administrative burden on embassy officials, and have resulted in few sales.

The traditional trade mission approach is negated to a large extent because of the character of Communist markets, where the products to be purchased are dictated by national planning decisions and where allocations of needed foreign exchange are made only for approved projects.

In other cases, difficulty in controlling the exhibition of products requiring licenses to export has caused confusion over whether prohibited products such as advanced design machine tools were actually exhibited and over their subsequent disposition.

FINANCING PROGRAMS

The financing facilities of the Export-Import Bank of the United States and the Commodity Credit Corporation have probably been the most significant stimulators of trade with the Communist countries. They are also among the most controversial issues associated with such trade.

Eximbank files for the 16 Soviet loans made through 1974 contain little documentation on the reasons Eximbank found it necessary to make the loans.

Lack of documentation was criticized in an earlier GAO report wherein we recommended that Eximbank improve its loan-processing procedures.

Because of the lack of written criteria for determining whether to approve or deny loans, it is impossible to reach a judgment on whether the Soviet Union has received preferential treatment in financing its purchases of U.S. products.

There are indications, however, that officials of executive agencies interested in improving relations with the Soviets have had an influence on Eximbank financing decisions.

Frequent assurances to Soviet officials that U.S. Government financing would be forthcoming undoubtedly has created a momentum for loan approvals which Eximbank found difficult to deny.

In 1972 Eximbank entered into operating agreements with the Polish and Soviet Union banks for foreign trade under which only those banks could apply for Eximbank preliminary commitments to finance potential transactions.

Because of these agreements, U.S. exporters, especially small and medium sized firms, probably have been denied opportunities to compete with Western competitors that have the financing support of their governments.

The operating agreements are contrary to Eximbank's normal procedure, where the U.S. exporter or the commercial institution representing the exporter applies for preliminary commitments.

As a result, U.S. exporters are effectively precluded from having U.S. Government-supported financing packages in hand when negotiating with the state trading agencies of Communist countries.

The agreements also provide an enormous source of leverage for these governments in dealing with prospective U.S. suppliers.

Companies complained to us that Eximbank's procedures permitted the Soviets to play off one competitor against the other in order to obtain the lowest possible prices.

In October 1972 the Soviets gave the United States assurances that credit facilities of the Soviet foreign trade bank and foreign trade organizations would be made available to U.S. importers.

Financing was to be no less favorable than that available from U.S. Government or commercial sources for comparable transactions.

The amount of Eximbank credits extended to the Soviet Union is public information; however, the Soviets have not published data on credit extended to U.S. importers, nor have any U.S. Government agencies attempted to compile such data.

Accordingly, there is no basis for determining the extent of reciprocity in the financing area.

Finally, in October 1974, the United States signed an agreement, together with France, Germany, Italy, Japan, and the United Kingdom, which provided in part that export credit transactions of 3 years or more would not be officially supported among the signators, nor with other wealthy countries.

Although the Soviet Union is the second largest economic power in the world, it is treated as an exception to the 3-year, wealthy country rule of this agreement.

Eximbank's 1972 operating agreements, discussed earlier, could effectively deter the United States from entering into an agreement with other Western nations which would call for a separate set of terms for Communist countries.

The granting of Eximbank credits for transactions with Communist countries have been minimal since mid-1974. Passage of the Eximbank and Trade Acts in December 1974 linked the provision of U.S. export credits to a requirement that Communist countries must enter into bilateral trade agreements with the United States conditioned on liberalizing their emigration policies.

As a result, only Poland and Romania are currently eligible for Eximbank financing. Nevertheless, should conditions exist for renewing Eximbank participation, we believe it is important that actions be taken to overcome the imbalances we have noted.

EXPORT CONTROL AND TECHNOLOGY TRANSFER

Commodities and technology considered of strategic importance are subject to U.S. and international security export controls.

U.S. controls apply to direct exports of commodities and technical data and to reexports of foreign manufacture of end products using U.S.-originated parts or based on U.S.-originated technical data.

The Mutual Defense Assistance Control Act of 1951 and the Export Administration Act of 1969, as amended, provide the legislative authority for controlling U.S. exports to and exchanges with Communist countries.

The United States also participates as a member in the multinational coordinating committee (COCOM) system for controlling strategic exports.

COCOM was created in 1949 to effect a common Western embargo on shipments of strategic goods to Communist countries. Its membership consists of NATO countries—except Iceland—plus Japan.

COCOM lists and periodically reviews items which are mutually agreed to be of strategic significance and subject to export controls. Instead of the COCOM lists being based on U.S. domestic export controls, as they once were, U.S. controls are now modified in accordance with reviews of COCOM lists.

