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25 April 1988

MEMORANDUM FOR THE RECORD

SUBJECT: PRG Meeting on US-Soviet Economic Relations,
25 April 1988

1. The meeting assessed the results of the US-USSR Joint Commercial Commission (JCC) meetings held in Moscow on 12-14 April 1988, and discussed the status of DOD's review of the licensing request for a joint venture between the USSR and the US firm, Combustion Engineering.
2. The meeting opened with a brief overview by the Department of Commerce of the results of the JCC meetings. It was noted that the two major objectives of the US delegation were achieved: (1) to reiterate that fundamental improvements in trade relationships depend on further improvements elsewhere in the bilateral relationship--notably emigration and human rights; and (2) to seek improved market access for US companies in the USSR. A number of agreements were reached during the JCC meetings in the area of market access and trade facilitation (see attached fact sheet).
3. [redacted] reviewed briefly his discussions with Soviet academics and economic officials during the JCC meetings, and provided his assessment that the Soviet economy was not doing well and that progress in Gorbachev's program of restructuring would be slow in coming. [redacted] supported this assessment by drawing on his own observations based on discussions with Soviet machine tool and computer manufacturers. The ADDI provided a brief assessment that a substantial increase in US-Soviet trade through joint ventures was not likely in the near term due to the uncertainty and confusion created by the Soviet reform effort. The ADDI also noted that the proposal of the Trade and Economic Council for a consortium of large US firms to deal with a similar group of high-level Soviet officials appeared to go against the decentralizing spirit of the reforms and would likely complicate the conduct of business.

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B. Wood

4. The Department of Defense (DOD) reported on the status of its review of Combustion Engineering's request for licenses to establish a joint venture in the USSR to manufacture instrumentation for Soviet petroleum refineries and petrochemical plants. [redacted] requested that the review process be expedited in view of the approaching summit. DOD indicated that the review had been given high priority and would be handled expeditiously, [redacted]

[redacted]

[redacted]

Chief, [redacted]
Office of Soviet Analysis

Attachment
A. Fact Sheet

[redacted]

FACT SHEET:

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

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

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

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

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

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

MARKET ACCESS IMPROVEMENTS

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

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

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

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

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

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

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

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

ADDITIONAL OFFICIAL MEETINGS

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

NON-STRATEGIC TRADE ONLY

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

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

RELATIONSHIP TO U.S. OVERALL GOALS

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

CONTRACTS AND JOINT VENTURES

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

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

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

USTEC MEETINGS

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

COMMERCIAL WHALING

While in Moscow, Secretary Verity took note of the fact that the Department of Commerce has received assurances from the Soviet Ambassador to the United States that the Soviet Union has ceased commercial whaling and intends to work through the International Whaling Commission (the "IWC") for whale research and conservation. The cessation of commercial whaling by major whaling nations has been a major objective of global environmental groups and the IWC.

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