The relatively few items remaining under U.S. strategic controls—about 500—have a more direct military impact than previously.

Since 1969, however, diplomatic initiatives rather than technical considerations have required continued relaxation of those controls.

There is no basic interagency agreement on criteria for determining which goods should be controlled and whether foreign policy, commercial, or defense considerations should dominate trade policy.

Commerce, Defense, and State, the principal agencies involved, have fundamental differences regarding licensing standards and procedures to be followed in administering export controls.

These differences have resulted in a continuous series of ad hoc and inconsistent decisions in strategic export control cases.

For example, diverse licensing standards are applied to similar electronic components in different products such as computers in telecommunications equipment and numerically controlled machine tools.

Commerce's Office of Export Administration is responsible for administering and enforcing export controls required by the Export Administration Act.

This Office's effectiveness is severely limited by staffing, which has been systematically reduced since 1971, and by policy differences between its divisions over what should be exported in several important product categories, such as machine tools and computers.

The Office's ability to investigate alleged domestic violations is limited because of the complexity of the task and the limited number of investigators.

Its compliance activities overseas are seriously impaired by having to rely on the Department of State, which has consciously reduced its export control staff positions and activities, and which does not initiate any compliance checks on its own.

State's Office of East-West Trade is responsible for representing U.S. interests in COCOM. Diplomatic considerations dominate its thinking on export controls, with less consideration given to complex technical issues.

Although the Office is assisted by technical task groups, who consider the technical parameters of specific commodities subject to COCOM export controls, State is usually not represented on these groups.

Two interdepartmental committees coordinate export control policy. The Advisory Committee on Export Policy, chaired by Commerce, administers U.S. export controls.

The Economic Defense Advisory Committee, chaired by State, conducts U.S. participation in COCOM. Two separate interagency review committees seem unnecessary. With improved operating procedures, the Advisory Committee on Export Policy could adequately administer both U.S. and COCOM export controls.

Many U.S. officials familiar with export controls have little confidence in COCOM as an effective multinational strategic control mechanism. Competition for bilateral trade with Communist countries among COCOM countries has intensified with détente, while the multilateral consensus on export controls has narrowed.

For example, U.S. policy has permitted the export of semiconductor manufacturing technology to Poland and Romania which is greater than their civilian requirements.

This was done in response to foreign country ultimatums to withdraw from COCOM.

U.S. efforts to restrict similar exports elsewhere in Eastern Europe, where we have not been faced with ultimatums, are not understood.

Additionally, U.S. behavior in COCOM has caused other members to think the United States is using its right to approve other members' requests for exceptions to pursue its own commercial objectives.

These suspicions stem from such actions as the United States seeking approval of COCOM members to export U.S. products while disapproving similar requests by other COCOM countries.

Accordingly, U.S. ability to maintain a consensus on export control standards with other countries has been greatly reduced.

The United States has, over the years, sought to maintain a military technology gap with Communist countries, partly through carefully controlling the export of strategic technologies.

The impact of technology transfers on Communist capabilities and the extent to which a military technology gap has been sustained cannot be determined in any meaningful way.

It is clear, however, that technology transfer regulations cannot be effectively enforced under the present control system.

The three principal means of transferring technology are through government-to-government agreements, private sector-to-government agreements, and regular commercial contracts.

Under present regulations, the private sector must determine whether the technology it seeks to transfer requires an export license and thus is subject to government review.

Commerce's controls are predicated on the voluntary compliance with regulations that provide little clear-cut guidance.

The governing regulations applicable to the private sector allow great discretion and latitude in determining what technologies require licensing.

Executive branch agencies which are responsible for monitoring the many ways in which such transfers can occur do not require prior notification of even possible sensitive technologies that might be transferred, nor require that companies submit information about agreements entered into or technologies exchanged.

Thus, many officials believe there is no assurance that significant technology seepage has not occurred. For example, executives of computer companies and trade analysts have called attention to Soviet contracting practices for competitive rebidding of projects in which detailed specifications of various firms are compared against each other for an optimal mix of the technology involved.

Technical data necessary in making a sales bid or offer may be exported to Communist countries under a general license which does not receive Government review and approval.

RECIPROCITY OF BENEFITS

In the U.S. strategy to improve relations with Communist countries, trade liberalization has been seen as an incentive for improved cooperation in political and strategic relations.

Such general diplomatic objectives are frequently cited as justification for U.S. trade initiatives; however, there is no evidence, for example, that any Soviet foreign policy concessions were sought, or obtained by the executive branch in exchange for the 1972 trade agreement, 1974 long-term economic cooperation agreement, extension of credits, or favorable decisions on export licenses.

The linkage concept implicitly assumes effective central control over the sources of U.S. leverage and some bureaucratic consensus on when and how to apply this leverage, which presently does not exist.

The executive branch has devoted little attention or effort to trying to modify the effects of Soviet buying power on U.S. private enterprise and on matters of national interest.

When a centrally planned economy like the Soviet Union buys from a market economy, it maintains a monopoly position within its own economy and usually faces a multiplicity of competing suppliers.

The resulting imbalance of bargaining leverage favors the buyer and has a powerful influence on the balance of commercial benefits being achieved. The U.S. venture into the Soviet market has resulted in substantial sales for U.S. companies and an important balance-of-trade increment, but a true normalization of commercial relations awaits an effective response to the problem of negotiating imbalance.

The executive branch has applied the traditional trade policy objective of market access to United States-Soviet trade and has not achieved genuine commercial reciprocity in the relationship.

The basic trade agreements were designed to establish a position for U.S. companies in the Soviet market, but do not contain commitments or principles intended to modify the effects of Soviet buying power in direct purchases of industrial equipment, technology, or agricultural commodities.

Only the recently signed, long-term grain supply agreement recognizes to some extent the need to modify the effects of Soviet buying power.

The basic difference between the two economic systems limits both the negotiating leverage of U.S. firms and the ability of the U.S. Government to support commercial interests or protect broad national interests.

Within the executive branch, there is little appreciation for or adjustment to the unique and difficult problems of trade between the two different economic systems.

A further source of Soviet bargaining power concerns the lack of coordination among the major Western countries (the United States, European community, and Japan) in their pursuit of expanded East-West trade.

There are significant opportunities for common Western approaches to such issues as export credit, Soviet trade practices, and destructive corporate competition for the Soviet market.

However, these opportunities have not been realized as individual Western countries have negotiated exclusive bilateral arrangements with the Soviets designed to achieve special market preference for their national companies.

For example, harmonization and other cooperative efforts on export financing have failed consistently despite efforts since the late 1950's.

Given this lack of Western cooperation and apparent Soviet resistance to change in its trade practices, the basic response to the imbalance in commercial benefits must come through more active U.S. Government participation in the trade relationship.

The present lack of Government control over and direct support and advice to U.S. firms precludes the withholding of potential benefits in exchange for improved trade practice and leaves unchanged the Soviet ability to manipulate the competition.

Thus, the executive branch's ability to fully protect U.S. national interests is compromised in such areas as stabilized commodity markets and prevention of strategic technology seepage.

We are making a series of recommendations to the cognizant executive branch agencies and policy councils directed toward improving their abilities to better respond to the difficult problems inherent in the bilateral and multilateral relationships involved in East-West trade.

Our recommendations include (1) granting the East-West Foreign Trade Board the responsibility for determining broad policy objectives and for reporting the results of its deliberations directly to the President, (2) renegotiating the basic agreements on financing procedures between Eximbank and Soviet and Polish banks for foreign

trade, and (3) strengthening the role of the Department of Commerce in upholding and licensing national security-controlled commodity exports and altering the Department of State's role to conform with the lead-role concept for Commerce.

In commenting on our draft report, the executive branch felt we had succeeded in identifying some of the key issues and developing some recommendations with which it could agree.

It felt that the report generally did not accurately portray the situation and argued that effective policies and practices were in existence.

We continue to believe, however, that executive branch actions and congressional consideration consistent with our recommendations are needed.

Mr. Chairman, this completes our statement. We would be happy now to respond to your questions. I might add that the gentlemen to my left here have traveled extensively in Europe and the Far East in connection with this report and have a very close familiarity with some of these problems that we have identified in more general language in this statement.

Senator INOUE. Thank you very much, Mr. Staats.

One of the most commonly used words today is "détente," and many in the administration and elsewhere have tried to define the term. How would you define that word?

Mr. STAATS. It's been defined in a number of different ways, as you suggest. I'm not sure that everyone uses the term in the same way. It depends somewhat on whether you're speaking in an economic context or a political context or a military context, but in general it implies an easing of the cold war and improving relations between the Communist world and the Western world. I'm sure that different people have different things in mind when they use that term. I'm not sure it's a very good term.

Senator INOUE. One of the objectives was said to be to link non-market countries with the industrialized countries in a web of interdependencies. Have we been successful in creating a web of interdependency between the nonmarket countries and the industrialized West?

Mr. STAATS. Well, we have thought about this a bit.

We are not sure that the word interdependency is quite as good as interrelationship, a mutually beneficial interrelationship. Interdependency, it seems to me, might imply that we could somehow not get along without it. An interrelationship of mutual benefit to East and West it seems to me might more properly describe the term. However, my colleagues here might want to respond differently.

Mr. FASICK. No. I agree. It's not a web of interdependence. We see it as an interrelationship. As a matter of fact, we think interrelationships should precede by a long period of time an interdependence because of the absence of any confidence on dependence on trade with the Communist bloc, particularly for strategic materials we may need.

Senator INOUE. I have several questions. In fact, about a dozen pages here. If I went through all of these we would be here until late in the evening.

In your report you list many factors that inhibit the fulfillment of political objectives by the use of trade. How would you list them in order of their significance as to how you perceive them?

Mr. STAATS. Do you want us to respond on this now, Mr. Chairman? Senator INOUE. If you would.

Mr. FASICK. In this particular case I think the most important factor is the degree of Government involvement in the trade with the Communist bloc at this time. Another factor is the lack of knowledge about important factors in the Communist market; and another thing that concerns us is what are the specific, not the general, political objectives; to just list three things that we think are very important.

In each of these cases we think there's room for marked improvement.

Senator INOUE. How would you recommend that the Government participate more positively in East-West trade? In your report you suggest that in negotiations, for example, the Government agencies should assist the private sector. How can you bring this about?

Mr. FASICK. There are many ways in which greater Government involvement should and could take place. An example would be the MFN negotiations going on in Geneva now. The Government does solicit and get a great deal of advice and counsel and works closely with the private sector. On the other hand, in the East-West trade area, this is absent. This gives you an example where they should be bringing in the private sector more.

Another would be greater Government involvement—indeed, it's a little bit indirect but it's a greater involvement of the executive branch with the Congress itself in developing policies and practices in the East-West trade area. Now I'm going to turn to the others. Maybe you can add a few more, Mr. Price and Mr. Ferri, to these factors.

Mr. PRICE. I think, Senator the main thing is to reorient the Government's attention to the commercial implications of negotiating imbalance. U.S. firms are faced with a monopoly and there's a need for the Government to realize this and seek ways to assist U.S. firms in equalizing this current imbalance.

Another thing is I think the Government has to avoid a direct role in the bargaining process. The Government can't impose its judgment on the commercial judgment of the firm. The Government should not make a decision by itself. That should be left to the firm. I think the Government has to be a more active coordinator and source of advice to U.S. firms. The Government has available much more intelligence and information than are within the capability of a single firm to generate. Much more of this type of data should be made available for firms seeking to enter into Soviet markets.

Senator INOUE. Do you really believe the Government has that much information at its disposal?

Mr. PRICE. I think through a variety of activities, including the joint commercial commissions that we have say with the Soviet Union, a means to attempt to get information from the Soviet Union on their import needs, on their hard currency allocations to purchase these required imports and so forth. There's intelligence on, for instance, agricultural production not only in the Department of Agriculture, but in the Central Intelligence Agency which also estimates Soviet crops and their needs for imports. This is the type of information that we think could be made available.

Mr. STAATS. Some are the restrictions on travel, contacts and information. Firms that are actively seeking trade in the Soviet Union are denied the kinds of freedoms that most companies would have, say, in

Western Europe. The U.S. Government could play, as we see it, a substantial role in loosening up some of those restrictions so a more normal trade relationship could be developed.

Senator INOUE. In prior hearings, it has been suggested that our corporate officials have great difficulty in dealing with this Soviet monopoly buyer. The costs involved are such that often they are forced to succumb to whatever deal the Russians propose. For example, an American would travel to Moscow hoping to meet with an official on Monday and find out that this bureaucrat is busy on Monday and who might say, "Come back the following week." So he sits there for a whole week and nothing happens. Then something else comes up and before he knows it he's there 3 weeks, having spent a lot of money.

Eventually when the time comes to get down to discussions he's almost forced to accept whatever terms they give because of the investment made. One executive reported that his company spent over \$1 million in negotiations so when the time came to accept or reject the arrangements they had to take the terms or lose \$1 million. What can we do in a situation like that?

Mr. FASICK. I think—and again it gets back to reciprocity of benefits—the Russians haven't changed their system at all. On the other hand, we have been making concessions, whether the concessions be in the form of export credits or the other concessions that the Russians want us to make. I need to note here that some concessions of this nature can't be made now because of the legal limitations and the absence of most favored nation treatment for Russia. But no changes are being made on the Russians' part. It gets back again to the real difference between the two economies, where we're trying to deal with a centrally planned economy, a monopsony, that indeed is pitting each one of our companies and corporations, if indeed not the countries in the Western World, against each other.

What is needed is for the Government in a hardnosed way to negotiate some better arrangements and reciprocity on the part of the Russians. Mr. Staats alluded earlier to some of the things that harass us. Multiple entrance visas, for example, are very difficult to get and business facilities in Russia are limited. I think only 19 of our corporations now have offices in Russia. There are 100 or so that do business with Russia, but they have difficulty getting facilities there, although the treaty calls for such facilities to be made available.

Senator INOUE. Has our Government actively assisted companies in their endeavors?

Mr. FASICK. They have to the extent they can, but I think our own Government runs up against the same bureaucratic restrictions, ineptitude, or tactics that you have described, Senator, in trying to get these concessions. Again, as we stated, the Russians are in a monopoly position. They have one buyer and they face many sellers in dealing with a free market. So that the need for reciprocity of benefits is far greater here. The market system isn't protecting our people. So what's really needed is a more intensive effort on the part of our own Government and a stronger position on the part of our own Government in dealing with them, creating the climate for our business to function better there.

Senator INOUE. Did you find in your study that the present bureaucratic establishment in Washington is conducive to trade or serves as

an obstacle? For example, about 3 years ago when we made a very cursory study, we noted that if a small businessman wanted to get into the export business very likely he would have had to go to numerous agencies to get the necessary information and financing. Is that still the situation?

Mr. FASICK. Are you talking in terms of trade with Russia or trade in general?

Senator INOUE. Trade with Russia or trade with anyone else.

Mr. PRICE. I believe, Senator, the situation would pretty much be the same. I guess the best example in terms of East-West trade would deal with the Eximbank agreement with the Soviet Foreign Trade Bank or the Polish Foreign Trade Bank where only those banks can apply for preliminary commitments. This prevents a small- or medium-sized American firm from making application to the Eximbank to obtain financing as a part of the package that he could use to sit down and negotiate on a potential sale. So as an example, I think the situation is pretty much the same in that a vast number of agencies would get involved.

Senator INOUE. Do you perceive the attitude of the Government here presently to be noncooperative?

Mr. FASICK. Our Government, sir?

Senator INOUE. Yes.

Mr. FASICK. Not exactly. I think we point out in our report and have lots of illustrations where they intend and desire to improve the conditions, the reciprocity and to facilitate the trade for our private business. I wouldn't characterize it as being uncooperative. In some cases we might characterize it as being a bit in disarray because of disension that's taken place between the many agencies that are involved in setting policy and establishing policy and establishing the practices.

Mr. STAATS. I think we are saying essentially two things, Senator. The first relates to basic philosophy. We believe that we can't more or less take a hands-off attitude in trade with nonmarket economies; that it really makes no essential difference whether or not you're trading with a Communist country as against a market-oriented economy. The Russian wheat sale, based on all of the evidence we have been able to develop in the course of our study, indicates that this not a realistic approach; that we will end up on the losing side every time.

Now the recent effort to negotiate a long-term wheat sale or grain sale agreement does represent a departure from prior policy, but that's an isolated case. This is the fundamental thing that concerns us.

The other point that we would emphasize is the importance of relating these various considerations more effectively to the East-West Trade Board. We have too many different bodies, too many different assignments of responsibility, and the Government is really not acting with one voice. We have just not been willing or able to somehow reconcile these differences among the different agencies. The only way we can see it can be done is through a strengthening of the East-West Trade Board and then provide a more effective congressional oversight through establishing some liaison consultative arrangement between the Congress and the East-West Trade Board. In this way Congress can intervene and make judgments if it does not feel that those decisions are being made properly. That's what it all adds up to.

Senator INOUE. How would you recommend that we strengthen the East-West Trade Board? Would it take legislative action?

Mr. STAATS. Yes; we have developed that in our report.

Mr. PRICE. I believe, Senator, first of all, that there has to be a kind of reaffirmation of the role of Government. Right now many of the decisions that are being made with regard to East-West trade are not being made within the framework of the Board. For example, the Executive order that established the Board allows the Secretary of State to advise the President on determinations necessary for the extension of MFN and related emigration questions. The recent agreement that Mr. Staats referred to on sales of grain to the Soviet Union were made within the Economic Policy Board's subgroup of the National Security Council. This agreement was not coordinated within the East-West Foreign Trade Board. In other words, the Board has to reaffirm their authority in this area which means that the other agencies would have to recognize and grant them the appropriate role.

Second of all, there is some question regarding the Government's legal authority to review, for instance, technology protocol agreements that private companies would have with the Soviet Union. The Commerce Department at one time attempted to put an amendment into the export control law to grant them the authority, but it was taken out. So there is some questionable authority here. This may require a change in the legislation.

Mr. STAATS. I suppose, to answer your question a bit further, our conclusion would be that the statute which created the East-West Trade Board is satisfactory and adequate but it hasn't been properly implemented in the spirit in which that action was taken. If down the road that cannot be done, then perhaps some further legislation to make it more positive, more mandatory as to its role would be in order. I think that's where we would come out on it.

Senator INOUE. In our hearings we received testimony suggesting that we are underpricing our technology sales. For example, not too long ago we sold the Soviet Union space suits for \$150,000 that cost us \$20 million to develop and build because the argument was that no one else would want to buy space suits. The Soviets are the only ones. But here we are. It's a real bargain basement deal, \$150,000 for \$20 million. Apparently from studies made this was not the only situation. It's quite widespread.

The question is: In your studies did you find this to be an issue or recurring problem?

Mr. STAATS. I don't believe we have been into that particular case in terms of the dollars that were involved. We have heard about it. Do you want to comment on it?

Mr. FASICK. In the area of technology we don't have evidence of underpricing. The case of the space suits I think applied to the Apollo-Soyuz and it was part of the scientific technology agreement to go into space together. In the technology area our biggest concern was not so much with the pricing. It was the seepage or leaking or the getting of technology by the Communist bloc, the Soviets in particular, through different techniques, many of them circumventing the export control laws, and I think our report has quite a few examples of this type of thing taking place.

Now it's difficult to put a price tag on technology in any event, but—

Mr. STAATS. You were asking a while ago, Senator, as to what more could the Federal Government do in a positive way to provide assistance or guidance. I have had a number of manufacturers tell me quite separate from this report that they literally don't know where to go to get guidance when they put in a bid or when they get a visitation from a technical team from a Communist country as to what they can tell them and what they can't tell them. They obviously are interested in engaging in trade, but they just don't have the kind of guidance which they need to protect the security interests of the United States.

I think this is something that certainly the Government could do in a way where at least these kind of actions could be provided.

Senator INOUE. How would you get that answer?

Mr. STAATS. Well, I think the Commerce Department has got field offices all over the country and certainly there ought to be notification to any company, all companies, that if they have got this kind of question here's where they come to get the answer.

Senator INOUE. Are these field offices equipped to provide the answers?

Mr. STAATS. I think they could be if they are not. Small Business Administration also has offices, but I would think the principal point would be the Commerce Department field offices.

Senator INOUE. Have you found that those firms dealing with these field offices are satisfied with the service?

Mr. STAATS. I don't know whether this would be a problem or not.

Mr. PRICE. Senator, in the context of this specific report, we didn't discuss with firms the services of the Commerce Department's domestic field offices. We did, however, discuss this with the firms in the various countries overseas which we visited. In general, many of the firms were satisfied with the promotional services provided by the embassy commercial sections.

However, most of the firms were large multinational firms who pretty much could deal with the problems in trade with Communist countries by themselves—they know the ropes. Smaller- or medium-sized firms are relying much more on the activities available here in the United States and we have had a report in the past on the Commerce Department domestic field offices that did indicate there was a need to improve their operations. There is a Bureau of East-West Trade in Commerce which does attempt to provide the type of promotional services which you're discussing and we do find that they do a fairly effective job. However, in the area of export controls, discussed by Mr. Staats, neither the Bureau nor domestic field offices can respond to questions raised by companies. There is no criteria or standards for what is acceptable and not harmful to U.S. security. The companies would have to submit a license application to Commerce to get a specific answer for their questions.

Senator INOUE. I'd like to thank you very much for your assistance this afternoon, Mr. Staats.

Mr. STAATS. Thank you very much.

Senator INOUE. Thank you, sir.

I'd like to call a short recess and when we reconvene our witness will be Dr. Hardt of the Library of Congress.

[Recess.]

Senator INOUE. Our final witness this afternoon is Dr. John P. Hardt, senior specialist in Soviet economics, Congressional Research Service of the Library of Congress. Welcome, sir.

STATEMENT OF DR. JOHN P. HARDT, SENIOR SPECIALIST IN SOVIET ECONOMICS, CONGRESSIONAL RESEARCH SERVICE, LIBRARY OF CONGRESS

Dr. HARDT. Thank you, Mr. Chairman.

My name is John Hardt. Personnel of the Congressional Research Service normally do not testify before congressional committees. The procedure that we follow is to ask in special cases—and this is one—for permission from the chairman of the Senate Rules and Administration Committee and Senator Cannon was cooperative in reference to this testimony.

I would like to limit my oral comments to selected portions of my text and ask you if you would print the full statement.

Senator INOUE. Without objection, your full statement will be made part of the record, sir.

Dr. HARDT. Thank you, sir.

A new economic process was established after the initial summits in Moscow and Peking in 1972. The framework for commercial relations was set in the basic U.S.-U.S.S.R. agreements and the Shanghai communique. Over the last several years a period of trial and adjustment to this new process has taken place which may appropriately be reassessed by all parties at this time.

In addition to trade, the economic process involves formally established bilateral exchanges, joint commissions, and various kinds of industrial cooperation. Informally, there has been some degree of Socialist accommodation to the commercial and financial norms of the world economic community.

On the other hand, the accommodation between centrally planned and market economies has been imperfect in a number of ways: adequate information on the nature of Eastern markets is still not available in many cases; access by the Western seller to the Eastern user is still blocked by the Socialist state trading mechanisms; long-term purchasing patterns are still less evident than short term, sporadic imports. These residual problems, which represent bases of uncertainty and risks to Western corporations and banks sometimes result in higher prices and less attractive credit terms than would be provided under the world market norms. Many observers say that the flexibility displayed by the Socialist countries in the Western market has been greater than expected in the 1972-75 period.

Western firms, banks, and government agencies have likewise made a number of accommodations to the state trading mechanisms of the East. Many of the firms and banks have devoted far more executive time and money to these accommodations than can possibly be recouped in the short run.

Senator INOUE. May I question you as we go along, sir?

Dr. HARDT. Please.

Senator INOUE. You spoke of accommodations between the Soviet system and our economy being imperfect in a number of ways. First,

you remarked that adequate information on the nature of Eastern markets is still not available in many cases. How would be improve that, sir?

Dr. HARDT. It seems to me, Senator, that our record to date suggests that we can improve it more on a case-by-case basis in areas where we can clearly indicate there is a mutual interest. For example, if a bank is considering leading a consortium, to finance a large-scale project, and needs credit worthiness information in order to provide normal Western terms—then the information will either be supplied or by the Socialist countries the terms will be less favorable by world market standards. Under those conditions, I think we can see patterns of compliance. In general areas, for example in agriculture, where we indeed had a formal agreement on provision of current and future crop forecasts, the Soviets have been less forthcoming.

I think the experience suggests to us that we work on a case-by-case, need-to-know basis and bargain hard, making it quite clear through our private banks and enterprises that the prices and financing will be related to the availability of information. We could then be less concerned on the general provision of economic information which runs very hard against the provisions of the secrecy system still very much in place within the Soviet Union.

Senator INOUYE. Do we have the necessary information to share with our people?

Dr. HARDT. I would say that our most successful acquisitions of information have been through private channels along the lines that I have indicated. The Eastern countries are very responsive to providing what is necessary to get what they feel they need in commercial relations. Agreements in principle that information should be shared, are not too successful. They do not share our view that economic information publicly available is a good idea in its own right. So we run against a basically different disclosure philosophy from that in our democratic system built on openness and availability of information—that of a closed system where most information needed for assessing performance is controlled. So we must rely in many cases, and we do rely, I think, on the interrelationships among U.S. firms, banks, and the Eastern governments.

I might also point out, Senator, that industrial secrets and privileged information in competitive Western corporations dealing in foreign trade anywhere is very difficult information to come by. So when we talk about secrets in the East, we must be sure that we are clear in critiquing socialist disclosure that we are dealing in a comparative context of information controls throughout commercial relations. For example, we may ask what is the availability of our information on industrial applications of chemical catalysis or on energy reserves in this country or on a host of other economic matters which I know your committee has addressed in other forums.

Senator INOUYE. If what you say is true, that "many of the firms and banks have devoted far more executive time and money to these accommodations than can possibly be recouped in the short run," won't that discourage further involvement by our companies in East-West trade?

Dr. HARDT. It does, indeed, and I think the period of 1972 to date there has been a period of reassessment. Many companies did enter

the Eastern market with some degree of euphoria and perhaps even naivete. Those who are still in the Eastern market are there because they have an expectation of long-term and expanding markets. That is a valid assessment in my view. If this private commercial-assessment is valid, then it appears they feel it is worth some short-run costs and problems in order to be competitive in a market that has fairly good long run prospects. Now if they did not believe in these long run prospects, they would not be prudent businessmen or bankers in terms of getting return on their investment. This, in my judgment, is the view of many of the accredited U.S. companies and the banks in Eastern Europe. It is the rationale for spending their time and money in the East.

Now you asked a question of Professor Levine in an earlier hearing related to whether this pattern of East-West trade would continue. Is this a cycle of opening trade or is it a trend that we can expect to continue? Most companies and banks that are involved, as in the Eastern market as I suggested, are committed to the notion that this is a unique trend that will not in the next year or the next 5 years go back to the previous autarchic situation. In other words, this appears to be a growing relationship.

Now that is open to differences of view, but it's a very crucial question and I would tend to agree with Professor Levine that the evidence is suggestive that the countries of the East are most anxious to get Western technology, develop their interrelationships, and not only to catch up but to keep up. Moreover, the trend may accelerate over time rather than decrease over time. This is not demonstrable, at this point, but it is a central question to ask in appraising whether our banks and firms are wise and prudent in their policy of taking relatively small short-run returns or losses in order to obtain longer term benefits.

Senator INOUYE. Thank you, sir. Please proceed.

Dr. HARDT. The new economic process developed in the last 3 years between the United States and the Soviet Union has been under severe strain from unique phenomena in the international economy, such as the effects of the oil price rise following the 1973 Yom Kippur War, and the severe stagnation in the Western industrial economies, that are unlikely to be repeated in their unexpected and extreme forms. While the Soviet Union and the People's Republic of China enjoyed the benefits of increasing revenue from rising oil prices, the smaller Socialist nations did not. The petrodollar drain in the Western credit market severely restricted the supply of credit—especially medium and long-term credit available to the Socialist countries. This drain was offset in part by the availability of government financing from several West European countries; but the net effect was probably to restrict the total amount of credit available to the East. More severe in its negative impact on the U.S.S.R. balance of payments was the twin burden of Western inflation and recession on the Socialist nations. The industrial goods purchased from the United States and other Western nations increased in price—in many cases more than oil price rises; and Western demand for raw materials and other exports from the Socialist countries was reduced. The extreme world market price changes in oil and other products within a short span of time, and the severe Western stagnation during the perior of development of the new East-

West economic process may not be unprecedented or nonrepeatable. But we may all hope they are.

In any event, the new economic process has been exposed to a period of adjustment. The current manifestation of these adjustment problems are in balance of trade and payments deficits for most of the Socialist nations this year with the Western industrial or hard currency nations. The Soviet Union now has an estimated 1975 balance-of-payments deficit in excess of \$5 billion. In 1975 the Socialist countries of Eastern Europe are estimated to have a trade deficit with OECD of \$12 billion, in contrast with \$5 billion in 1974. The People's Republic of China's trade with the United States is expected to show a shortfall of \$150 million.

The new East-West economic process has also been subjected to lack of coordination, uncertainty in U.S. executive-congressional relations, and unresolved policy questions.

Senator INOUE. If I may interrupt at this point, often as a participant, one loses sight of the whole. I have heard the charge made that executive and congressional relations have been unstable and uncertain. How would you view it from your vantage point looking at us? Some of us may feel that our relationship is good or could be improved. I'd like to know how you view our relationship and how it could be improved.

Dr. HARDT. From the standpoint of what the executive might do or what the Congress might do or both?

Senator INOUE. Both.

Dr. HARDT. It seems to me that the meaning of the word "partnership" and the shared role in commercial legislation and establishment of criteria and policy in the area of East-West trade needs to be established and within that context there needs to be a resolution of some fairly basic differences in policy views on East-West trade. One, for example, relates to financing and the concept of national interest.

The prototypes of the Peterson Report of 1972 were the large Siberian natural gas projects of "North Star" and Yakutia. These were to be long term, low interest rate projects that were to be paid back from the sale of output resulting from the completed projects. The Congress in the Export-Import Bank legislation made it very clear that those kinds of projects not only should not be the prototype but that they should not be supported by Eximbank loans because they were too risky and not mutually beneficial. Therefore, Congress specifically precluded U.S. Government financing of production in Yakutia and North Star as they were not deemed in the national interest either as prototypes or as specific projects.

This clear congressional interest has apparently been accepted by the executive. Mr. Kissinger referred favorably in his testimony to another committee in this same chamber to eventual financing large-scale Soviet energy projects again last Friday. The discussions on the Yakutia financing, albeit private U.S. banks because the Export-Import Bank facilities are now closed, continued up until December 31 of last year. There needs to be an understanding as to what the Federal policy is in this critical area of financing. It seems to me another member of your committee, Senator Stevenson, has made the meaning of his amendment rather clear but it is, in my view, continually inter-